

ITM POWER (TRADING) LIMITED

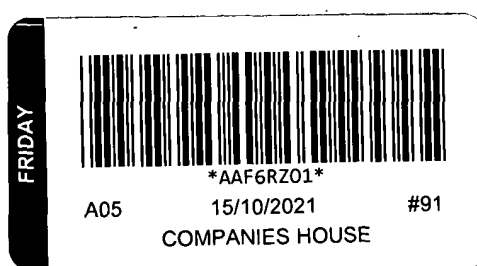
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Company Registration No. 06156553

ITM POWER (TRADING) LIMITED

Annual Report and Financial Statements

For the year ended 30 April 2021



ITM POWER (TRADING) LIMITED

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2021

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr G Cooley
Dr S Bourne
Dr R Smith
Mr A Allen

COMPANY SECRETARY

Ms N Ham Edmonds

REGISTERED OFFICE

2 Bessemer Park
Shepcote Lane
Sheffield
S9 1DZ

BANKERS

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1 Cathedral Square
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PE1 1XH

SOLICITORS

Burges Salmon
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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 2021.

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

As governments and supra-national bodies continue to legislate for the reduction of emissions following the COP21 Paris Agreement on climate change, planting up with renewable generation has increased the need for energy storage to address the challenge of intermittency. Battery technology cannot achieve this at the scale required. Thus, the offshore wind and gas sectors have started to advocate green hydrogen as the means for sustaining their long-term business models.

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'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.

The OYSTER Project to Study Offshore Green Hydrogen Production

The Fuel Cells and Hydrogen 2 Joint Undertaking (FCH2-JU), a public private partnership of the European Commission, has made an award of €5m to investigate the feasibility and potential of combining an offshore wind turbine directly with an electrolyser and transporting renewable hydrogen to shore.

To realise the potential of offshore hydrogen production, there is a need for compact electrolysis systems that can withstand harsh offshore environments and have minimal maintenance requirements while still meeting cost and performance targets that will allow production of low-cost hydrogen. The project will provide a major advance towards this aim. The electrolyser system will be designed to be integrated with a single offshore wind turbine, and to follow the turbine's production profile. Furthermore, the electrolyser system will integrate desalination and water treatment processes, making it possible to use seawater as a feedstock for the electrolysis process.

The OYSTER project partners share a vision of hydrogen being produced from offshore wind at a cost that is competitive with natural gas (with a realistic carbon tax), thus unlocking bulk markets for green hydrogen making a meaningful impact on CO₂ emissions, and facilitating the transition to a fully renewable energy system in Europe. This project is a key first step on the path to developing a commercial offshore hydrogen production industry and will demonstrate innovative solutions with significant potential in Europe and beyond.

The project is planned to start in 2021 and run to the end of 2024, over which time the consortium will develop and test a megawatt-scale fully marinised electrolyser in a shoreside pilot trial. ITM Power is responsible for the development of the electrolyser system and the electrolyser trials, while Ørsted will

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lead the offshore deployment analysis, the feasibility study of future physical offshore electrolyser deployments, and support ITM Power in the design of the electrolyser system for marination and testing. Siemens Gamesa Renewable Energy and Element Energy are providing technical and project expertise.

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. Hydrogen fuel is generated on site by ITM Power'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.

Owner-operator of refuelling stations

ITM Power continue to roll out a network of hydrogen refuelling stations in the UK and was proud to play a part in the support of key workers during the Covid-19 lockdowns. In the year, the Company dispensed 14 tonnes of hydrogen from its refuelling stations (2020: 31 tonnes).

The Company recently completed work on its ninth UK public access hydrogen refuelling station (HRS) at Tyseley Energy Park in Birmingham. This is due to be joined by a bus refueller in the coming months.

Post year-end plans were announced to group ITM Power's refuelling station portfolio into a separate subsidiary, ITM Motive. The strategy will be to focus on larger scale refuelling for fleets of vehicles while the public stations build their revenue. ITM Motive continues to work closely with its partners across the entire supply chain and is particularly excited to see OEMs bringing new vehicles to the market including the MK2 Mirai this year, several bus options, and coming early next year trucks from Hyzon and panel vans from a range of manufacturers including Vauxhall in the UK. The availability of a wide range of vehicle options should lead to a significant growth in the market.

Larger vehicle refuelling

Within the transport sector, a renewed focus has been placed on the development of zero-emission heavy vehicles, where fleets need to be refuelled with large amounts of hydrogen on a regular basis. ITM Power has won contracts to supply on-site hydrogen generation equipment for refuelling in the UK, France, the US and Australia.

'Green Hydrogen for Scotland' to help reach net zero targets

A pioneering strategic partnership has been established to create new green hydrogen production facilities with clusters of refuelling stations across Scotland. These clusters will allow Scotland's abundant renewable power generation capacity to be converted to hydrogen for use by vehicles, supporting efforts to achieve net zero by 2045. 'Green Hydrogen for Scotland' will 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 planning application has now been made for a proposed green hydrogen production facility located on the outskirts of the city at ScottishPower Renewables' Whitelee Wind Farm, the UK's largest onshore wind farm. This will be operated by BOC, using wind and solar energy to power a 20MW

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electrolyser, delivered by ITM Power. This represents a doubling in the electrolyser scale capacity originally envisaged and is in response to market demand. 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.

Green Hydrogen Project in Herten, Germany with Linde Engineering

Linde Engineering announced its successful bid for the design and construction of an integrated hydrogen refuelling station and electrolysis plant for AGR in Herten, confirming that ITM Power is the preferred supplier of the electrolysis equipment envisioned by the project.

