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ITM POWER (TRADING) LIMITED

Company Registration No. 06156553

ITM POWER (TRADING) LIMITED

Annual Report and Financial Statements

For the year ended 30 April 2020

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ITM POWER (TRADING) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2020

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr G Cooley
Dr S Bourne
Dr R Smith
Mr A Allen (appointed 8 October 2019)
Prof R Putnam (resigned 31 October 2019)

COMPANY SECRETARY

Ms N Ham Edmonds (appointed 8 October 2019)
Mr A Allen (resigned 8 October 2019)

REGISTERED OFFICE

22 Atlas Way
Sheffield
South Yorkshire
S4 7QQ

BANKERS

National Westminster Bank plc
Stamford Branch
1 Cathedral Square
Peterborough
PE1 1XH

SOLICITORS

Burges Salmon
One Glass Wharf
Bristol
BS2 0ZX

AUDITOR

Grant Thornton UK LLP
Statutory Auditor
1 Holly Street
Sheffield
United Kingdom
S1 2GT

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STRATEGIC REPORT

The directors present their strategic report for the year ended 30 April 2020.

BUSINESS MODEL

The principal activity of the Company during the year was to research, design and manufacture integrated hydrogen energy systems for energy storage, clean fuel production 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

Governments around the world and supra-national bodies such as the European Union are increasingly turning their commitments to reduce emissions under the COP21 Paris Agreement on climate change into legislated targets. This includes the UK with its Net Zero by 2050 legislation. There has been an increasing realisation that as countries continue to plant up with renewable generation, there is an increasing requirement for energy storage to address the challenge of intermittency. Battery technology cannot achieve this at the scale required.

Power-to-Gas can meet the demand for long-term, large-scale energy storage, converting surplus renewable energy into hydrogen gas by rapid response electrolysis and subsequently injecting it into the gas distribution network. These grid balancing services can be an important source of revenue for operators and ITM Power Plc's rapid response Proton Exchange Membrane (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.

ITM Power enjoys a unique position having supplied the world's first PEM Power-to-Gas electrolyser in 2014, and continues to engage in a number of industry-leading strategic projects.

BigHit: Orkney Islands

Part funded by the FCHJU and Innovate UK, an ITM Power 1MW electrolyser on the Orkney Islands is in operation, producing hydrogen from excess wind. The Big Hit project will continue for a further two years collecting data and evaluating performance to reinforce the business case for island hydrogen systems.

HyDeploy: Hydrogen in the UK Gas Grid

Funded by Ofgem and led by Cadent and Northern Gas Networks, HyDeploy is a year-long live energy trial to establish the potential for blending up to 20% hydrogen into the normal gas supply to reduce carbon dioxide emissions. ITM Power's role was to provide a 0.5MW electrolyser to inject zero carbon hydrogen into a gas network to heat homes and businesses. This first UK pilot project at Keele University delivered the longest period of continuous blending operation to date in March 2020 supplying gas for domestic heat and cooking.

Two further trials with ITM Power electrolysers will follow on public gas networks in the north of England. The aim is to build support for a much wider roll-out. If adopted across the UK, using hydrogen like this could save the same amount of carbon as taking 2.5 million cars off the road.

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Clean Fuel

The transport sector is one of the largest users of fuel in the world, and currently it is dependent on fossil fuels, which are highly polluting and are becoming ever scarcer and more expensive.

ITM Power electrolysers generate hydrogen fuel on-site via ITM Power Plc's rapid response electrolyser system, using renewable electricity and water with a full tank of fuel dispensed within a matter of minutes at the station where it is generated. This means a zero-carbon footprint and no use of further transport infrastructure.

Hydrogen is light and can be stored under pressure, making it suitable for many vehicle types as it does not add further weight, or use further energy when on board. An additional benefit of hydrogen is its role in supporting the drive for cleaner air, especially important in densely populated cities. When hydrogen fuel cell electric vehicles are driven, the only emission is water vapour and each three-minute car refuel provides a range of up to 400 miles.

Back in May 2019, ITM Power was pleased to announce the extension of the UK refuelling collaboration agreement with Shell to run until 2024, and cover the refuelling of all types of hydrogen vehicles; from passenger cars to commercial vehicles, including buses, trucks, trains and ships.

In October 2019, the Group opened its eighth UK public access hydrogen refuelling station (HRS), and its second under the H2ME2 project funded by the European Fuel Cell and Hydrogen Joint Undertaking (FCHJU) and the Office of Low Emission Vehicles (OLEV). The new HRS is located at the Shell services, Gatwick Airport on the M23 corridor south of London. The opening was supported by Toyota, Hyundai and Honda. The station uses electricity via a renewable energy contract and water to generate hydrogen on-site with no need for deliveries. It is now open for public and private fleets operating fuel cell electric vehicles.

ITM Power continue to roll out a network of hydrogen refuelling stations in the UK, with a further five in planning or build phases and we were proud to play a part in the support of key workers during the Covid-19 pandemic. Post year-end we announced plans to group our refuelling station portfolio into a separate subsidiary, ITM Motive, and we have appointed a Managing Director to drive the business forward.

Update on larger vehicle refuelling projects

The Birmingham Bus Project was to be ITM Power's first project in the hugely promising hydrogen fuel bus segment and was expected to enhance our competitive advantage for additional future opportunities. The 3MW Electrolyser is built and works have been in progress at Tysley Energy Park, however, delays in the provision of the buses have resulted in the bus refueller being put on hold. It is hoped that ITM Power's onsite works for the second phase, as it has now become, can be scheduled shortly after the opening of the car refueller early in the new financial year.

The ITM Power 0.5MW electrolyser central to the Pau bus refueler project in France was put into operation and enabled the launch of Pau City's Hydrogen Bus Fleet in December 2019. Since then over nine tonnes of hydrogen have been produced and used by the buses in seven days per week refuelling, prior to the site shutting down in March as a result of Covid-19 restrictions.

ITM Power has signed a further agreement to supply an 8MW multi vehicle electrolyser suitable for refuelling large vehicles in the UK. The agreement, including associated project costs, has a total value of £10m and funding will fall across FY2021 to FY2022.

Post year end, A pioneering Strategic partnership has been established to create new green hydrogen production facilities with clusters of refuelling stations across Scotland, supporting the country's efforts to achieve net zero by 2045. 'Green Hydrogen for Scotland' - a partnership of ScottishPower Renewables, BOC (a Linde company) and ITM Power - brings together industry-leading names in the renewables and clean fuel industries to offer an end-to-end market solution for reducing vehicle emissions through the provision of green hydrogen.

The partnership's first project, 'Green Hydrogen for Glasgow', is designed to provide carbon-free transport and clean air for communities across the city, which wants to become the first net-zero city in the UK.

A proposed green hydrogen production facility located on the outskirts of the city will be operated by BOC, using wind and solar power produced by ScottishPower Renewables to operate a 10MW electrolyser, delivered by ITM Power. The project aims to supply hydrogen to the commercial market within the next two years.

This project also supports the Scottish Government's decarbonisation targets and Glasgow City Council's commitment to creating a zero emissions vehicle fleet, using only electric and hydrogen-powered vehicles by the end of 2029.

New use for Hydrogen from the GasUnie Green Hydrogen Electrolyser Plant in the Netherlands
Gasunie's Hystock green hydrogen plant in Veendam near Groningen was opened by King Willem-Alexander in June 2019. Gasunie manages and maintains the infrastructure for the large-scale transport and storage of gas in the Netherlands and the northern part of Germany.

ITM Power supplied the 1MW PEM electrolyser system, which will use renewable energy and water to generate hydrogen. The intention was to use the hydrogen on-site or to fill tube trailers for deployment at other plants. In fact, the electrolyser filled tube trailers during March and April and the hydrogen gas produced by the ITM Power electrolyser was used to provide fuel for the first hydrogen train in the Netherlands, on its maiden voyage.

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Industrial

Many industries use hydrogen as part of their production processes. Today, almost all of this hydrogen is made by steam reformation of methane (natural gas), a highly carbon intensive method. Three industries dominate carbon emissions from the use of hydrogen: ammonia production, steal making and the Group's prime target, refineries. Refineries currently use hydrogen to improve the quality of fractional distillation products and most of this hydrogen is produced from steam-reforming but in order to comply with *stringent legislation and avoid fines, refineries need a cost effective green hydrogen solution that reduces* carbon emissions while allowing them to maintain output.

