

**ITM POWER (TRADING) LIMITED**

**Annual Report and Financial Statements**

**For the year ended 30 April 2017**



# **ITM POWER (TRADING) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2017**

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# **ITM POWER (TRADING) LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2017**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

R Putnam  
Dr G Cooley  
Dr S Bourne

#### **COMPANY SECRETARY**

A Allen

#### **REGISTERED OFFICE**

22 Atlas Way  
Sheffield  
South Yorkshire  
S4 7QQ

#### **BANKERS**

National Westminster Bank plc  
Stamford Branch  
52 High Street  
Stamford  
Lincolnshire  
PE9 2BD

#### **SOLICITORS**

Burges Salmon  
Narrow Quay House  
Narrow Quay  
Bristol  
BS1 4AH

#### **AUDITOR**

Deloitte LLP  
Statutory Auditor  
1 City Square  
Park Row  
Leeds  
United Kingdom  
LS1 2AL

# **ITM POWER (TRADING) LIMITED**

## **STRATEGIC REPORT**

The directors present their strategic report for the year ended 30 April 2017.

### **BUSINESS MODEL**

The principal activity of the company during the year was to research, manufacture, market and sell electrolyzers. The company has identified three main markets for its products: power-to-gas, clean fuels and renewable chemistry. ITM Power (Trading) Limited has been the beneficiary of funding from EU bodies, which has helped accelerate research activity but also infrastructure development.

### **REVIEW OF THE BUSINESS**

#### **Power-to-Gas**

Proposals during the year from the EU include energy storage involving the conversion of electricity to another energy carrier, such as hydrogen. Ongoing work includes investigating hydrogen/methane blends and establishing admissible concentration levels for hydrogen in natural gas grids across Europe. These developments will enable Europe-wide deployment of power-to-gas plant for injecting hydrogen into the gas grid while offering balancing services to the electricity grid. These balancing services can be an important source of revenue for operators and the company's rapid response PEM technology allows units to be turned on and off in under one second making them eligible for the UK National Grid's Enhanced Frequency Response Payments.

The company contracted with National Grid as part of the HyDeploy project for a 0.5MW electrolyser to inject into a UK gas network is currently in the procurement phase with deployment expected during calendar year 2018.

#### **Clean Fuel**

ITM Power (Trading) Limited has won contracts to supply on-site hydrogen generation equipment for refuelling in the UK and more recently to France, and is currently rolling out a network of ten hydrogen refuelling stations in the UK of which four are now open for public access.

Systems are now at a scale where a fleet of thirty buses could be supported by one electrolyser on a return to base principle and large schemes are now being envisaged, for applications such as heavy logistics, trains and ships. In the year, the company was awarded a £3.5m contract for its first hydrogen refuelling station for buses which will be deployed in 2018.

#### **Renewable Chemistry**

In the year, ITM Power (Trading) Limited won its first renewable chemistry contract with a major EPC contractor and the project was substantially completed within the year. This plant will serve as reference plant for future bids into the industry. The scale of hydrogen production capacity required in the renewable chemistry market means that this market will likely adopt the larger scale, multi-MW systems.

#### **Key financials**

The company's turnover amounted to £1.815m (2016: £2.303m) in the year. The company made losses before tax of £1.730m (2016: losses of £2.283m). At 30 April 2017, the company had net current assets, excluding intercompany creditors, of £6.871 (2016: £6.184m).

Revenue continues to be driven by sales to the chemical industry, which is a newer application identified for the company's products. Revenue has decreased as a result of lower intercompany sales in the period. The sales to third parties has increased in the year. There has also been an increase year on year in consultancy as the company is a recognised expert in the field.

# **ITM POWER (TRADING) LIMITED**

## **STRATEGIC REPORT (continued)**

### **Key financials (continued)**

The decrease in loss in the year being reported can be attributed to three major factors – a concerted development and engineering effort towards product efficiencies through economies of scale and standardisation; efforts to ensure that sales are made at profitable margins, and the increased grant funding received in the year on both new and existing projects. Grant funding has specifically increased as the rate of grant funding (the intervention rate, or percentage reimbursed to the company) has improved compared with prior years, such that grant activity was increasingly between 70% and 100% funded in the year in review. Debtors have increased from £5.504m to £10.217m at the year ends in 2016 and 2017 respectively. This movement is dominated by prepayments made to suppliers near year end to order components for the existing pipeline and also as deposits on dispensers for deployment as part of the fleet of refuelling stations. Prepayments and accrued income was £8.557m in 2017 (2016: £3.855m).