The project is receiving funding from the German Federal Ministry of Transport and Digital Infrastructure. The electrolyzers will have an annual capacity of around 440,000 kg of hydrogen with electricity coming from AGR's waste-to-energy thermal power plant, where municipal and commercial waste with a biogenic content of around 50 percent serves as the primary fuel source. The planned refuelling station will be able to fill vehicles at 350 bar and 700 bar and therefore will be suitable for both cars and trucks, including AGR's own fleet of waste trucks.

Through the thermal recycling of local waste and its conversion into hydrogen, the undertaking is a successful example of the circular economy in action, providing an important reference site for the municipality market.

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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, steel making and the Company'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-reformation 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's PEM electrolyzers could provide an immediate backup solution to prevent production downtime and preserve security of hydrogen supply.

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 CO₂ for each tonne of liquid steel produced. The substitution of hydrogen for carbon has the potential to significantly reduce CO₂ emissions, because hydrogen is an excellent reducing agent and produces only water as a by-product.

Sale to Linde of World's Largest PEM Electrolyser

In January 2021, Linde announced that it will build, own and operate the world's largest PEM electrolyser plant at the Leuna Chemical Complex in Germany. This new 24-megawatt electrolyser will be supplied by ITM Power to produce green hydrogen for industrial customers through Linde's existing pipeline network. In addition, Linde will distribute liquefied green hydrogen to refuelling stations and other industrial customers in the region. The total green hydrogen to be produced could fuel approximately 600 fuel cell buses driving 40 million kilometres and save up to 40,000 tons of carbon dioxide exhaust emissions per year.

Planned 100MW expansion of the Shell refinery project

In February, Shell announced plans to increase the capacity of the ITM Power PEM electrolysis plant by 100MW at its Rhineland Refinery in Germany. Shell's partners for the Refhyne II electrolysis project are ITM Power, ITM Linde Electrolysis and Linde. Subject to finalising contracts and securing some match funding, the partners will work with Shell to effect this upgrade.

Shell intends to manufacture sustainable aviation fuels in the Wesseling section of the Rhineland Refinery. To this end, the company wants to set up a first commercial Bio Power-to-Liquid plant. The synthetically produced kerosene is intended to help reduce airlines' CO₂ footprint. Construction of this facility could start in 2022, pending final investment decisions. Both the electrolyser upgrade and the synthetic kerosene projects are integral parts of the planned transformation of the site into the "Shell Energy and Chemicals Park Rhineland".

Electrolyser Sale to Linde for H2Pioneer in Austria

One of the main goals of the H2Pioneer project is demonstrating the production of green hydrogen on-site to be used in semiconductor production, mostly replacing the supply of liquefied hydrogen delivered in trailers. An HGas3SP (2MW) electrolyser system will produce green hydrogen, which after further purification by Linde will be ultra-pure and suitable for semiconductor manufacture. The use of electrolysis simplifies downstream hydrogen purification and minimises delivery logistics while helping to reduce carbon dioxide emissions from the hydrogen supply chain. This is an industry that Linde understands very well and for which it has numerous existing customers worldwide but will be a new industry for ITM Power technology.

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Key financials

The Company's turnover amounted to £4.2m (2020: £3.1m) in the year. The Company made losses before tax of £21.5m (2020: £24.7m). At 30 April 2021, the company had net current assets, excluding intercompany creditors, of £27.5m (2020: £38.3m).

Sales revenues in the year were largely generated from product sales and consultancy. This was predominantly from two major projects, the Refhyne electrolyser build and the design and proof of concept project commissioned by BEIS.

Whilst the investment partnership with Linde has started to generate new contracts, the revenues and cost of sales from these have not yet materialised, owing to the accounting treatment under accounting standard IFRS 15 Revenue from Contracts with Customers, which will keep our standard product sales in WIP until handover to the customer, marking the completion of the performance obligation. Thus, the gross margin is still heavily influenced by legacy projects and the challenging EPC scope of the works contracted, particularly when hampered further by Covid-19 restrictions.

Total collaborative project funding newly recognised in the year was £0.8m (2020: £2.0m). This has funded research and data collection projects.

The prior year loss contained the significant impairment of our refuelling assets but despite the continuing growth of the workforce, costs have also been kept in check this year through a combination of reduced expenditure during Covid-19 lockdowns and through closure of our previous properties, leading to a consolidation of related service expenditure that will continue into the new financial year.

Debtors have decreased from £22.2m (2020) to £19.8m. However, this balance is no longer dominated by pro forma and early stage payments made to suppliers for stock items required in the next wave of units through production. The effort to reduce the number of prepaid suppliers will continue into the new financial year but has been aided by an improved credit rating and a review of our approved supplier base. Prepayments totalled £6.2m (2020: £12.9m).

Creditors (excluding intercompany) have decreased from £12.6m to £10.1m at the year ends in 2020 and 2021 respectively but continues to be dominated by deferred income (£7.4m in the current year and £8.9m in 2020), which for the most part this year reflects money received up front on contracts. This is partly due to the timing of contracts as we embarked on the next wave of commercial contracts but also point in time revenue recognition now that we have moved on to standard product sales (see revenue policy note explaining the treatment under IFRS 15).

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.