In addition, natural gas reformers have long start-up times. With their rapid start up times, ITM Power Plc's PEM electrolysers could provide an immediate backup solution to prevent production downtime and preserve security of hydrogen supply.

Finally, in steel making, iron ore requires chemical reduction before being used to produce steel; this is currently achieved through the use of carbon, in the form of coal or coke. When oxidised, this leads to emissions of about 2.2 tonnes of CO_2 for each tonne of liquid steel produced. The substitution of hydrogen for carbon has the potential to significantly reduce CO_2 emissions, because hydrogen is an excellent reducing agent and produces only water as a by-product.

The Company's flagship refinery project with Shell in Germany

In June 2019, the REFHYNE consortium announced the commencement of construction of the 10MW hydrogen electrolysis plant at the Shell Rheinland refinery in Wessling and at ITM Power the project is progressing well, with procurement handing over to production in order to complete the build of the modular system at our existing factory in Sheffield. Designs have been finalised for the test rig that will be built to perform FAT on the electrolyser units. In the meantime, other parts of the system are being sent ahead to the refinery and detailed planning around the installation and commissioning phase is underway in conjunction with Shell and their sub-contractor partners.

The Gigastack Project -Phase 2

In the initial feasibility phase of the Gigastack project (part of the Department for Business, Energy and Industrial Strategy (BEIS) Hydrogen Supply Competition), which finished in 2019, ITM Power developed designs for a low-cost modular 5MW electrolyser 'stack'. Now under the next phase, ITM Power will get the chance to install and trial a prototype as well as the semi-automated manufacturing machines required for large-scale and high-volume manufacture of these next-generation low-cost stacks. This will help validate a complete production system capable of delivering hundreds of megawatts of electrolysers per year.

Led by Ørsted, the consortium will also conduct a Front-End Engineering Design ('FEED') study on a 100MW electrolyser system using staged installations with a nominal capacity of 20MW. The FEED study will use ITM Power's new generation of electrolyser stack technology together with renewable energy directly from Ørsted's offshore wind farms, to supply renewable hydrogen to an industrial off-taker, in this instance Phillips 66 Limited's Humber Refinery. A key objective of the Gigastack project is to identify and highlight regulatory, commercial and technical challenges for real applications of industrial-scale renewable hydrogen systems.

Green Hydrogen for Humberside Project Deployment Study

This is first stage deployment project in the UK Government's Industrial Strategy Challenge Fund competition "Decarbonisation of Industrial Clusters" to assess the feasibility and scope of deploying green hydrogen with some major industrial partners in Humberside. It will lead to the production of renewable hydrogen at the Gigawatt (GW) scale distributed to industrial energy users in Immingham. Decarbonisation of this cluster is critical in reaching the UK's legally binding 2050 net zero emission

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targets. Humberside, has the UK's largest cluster by industrial emissions (12.4Mt of CO_2 per year) but also access to a large renewable resource from offshore wind in the North Sea.

The project will work with customers in the region to establish the feasibility of switching to renewable hydrogen and justify a number of 100MW deployments of electrolysers, whilst also costing the end-to-end supply.

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Key financials

The Company's turnover amounted to £3.1m (2019: £4.3m) in the year. The Company made losses before tax of £24.7m (2019: £6.4m). At 30 April 2020, the company had net current assets, excluding intercompany creditors, of £38.3m (2019: £7.3m).

ITM Power (Trading) Limited continues to be first and foremost a manufacturer, with the majority of revenue coming from construction contracts to build full hydrogen systems. Sales revenues in the year continued in the main to be generated across three build projects, providing electrolysers in each of our target markets.

Consultancy income is a cyclical income stream due to these services often being procured as a fore runner to future build projects. Consultancy income increased in the current year due to a design and proof of concept project commissioned by BEIS.

Fuel sales remained consistent, in part hampered by the Covid-19 lockdown that kept a number of users off the roads. The network did however, remain open to provide hydrogen road fuel to emergency service workers.

Total collaborative project funding newly recognised in the year was £2.0m (2019: £12.9m). This has funded research and data collection projects or subsidised proof-of-concept sales.

The increase in loss in the year being reported can be attributed to similar factors as last year; firstly, the ongoing installation of first-of-a-kind large scale plant in new and varied situations; secondly, increased costs of recruitment in the year as the Group continued to grow in preparation for delivery of ITM Power Plc's future order book; but also thirdly the effect of the Covid-19 lockdown on our ability to complete the handover of sales projects to site acceptance and recognise their revenue under IFRS 15. There was also the effect of IFRS 16 Leases as the Company entered into the new lease for Bessemer Park, increasing the amounts passing through the income statement, albeit now as depreciation and interest rather than rent (see note 2). The adjusted EBITDA loss for the year was -£14.3m (2019: -£3.9m), see note 6.

Debtors have decreased from £30.0m (2019) to £22.2m. This movement is dominated by the timing of large grant claims included within the Trade Debtors figure and stage payments made to suppliers for stock items required in the next wave of units through production and equipment for refuelling stations. Prepayments and accrued income were £15.1m (2019: £22.1m). As systems in production become larger and more sophisticated, the need to find new suppliers who can meet our requirements for parts will mean that we are faced with higher volumes of staged or up-front payments until trading history can be developed to assist our credit rating. Standard products are also being developed to improve consistency of requirements that will facilitate repeat business with the same suppliers.

Creditors (excluding intercompany) have decreased from £25.7m to £12.6m at the year ends in 2019 and 2020 respectively. Of this movement, £8.5m relates to the release of deferred grant income against capital assets as a full impairment of refuelling assets was undertaken at the year-end. There have also been lower accruals for goods received not invoiced as the Covid-19 lockdown reduced our consumption and receipt of goods/ services but also a reduction of the deferred grant income balance as progress was made on the projects and income could be formally recognised.

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, especially given the limitations imposed by the Covid-19 lockdown and our perseverance with legacy projects, whose costs were originally underestimated.

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RESEARCH AND DEVELOPMENT

The company continues its research towards four main aims;

1. **New manufacturing processes for cost cutting and mass production**: the company continued liaising with key special purpose machine partners, placing key capital asset orders, to deliver on 1 Gigawatt manufacturing system. ITM Power prepares to embed these new processes with particular focus on metal and catalyst coatings, electrode joining and mechanical assembly to deliver the scale up at the Bessemer Park factory. Raw material transformation is a foundation *step for successful manufacturing scale up, but not only this; cell efficiency work, through the* quality produced at scale also depends on it.

2. **Improved cell efficiency work** continued based on the above techniques and with the proton exchange material supply chain launching new advanced materials. With new entrants and new materials launched, this continues to necessitate scouting, experimentation and assessment of any impact on degradation processes. ITM's R&D will benefit from vendors opening new test facilities to us or forming dedicated teams as well as launching new materials. The company continues producing leading work including publications in the field of catalysis and precious metal loading reduction in partnership with academia and industrial partners. Innovations are on the horizon with new materials and their embedding in our mass production processes.

3. **Improving stack life and reducing degradation**. ITM Power researchers have established ways of prolonging electrolyser stack life of units in the field. ITM control system engineers have started to implement complex algorithms issued from ITM Power R&D and following international code of practice. These projects, as well as the introduction of cost cutting measures are set to continue in the new financial year as increased opportunities for testing and data feed into that process, and mass produced components find their way into the marketed products.

4. **Scale up and product lifecycle**– ITM Power R&D Engineering is developing its 4th generation electrolyser stack; the 5MW stack module. Market demand suggests that an increased capacity for single electrolysers stack as well as the development of a serially manufactured balance of plant modular solution would be very competitive. These two aims are to be fulfilled whilst maximising the utilisation of ITM Power new facility and the assets put in place. ITM continues to innovate at pace in this space, challenging how lean deployment can be achieved and filing of new patent applications.

The market for larger electrolysers is gathering pace and recognised through enquiries. Building and innovating with a 'lean' modular system, highly efficient and with more advanced ancillaries for a technically superior offering will allow ITM Power to access and scale the tenders appropriately as they are received. Work has been undertaken to form a suite of 'Plug & Play' standard products for the smaller, as well as offering larger scale bespoke solutions for kit above 2MW, 5MW and into multi-MW solutions. All this is done using a low part count and manufacture-able stack platform, now up to its 4th generation development. Many efficiencies within the business from purchasing and manufacturing through to aftersales services were derived in the past year through this approach. This trend is set to continue.