Creditors (excluding intercompany) have increased from £1.355m to £5.607m at the year ends in 2016 and 2017 respectively. This movement is a result of an increase in accruals and deferred income from £0.662m to £4.951m, driven by both receipts of up front money (typically for grants), but also for recognising income based on prepaying for certain large-ticket items towards year end as part of the refuelling projects H2ME, H2ME2 and the Birmingham refuelling project.

Other key performance indicators are tracked at group level and are detailed within the consolidated financial statements of the parent company ITM Power plc.

The directors are satisfied with the results for the year.

### **RESEARCH AND DEVELOPMENT**

#### **Development**

During the year, the company's aims were to continue existing research activities but also to specifically improve the quality and cost of the stack to enable high current density, higher pressure and a larger stack platform. All of these activities were completed by year end and a proof-of-concept project was embarked upon. For this reason, the company does not intend to make any further capitalisations of this particular research.

#### **Research**

One ongoing research project is to measure degradation mechanisms within electrolyser cells and stacks, devising counter-measures and testing their effectiveness. Several processes were explored including metal coatings, particular operating conditions and mechanical assembly. This project was an ongoing research activity at year end.

Cost reduction activities include minimising catalyst loadings and reducing the time required for its application.

The company also continues its research towards improved cell efficiency including experimentation at higher operating temperatures and assessment of any impact on degradation processes.

### **FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE**

On 18 October 2017 ITM Power plc raised £25m as part of an equity fundraise and a further €5m by open offer. These were subject to fees of approximately £1m. There have been no further developments and events that have occurred after the balance sheet date except those which can be found in the Strategic Report in the annual report of ITM Power plc and form part of this report by cross-reference.

# ITM POWER (TRADING) LIMITED

## STRATEGIC REPORT (continued)

### PRINCIPAL RISKS & UNCERTAINTIES

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk.

#### **Cash flow risk**

The company has exposure to cash flow risk in that grant funding, in particular, requires cash outflow for projects ("defrayment") before receipt of grant money. This receipt is therefore dependent on cash outflows, but also on the success of the consortia in which ITM Power Group companies are a partner for all claims to be successfully approved. To mitigate against this risk, there is a cautious approach to the timing of grant receivables in cash flow projections. The grant management team maintain a constant level of communication with monitoring officers and other partners within grant projects to ensure this risk is managed and monitored.

The company also receives some of its money from sales up front, with the remainder (usually 20-30%) after delivery and site acceptance testing. This means that the company could be subject to timing variations which are dependent on other site services being put in place first (most notably, civil works). The company mitigates against this by keeping a close relationship with customers, and by being cautious in our forecasts as to the timings of the receipts.

#### **Credit risk**

The company is exposed to credit risk inasmuch as there is a relatively low volume of transactions at a high value, and so any event by a customer defaulting on payment would have a significant impact on the cash position. However the company is fortunate that, so far, it has dealt with large multinationals and utility companies, or grant bodies where credit risk is very low.

#### **Currency risk**

The company is exposed to currency risk in that it has certain supplies that are paid for in foreign currency, but more significantly in that the current order book has more than 50% of contracts in foreign currencies, and principally Euros. Receipts are currently held in currency accounts so that the company can operate a natural hedge, but also so that the timings of exchange transaction can be controlled to minimise exposure.

#### **Liquidity risk**

The company, in the early stages of commercialisation, is occasionally subject to challenging payment terms with suppliers, as well as requirements to provide guarantees to some customers. As such, the event of a new contract award can increase short-term liquidity risk.


Ultimate responsibility for liquidity risk management rests with the board of directors, which regularly monitors short, medium and long-term funding, and liquidity management requirements. Liquidity risk is managed by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### **Other Group risks**

The referendum result of 2016 regarding Brexit means that there is a risk that EU funding may be less available in the short-term, although the company has had the most success bidding into the Horizon2020 funding pot that is available to non-EU members.