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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 has been researching and delivering a digital manufacturing twin to simulate production, adding new capacities at bottleneck through refinement of the factory and its processes: new low power laser cutting to cut titanium, optimisation of joining processes, increasing capacity of the machines, delivering new jig concepts with Kaizen and Poke Yoke lean practices. Beside this production capability work, the produced components continue to be validated in relevant environments. One key achievement is the validation of the catalyst deposition system, now 40 times faster than previous processes on one half of the component assembly.
2. **Improved cell efficiency work** is now mapped to meet market demand over the next 5 years. The targets adopted are more aggressive than publicly stated European targets. So far this has included the launch of a new membrane among other improvements. The Company is accelerating towards the next stages, which are dependent on R&D work with materials. Scouting for material has now evolved into joint development agreements and exclusivity negotiation with the material providers of current and future materials. Precious metal loading reduction is a key enabler to the green hydrogen industry. This work has seen threshold values being met and the new advanced concepts have now undergone verification, learnings and further iterations. Accelerated stress tests and updates to our testing facilities have continued. Expansion of small testing and large testing is envisaged as part of new plans.
3. **Improving stack life and reducing degradation.** Stack efficiency, lower loading and plant operation methods are all intimately linked. The Company is progressing a joined-up exercise to transfer learnings from the lab to the field. These learning are as much to do with equipment choice, added equipment in some cases, than with software/monitoring practice. Exchanges between departments help to produce new equipment datasheets for large equipment to transfer the small test lab findings. These comprehensive datasheets are used to scout the market for the solution. Validation at large scale is more and more involved in terms of resources.
4. **Scale up and product lifecycle.** The 5MW prototype is now a reality. It has not run yet but it is built. The market reception is good but would like it faster to maintain first entrant advantage. The leaner (space and cost) and the more stable (less technical risk taken on large integration) this module can be for the customer, the more competitive it will be. This has been confirmed by enquiries and bids in the open market. The Company has a clear module architecture plan and continues work on the development of this optimised solution. Any intermediary solutions, sometimes seen as faster, all have compromises that, eventually, customers will want to avoid.

With each large enquiry quoted, stakeholders are learning to recognise the good opportunities and smarter ways to aggregate capacity to better fulfil demand, construction, risk profile and aftersales as well as to limit risk of limited damages. Concentrating more work in a UK factory to assemble most parts of ultra clean systems system carries less risk overall. Smaller working entities can more easily be tested and validated. Value engineering on smaller & controlled system can take place more rapidly and as the system is being developed rather than retrospectively, sometimes a few years after introduction. This takes time and resources, ITM Power's work on this will continue. The above stated technology improvements can also integrate more seamlessly in the UK made and controlled system offering.

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

Currency risk

The company is exposed to currency risk in that it has certain supplies that are paid for in foreign currency, but more significantly in that the current order book has 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 Covid-19 pandemic has produced risks in terms of the Company's ability to rely on Force Majeure clauses in its contracts with customers. Management continued to monitor the effect of Covid-19 to deploy personnel efficiently to project site works in order to minimise project delays, utilising European and third-party engineers in locations where staff in the UK could not travel.

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

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FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE

Moving into the new financial year, a new company was created to house the refuelling assets that had previously sat within ITM Power (Trading) Limited. ITM Motive Limited will own and operate the UK refuelling stations in order to drive their profitability. Like ITM Power (Trading) Limited, it is a 100% owned subsidiary within the ITM Power Plc Group. Many of the assets that it will be taking over have been fully impaired so it is not expected to have a material impact on the Company balance sheet.

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



A Allen
Director
10 September 2021

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 2021.

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 (2020: £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

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 September 2022. This forecast indicates that with the continued support of working capital from the parent company, the Company will have sufficient funds to trade 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, the Group cash flow forecast has also been stress tested. By the end of the period analysed, the Group, which provides support to the Company, will still hold a large proportion of the monies from the fund raise in the year. As a worst-case scenario, if all payments had to continue as forecast while receipts were not received at all, the Group would remain cash positive for the full twelve months and the Company, as the main trading subsidiary, would therefore continue to trade.

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.

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DIRECTORS' RESPONSIBILITIES STATEMENT

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

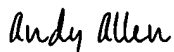
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including 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

10 September 2021

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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 2021 which comprise the Income statement and other 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 2021 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

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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, 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

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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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the entity and determined that the most significant are those related to the reporting frameworks (Financial Reporting Standard 101 'Reduced Disclosure Framework', United Kingdom Generally Accepted Accounting Practice, and the Companies Act 2006), as well as the relevant tax regulations, health and safety law, employment law and data protection laws.
- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries that increased revenues or that reclassified costs from the income statement to the balance sheet;
 - potential management bias in determining accounting estimates, especially in relation to their assessment of the valuation of intangible assets;
 - transactions with related parties.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the industry in which the client operates
 - understanding of the legal and regulatory requirements specific to the entity including:
 - the provisions of the applicable legislation
 - the regulators rules and related guidance, including guidance issued by relevant authorities that interprets those rules
 - the applicable statutory provisions
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition through manipulation of deferred income.

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- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the applicable statutory provisions
- the entity's control environment, including the adequacy of the training to inform staff of the relevant legislation, rules and other regulations of the regulator, the adequacy of procedures for authorisation of transactions, internal review procedures over the entity's compliance with regulatory requirements, the authority of, and procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

Use of our report

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



David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
10 September 2021

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INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

	Note	2021 £'000	2020 £'000
Revenue	5	4,179	3,086
Grant income against cost of sales	5	1,356	1,719
Cost of sales		(11,609)	(9,990)
Total Cost of Sales		(10,253)	(8,271)
Gross loss		(6,074)	(5,185)
Administrative expenses:			
Research and development		(3,489)	(2,298)
Other administrative expenses		(16,584)	(27,417)
Total Administrative expenses		(20,073)	(29,715)
Other operating income:			
Grant income	5	5,095	10,916
Operating loss	6	(21,052)	(23,984)
Interest received	8	69	29
Interest paid	8	(497)	(703)
Loss before taxation		(21,480)	(24,658)
Taxation	9	(67)	(38)
Loss after taxation		(21,547)	(24,696)

Revenue and operating loss are all derived from continuing operations.