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 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 insomuch 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 a significant number 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. The Company have undertaken positive steps in order to secure continuity of grant funding for its ongoing projects. Whilst some further delays in payments might be envisaged, Management do not have any concerns at the moment over receipts.

Brexit may also pose a risk to the Company as it is an exporter, and we continue to monitor the implications of that risk as they emerge.

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The 2020 Covid-19 pandemic has also produced risks in terms of the Company's ability to rely on Force Majeure clauses in its contracts with customers. As different countries come out of lockdown, Management will need to deploy resources effectively to meet deadlines. As such, timelines for projects are being closely monitored so that any pinch-points for resources can be anticipated. Fortunately to date, there has been no noticeable shortage of raw materials from suppliers.

These 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.

FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE

There are no material events that have occurred after the balance sheet date.

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

A Allen
Director
13 November 2020

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 2020.

The following disclosures have been made 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 (2019: £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
Dr R Smith
Mr A Allen (appointed 8 October 2019)
Prof R Putnam (resigned 31 October 2019)

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 period ending 30 November 2021. This forecast indicates that the Group would expect to remain cash positive without the requirement for further fund raising based on delivering the existing pipeline, for a period of at least 12 months from the date of approval of these financial statements. ITM Power Trading, being the main operational subsidiary, would receive the full support of the Group for its continuing operations.

With the uncertainty created for the economy by Covid-19, this cash flow forecast has also been stress tested in the following ways: all payments continuing as normal while receipts are delayed by six months, or receipts are not received at all. In both scenarios the business remained cash positive for the full twelve months. It is true that in this last scenario, careful management of resources will be required to ensure that the right progress is made on projects in order to reach payment milestones and receive payment for these activities.

However, to date the Group has not experienced any significant difficulties in receiving payments due from customers so the worst-case scenario looks unlikely to materialise.

In contracts that include installation and commissioning, the company will have aligned payment milestones with on-site completion of certain works. As such, the dynamic nature of border controls during Covid, as well as quarantining when travelling will need particular attention to maintain cash flows

As project timings are stretched due to challenges of on-site work, it will also be increasingly important to monitor and control outgoings, especially with the close-out of legacy projects without further over-runs remaining a high priority. Notwithstanding the above, the business expects to continue to be viable through to the start of the 2022 calendar year.

The accounts have therefore been prepared on a going concern basis.

AUDITOR

Grant Thornton UK LLP have expressed their willingness to continue in office as auditor. In accordance with Section 489 (4) of the Companies Act 2006, a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- 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.

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;

A Allen

Director

13 November 2020

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Independent auditor's report to the members of ITM Power (Trading) Limited

Opinion

We have audited the financial statements of ITM Power (Trading) Limited (the 'company') for the year ended 30 April 2020, which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 company's affairs as at 30 April 2020 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.

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 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, 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going

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concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Matter on which we are required to report under the Companies Act 2006

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 material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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, 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the 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 financial statements, the directors are responsible for assessing the 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 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.

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.

Michael Redfern FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
13 November 2020

STATEMENT OF COMPREHENSIVE INCOME

	Note	2020 £'000	2019 £'000
Revenue	5	3,086	4,335
Grant income against cost of sales	5	1,719	427
Cost of sales		(9,990)	(5,361)
Gross loss		(5,185)	(599)
Administrative expenses:			
Research and development		(2,298)	(2,327)
Other		(27,417)	(10,681)
Other operating income:			
Grant income	5	10,916	7,903
Operating loss	6	(23,984)	(5,704)
Interest Received	8	29	2
Interest Paid	8	(703)	(692)
Loss before taxation		(24,658)	(6,394)
Taxation	9	(38)	(131)
Loss after taxation		(24,696)	(6,525)

Revenue and operating loss are all derived from continuing operations. Prior year comparatives have not been restated upon transition to IFRS16 Leases, affecting comparison of operating costs and interest (see adoption of new standards in note 2).

There was no other comprehensive income for 2020 (2019: £nil).

The notes on pages 20 to 55 form part of these financial statements.

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BALANCE SHEET

	Note	2020 £'000	2019 RESTATED£' 000
Non- current assets			
Intangible assets – Development costs	11	2,227	666
Right of use assets	12	6,495	-
Property, plant and equipment	13	5,704	15,323
Financial asset at amortised cost	14	137	-
		14,563	15,989
Current assets			
Inventory	15	3,590	1,877
Trade and other receivables	16	22,211	30,409
Cash at bank		30,807	2,286
		56,608	34,572
Current liabilities			
Trade and other payables	18	(30,878)	(74,588)
Provisions	19	(5,463)	(1,492)
Lease Liability	20	(197)	-
		(36,538)	(76,080)
Net current assets / (liabilities)		20,070	(41,508)
Non-current liabilities			
Lease liability	20	(6,307)	-
Total net assets / (liabilities)		28,326	(25,519)
Equity			
Called up share capital	21	78,123	-
Capital contribution reserve	21	496	-
Profit and loss account	21	(50,293)	(25,519)
Attributable to owners of the Company		28,326	(25,519)

The prior year has been restated for presentational reasons (see note 24). However, as this does not affect the balances at 1st May 2018, a third balance sheet has not been presented. Prior year comparatives have not been restated upon transition to IFRS16 Leases. This contributes right of use asset and lease liability lines that did not exist previously (see adoption of new standards in note 2).

The notes on pages 20 to 55 form part of these financial statements.

The financial statements of ITM Power (Trading) Limited, registered number 06156553, were approved by the Board of Directors and authorised for issue on 13 November 2020. Signed on behalf of the Board of Directors:

A Allen
Director

ITM POWER (TRADING) LIMITED
Year ended 30 April 2020

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £'000	Capital contribution reserve £'000	Retained Loss £'000	Total Equity £'000
At 30 April 2018	21	-	-	(18,969)	(18,969)
Adjustment for IFRS 15		-	-	(103)	(103)
Adjusted balance at 1 May 2018		-	-	(19,072)	(19,072)
Loss for the year		-	-	(6,525)	(6,525)
Credit to equity for share-based payment	22	-	-	78	78
At 30 April 2019	21	-	-	(25,519)	(25,519)
Transfer relating to share based payments			78	(78)	-
Issue of shares	21	78,123	-	-	78,123
Loss for the year		-	-	(24,696)	(24,696)
Credit to equity for share-based payment	22	-	418	-	418
At 30 April 2020	21	78,123	496	(50,293)	28,326

A transfer has been made in the current year for a non-material amount relating to share-based payments recognised within retained earnings in the prior year. This is to sit it within a separate reserve as the share options involved belong to the parent company.

Prior year comparatives have not been restated upon transition to IFRS16 Leases so there is no restatement of retained earnings (see adoption of new standards in note 2).

The notes on pages 20 to 55 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. 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 2.

The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 3 to 11.

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 also 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 26. 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 financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

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 that follow set out those policies which apply in preparing the Financial Statements for the year ended 30 April 2020.

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 79(a) (iv) of IAS 1;
    - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 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 of IAS 24 Related Party Disclosures (key management

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compensation)

- 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 130 (F) (ii), 130 (F) (iii), 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:

— 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;
— the disclosure requirements of IFRS 15 Revenue from Contracts with Customers.

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2. NEW STANDARDS, AMENDMENTS AND IFRIC INTERPRETATIONS

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

IFRS 16 *Leases*

The new accounting standard is effective for years commencing on or after 1 January 2019. Under the new standard, the distinction between operating and finance leases is removed and most leases will be reflected in the balance sheet, as both a right-of-use asset and a corresponding lease liability.

The Company used the modified retrospective transitional approach, meaning that the lease liability and equivalent right of use asset are brought on to the balance sheet at the discounted amount applicable at the transition date. Prior year financial information will not be restated, resulting in no impact on retained earnings on transition. The Company has also made use of the practical expedient not to reassess whether contracts are or contain a lease. As such we have adopted the "portfolio approach" beginning by using our existing lease portfolio (reported under the old IAS 17 operating lease note) and subsequently assessed any changes or new contracts as they have arisen.