This and other group risks are detailed in the consolidated financial statements of the parent company ITM Power plc, together with the strategies that Directors have in place to mitigate them.

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



Dr S Bourne  
Director  
19 December 2017

# ITM POWER (TRADING) LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 2017.

The following disclosures have been disclosed in the Strategic Report and are cross-referenced here: business review, including KPI's, Principle risks and uncertainties, research and developments, future prospects and events after the balance sheet date.

## DIVIDENDS

The directors do not recommend the payment of a dividend (2016: £Nil).

## DIRECTORS

The directors who served throughout the year and to the date of this report were as follows:

Dr S Bourne  
Dr G Cooley  
R Putnam

## DIRECTORS' INDEMNITIES

The parent company has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the prior year and remain in force at the date of this report.

## GOING CONCERN

The directors have prepared a cash flow forecast for the Group for the period ending 31 January 2019. This forecast indicates that the Group will remain cash positive without the requirement for further funding, for a period of at least 12 months from the date of approval of these financial statements. The forecast includes certain assumptions, in particular in respect of the timing of contracted sales and grant cash inflows, with the non-contracted pipeline providing a potential upside. The parent company has undertaken to support ITM Power Trading Ltd, as it has previously, for a period of not less than 12 months from the date of approval of these financial statements. The directors have a reasonable expectation that the company will be able to meet its obligations as they fall due, for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## AUDITOR

Each of the persons who is a director at the date of approval of this annual report confirms that:

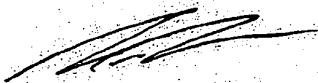
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## INDEPENDENT AUDITOR

In accordance with section 487 of the company's act 2006, Deloitte LLP has not been re-appointed as the Company's auditors. Following a competitive tender process, Grant Thornton LLP have confirmed their willingness to be appointed the Company's auditors for the year ending 30 April 2018.

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



Dr S Bourne  
Director  
19 December 2017

## **ITM POWER (TRADING) LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 company will continue in business.

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



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ITM POWER (TRADING) LIMITED**

We have audited the financial statements of ITM Power (Trading) Limited for the year ended 30 April 2017 which comprise Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic and Directors' Report.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ITM POWER (TRADING) LIMITED (CONTINUED)**

### **Matters on which we are required to report by exception**

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

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



**Matthew Hughes BSc (Hons) ACA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

Statutory Auditor

Leeds, United Kingdom

19 December

# ITM POWER (TRADING) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 April 2017

|  | Notes | 2017<br>£'000  | 2016<br>£'000  |
|--|-------|----------------|----------------|
| Revenue  | 4     | 1,815          | 2,303          |
| Cost of sales  |       | (1,368)        | (1,866)        |
| <b>Gross profit</b>  |       | <b>447</b>     | <b>437</b>     |
| <b>Administrative expenses:</b>  |       |                |                |
| Research and development   |       | (2,073)        | (1,944)        |
| Other  |       | (3,732)        | (3,469)        |
| Other operating income - grant income                                    |       | 3,969          | 2,952          |
| <b>Operating loss</b>  | 5     | <b>(1,389)</b> | <b>(2,024)</b> |
| Interest Received  | 7     | 4              | -              |
| Interest Paid  | 7     | (345)          | (259)          |
| <b>Loss before taxation</b>  |       | <b>(1,730)</b> | <b>(2,283)</b> |
| Taxation   | 8     | (49)           | 359            |
| <b>Loss for the financial year attributable to owners of the Company</b> |       | <b>(1,779)</b> | <b>(1,924)</b> |
| Other comprehensive loss   |       | -              | -              |
| <b>Total comprehensive loss</b>  |       | <b>(1,779)</b> | <b>(1,924)</b> |

Revenue and operating loss are all derived from continuing operations.

