Johnson Matthey Fuel Cells Limited

Directors' Report and Accounts

For the year ended 31 March 2006

Registered number: 4393161

Johnson Matthey Fuel Cells Limited

Contents

Directors' report

The directors present their report and audited accounts for the year ended 31 March 2006.

Principal activity, business review and future developments
The group and the company are engaged in research and development of fuel cell components.

High oil prices, together with pressure to move to low carbon energy, has increased interest in fuel cells technologies and 2005/06 witnessed significant developments in the fuel cell market, particularly in Europe and Asia. One consequence of these trends has been renewed interest in the use of phosphoric acid fuel cells (PAFCs) for stationary applications. The group has well established technology for components in this area and is collaborating with fuel cell manufacturers on new product development. Another recent development is the emergence of small prototype direct methanol fuel cells used as chargers for mobile phones or power sources for laptop computers. The future development of this new market is still uncertain but the group is working with a number of major consumer electronics companies to supply catalysts and membrane electrode assemblies (MEAs) for their development programmes.

There has also been increased activity in the development of fuel cell powered buses for low carbon transport demonstrations in major cities around the world. In the long term the need for fuel cell cars remains as compelling as ever as the cost of pollution control from conventional vehicles grows and concerns about global warming and energy security become more pressing.

The group benefited from an expanded range of customers and initial sales of prototype products to the direct methanol fuel cells' market. During the year it has continued to develop its supply chain by establishing development relationships and supply agreements for key materials for manufacturing MEAs and other fuel cell components.

Results and dividends
The group's loss for the year ended 31 March 2006 is £10,114,000 (2005 £10,617,000). The profit and loss account is set out on page 4.

The directors do not recommend the payment of an ordinary dividend. A preference dividend of £332,000 (2005 £335,000) has been accrued.

Research and development
During the year, the group's research and development has focused on hydrogen fuelled fuel cells. Much of the research work is conducted with partners and with customers and this has led to new developments in membranes for fuel cells which have shown outstanding improvements in durability.

Donations
The group contributed £4,000 (2005 £4,000) to UK charities. No political contributions were made (2005 £ nil).

Directors' responsibilities
The directors are responsible for preparing the directors' report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Directors' report (continued)

Directors and their interests
The directors who served during the year were as follows:

N A P Carson
D T G Emmett (resigned 3 October 2005)
J M Halhead (appointed 3 October 2005)
R Havenstein
D W Morgan
W F Sandford
J N Sheldrick
R H H Van Kerckhoven

None of the directors had any interest in the share capital of the company at any time during the year.

The interests of Mr N A P Carson, Mr D W Morgan and Mr J N Sheldrick in the share capital of Johnson Matthey Plc, the company's ultimate parent company, are disclosed in that company's annual report (note 24).

The interests of Mr W F Sandford in the £1 ordinary share capital of the ultimate parent company, Johnson Matthey Plc were:

	31 March 2006	31 March 2005
W F Sandford	1,967	4,180

Individual holdings under executive share option schemes were:

	31 March 2005	Granted	Exercised	31 March 2006
W F Sandford	76,928	25,232	-	102,160

The number of shares allocated under the terms of the Long Term Incentive Plan were:

	31 March 2005	Allocated	Released	Lapsed	31 March 2006
W F Sandford	37,455	15,960	-	(10,097)	43,318

None of the other directors had an interest in the share capital of Johnson Matthey Plc at any time during the year.

None of the directors had during or at the end of the year any material interest in any contract of significance in relation to the company's business.

Directors' indemnities
The ultimate parent company, Johnson Matthey Plc, has granted indemnities to Mr N A P Carson, Mr D W Morgan, Mr W F Sandford and Mr J N Sheldrick under a Deed Poll dated 20 July 2004. These provisions were in force during the year ended 31 March 2006 and remain in force at the date of this report.

Disclosure of information to auditors
So far as each person currently serving as a director of the company at the date this report is approved is aware, there is no relevant audit information of which the company's auditors are unaware and each director hereby confirms that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the directors on 22 January 2007 and is signed on their behalf by:

D W Morgan
Director

Independent auditors' report

To the members of Johnson Matthey Fuel Cells Limited

We have audited the group and parent company accounts ('the accounts') of Johnson Matthey Fuel Cells Limited for the year ended 31 March 2006 which comprise of the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 1.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors' Report is consistent with the accounts.