		Leasehold Properties	Motor Vehicles	Total
		£'000	£'000	£'000
Total operating lease commitments disclosed at 30 April 2019		652	69	721
Less recognition exemption for leases with less than 12 months remaining		(75)	-	(75)
Adjustment for extension/ (contraction) of lease payments recognised		243	(23)	220
Operating lease liabilities before discounting		820	46	866
Discounted using incremental borrowing rate		(40)	(2)	(42)
Opening lease liabilities		780	44	824

The right to control the use of an asset over a period of time applies when the lessee has the right to *obtain substantially all the economic benefits from the use of the asset and the right to direct the use of* the asset. If the lessor has the substantive right to substitute the asset during this period, then it would not meet this condition. Two potential exemptions can also be applied –for leases of less than 12 months duration or of low value. For these reasons, we have not included temporary equipment hire for projects nor the rent-a-room office and storage facilities contracted by the Company.

A key judgement associated with the adoption of this standard is the identification of the discount rate to be used to calculate the present value of the future lease payments on which the reported lease liability and right-of-use asset are based. With no clearly defined interest rates for existing leases and no incremental borrowing rate known for the Company, ITM Power (Trading) Limited have selected discount rates of 2.5% (properties) and 5% (non-property) for our existing leases based on similar companies and leases. For the new lease at Bessemer Park, as it is of much longer duration (15 years), an interest rate of 7.5% has been applied.

A right-of-use asset is depreciated in accordance with IAS 16 "Property, Plant and Equipment" and in line with the Group's existing policies (straight-line over the lease term), whilst the liability is increased for the accumulation of interest and reduced by lease payments. This will result in higher expenses recorded in the earlier phases of any lease, when interest is calculated on a larger liability balance. There is no impact on cash flow overall. Classifications within the statement of cash flows will change to reflect the interest element of each lease payment. This reclassification also impacts EBITDA.

Besides the appearance of right of use assets and lease liabilities on the balance sheet, a comparison of the impact on current year profit / loss is shown below:

	Effect on Profit & Loss under new IFRS 16			What would have been seen under IAS 17
	Interest charge	**Depreciation charge**	**Total**	**Operating lease rental charge**
	£000	**£000**	**£000**	**£000**
Property leases	199	468	**667**	392
Vehicle leases	2	32	**34**	32
	201	500	**701**	424

The above note ignores the effect of impairment but shows an impact of an additional £277,000 charge to the income statement in the year, increasing the EBIT loss of the Company. However, as the charge now passes into the income statement in the form of depreciation and interest, EBITDA has improved by £424,000.

New and revised IFRSs in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 April 2020 reporting periods and have not been early adopted by the Company. These standards are neither expected to have a material impact on the entity in the current or future reporting periods nor on foreseeable future transactions:

- IFRS 3 Amendments to the definition of a business (effective for periods beginning on or after 1 January 2020);
- IAS 1 and IAS 8 Amendments to the definition of material to align with the Revised Conceptual Framework (effective for periods beginning on or after 1 January 2020);
- IFRS 9, IAS 39 and IFRS 7 amendments in Interest Rate Benchmark Reform when accounting for hedging (effective for periods beginning on or after 1 January 2020).

Other Changes in Accounting Policy

The Company makes R&D claims as part of its annual submissions to the tax authorities and has recently started to make RDEC claims to benefit from enhanced relief or tax credits (as appropriate). As the nature of these is similar to grant funding, the Company will present them within other income. This will leave the tax line of the accounts solely for the purposes of reporting corporation tax. This change will be reflected in a revised accounting policy. Retrospective application would be immaterial to the accounts so the change will be treated prospectively, without restatement of prior periods.

3. 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 30 November 2021. This forecast indicates that the company would expect to remain cash positive without the requirement for further fund raising based on delivering the existing pipeline, for a period of at least 12 months from the date of approval of these financial statements.

With the uncertainty created for the economy by Covid-19, this cash flow forecast model has also been tested for sensititvity in the following ways: all payments continuing as normal while receipts are delayed by six months, or receipts are not received at all. In both scenarios the business remained cash positive for the full twelve months. In this second scenario, careful management of resources will be required to ensure that the right progress is made on projects in order to reach payment milestones and receive payment for these activities.

To date the Company has not experienced any significant difficulties in receiving payments due from customers so the worst-case scenario looks unlikely to materialise.

In contracts that include installation and commissioning, the company will have aligned payment milestones with on-site completion of certain works. As such, the dynamic nature of border controls during the Covid-19 lockdown, as well as quarantining when travelling will need particular attention to maintain cash inflows

As project timings are stretched due to challenges of on-site work, it will also be increasingly important to monitor and control outgoings, especially with the close-out of legacy projects without further over-runs remaining a high priority. Notwithstanding the above, the business expects to continue to be viable.

The accounts have therefore been prepared on a going concern basis.

Revenue recognition

Product sales
ITM Power Plc undertakes product sales that involve the manufacture, installation and commissioning of an electrolyser system over a period of several months. Such systems are usually quoted to a customer as a single value but may be split into agreed payment milestones in order to facilitate cash flow. Any ancillary requests will be treated as separate performance obligations if costs can be separately identified and the revenue value is also quoted separately, but the main objective, to provide a working system for use in a specific application, is viewed as a single performance obligation.

Under IFRS15, a performance obligation is satisfied over time if one of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits provided by the seller's performance as the seller performs;
b) the seller's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
c) the seller's performance does not create an asset with an alternative use to the seller and the seller has an enforceable right to payment for performance completed to date.

Revenue from product sales, which do not meet the first two criteria, will therefore be treated differently depending on whether the product is standard or bespoke in reference to point (c) above:

- Revenue from standard products will be recognised only when the performance obligation has been fulfilled and ownership of the goods has transferred, which is typically at site acceptance, which is the official handover of control of the goods to the customer. This is due to the "transferability" of such products and their components up until handover, so the asset generated has an alternative use to the Group up to the point of handover. During the product build, revenue will be reflected in the balance sheet as either accrued or deferred income depending on progress billings and advances received from customers. Costs incurred on projects to date will not be included in the statement of comprehensive income but will be accumulated on the balance sheet as work in progress (as they are considered recoverable) and transferred to cost of sales once the revenue applicable to those costs can be recognised in the accounts. Should costs exceed anticipated revenues, a provision will be recognised and the surplus costs expensed with immediate effect;

- Bespoke contracts by their nature do not create an asset with an alternative use to the Company; some have traceability requirements attached to them that would prevent them being diverted during production whilst others are simply bespoke to the customer's requirements and therefore would not meet the needs of, or be easily converted for use on, another project. There is also an enforceable right to payment for performance completed to date if the contract is terminated by

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the customer for reasons other than ITM Power's failure to perform as promised. Revenues for bespoke contracts will therefore be recognised over time according to how much of the performance obligation has been satisfied. This is measured using the input method, comparing the extent of inputs towards satisfying the performance obligation with the expected total inputs required. Any changes in expectation are reflected in the total inputs figure as they become known. The progress percentage obtained is then applied to the revenue associated with that performance obligation. Management view this as a much more reliable measure of progress towards completion of the performance obligation than the output method as, despite contracting with milestone payments, these are not reliable measures of progress or value to the customer but instead have been designed to aid cash flow.

ITM Power supply units with a standard 12-month warranty, which covers the equipment against any fault due to manufacturing defects. Any repairs made under this warranty will be completed free of charge. Where possible, diagnosis will be performed via remote connection in order to minimise disruption to customers. The warranty period starts from the date the performance obligation under Site Acceptance Testing is deemed to have been passed.

Unless an extended warranty is specifically purchased under the sales contract and thus, together with its maintenance obligations, creates a separate performance obligation under that contract, warranty provisions will continue to be treated under IAS 37 as they are by nature an assurance warranty.

Parts that are replaced due to being at their end of life are not included. Expected lifetimes of individual parts will be provided in a detailed maintenance plan during the design phase of the project. Out-of-warranty repairs and part replacements will be charged to the customer. It should be noted that a maintenance contract is mandatory for the duration of any warranty period and will form a separate performance obligation. After the warranty period, it is recommended that a maintenance package is continued (see maintenance contracts below).