# ITM POWER (TRADING) LIMITED

## BALANCE SHEET

As at 30 April 2017

|  | Notes | 2017<br>£'000   | 2016<br>£'000   |
|--|-------|-----------------|-----------------|
| <b>Non- current assets</b>                           |       |                 |                 |
| Property, plant and equipment                        | 9     | 4,258           | 2,804           |
| Intangible assets – Development costs                | 10    | 380             | 252             |
| Investments  | 11    | -               | -               |
|  |       | <u>4,638</u>    | <u>3,056</u>    |
| <b>Current assets</b>                                |       |                 |                 |
| Inventory  | 12    | 760             | 291             |
| Trade and other receivables                          | 13    | 10,492          | 5,507           |
| Cash at bank   |       | 939             | 52              |
| Cash on guarantee                                    |       | 562             | 2,188           |
|  |       | <u>12,753</u>   | <u>8,038</u>    |
| <b>Current liabilities</b>                           |       |                 |                 |
| Trade and other payables                             | 15    | (32,341)        | (24,265)        |
| <b>Net current liabilities</b>                       |       | <u>(19,588)</u> | <u>(16,227)</u> |
| <b>Total net liabilities</b>                         |       | <u>(14,950)</u> | <u>(13,171)</u> |
| <b>Equity</b>  |       |                 |                 |
| Called up share capital                              | 16    | -               | -               |
| Profit and loss account                              |       | (14,950)        | (13,171)        |
| <b>Deficit attributable to owners of the Company</b> |       | <u>(14,950)</u> | <u>(13,171)</u> |

The financial statements of ITM Power (Trading) Limited, registered number 06156553, were approved by the Board of Directors and authorised for issue on 19 December 2017.

Signed on behalf of the Board of Directors



Dr S Bourne  
Director

## ITM POWER (TRADING) LIMITED

### STATEMENT OF CHANGES IN EQUITY

For the year ended 30 April 2017

|                          | Called up<br>share capital<br>£'000 | Profit and<br>loss<br>account<br>£'000 | Total<br>£'000 |
|--------------------------|-------------------------------------|--|----------------|
| <b>At 1 May 2015</b>     | -                                   | (11,247)                               | (11,247)       |
| Total comprehensive loss | -                                   | (1,924)                                | (1,924)        |
| <b>At 30 April 2016</b>  | -                                   | (13,171)                               | (13,171)       |
| Total comprehensive loss | -                                   | (1,779)                                | (1,779)        |
| <b>At 30 April 2017</b>  | -                                   | (14,950)                               | (14,950)       |

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 April 2017

### I. GENERAL INFORMATION

ITM Power (Trading) Limited is a company incorporated in the United Kingdom under the Companies Act 2006.

The company is a private company limited by shares and is registered in England and Wales. The address of the company's registered office is shown on page 1.

The nature of the company's operations and its principal activities are set out in the director's report on pages 5 to 6.

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which the company operates. The company's functional currency is pound sterling.

These financial statements are separate financial statements. The company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the financial statements of ITM Power plc. The group accounts of ITM Power plc are available to the public and can be obtained as set out in note 18. The registered office address of the parent company preparing consolidated accounts is 22 Atlas Way, Sheffield, S4 7QQ.

#### Basis of Preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these Financial Statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 30 April 2017.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As the Consolidated Financial Statements of ITM Power plc include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirement of IFRS 7 "Financial Instruments: Disclosures";
- the requirement of paragraphs 91-99 of IFRS 13 "Fair Value Measurement";
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 "Impairment of Assets".

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### **Basis of accounting**

The financial statements have been prepared on the historical cost basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### **Going concern**

The directors have prepared a cash flow forecast for the period ending 31 January 2019. This forecast indicates that the company will remain cash positive without the requirement for further funding, for a period of at least 12 months from the date of approval of these financial statements. The forecast includes certain assumptions, in particular in respect of the timing of contracted sales and grant cash inflows, with the non-contracted pipeline providing a potential upside. The directors have a reasonable expectation that the company will be able to meet its obligations as they fall due, for the foreseeable future.

Accordingly, the financial statements have been prepared on a going concern basis.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Sale of goods*

Sales of goods that result in award credits for customers, under the company's Maxi-Points Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the company's obligations have been fulfilled.

#### *Construction contracts*

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

#### *Foreign currencies*

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).

#### *Loss from operations*

Loss from operations is stated before investment income and finance costs.



# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

#### Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

#### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

## ITM POWER (TRADING) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Property, plant and equipment (continued)

Depreciation on revalued buildings is charged to income. On the subsequent sale or scrapping of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

|                               |  |
|-------------------------------|--|
| Computer equipment            | 3 years straight line  |
| Plant and equipment           | 4 years straight line  |
| Office furniture and fittings | 4 years straight line  |
| Laboratory and test equipment | 4 to 6 years straight line   |
| Leasehold improvements        | The shorter of 4 years straight line or the residual period of the lease |

No depreciation is provided on assets in the course of construction.

##### Property, plant and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

##### Internally-generated intangible assets – research and development expenditure

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

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Internally-generated intangible assets – research and development expenditure (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised so as to write off the cost of the intangible asset over its useful life, using the straight-line method. No amortisation is provided until the technology is fully developed. Development costs are currently amortised over a four year period but as with internally generated assets, they are reviewed annually for impairment. The effect of any changes in estimate will be accounted for on a prospective basis.

#### Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## **ITM POWER (TRADING) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 30 April 2017**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Trade receivables**

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

##### **Investments- short term deposits**

Short term deposit investments comprise short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

##### **Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

##### **Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

##### **Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## ITM POWER (TRADING) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### **Research and development**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

##### **Pension costs**

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions actually payable in the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

##### **Grants**

Government and other grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected lives of the assets concerned. Other grants are credited to the profit and loss account as the expenditure is incurred.

#### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Critical judgements in applying the company's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### ***Recoverability of internally-generated intangible asset***

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £380k. Customer reaction to our up-coming technologies has confirmed management's previous estimates of anticipated revenues from the project.

However, as the technology has moved on through our continued progress, earlier capitalisations of development costs have been considered to be impaired. Mid-stage capitalisations are now being used in our commercial products so have been amortised throughout the current year.

##### ***Useful lives of property, plant and equipment***

As described above, the company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, the directors have reaffirmed their belief in the useful lives of our asset categories. However, as the company receives more data from us of systems in the field, and in line with current quoting behaviour, a useful economic life for the shortest-life components (excluding consumables) is now considered ten years. The company has not reflected this in the treatment of property plant and equipment but had this adjustment been made, losses would have decreased by £260,000.

## ITM POWER (TRADING) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

#### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### **Key sources of estimation uncertainty**

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Impairment of non-current assets**

The company tests the net recoverable amounts of assets when there are indicators of impairment.

The recoverable amounts of non-current and intangible assets are derived from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to hydrogen selling prices and direct costs (electricity) during the period.

These assumptions have been revised in the year in light of the announcements of funding from the Office for Low Emission Vehicles and the current economic environment, and is the first year that a review of the refuelling assets of the company has been undertaken, as it is the first year of deployment.

Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the group of units. The company does not have any debt, and so discount rates are based on an equity model only. The growth rates are based on specific known industry growth forecasts and the management's understanding of a likely growth curve in adoption of fuel cell vehicles. Growth in the hydrogen refuelling industry is predicted to be faster than in previous years as initiatives from OLEV and the Fuel Cell and Hydrogen joint undertaking introduce new fleets of vehicles for hydrogen.

Changes in selling prices and direct costs are based on past practices (albeit limited) and expectations of future changes in the market. It is anticipated that sales volumes will increase significantly over the next one to five years as the company's strategy to open new refuelling stations, aligned with rollout of more vehicles – both more in number and more models – is recognised.

The company has conducted a sensitivity analysis on the impairment test of each group of units carrying value. A cut in the growth rate by 24 percentage points would cause the carrying value of the refuelling sites to equal its recoverable amount.

The cost of capital rate is one of the most sensitive judgements for the company, with particular sensitivity around BIG HIT and HyFive assets, with a 1% increase in the discount rate leading to an impairment.

The company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 80 per cent. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows for refuelling stations 30 per cent.

At 30 April 2017, before impairment testing, a carrying value of £2.332m was allocated to the refuelling units, of which £1.89m was associated with the HyFive refuelling stations.