There was no other comprehensive income for 2021 (2020: £nil).

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BALANCE SHEET

	Note	2021 £'000	2020 £'000
Non- current assets			
Intangible assets – Development costs	11	3,484	2,227
Right of use assets	12	6,378	6,495
Property, plant and equipment	13	13,583	5,704
Financial asset at amortised cost	14	148	137
		<u>23,593</u>	<u>14,563</u>
Current assets			
Inventory	15	5,176	3,590
Trade and other receivables	16	19,848	22,211
Cash at bank		22,000	30,807
		<u>47,024</u>	<u>56,608</u>
Current liabilities			
Trade and other payables	18	(15,103)	(30,878)
Provisions	19	(9,231)	(5,463)
Lease Liability	20	(186)	(197)
		<u>(24,520)</u>	<u>(36,538)</u>
Net current assets		<u>22,504</u>	<u>20,070</u>
Non-current liabilities			
Lease liability	20	(6,273)	(6,307)
Total net assets		<u>39,824</u>	<u>28,326</u>
Equity			
Called up share capital	21	110,821	78,123
Capital contribution reserve	21	843	496
Profit and loss account	21	(71,840)	(50,293)
Attributable to owners of the Company		<u>39,824</u>	<u>28,326</u>

The notes on pages 20 to 54 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 10 September 2021. Signed on behalf of the Board of Directors:

Andy Allen

A Allen
 Director

ITM POWER (TRADING) LIMITED
Year ended 30 April 2021

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STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £'000	Capital contribution reserve £'000	Retained Loss £'000	Total Equity £'000
At 1 May 2019		-	-	(25,519)	(25,519)
Transfer relating to share based payments			78	(78)	-
Issue of shares		78,123	-	-	78,123
Loss for the year		-	-	(24,696)	(24,696)
Credit to equity for share-based payment	22	-	418	-	418
At 1 May 2020	21	78,123	496	(50,293)	28,326
Issue of shares	21	32,698	-	-	32,698
Loss for the year		-	-	(21,547)	(21,547)
Credit to equity for share-based payment	22	-	347	-	347
At 30 April 2021	21	110,821	843	(71,840)	39,824

A transfer was made in the prior 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.

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Year ended 30 April 2021

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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.

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 pounds 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 25. The registered office address of the parent company preparing consolidated accounts is 2 Bessemer Park, Shepcote Lane, Sheffield, S9 1DZ.

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 Accounting Standards in conformity with the 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 2021.

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

ITM POWER (TRADING) LIMITED

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- the requirements of paragraph 17 of IAS 24 Related Party Disclosures (key management 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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company 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 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 3 Amendments to the definition of a business
- IAS 1 and IAS 8 Amendments to the definition of material to align with the Revised Conceptual Framework
- IFRS 9, IAS 39 and IFRS 7 amendments in Interest Rate Benchmark Reform when accounting for hedging

These standards have not had a material impact on the entity in the current reporting period.

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 2021 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 16 Amendment for Covid-19 related Rent Concessions (effective for periods beginning on or after 1 June 2020)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for Interest Rate Benchmark reform - phase 2 (effective for periods beginning on or after 1 January 2021)
- IFRS 16 Amendment for Covid-19 related Rent Concessions beyond 30 June 2021 (effective for periods beginning on or after 1 April 2021)
- IFRS 3 Amendments to references to the Conceptual Framework Current (effective for periods beginning on or after 1 January 2022)
- IAS 16 Amendments to Property, Plant and Equipment – Proceeds before intended Use Current (effective for periods beginning on or after 1 January 2022)
- IAS 37 Amendments to Onerous Contracts- Cost of Fulfilling a Contract (effective for periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018-2020 (effective for periods beginning on or after 1 January 2022)
- IAS 1 Classification of Liabilities as Current or Non-Current (effective for periods beginning on or after 1 January 2023)
- IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies from significant to material (effective for periods beginning on or after 1 January 2023)
- IAS 8 Amendments to Definition of Accounting Estimates (effective for periods beginning on or after 1 January 2023)

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- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for periods beginning on or after 1 January 2023)

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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 September 2022. This forecast indicates that with the continued support of working capital from the parent company, the Company will have sufficient funds to trade 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, the Group cash flow forecast has also been stress tested. By the end of the period analysed, the Group, which provides support to the Company, will still hold a large proportion of the monies from the fund raise in the year. As a worst-case scenario, if all payments had to continue as forecast while receipts were not received at all, the Group would remain cash positive for the full twelve months and the Company, as the main trading subsidiary, would therefore continue to trade.

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

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Revenue recognition

Product sales

ITM Power 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 Company 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 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 (labour and materials costs) 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.

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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.

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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.

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 Company'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.

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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 administrative expenses over the lease term.

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.

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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 life 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.

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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.

Financial assets

At initial recognition, the Company 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 Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories, of which the Company holds financial instruments in two:

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

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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.

Impairment

The Company 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 in trade receivables and contract assets (accrued sales income). 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.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. These are not deemed to be effective hedging instruments to be matched off against a related asset or liability but rather as stand-alone financial assets or liabilities at fair value through profit and loss. Within the financial statements, therefore, this portfolio of contracts will be shown as either an asset or liability on the balance sheet, with a corresponding gain or loss through the income statement, depending on how the contractual rate of exchange compares with the year-end rate.