ITM Power's standard contract wording limits the right of rejection once a customer has accepted the unit under either factory acceptance testing (for ex-works) or site acceptance testing. Up until that time, contractual obligations would protect our right to recognise revenues for work performed to date. Remedies would instead exist in a separate claim for damages.

Maintenance contracts
Maintenance contracts typically involve two scheduled annual visits. Therefore revenue is recognised in two instalments against the costs of those visits, i.e. when each performance obligation is met. However, where remote support forms part of the contract, revenue for this performance obligation will be recognised over time as the customer simultaneously receives and consumes the benefits of such a service, and criteria (a) under IFRS 15 is met, as referred to above.

Consulting contracts
Where the IFRS 15 criteria for recognition over time are met (in this case that the customer simultaneously receives and consumes the benefits of the service), revenue will be recognised over time. For those contracts where these criteria are not met, revenue will be recognised on completion of the contract.

Fuel sales or sales of scrap/spares
Sales are recognised immediately upon completion of the performance obligation, being the transfer of ownership of the goods.

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. Contributions are charged to the profit and loss in the year to which they relate. Unpaid contributions at the balance sheet date will be reflected as a liability in the balance sheet.

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.

Grants
Government and other grants are not recognised until there is reasonable assurance that the Company has complied with the conditions attaching to them and that the grants will be received.

Grants relating to tangible fixed assets are treated as deferred income and released to the income statement over the expected lives of the assets concerned. Grants for revenue expenditure are presented as part of profit or loss within other income in the periods in which the expenditure is recognised.

Grants have stage payments, which can include up front payments to ITM power. Where pre-finance has been received at the start of the grant and continues to exceed expenditure incurred to date, the surplus is shown as deferred income and is included in the balance sheet as a liability. When expenditure incurred to date exceeds receipts from the grant body, the surplus is shown as accrued income until such time that it can be claimed. Such balances are reviewed for recoverability, ensuring that the costs incurred met the conditions of the grant for recognition of grant income and such recognition of income does not exceed the maximum value of the award. Where a claim has been submitted to the grant body but not yet paid, the amount of the claim is included in the consolidated balance sheet under trade and other receivables.

In specific instances where grant income subsidises a sale, grant income can be recognised against appropriate expenditure on agreed projects and shown as receivable from the time of the expense. This means that grant income can be recognised against stage payments made on larger items. Thus, a further category of grant income receivable against pro forma payments has been established within deferred income on the balance sheet to allow for a difference in treatment in grant-subsidised sales. Once the items have been received, this grant income will come to be shown as "grant income against cost of sales" in profit and loss.

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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The resulting tax charge, where applicable, is shown within the tax line of the income statement.

Research and development tax credits are recognised on an accruals basis, and are reported in the income statement. By their nature, they are similar to grant funding so will be presented amongst other income.

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.

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.

Right of Use Assets
Right of use assets are recognised at the total value of the minimum lease payments (i.e. initial measurement of the lease liability) plus any deposit or lease payments made at or before the commencement date, less any lease incentives. The asset may also include any initial direct costs incurred in establishing the lease. The company creates a separate asset under leasehold improvements for any dilapidations costs to restore a property to the condition required by the landlord at the end of the lease.

Depreciation of right of use assets will be recognised in distribution costs (or in administration cost if more suited to the asset) over the lease term. Where a deposit is not taken in lieu of rent, but rather to act as security that can be refunded, this will be treated as the expected residual value of the asset and will not be subject to depreciation.

Property, plant and equipment
Leasehold improvements, laboratory & test equipment, production plant & equipment, computer equipment and office furniture & fittings are stated at cost less accumulated depreciation and any recognised impairment loss.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences only when the assets are complete and ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Category	*Period*	*Recognition in profit and loss*
Laboratory and test equipment	4 years	Research & Development costs
Production plant and equipment	4 years	Other Administrative expenses
Computer equipment	3 years	Other Administrative expenses
Office furniture and fittings	4 years	Other Administrative expenses
Leasehold improvements	4 years or the length of the lease term	Other Administrative expenses

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets – software
Software purchased from external companies has been recognised at cost under the heading of intangible assets. Amortisation is charged so as to write off the cost of assets over an estimated useful lives of three years (in-line with the Company policy for computer equipment), using the straight-line method. This is recognised in Other Administrative expenses.

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.

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 all 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).

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. Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. The value of any impairment (or its reversal) is recognised within the same cost line that the depreciation or amortisation would normally appear in.

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 "first in first out" (FIFO) 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.

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Financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest received from these financial assets is included in investment income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable.

Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the company becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

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.

Leases

Where there is control over a leased asset, granted by a lease of more than 12 months duration at inception, both the lease liability and a corresponding right of use asset will be recognised on the balance sheet. Rental amounts will not be expensed but instead will reduce the liability, while interest on this liability and depreciation of the asset will pass through to the income statement.

Share-based payments

ITM Power Plc Group issues equity-settled share-based payments in the parent company to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in profit or loss on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured using a Black-Scholes options pricing model.

As the company that employs those members of staff, ITM Power Trading recognises a share-based payment for the fair value movements and employers National Insurance liabilities on those options. The credit to equity for the fair value movement is, however, recognised as a capital contribution.

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4. CRITICAL ACCOUNTING JUDGEMENTS AND 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.

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.

Revenue Recognition Over Time
Management have assessed their sales contracts in accordance with the 5-step principle laid out by IFRS 15 and have come to the conclusion that certain contracts can be recognised over time due to their status as first-time or custom builds. In accounting for their revenue under this method, management must take a view of the total costs required for each performance obligation together with the actual spend already recognised in cost of sales to be able to recognise an equivalent proportion of the revenue for that performance obligation. As this relates to expense not yet incurred, the projections are largely based on budgeted costs or quotes for costs and anticipated labour hours to complete a task.

Some contracts may be largely recognised over time but contain separate performance obligations that would take place at a point in time e.g. training of customer operatives in the use of the equipment. Management must decide, therefore, how the contracts break down in terms of performance obligations and the manner in which their associated revenue is accounted.

Capitalisation of Development Costs
The Company undertakes a number of internal projects for the advancement of its core technology, the design of standard products and improved efficiencies around the business. Whilst these will be timebound and involve specific groups of staff, time and costs can easily be tracked through our reporting and accounting systems. Management must decide at what point such efforts become development work that will result in future economic benefits to the Company and thus, at which point they meet the criteria for capitalisation.

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 £2,144k (2019: £666k). The development projects currently capitalised here and being amortised relate to technologies being used in our current sales and so remain relevant. Further capitalisations during the year relate to advancements in those technologies and efficiencies that should allow us to improve our offering and gain interest in new markets. The Company has also been developing its internal systems to be able to deliver its larger scale activities.

Impairment of non-current assets

In the case of there being a trigger for a review of impairment, the Company performs a review on the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment at the Balance Sheet date. The Company particularly tests the net recoverable amounts of its internally-generated assets held (or previously held) in assets under construction to ensure that the costs of their production have not over-run their operational or commercial value.

One such trigger for impairment review, which has occurred in the current year, is that the Company was loss making and another was the impact of the Covid-19 lockdown on the number of vehicles on the roads requiring refuelling for an (as yet) undetermined period of time. This is the fourth year that a review of the refuelling assets of the company has been undertaken, with the financial year ended April 2017 being the first year of deployment.

As part of a strategic review ongoing at the year-end, in June 2020 a Managing Director was appointed to the Motive division to establich a strategy for refuelling in the UK. As such, it was deemed that a criticial volume of hydrogen output was needed for the stations to be cash generative. The first generation stations deployed by ITM Power do not meet these minimum volume requirements. As such the Group has fully impaired the remaining value of the assets.

However, as the majority of the stations are sited in strategic locations with important partners, and an obligation exists within funding arrangements to continue to operate for a period of time, the fleet of refuelling stations will continue to offer hydrogen before upgrades can be planned in the future. The stations continued to operate during Covid-19 having gained essential services status through supporting the Met police and key workers with Green Tomato Cars.

As at the balance sheet date, an impairment review was undertaken and an impairment of £5,393,000 was provided.