This cash generating unit's main customers will be hydrogen fleet owners, including taxi companies and high duty cycle operators, defined as travelling up to 62,000 miles per annum. As such, the company considers a strong growth in hydrogen sales in the next five years. The company has considered its cash flow forecasts for this CGU. The hydrogen refuelling CGU has therefore been subject to no impairment loss.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 4. REVENUE

An analysis of the company's revenue is as follows:

|                                     | 2017<br>£'000 | 2016<br>£'000 |
|-------------------------------------|---------------|---------------|
| Revenue from construction contracts | 1,687         | 1,728         |
| Consulting services                 | 61            | 67            |
| Maintenance services                | 36            | 29            |
| Other                               | 31            | 479           |
|                                     | <u>1,815</u>  | <u>2,303</u>  |

An analysis of the company's revenue, by major product, is as follows:

|                        | 2017<br>£'000 | 2016<br>£'000 |
|------------------------|---------------|---------------|
| Power-to-Gas contracts | 152           | 1,767         |
| Refuelling contracts   | 328           | 48            |
| Chemical industry      | 1,290         | -             |
| Other                  | 45            | 488           |
|                        | <u>1,815</u>  | <u>2,303</u>  |

### Geographic analysis of turnover

|                | 2017<br>£'000 | 2016<br>£'000 |
|----------------|---------------|---------------|
| United Kingdom | 238           | 1,837         |
| Rest of Europe | 1,577         | 40            |
| North America  | -             | 426           |
|                | <u>1,815</u>  | <u>2,303</u>  |

### 5. OPERATING LOSS

Loss for the year has been arrived at after charging/(crediting):

|                                       | 2017<br>£'000 | 2016<br>£'000 |
|---------------------------------------|---------------|---------------|
| Research & development costs          | 1,973         | 1,423         |
| Depreciation of tangible fixed assets | 1,061         | 611           |
| Impairment of tangible fixed assets   | 100           | -             |
| Loss on disposal of fixed assets      | 22            | 9             |
| Amortisation of intangible assets     | 20            | -             |
| Impairment of intangible assets       | 3             | -             |
| Net foreign exchange (gain) / loss    | (96)          | 71            |
| Operating lease costs                 | 255           | 248           |
|                                       | <u></u>       | <u></u>       |

Auditor's remuneration for the audit of the company's annual accounts amounted to £20,000 (2016: £20,000) and in both years was borne by another group undertaking.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The average monthly number of employees (including executive director) was:

|                            | 2017<br>No | 2016<br>No |
|----------------------------|------------|------------|
| Research and development   | 16         | 17         |
| Production and development | 33         | 31         |
| Finance and administration | 11         | 8          |
| Sales and Marketing        | 6          | 6          |
|                            | <u>66</u>  | <u>62</u>  |

Their aggregate remuneration comprised:

|                       | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 2,673         | 2,543         |
| Social security costs | 292           | 272           |
| Other pension costs   | 136           | 133           |
|                       | <u>3,101</u>  | <u>2,948</u>  |

#### Director's emoluments and highest paid director

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Aggregate emoluments                                    | 281           | 181           |
| Company contributions to money purchase pension schemes | 8             | 7             |
|   | <u>289</u>    | <u>188</u>    |

The company has only one (2016: one) director.

### 7. FINANCE COSTS

|                                     | 2017<br>£'000 | 2016<br>£'000 |
|-------------------------------------|---------------|---------------|
| Interest (received)/ paid           | (4)           | -             |
| Interest payable to group companies | 345           | 259           |
|                                     | <u>341</u>    | <u>259</u>    |



# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 8. TAXATION

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Current taxation</b>                 |               |               |
| Research and development tax credits    | (136)         | (456)         |
| Adjustments in respect of prior periods | 185           | -             |
|   | <u>49</u>     | <u>(456)</u>  |

The differences between the total current tax shown above and the amount calculated by applying the blended standard rate of UK corporation tax to the loss before tax is as follows:

|  | 2017<br>£'000  | 2016<br>£'000  |
|--|----------------|----------------|
| Loss on ordinary activities before tax   | <u>(1,730)</u> | <u>(2,283)</u> |
| Tax on loss on ordinary activities at the standard UK corporation tax rate of 19.9% (2016 – 20.0%) | (344)          | (456)          |
| Effects of:  |                |                |
| Disallowable expense   | 10             | 20             |
| Depreciation in excess of capital allowances   | 241            | 117            |
| Research and development tax credits   | (136)          | (359)          |
| Adjustments in respect of previous periods   | 185            | -              |
| Unrelieved losses  | <u>93</u>      | <u>319</u>     |
| Total tax  | <u>49</u>      | <u>(359)</u>   |