Leases

At inception of a contract, the Company assesses whether it conveys the right to control the use of an identified asset -and obtain substantially all of the economic benefits from use of the asset- for a period of time in exchange for consideration. In this instance the contract should be accounted as a lease.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is recognised at cost and is subsequently depreciated using the straight-line method over the lease term.

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The lease liability is initially measured at the present value of the lease payments and discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company's incremental borrowing rate or best estimate of the same. The lease liability continues to be measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of less than 12 months and leases of low value assets. These largely relate to short-term rentals of equipment to undertake our field activities. The Company recognises the lease payments associated with these leases, together with any property service charges and storage fees, as an expense on a straight-line basis over the lease term (see note 6).

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.

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.

The Company also recognises a provision for Employer's National Insurance Contributions (NIC) that becomes payable on the exercise of share options granted under the Group's non-tax advantaged share plans. Where a liability is due, the provision has been calculated using the intrinsic value of the share option which is the difference between the Group's share price at the balance sheet date and the exercise price. The actual amount of Employer's NIC that will be payable will be determined on the difference between the exercise price and Group's share price at the date of exercise. For share options that have not vested, the provision for Employer's NIC is calculated on the same basis and is accrued over the vesting period.

For option grants prior to 2020, the Group has agreed that settlement of the Employer's NIC liability arising on gains made on the exercise of unapproved share options be capped at the exercise price of the options. Any excess liability for Employer's NIC would be recovered from the option holder. For option grants from 2020, the employees have agreed to pay any Employer's NIC liability that is due on exercise of their options.

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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. A separate debtor balance has been created for amounts recoverable from employees, relating to contractually recoverable Employers NIC.

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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.

Contract accounting, including consideration of contract balances and loss provisions

Management have assessed sales contracts in accordance with the 5-step principle laid out by IFRS 15 to confirm whether a contract should be recognised over time or at a point in time. Contract balances are reviewed to ensure that they reflect the status of the project and that amounts remain recoverable. Rolling forecasts of costs to complete the performance obligation are also maintained so that onerous contracts can be recognised and provided for at the point where costs are predicted to exceed the expected income. See notes 5 and 17.

Capitalisation of Development Costs

The Company undertakes a number of internal projects for the advancement of our core technology, the design of our standard products and improved efficiencies around our 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. See note 11.

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. Typically, assets under construction are grouped under the same cash generating unit (CGU) where they are funded by the same grant, but once deployed and opened to the public, each hydrogen refuelling station is considered as a separate CGU.

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

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refuelling. This is the fifth 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 in June 2020, a Managing Director was appointed to the Motive division to establish a strategy for refuelling in the UK. As such, it was deemed that a critical volume of hydrogen output was needed for the stations to be cash generative. The first-generation stations deployed by ITM do not meet these minimum volume requirements. As such the Company has fully impaired the remaining value of the assets, including a further £851,000 in the current year.

This year's impairment review therefore largely focussed on the sole refuelling station that will facilitate sales not only to the general public but also to buses, as this model of station is deemed to be more commercial than its predecessors. The impairment review suggested that cashflows would be positive throughout the life of the station, with the initial investment (including both monies already expensed and forecast costs to complete) being covered within the first four years of operation. For this reason, no further impairment has been undertaken on this asset. For the time being though, management has maintained the impairment that was placed on the asset in the prior year until the volume of refuelling events can be more reliably ascertained when the station becomes fully operational.

Post year-end the assets in use were transferred into a new 100% owned subsidiary, and assets under construction will be transferred upon completion. 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 to meet the critical capacity required of the new business model.

During the year, management also reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £2.2m (2020: £2.1m). Most of 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 continuing design work for standard products and advancements or efficiencies that should allow the Company to improve its offering and gain interest in new markets.

Recoverability of grant debtors

Accrued grant income is specifically reviewed to ensure spend continues within the parameters of the grants and the value of the grant award is unchanged. In the case of grants awarded by the EU, following Brexit all grants that are contracted continue to be considered recoverable.

Deferred Tax Asset

As in previous years, the Company has not recognised a deferred tax asset for its historical losses, mentioned in note 9. This is due to the fact that the Company has forecast further losses over the coming 13 months and likely for the next few years. This decision will continue to be reviewed as we approach break-even or become profit-making and in light of any changes to tax legislation that might arise to limit the losses that can be utilised.

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Key sources of estimation uncertainty

Provisions

Note 19 gives details of the amounts currently recognised under four different categories of provision. Management have particularly considered the following:

Warranty provisions 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 immediately extended.

A provision for onerous contracts (contract losses) has been recognised 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 offset the future costs of the project as it nears completion. Furthermore, the Company uses software to track the risks and opportunities of each project. This gives a potential cost and risk rating for active risks and has been reviewed by management at year end in order to determine if any additional contingency should be recognised on projects. A sensitivity analysis was performed on the current provision and future forecast costs. If forecasted costs were to increase by 10%, the provision would need to increase by £1.6m (2020: £0.9m).

A leasehold property provision was recognised in prior years for dilapidations work in relation to our previous premises for handover to the landlords. The amount was calculated by a value per square metre and adjusted based on assessment of the first premises that we were due to leave. As we near vacation of properties, the provision is flexed on a property by property basis to reflect best estimates of dilapidations work to be completed.