Recoverability of debtors and debtor impairment
In applying the revised IFRS 9 standard, Management have applied a 1% provision against trade receivables and accrued sales income based on historical and future trends. We have not noticed any change in recovery profiles during the Covid-19 lockdown and continue to engage with large credit-worthy businesses for the sale of our products. Grant debtors and accrued grant income balances have been disregarded in the application of this percentage provision as, so long as we continue to work within the parameters of the grants, the value of the grant award is unchanged. In the case of grants awarded by the EU, Brexit uncertainty may impact the timing of those receipts; all grants that are contracted are considered recoverable.

Key sources of estimation uncertainty

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, impairment has been performed on certain assets directly linked to the current leasehold properties given the intention to vacate those properties.

Discount rates on lease liabilities recognised under IFRS 16
A key judgement associated with the adoption of this standard is the estimation of the discount rate to be used to calculate the present value of the future lease payments on which the reported lease liability and right-of-use asset are based. With no clearly defined interest rates for our existing leases and no

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incremental borrowing rate known for the Company, we have selected discount rates of 2.5% (properties) and 5% (non-property) for the existing leases based on similar companies and leases. For the longer Bessemer lease a rate of 7.5% has been used and the impact of using this rate is material given the length of the lease. Details of the sensitivities to different estimates that could have been used are given in note 20.

Dilapidations Provision
A provision was recognised in prior years for dilapidations work in relation to our current premises for handover to the landlords, given our intention to move to Bessemer Park. The amount was calculated by a value per square metre, which was adjusted last year based on assessment of the first premises that we are due to leave. These provisions have since been viewed as best practice and other similar provisions will be put in place from the start of other new property leases.

Warranty provisions
As sales contracts have gained momentum, the Group is recognising a higher number of warranty provisions by the year end. These are based on Management's current best estimate of the potential costs involved in diagnosing and correcting faults and the likelihood of such faults occurring within the first year of operation of a unit. These assumptions are built upon historical data of units in the field so are likely to be reviewed and revised as more information becomes available with a higher quantity of machines in operation. If it becomes known that additional work is required, then the provision is extended.

Provision for contract losses
The Company has recognised a provision for onerous contracts in line with the requirements of IAS 37, given the expected costs to complete legacy projects exceeding the headroom in contracted sales values. Cost forecasts produced by Project Managers are monitored on a monthly basis to ensure that such potential losses are recognised immediately in the accounts. As quotes are finalised with suppliers these estimates may fluctuate but the provision will be adjusted accordingly and ultimately used to off-set the future costs of the project as it nears completion.

5. REVENUE

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

	2020 £'000	2019 £'000
Revenue from product sales recognised over time	2,255	2,929
Revenue from product sales recognised at a point in time	-	826
Total product sales	2,255	3,755
Consulting services	447	47
Maintenance services	21	34
Fuel sales	212	162
Other	151	337
Revenue in the Income Statement	**3,086**	**4,335**
Grant income shown against cost of sales	1,719	427
Other operating income:		
Grant income (claims made for projects)	10,620	7,903
Other government grants (R&D claims)	252	-
Other government grants (Covid-19 furlough scheme)	44	-
	15,721	**12,665**

At 30 April 2020, the aggregate amount of the transaction price allocated to remaining performance obligations of continuing build contracts was £3.2m (2019: £5.3m). The Company expects to recognise 94% of the remaining performance obligations within one year.

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

	2020 £'000	2019 £'000
Power-to-Gas	308	1,060
(of which product sales recognised over time £261,000)		
Refuelling	1,066	2,135
(of which product sales recognised over time £854,000)		
Renewable Chemistry	1,147	1,052
(of which product sales recognised over time £1,140,000)		
Other	565	88
	3,086	4,335

Geographic analysis of turnover

	2020 £'000	2019 £'000
United Kingdom	828	1,338
Rest of Europe *(including all revenues recognised over time)*	2,258	2,997
	3,086	4,335

Except where extended warranties have been purchased and treated as separate performance obligations for the purpose of IFRS 15 Revenue from Customers, warranty commitments are covered under IAS 37 Provisions and are therefore accounted under Note 19.

6. OPERATING LOSS

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

	2020 £'000	2019 £'000
Research & development costs	1,812	2,044
Share based payment expense	1,071	78
Depreciation of tangible fixed assets	3,660	2,807
Release of deferred capital grant against capital assets	(9,916)	(1,133)
Impairment of tangible fixed assets	13,952	-
Reversal of impairment	-	(24)
Loss on disposal of fixed assets	599	-
Amortisation of intangible assets	190	122
Impairment against prepayments	-	591
Bad and doubtful debt (credit) / expense	(15)	424
Net foreign exchange (gain)/ loss	(177)	146
Cost of inventories recognised as an expense	4,272	3,936
Movement on aged stock provision	108	341
Operating lease costs	497	513

Prior year comparatives have not been restated upon transition to IFRS16 Leases, affecting comparison of depreciation and operating lease costs (see adoption of new standards in note 2).

Operating lease costs for the current year, refer only to those rentals that meet the criteria for exemption under IFRS 16 Leases i.e. those of short duration or that do not grant control of an asset for a determined period of time. These are largely short-term rentals of equipment to undertake our field activities on projects or property service charges.

Auditor's remuneration for the audit of the company's annual accounts amounted to £30,000 (2019: £30,000) and in both years was borne by another group undertaking.

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Calculation of Adjusted EBITDA

In reporting EBITDA, management use the metric of adjusted EBITDA, to better reflect underlying performance and remove the effect of the following items;

	2020	2019
	£'000	£'000
Loss before interest and tax	(23,985)	(5,704)
Add back:		
Depreciation	3,660	2,807
Release of deferred capital grant against capital assets	(9,916)	(1,133)
Impairment	14,085	(24)
Amortisation	190	122
Loss on disposal	599	-
Share based payment charge	1,071	78
	(14,296)	(3,854)

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	2020 No.	2019 No.
Research and development	28	24
Production and development	113	85
Sales and Marketing	10	10
Finance and administration	18	12
	169	131

Their aggregate remuneration comprised:

	2020 £'000	2019 £'000
Wages and salaries	6,080	4,772
Social security costs	623	489
Other pension costs	561	418
	7,264	5,679

Directors' emoluments

	2020 £'000	2019 £'000
Aggregate directors emoluments	378	394
Company contributions to money purchase pension schemes	20	24
	398	418

The company employs two directors (2019: two).

Remuneration of the highest paid director

	2020 £'000	2019 £'000
Aggregate emoluments	234	255
Social security costs	31	34
Company contributions to money purchase pension schemes	9	14
	274	303

8. INTEREST

	2020 £'000	2019 £'000
INVESTMENT INTEREST		
Interest received on cash deposits	(29)	(2)
FINANCE COST		
Interest paid	2	-
Lease liability interest paid	202	-
Interest payable to group companies	499	692
	703	692
	674	690

Prior year comparatives have not been restated upon transition to IFRS16 Leases, resulting in the new line for lease liability interest paid (see adoption of new standards in note 2).

9. TAXATION

	2020	2019
Current taxation	**£'000**	**£'000**
Tax charge / (credit) in the year	12	(59)
Tax charge relating to prior years	26	190
	38	131

Corporation tax is calculated at 19% (2019: 19%).

The charge for the year can be reconciled to the income statement as follows:

	2020	2019
	£'000	**£'000**
Loss on ordinary activities before tax	(24,658)	(6,394)
Tax on loss on ordinary activities at the standard UK corporation tax rate of 19% (2019: 19%)	(4,685)	(1,215)
Effects of:		
Disallowable expense	213	28
Fixed asset differences	1,647	341
Research and development tax credits	-	(59)
RDEC tax charge	12	-
Adjustments in respect of previous periods	26	190
Unrecognised deferred tax	22	15
Unrelieved losses	2,803	831
Total tax	38	131

Factors affecting future tax charges

The Company has tax losses of approximately £31.1m (2019: £16.5m) available to carry forward against future taxable profits, subject to agreement with HM Revenue & Customs. A deferred tax asset has not been recognised.

10. INVESTMENT

	£
Subsidiary undertaking	
Cost and net book value at 1 May 2019 and 30 April 2020	1

	Country of incorporation	Principal activity	Holding	%
ITM Motive Limited	UK	Research	Ordinary	100

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

11. INTANGIBLE ASSETS

	Software	Know-how	Development Costs	Total
	£'000	£'000	£'000	£000
Cost at 1 May 2019	57	559	296	912
Transfers	-	66	(66)	-
Additions	61	-	1,690	1,751
Cost at 30 April 2020	118	625	1,920	2,663
Amortisation at 1 May 2019	6	240	-	246
Amortisation	29	161	-	190
Amortisation at 30 April 2020	35	401	-	436
Net book value at 30 April 2020	83	224	1,920	2,227
Net book value at 30 April 2019	51	319	296	666

Externally purchased software is amortised over a period of three years (in-line with our policy for computer equipment).