### Factors affecting future tax charges

The company has tax losses available to carry forward against future taxable profits, subject to agreement with the HM Revenue & Customs. The amounts of deferred tax assets not provided are as follows:

|                                   | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------------------|---------------|---------------|
| <b>Unrecognised deferred tax:</b> |               |               |
| Tax losses                        | 2,011         | 2,272         |
| Decelerated capital allowances    | <u>919</u>    | <u>839</u>    |
|                                   | <u>2,930</u>  | <u>3,111</u>  |

The unrecognised deferred tax asset would only be recoverable to the extent that the company generates sufficient taxable profits in the future. No deferred tax asset has been recognised in respect of these losses as there is insufficient persuasive and reliable evidence that they will be utilised.

The Finance Act 2015 included provisions to reduce the rate of UK corporation tax to 18% with effect from 1 April 2020. The Finance Act 2016 included provisions to further reduce the rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly 17% has been applied when calculating deferred tax assets and liabilities as at 30 April 2017.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 9. PROPERTY, PLANT AND EQUIPMENT

|                       | Production<br>plant and<br>equipment<br>£'000 | Laboratory<br>and test<br>equipment<br>£'000 | Computer<br>equipment<br>£'000 | Office<br>furniture<br>and fittings<br>£'000 | Leasehold<br>improve-<br>ments<br>£'000 | Assets in the<br>course of<br>construction<br>£'000 | Total<br>£'000 |
|-----------------------|---|--|--------------------------------|--|---|---|----------------|
| <b>Cost</b>           |   |  |                                |  |   |   |                |
| At 1 May 2016         | 3,111   | 580  | 178                            | 116  | 1,309                                   | 1,244   | 6,538          |
| Additions             | 68  | 66   | 108                            | -  | 921                                     | 1,478   | 2,641          |
| Disposals             | (96)  | (129)  | (1)                            | (2)  | -                                       | -   | (228)          |
| Transfer              | 1,962   | -  | -                              | -  | -                                       | (1,962)   | -              |
| At 30 April 2017      | 5,045   | 517  | 285                            | 114  | 2,230                                   | 760   | 8,951          |
| <b>Depreciation</b>   |   |  |                                |  |   |   |                |
| At 1 May 2016         | 2,451   | 199  | 132                            | 112  | 840                                     | -   | 3,734          |
| Charge for the year   | 627   | 110  | 43                             | 2  | 279                                     | -   | 1,061          |
| Impairment            | -   | -  | -                              | -  | -                                       | 100   | 100            |
| Disposals             | (93)  | (106)  | (1)                            | (2)  | -                                       | -   | (202)          |
| At 30 April 2017      | 2,985   | 203  | 174                            | 112  | 1,119                                   | 100   | 4,693          |
| <b>Net book value</b> |   |  |                                |  |   |   |                |
| At 30 April 2017      | 2,060   | 314  | 111                            | 2  | 1,111                                   | 660   | 4,258          |
| At 30 April 2016      | 660   | 381  | 46                             | 4  | 469                                     | 1,244   | 2,804          |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 30 April 2017**

|                       | Development costs<br>£'000 |
|-----------------------|----------------------------|
| <b>Cost</b>           |                            |
| At 1 May 2016         | 252                        |
| Additions             | 151                        |
|                       | <hr/>                      |
| At 30 April 2017      | 403                        |
|                       | <hr/>                      |
| <b>Amortisation</b>   |                            |
| At 1 May 2016         | -                          |
| Amortisation          | 20                         |
| Impairment            | 3                          |
|                       | <hr/>                      |
| At 30 April 2017      | 23                         |
|                       | <hr/>                      |
| <b>Net Book Value</b> |                            |
| At 30 April 2017      | 380                        |
|                       | <hr/>                      |
| At 30 April 2016      | 252                        |

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated, for dividend purposes, as a realised loss.

|                                 |          |
|---------------------------------|----------|
| <b>Subsidiary undertaking</b>   | <b>£</b> |
| Cost and net book value         |          |
| at 1 May 2016 and 30 April 2017 |          |

ITM Motive Limited has been treated as a subsidiary undertaking because the group exercises dominant influence over this investment, directing its financial and operating policies. It's registered address is 22 Atlas Way, Sheffield, S4 7QQ.