Additionally this year, an estimate for reinstatement works at Bessemer Park has been provided by the Employers Agent retained by the Company for the fit-out of the factory. They have provided this information using an estimated 2.5% inflation but the further calculation of present value requires the use of a discount factor. The Company has selected a discount factor of 7.5% as this falls between the risk-free rate for a fifteen-year government bond and a full WACC rate that would incorporate the effects of tax etc. that are not relevant to this scenario. It also aligns the dilapidations with the incremental borrowing rate used on both the deposit and lease of Bessemer Park. This provided us with a provision of £530,000.

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5. REVENUE

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

	2021	2020
	£'000	£'000
Revenue from product sales recognised over time	1,674	2,255
Consulting services recognised over time	2,108	447
Maintenance services recognised at a point in time	39	21
Fuel sales	153	212
Other	205	151
Revenue in the Income Statement	4,179	3,086
Grant income shown against cost of sales	1,356	1,719
Other operating income:		
Grant income (claims made for projects)	4,666	10,620
Other government grants (R&D claims)	404	252
Other government grants (Covid-19 furlough scheme)	25	44
	5,095	10,916
	10,630	15,721

At 30 April 2021, the aggregate amount of the transaction price allocated to remaining performance obligations of continuing build contracts was £13.5m (2020: £3.2m). The Company expects to recognise 100% of the remaining performance obligations within one year.

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

	2021	2020
	£'000	£'000
Power-to-Gas	138	308
<i>(of which product sales recognised over time £19,000)</i>		
Refuelling	(62)	1,066
<i>(of which product sales recognised over time -£215,000)</i>		
Renewable Chemistry	1,870	1,147
<i>(of which product sales recognised over time £1,870,000)</i>		
Other	2,233	565
	4,179	3,086

Geographic analysis of turnover

	2021	2020
	£'000	£'000
United Kingdom	2,505	828
Rest of Europe <i>(including all product sales recognised over time)</i>	1,674	2,258
	4,179	3,086

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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):

	2021	2020
	£'000	£'000
Research & development costs	2,983	1,812
Share based payment expense	391	1,071
Depreciation of tangible fixed assets	2,332	3,660
Release of deferred capital grant against capital assets	(3,905)	(9,916)
Impairment of tangible fixed assets	5,120	13,952
Loss on disposal of fixed assets	177	599
Amortisation of intangible assets	267	190
Bad and doubtful debt expense/ (credit)	164	(15)
Net foreign exchange gain	(162)	(177)
Cost of inventories recognised as an expense	4,054	4,272
Movement on aged stock provision	84	108
Lease costs	151	497

Lease costs 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 (2020: £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;

	2021	2020
	£'000	£'000
Loss before interest and tax	(21,051)	(23,985)
Add back:		
Depreciation	2,332	3,660
Release of deferred capital grant against capital assets	(3,905)	(9,916)
Impairment	5,120	14,085
Amortisation	267	190
Loss on disposal	177	599
Share based payment charge	391	1,071
	(16,669)	(14,296)

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7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	2021	2020
	No.	No.
Research and development	54	28
Production	110	113
Sales and Marketing	11	10
Finance and administration	24	18
	<u>199</u>	<u>169</u>

Their aggregate remuneration comprised:

	2021	2020
	£'000	£'000
Wages and salaries	7,363	6,080
Social security costs	1,264	623
Other pension costs	711	561
	<u>9,338</u>	<u>7,264</u>

Directors' emoluments

	2021	2020
	£'000	£'000
Aggregate directors' emoluments	547	378
Company contributions to money purchase pension schemes	33	20
	<u>580</u>	<u>398</u>

The company employs two directors (2020: two).

Remuneration of the highest paid director

	2021	2020
	£'000	£'000
Aggregate emoluments	335	234
Social security costs	38	31
Company contributions to money purchase pension schemes	20	9
	<u>393</u>	<u>274</u>

During the year directors also exercised share options awarded by ITM Power Plc.

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8. INTEREST

	2021	2020
	£'000	£'000
FINANCE INCOME		
Interest received on cash deposits	(69)	(29)
FINANCE COST		
Interest paid	4	2
Lease liability interest paid	454	202
Interest payable to group companies	39	499
	<u>497</u>	<u>703</u>
	<u>428</u>	<u>674</u>

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9. TAXATION

	2021	2020
	£'000	£'000
Current taxation		
Tax charge in the year	25	12
Tax charge relating to prior years	42	26
	<u>67</u>	<u>38</u>

Corporation tax is calculated at 19% (2020: 19%).

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

	2021	2020
	£'000	£'000
Loss on ordinary activities before tax	(21,480)	(24,658)
Tax on loss on ordinary activities at the standard UK corporation tax rate of 19% (2020: 19%)	(4,081)	(4,685)
Effects of:		
Disallowable expense	78	213
Fixed asset differences	1,508	1,647
RDEC tax charge	25	12
Adjustments in respect of previous periods	42	26
Unrecognised deferred tax	225	22
Unrelieved losses	2,270	2,803
Total tax	<u>67</u>	<u>38</u>

Factors affecting future tax charges

The Company has tax losses of approximately £45.5m (2020: £31.1m) available to carry forward against future taxable profits, subject to agreement with HM Revenue & Customs. Deferred tax would have been calculated at the new rate of 25% following substantive enactment in May 2021. However, a deferred tax asset has not been recognised so this change is immaterial to the current financial statements.

10. INVESTMENT

Subsidiary undertaking

Cost and net book value at 1 May 2020 and 30 April 2021

	Country of incorporation	Principal activity	Holding	%
ITM Power Shelfco Limited (formerly ITM Motive Limited)	UK	Research	Ordinary	100

ITM Power Shelfco Limited has been treated as a subsidiary undertaking because the group exercises control over this investment, directing its financial and operating policies. Its registered address is 2 Bessemer Park, Shepcote Lane, Sheffield, S9 1DZ.