Development costs are generated internally by development of our stack technology, unit designs and processes. They are built up over a period of time but capitalisation ceases once the asset comes into use and is transferred to the Know-how category, where they will amortise over four years.

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

Within the development costs category, and therefore incomplete in its value to date, is the design of our 10MW standard product. This currently has a value of £1.1m but combines not only the design of our first modular system but also the working-practice templates for larger system development and deployment in locations under stricter HSEQ/ regulatory controls, such as refineries.

12. RIGHT OF USE ASSETS

	Leasehold properties	Leased vehicles	Total
	£'000	**£'000**	**£000**
Cost at 1 May 2019 (on transition to IFRS 16)	992	66	1,058
Additions	6,058	12	6,070
Cost at 30 April 2020	7,050	78	7,128
Amortisation			
Depreciation at 1 May 2019	-	-	-
Depreciation	468	32	500
Impairment	133	-	133
Depreciation at 30 April 2020	601	32	633
Net Book Value			
Net book value at 30 April 2020	6,449	46	6,495
Net book value at 30 April 2019	-	-	-

The Right of Use asset category was created upon transition to IFRS 16. Prior periods have not been restated.

Right of Use assets are depreciated over their lease term. An impairment has been recognised in the current year, in accordance with IAS 36 Impairment of Assets, for the remaining leases on buildings that we are preparing to quit when we move to Bessemer Park. This involves three separate properties that currently house our UK workforce and reduces their carrying value so as not to be depreciating them beyond March 2021.

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13. PROPERTY, PLANT AND EQUIPMENT

	Production plant and equipment £'000	Laboratory and test equipment £'000	Computer equipment £'000	Office furniture & fittings £'000	Leasehold improvements £'000	Assets in the course of construction £'000	Total £'000
Cost							
At 1 May 2019	10,008	908	455	132	3,024	9,971	24,498
Additions	178	156	125	6	4,000	3,635	8,100
Disposals	(773)	(66)	(1)	-	-	(383)	(1,223)
Transfer	2,288	-	-	-	-	(2,288)	-
At 30 April 2020	11,701	998	579	138	7,024	10,935	31,375
Depreciation							
At 1 May 2019	6,034	557	324	116	2,144	-	9,175
Charge for the year	2,226	175	95	6	658	-	3,160
Impairment	3,372	-	-	-	151	10,429	13,952
Disposals	(562)	(53)	(1)	-	-	-	(616)
At 30 April 2020	11,070	679	418	122	2,953	10,429	25,671
Net book value							
At 30 April 2020	631	319	161	16	4,071	506	5,704
At 30 April 2019	3,974	351	131	16	880	9,971	15,323

The impairment, reported across three categories of asset above, relates to the impairment of our refuelling assets described in note 4 as well as a 62k impairment for leasehold improvements relating to our properties that we are preparing to leave (see also Right of Use Assets note 12).

14. FINANCIAL ASSET AT AMORTISED COST

	2020 £'000	2019 £'000
Security deposit	137	-
	137	-

The financial asset at amortised cost sits under non-current assets in the balance sheet and relates to the security deposit on our new leasehold property.

15. INVENTORY

	2020 £'000	2019 £'000
Raw materials	3,194	1,767
Work in progress	396	110
	3,590	1,877

There is no material difference between the balance sheet value of stocks and their replacement cost. Inventories have been stated after a provision for impairment of aged-stock £449k (2019: £341k).

16. TRADE AND OTHER RECEIVABLES

Amounts due within one year	2020 £'000	2019 RESTATED £'000
Trade receivables	5,378	6,597
Impairment for credit risk	(62)	(77)
Corporation tax receivable	317	154
Other receivables	694	248
Prepayments	12,893	14,646
Accrued sales income	717	1,389
Accrued grant income	1,505	6,061
Restricted cash balances	769	1,391
	22,211	30,409

The prior year has been restated for presentational reasons (see note 24).

Prepayments include amounts paid up-front by way of pro forma and stage payments to suppliers for the long-lead time items required on our build projects.

Restricted cash balances refer to monies received from customers that are currently sat on bank guarantee until specific performance milestones are met on product sales contracts.

17. CONTRACT BALANCES & PERFORMANCE OBLIGATIONS

	2020 £'000	2019 £'000
Contract revenue recognised through release from deferred income	484	591
Release from transitional adjustment to IFRS 15	-	596
	484	1,187
Contracts with customers in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	1,059	35
Contract assets (accrued income)	717	1,389
Contract liabilities (deferred income)	(2,444)	(2,049)
Balance sheet position of sales contracts	(668)	(625)

The contract position will change according to the number or size of contracts in progress at the year-end as well as the status of payment milestones towards those contracts. The Company will continue to structure payment milestones in order to cover the up-front costs of materials for cash flow purposes. The variance between these and the performance obligations for revenue recognition under IFRS 15 (typically acceptance of the product by the customer for all standard products), will cause increasing values to remain in deferred income for longer.

18. TRADE AND OTHER PAYABLES

	2020 £'000	2019 RESTATED £'000
Trade payables	1,743	912
Amounts owed to group undertakings	18,234	48,840
Other grant creditors	-	1,002
Other taxation and social security	229	189
Accruals	1,782	3,910
Deferred Sales income	2,444	2,049
Deferred Grant income	305	1,215
Deferred grant income against capital assets	252	10,079
Grant income received against pro formas	5,889	6,392
	30,878	74,588

The prior year has been restated for presentational reasons (see note 24). Other grant creditors have also been split out of deferred grant income as being potentially refundable back to the grant body. However, in the current year, it was confirmed that this did not need to be refunded and could instead be applied to the accrued income balance for our work on the project.

The amounts owed to group undertakings are repayable on demand with interest charged at 1% above the Bank of England base rate.

19. PROVISIONS

	Leasehold Property Provision	Warranty	Provision for Contract losses	Other Provisions	Total Provisions
	£'000	£'000	£'000	£'000	£'000
Balance at 1 May 2019	(750)	(742)	-	-	(1,492)
Provision in year	-	(881)	(3,319)	(652)	(4,852)
Use of the provision	-	871	-	-	871
Provision released	-	10	-	-	10
Balance at 30 April 2020	(750)	(742)	(3,319)	(652)	(5,463)

The leasehold property provision represents management's best estimate for the dilapidations work that may be required to return our old factory, office and laboratory buildings to the landlords at the end of the lease term. The existing provision is due to unwind over the next two financial years as our buildings are prepared for handover back to the respective landlords. Although the Group has taken possession of the property at Bessemer Park during the current financial year, the premises are still in the process of being adapted and fitted out. A similar property provision will be made once a suitable valuation can be undertaken and the building comes into use by the business.

The warranty provision represents management's best estimate of the group's liability under warranties granted on products, based on historical knowledge of the products and their components. As with any product warranty, there is an inherent uncertainty around the likelihood and timing of a fault occurring that would trigger further work or part replacement. Warranties are usually granted for a period of one year, although two-year warranties are the standard within some jurisdictions.

The provision for contract losses is created when it becomes known that a commercial contract has become onerous. Project Managers provide rolling spend forecasts, updating these as quotes are obtained. The provision is therefore based on best estimates and information known at the time to ensure the expected losses are recognised immediately through profit and loss. This provision will be used to off-set the costs of the project as it reaches completion in future periods. In the current year, the provision has arisen across our legacy projects but predominantly reflects the loss expected on the Shell project. This is expected to unwind within the next financial year.

The other provisions category relates to a provision for employer's national insurance due on share options as they exercise (see share based payment note 22).