# ITM POWER (TRADING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 30 April 2017

### 12. INVENTORY

|                  | 2017<br>£'000 | 2016<br>£'000<br>(Restated)* |
|------------------|---------------|------------------------------|
| Raw materials    | 342           | 111                          |
| Work in progress | 418           | 180                          |
|                  | <u>760</u>    | <u>291</u>                   |

\*Balance has been restated as the increase of raw materials purchased in 2017 has led to classification of inventory to assist understanding of stock held that is not contract-related.

There is no material difference between the balance sheet value of stocks and their replacement cost.

### 13. TRADE AND OTHER RECEIVABLES

| Amounts due within one year    | 2017<br>£'000 | 2016<br>£'000 |
|--------------------------------|---------------|---------------|
| Trade receivables              | 1,207         | 1,225         |
| Corporation tax receivable     | 364           | 417           |
| Other receivables              | 364           | 10            |
| Prepayments and accrued income | 8,557         | 3,855         |
|                                | <u>10,492</u> | <u>5,507</u>  |

### 14. CONSTRUCTION CONTRACTS

| Contracts in progress at the balance sheet date:                               | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Amounts due from contract customers included in trade and other receivables    | <u>768</u>    | <u>58</u>     |
| Contract costs incurred plus recognised profits less recognised losses to date | 1,690         | 1,703         |
| Less: progress billings  | (1,550)       | (1,802)       |
|  | <u>140</u>    | <u>(99)</u>   |

At 30 April 2017, retentions held by customers for contract work amounted to £Nil (2016: £60k). Advances received from customers for contract work amounted to £510k (2016: £66k).

At 30 April 2017, amounts included in trade and other receivables, arising from construction contracts and due for settlement after more than 12 months were £Nil (2016: £Nil).

## ITM POWER (TRADING) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 April 2017

#### 15. TRADE AND OTHER PAYABLES

|                                    | 2017<br>£'000 | 2016<br>£'000 |
|------------------------------------|---------------|---------------|
| Trade payables                     | 559           | 599           |
| Amounts owed to group undertakings | 26,737        | 22,910        |
| Other taxation and social security | 97            | 94            |
| Accruals                           | 733           | 293           |
| Deferred income                    | 4,215         | 369           |
|                                    | <u>32,341</u> | <u>24,265</u> |

The amount owed to parent undertaking is repayable on demand with interest charged at 1% above the Bank of England base rate.

#### 16. CALLED UP SHARE CAPITAL AND RESERVES

|                                    | 2017<br>£ | 2016<br>£ |
|------------------------------------|-----------|-----------|
| Called up, allotted and fully paid |           |           |
| 1 ordinary share of £1             | <u>1</u>  | <u>1</u>  |

The company's other reserve is the profit and loss reserve which represents cumulative profits or losses, including unrealised profit on the remeasurement of investment properties, net of dividends paid and other adjustments.

#### 17. OPERATING LEASE COMMITMENTS

At the balance sheet date the company had outstanding commitments for total future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|                             | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------------|---------------|---------------|
| Land and buildings          |               |               |
| - Within one year           | 221           | 160           |
| - Between two to five years | <u>559</u>    | <u>400</u>    |

#### 18. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors regard ITM Power plc as the immediate and ultimate parent company and the ultimate controlling party. ITM Power plc is a company incorporated in England and Wales.

The smallest and largest group in which the results of the company are consolidated for the year ended 30 April 2017 is that headed by ITM Power plc. Copies of the consolidated accounts of ITM Power Plc which includes the results of the company can be obtained from its registered address 22 Atlas Way, Sheffield, S4 7QQ or from [www.itm-power.com](http://www.itm-power.com).