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11. INTANGIBLE ASSETS

	Software	Know-how	Development Costs	Total
	£'000	£'000	£'000	£000
Cost at 1 May 2020	118	625	1,920	2,663
Transfers	-	2,170	(2,170)	-
Additions	-	-	1,524	1,524
Cost at 30 April 2021	118	2,795	1,274	4,187
Amortisation at 1 May 2020	35	401	-	436
Amortisation	39	228	-	267
Amortisation at 30 April 2021	74	629	-	703
Net book value at 30 April 2021	44	2,166	1,274	3,484
Net book value at 30 April 2020	83	224	1,920	2,227

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 Know-how category is the design of our 10MW standard product. This transferred in towards the year-end with a value of £1.69m (2020: £1.1m included within development costs) and 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.

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12. RIGHT OF USE ASSETS

	Leasehold properties	Leased vehicles	Leased office Equipment	Total
	£'000	£'000	£'000	£000
Cost at 1 May 2020	7,050	78	-	7,128
Additions	541	34	48	623
Disposals	(179)	-	-	(179)
Cost at 30 April 2021	7,412	112	48	7,572
Amortisation				
Depreciation at 1 May 2020	601	32	-	633
Depreciation	685	33	2	720
Disposal	(159)	-	-	(159)
Depreciation at 30 April 2021	1,127	65	2	1,194
Net Book Value				
Net book value at 30 April 2021	6,285	47	46	6,378
Net book value at 30 April 2020	6,449	46	-	6,495

In the current year, the leasehold property additions include the provision for Bessemer Park dilapidations.

Right of Use assets are depreciated over their lease term.

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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 2020	11,701	998	579	138	7,024	10,935	31,375
Additions	1,279	309	361	241	7,462	5,140	14,792
Disposals	(1,355)	(45)	(1)	(135)	(1,534)	-	(3,070)
Transfer	5,445	-	-	-	-	(5,445)	-
At 30 April 2021	17,070	1,262	939	244	12,952	10,630	43,097
Depreciation							
At 1 May 2020	11,070	679	418	122	2,953	10,429	25,671
Charge for the year	371	191	134	37	880	-	1,613
Impairment	412	-	-	-	-	4,708	5,120
Transfer of impairment	4,629	-	-	-	-	(4,629)	-
Disposals	(1,186)	(44)	(1)	(126)	(1,533)	-	(2,890)
At 30 April 2021	15,296	826	551	33	2,300	10,508	29,514
Net book value							
At 30 April 2021	1,774	436	388	211	10,652	122	13,583
At 30 April 2020	631	319	161	16	4,071	506	5,704

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14. FINANCIAL ASSET AT AMORTISED COST

	2021	2020
	£'000	£'000
Security deposit	148	137
	<u>148</u>	<u>137</u>

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

	2021	2020
	£'000	£'000
Raw materials	3,805	3,194
Work in progress	1,371	396
	<u>5,176</u>	<u>3,590</u>

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 £1.3m (2020: £0.4m).

16. TRADE AND OTHER RECEIVABLES

Amounts due within one year	2021	2020
	£'000	£'000
Trade receivables	5,002	5,378
Impairment for credit risk	(59)	(62)
Corporation tax receivable	550	317
Other receivables	275	694
Prepayments	6,179	12,893
Amounts recoverable from employees	1,411	-
Accrued sales income	873	717
Accrued grant income	4,872	1,505
Restricted cash balances	745	769
	<u>19,848</u>	<u>22,211</u>

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.

Accrued income relates to employer's national insurance on share options where, under the terms of the offer, staff will cover this cost upon exercise.

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.

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17. CONTRACT BALANCES & PERFORMANCE OBLIGATIONS

	2021	2020
	£'000	£'000
Contract revenue recognised through release from deferred income	1,538	484
Contracts with customers in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	4,918	1,059
Contract assets (accrued income)	873	717
Contract liabilities (deferred income)	(4,737)	(2,444)
Balance sheet position of sales contracts	1,054	(668)

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

	2021	2020
	£'000	£'000
Trade payables	937	1,743
Amounts owed to group undertakings	4,985	18,234
Other taxation and social security	341	229
Derivatives	8	-
Accruals	1,461	1,782
Deferred Sales income	4,737	2,444
Deferred Grant income	1,751	305
Deferred grant income against capital assets	339	252
Grant income received against pro formas	544	5,889
	15,103	30,878

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

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19. PROVISIONS

	Leasehold Property Provision £'000	Warranty £'000	Provision for Contract losses £'000	Employers NI Provision £'000	Other Provisions £'000	Total Provisions £'000
Balance at 1 May 2020	(750)	(742)	(3,319)	(652)	-	(5,463)
Provision in year	(584)	(199)	(2,295)	(1,656)	(677)	(5,411)
Use of the provision	140	252	804	268	-	1,464
Provision released	170	9	-	-	-	179
Balance at 30 April 2021	(1,024)	(680)	(4,810)	(2,040)	(677)	(9,231)

The leasehold property provision represents management's best estimate for the dilapidations work that may be required to return our leased buildings to the landlords at the end of the lease term. Within this, a provision for Bessemer Park dilapidations will build up over the remaining 14 years of the lease.

The warranty provision represents management's best estimate of the Company'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.

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

The other provisions are for a breach of contract by a supplier and potential late penalties on a project.