20. LEASE LIABILITES

The following table describes the types of right of use asset owned by the Company and shows the movements on lease liabilities within the year:

	Leasehold Property	Motor Vehicles	Total
	£'000	£'000	£'000
Existing contracts at 1 May 2019	780	44	824
Adjustments	117	-	117
Additions	5,776	9	5,785
Interest Applied	199	3	202
Payments made	(392)	(32)	(424)
At 30 April 2020	6,480	24	6,504

Adjustments refers contracts that have changed their length of duration or their value during the year. The interest charge appears as interest paid at the bottom of the income statement and is the only value described above that affects profit or loss. Each liability is matched by a corresponding right of use asset, upon which depreciation is also charged to the income statement (see note 12). The two amounts together replace the previous accounting treatment of expensing rental payments.

	Leasehold Property	Motor Vehicles	Total
	£'000	£'000	£'000
Within 1 year	558	20	578
2-5 years (inclusive)	2,742	5	2,747
Over 5 years	7,557	-	7,557
Less:			
Future finance charges	(4,377)	(1)	(4,378)
Present value of lease obligations	6,480	24	6,504
Split:			
Due within 12 months (current)	178	19	197
Due after 12 months (non-current)	6,302	5	6,307

The estimation of the Company's incremental borrowing rate (IBR) for use on the largest lease, being the Bessemer Park lease, is based on an estimate calculated by Deloitte. The assessment made assumes a CCC credit rating for the company and uses a wide range of possible outcomes between 3% and 11%. The use of 7.5% is management's best estimate of a reasonable rate to use against a secured asset. However, using a different rate within the range would give a materially different accounting outcome. To illustrate the impact this could have, the Directors have estimated the impact that using a rate of +/- 2% would *have on the right-of-use asset, the lease liability and the income statement.*

Incremental Borrowing Rate	**Balances as at 30 April 2020**		**Effect on profit / loss in the year**		
	Right of Use Asset	**Lease Liability**	**Depreciation**	**Interest**	**Total effect**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
5.5%	6,961	6,709	193	153	346
9.5%	5,309	5,103	147	199	346

The determination of the carrying amount will not change in future years as lease liabilities are carried at amortised cost, and are not affected by future rates.

21. CALLED UP SHARE CAPITAL AND RESERVES

	2020	**2019**
	£	**£**
Called up, allotted and fully paid		
Ordinary shares of £1 each	78,122,746	1

Ordinary shares carry full rights for voting, dividends and capital on a winding up. During the year, the parent company made a conversion of intercompany debt for equity, resulting in the purchase of a further 78,122,745 shares as shown above.

The share based payment reserve arises upon the issue of share based payment options to directors and reflects the credit made to equity for the fair value of the options recognised over the vesting period.

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

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22. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The parent company operates a number of share option schemes to provide employees and third parties with the opportunity to acquire a proprietary interest in the Group as an incentive to attract and retain their services as follows:

- Enterprise Management Incentive (EMI) options;
- Non EMI or "unapproved" options in lieu of payment for services; and
- Options under HM Revenue & Customs approved Save As You Earn scheme.

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the beginning of the year	12,316,745	33p	5,406,745	31p
Granted during the year	586,500	48p	7,000,000	29p
Exercised during the year	(2,213,338)	23p	-	-
Expired during the year	(203,407)	18p	(90,000)	24p
Outstanding at the end of the year	10,486,500	36p	12,316,745	31p
Exercisable at the end of the year	5,233,332	41p	5,390,339	31p

All of the Group's share option plans were issued after 7 November 2002. In accordance with IFRS 2, only those options that had not fully vested by 1 May 2006, being the Group's date of transition to IFRS, were included in the calculations.

The options outstanding at 30 April 2019 had a weighted average exercise price of 36p and a weighted average remaining contractual life of 5 years.

Fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The assumptions for the Black-Scholes model are as follows:

Weighted averages	2020	2019
Share price	41p	31p
Exercise price	41p	31p
Expected volatility	81.9%	25%
Expected life	5 years	2 years
Risk-free rate	2.18%	4.5%

Expected volatility is a measure of the amount by which share price returns are expected to fluctuate in a period as at the date of grant. The expected volatility is an important factor in determining the value of a share option because the more volatile a share price, the greater the potential gain to the employee at the end of the period. The application guidance for IFRS 2 does not set out a prescribed method for estimating expected volatility. However, it suggests that the following factors should be considered:

- implied volatility of traded options;
- historical volatility of the share price over a period commensurate with the expected term of the share awards;
- the length of time an entity's shares have been publicly traded and that a newly listed entity might have a high historical share price volatility compared with similar entities that have been listed longer;
- the tendency of share price volatility to revert to its long-term average level; and
- appropriate and regular intervals for share price observations.

For listed companies, the normal approach is that historical share price volatility should be used as a guide to expected volatility over a commensurate period to the expected term of awards. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A more complete analysis of the options held by directors of the Group, can be found in the consolidated financial statements of ITM Power Plc but options issued in the year are detailed below:

Year Issued	Exercise price	Last Vesting date	Total shares
2019	0.48	2022	586,500

As a result of these issues, and insomuch as they relate to employees of ITM Power (Trading) Limited, the company has recognised a share-based payment expense in the income statement for the year, which is made up of two elements:

	2020	2019
	£'000	£'000
Share based payment expense	418	78
Provision for employers' national insurance on potential gain	652	-
	1,070	78

The Group has elected to pay employer's National Insurance on gains made on unapproved share options exercise to be capped at the proceeds the Group would receive from the exercise. Any further Employer's National Insurance would be recovered from the exercising party.

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23. CAPITAL COMMITMENTS

The Company had capital commitments of £7.9m at the Balance Sheet date (2019: £1.2m). The current year total can be split into £3.2m of commitments comparable with the prior year and £4.7m for work on the Bessemer Park HQ.

24. PRIOR PERIOD ADJUSTMENT

A restatement of the prior period has been undertaken to correct a presentation error, matching a Trade Receivable balance with a related balance being held in Deferred Grant Income. This was for an amount of £684k, which formed part of a grant claim invoice raised in November 2018. The amount had already been covered by pre-finance so was not still owed to ITM Powertherefore both Trade Receivables and Deferred Grant Income were overstated:

	Original 2019	Adjustment	2019 Restated
	£'000	£'000	£'000
BALANCE SHEET			
Trade & other receivables			
(Trade debtors)	31,093	(684)	30,409
Trade & other payables			
(Deferred Grant income)	(75,272)	684	(74,588)

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25. CONTINGENT LIABILITY

Receipt of government grants

The Company participates in a number of grant funded projects. Income is recognised in the accounts as receivable based on the grant contract and the levels of expenditure incurred on the project. It is claimed periodically according to a timetable laid down by each coordinator. The claims are audited before any money is awarded. However, grants are ultimately funded by government or EU institutions and can be subject to further scrutiny at later dates. This leaves grant income in the accounts subject to potential recall.

Management do not know which grants will be subject to audits nor the time that they are likely to arise and as such would be unable to quantify the potential financial impact of any subsequent recall of funds. To the best of their knowledge, claims are made for expenditure agreed ahead of any project undertaking and in accordance with grant procedure.

Covid-19 effect on projects

The Company has been in regular contact with customers regarding the Force Majeure situation arising as a result of the pandemic and national lockdowns. However, given the unknown timings surrounding the lifting of travel bans and the different quarantine arrangements that each country might impose, it is still not clear how long some of our projects may be affected and whether late penalties within contracts will be enforced given the circumstances. At the current time, no such penalties have been raised for discussion and thus no provision has been made in the accounts.

Dilapidations provision for new leasehold property

The Company has entered into a lease at Bessemer Park and we have begun to occupy the building post year-end, intending to be fully occupied by new year, as we undertake adaptive fitout works agreed with the landlord. Once these are completed and the workforce moves fully into the building, the company will build up a provision for the purpose of restoring the building to the landlord at the end of the lease.

Given that this is fifteen years away and it has yet to be understood in what condition the landlord would expect to have the building returned (with or without the current adaptations), nothing has been recognised in the accounts. Previous dilapidations provisions for other buildings were recognised as the Company began to consider a move. The value of such a provision will need to be considered carefully and in light of the costs of restoration of these other buildings.

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26. 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 in 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 2020 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 it registered address 22 Atlas Way, Sheffield, S4 7QQ or from www.itm-power.com.

27. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of ITM Power Plc, the company is exempt from the requirements of FRS101 to disclose transactions with other members of the group headed by ITM Power Plc (registered office and availability of consolidated financial statements in Note 26).

28. FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE
There are no material events that have occurred after the balance sheet date.