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20. LEASE LIABILITIES

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	Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Existing contracts at 1 May 2020	6,480	-	24	6,504
Adjustments	12	-	-	12
Additions		48	33	81
Interest Applied	454	-	-	454
Payments made	(563)	(4)	(25)	(592)
At 30 April 2021	<u>6,383</u>	<u>44</u>	<u>32</u>	<u>6,459</u>

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).

	Leasehold Property	Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Within 1 year	425	10	18	453
2-5 years (inclusive)	3,170	41	16	3,227
Over 5 years	6,711	-	-	6,711
Less:				
Future finance charges	(3,923)	(7)	(2)	(3,932)
Present value of lease obligations	<u>6,383</u>	<u>44</u>	<u>32</u>	<u>6,459</u>
Split:				
Due within 12 months (current)	161	8	17	186
Due after 12 months (non-current)	<u>6,222</u>	<u>36</u>	<u>15</u>	<u>6,273</u>

Total lease payments for capitalised leases and short-term leases was £762,000 (2020: £935,000).

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21. CALLED UP SHARE CAPITAL AND RESERVES

	2021	2020
	£	£
Called up, allotted and fully paid		
Ordinary shares of £1 each	<u>110,821,479</u>	<u>78,122,746</u>

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 32,698,733 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 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:

- An all-employee Share Incentive Plan (referred to as the BAYE scheme);
- Enterprise Management Incentive (EMI) options; and
- Non-EMI or “unapproved” options in lieu of payment for services.

Share Incentive Plan

In FY21, the parent company implemented a new Share Incentive Plan (referred to as the BAYE scheme), which is available to all group employees. Employees can contribute up to £150 per month to acquire partnership shares, which are purchased or allotted in monthly accumulation periods. The Company currently matches employee contributions on a one-for-one basis to acquire matching shares.

EMI & Non-EMI Share option plans

In 2010 the parent company introduced a new group-wide EMI and Unapproved Share Option Scheme to be applied to all subsequent issues of share options. Under the scheme rules the exercise price is deemed to be the mid-market price of shares on the London Stock Exchange AIM market at the close of trading on the day before the grant of the share options. Share options vest over a period of 3-5 years and are exercisable up to the tenth anniversary of the grant. The last of the EMI share options were exercised in the current financial year. These were replaced by a new non-EMI scheme in 2020.

Movements within the year on the share option plans (including both the EMI and non-EMI options) were as follows:

	2021		2020	
		Weighted average exercise price		Weighted average exercise price
	Number		Number	price
Outstanding at the beginning of the year	10,486,500	36p	12,316,745	33p
Granted during the year	1,275,172	5p	586,500	48p
Exercised during the year	(4,183,333)	44p	(2,213,338)	23p
Expired during the year	(76,485)	5p	(203,407)	18p
Outstanding at the end of the year	<u>7,501,854</u>	<u>27p</u>	<u>10,486,500</u>	<u>36p</u>
Exercisable at the end of the year	<u>3,333,333</u>	<u>30p</u>	<u>5,233,332</u>	<u>41p</u>

The options outstanding at 30 April 2021 had a weighted average exercise price of 27p and a weighted average remaining contractual life of 5 years.

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The fair value of options issued in the current year was measured using a Monte Carlo options pricing model. This is a change from our previous measure (the Black Scholes model) as the more recent issue of share options included a TSR performance condition. Thus, IFRS 2 requires the use of a model that can take into account the likelihood of the performance condition being achieved. The assumptions used in the models are as follows:

	2021	2020
Weighted averages		
Share price	256p	41p
Exercise price	5p	41p
Expected volatility	84.7%	81.9%
Expected life	3 years	5 years
Risk-free rate	-0.06%	2.18%

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. Expected volatility was determined by calculating the historical volatility of the Company's shares over a period in line with the expected term of the options. The expected dividend impact used is 0% as participants are entitled to dividend equivalents.

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 to directors employed by ITM Power (Trading) Limited are detailed below:

Year Issued	Exercise price £	Last Vesting date	Total shares
2020	0.05	2023	246,647

As a result of these issues, and inasmuch 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 three elements:

	2021	2020
	£'000	£'000
Share based payment expense (as seen through equity)	347	418
Purchase of partnership shares under the BAYE scheme	69	-
Movement on provision for employers' national insurance on potential gain	(25)	652
	<u>391</u>	<u>1,070</u>

For options granted prior to 2020, the Group have 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. For options granted from 2020, the Group have agreed to transfer the employer's National Insurance liability to the employee share option holders.

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23. CAPITAL COMMITMENTS

The Company had capital commitments of £1.1m at the Balance Sheet date (2020: £7.9m). The prior year total can be split into £3.2m of commitments comparable with the current year and £4.7m for work on the Bessemer Park HQ.

24. 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. One such provision has been made within Other Provisions. At the current time, no further penalties have been raised by customers.

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25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

The smallest and largest group in which the results of the company are consolidated for the year ended 30 April 2021 is that headed by ITM Power Plc. Copies of the consolidated accounts of ITM Power Plc which includes the results of the company can be obtained from its registered address 2 Bessemer Park, Shepcote Lane, Sheffield, S9 1DZ or from www.itm-power.com.

26. 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 25).

27. FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE

Moving into the new financial year, a new company was created to house the refuelling assets that had previously sat within ITM Power (Trading) Limited. ITM Motive Limited will own and operate the UK refuelling stations in order to drive their profitability. Like ITM Power (Trading) Limited, it is a 100% owned subsidiary within the ITM Power Plc Group. Many of the assets that it will be taking over have been fully impaired so it is not expected to have a material impact on the Company balance sheet.