KPMG Audit Plc

22 January 2007

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

Johnson Matthey Fuel Cells Limited

Consolidated profit and loss account

For the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Turnover	1	**1,906**	3,764
Cost of sales		**(2,643)**	(5,239)
Gross loss		**(737)**	(1,475)
Selling and distribution costs		**(697)**	(1,086)
Research and development costs		**(3,894)**	(2,718)
Administrative expenses		**(4,695)**	(5,239)
Operating loss before exceptional items		**(10,023)**	(10,518)
Exceptional administrative expenses	2	**-**	(278)
Operating loss		**(10,023)**	(10,796)
Interest payable (net)	3	**(1,903)**	(1,783)
Loss on ordinary activities before taxation	4	**(11,926)**	(12,579)
Taxation	7	**1,812**	1,962
Loss for the financial year	18	**(10,114)**	(10,617)

All amounts relate to continuing activities.

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2006

	2006 £000	2005 £000
Loss for the financial year	**(10,114)**	(10,617)
Currency translation differences on foreign currency net investments	**320**	(97)
Total recognised gains and losses	**(9,794)**	(10,714)

The accompanying notes are an integral part of the accounts.

Consolidated and company balance sheets

As at 31 March 2006

	Notes	Group		Company	
		2006	2005	**2006**	2005
		£000	£000	**£000**	£000
Fixed assets					
Tangible fixed assets	9	**30,174**	30,935	**27,718**	28,182
Investments	10	**2,455**	1,920	**11,901**	11,366
		32,629	32,855	**39,619**	39,548
Current assets					
Stocks	11	**265**	212	**232**	107
Debtors	12	**3,524**	4,165	**2,219**	3,041
Cash at bank and in hand		**1,214**	1,098	**1,212**	1,089
		5,003	5,475	**3,663**	4,237
Creditors: amounts falling due within one year	13	**(52,030)**	(43,323)	**(50,428)**	(42,779)
Net current liabilities		**(47,027)**	(37,848)	**(46,765)**	(38,542)
Total assets less current liabilities		**(14,398)**	(4,993)	**(7,146)**	1,006
Creditors: amounts falling due after more than one year	13	**(1,952)**	(1,416)	**(1,952)**	(1,416)
Provisions for liabilities and charges	14	**(2,011)**	(1,826)	**(2,029)**	(1,826)
Net liabilities		**(18,361)**	(8,235)	**(11,127)**	(2,236)
Capital and reserves					
Called up share capital	16	**7,000**	7,000	**7,000**	7,000
Share premium account	17	**20,600**	20,600	**20,600**	20,600
Profit and loss account	17	**(45,961)**	(35,835)	**(38,727)**	(29,836)
Shareholders' funds	18	**(18,361)**	(8,235)	**(11,127)**	(2,236)
Attributable to:					
Equity shareholders' funds		**(25,361)**	(15,235)	**(18,127)**	(9,236)
Non-equity shareholders' funds		**7,000**	7,000	**7,000**	7,000
Shareholders' funds		**(18,361)**	(8,235)	**(11,127)**	(2,236)

The accounts on pages 4 to 19 were approved by the board on 22 January 2007 and signed on its behalf by:

John Sheldrick

J N Sheldrick
Director

The accompanying notes are an integral part of the accounts.

Johnson Matthey Fuel Cells Limited

Consolidated cash flow statement

For the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		**(10,023)**	(10,796)
Depreciation		**1,275**	1,765
Loss on disposal of fixed assets		**283**	147
(Increase) / decrease in stocks		**(47)**	79
Decrease / (increase) in debtors		**292**	(1,036)
Increase / (decrease) in creditors and provisions		**1,751**	(532)
Net cash outflow from operating activities		**(6,469)**	(10,373)

Cash flow statement

	Notes	2006 £000	2005 £000
Net cash outflow from operating activities		**(6,469)**	(10,373)
Returns on investments and servicing of finance	22	**(57)**	(82)
Taxation	22	**2,583**	6,108
Capital expenditure and financial investment	22	**(1,105)**	(2,957)
Acquisitions and disposals	22	**-**	5,198
Net cash outflow before use of liquid resources and financing		**(5,048)**	(2,106)
Financing	22	**10,894**	6,320
Increase in cash in the year	23	**5,846**	4,214
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year	23	**5,846**	4,214
Cash inflow from movement in borrowings	23	**(10,894)**	(6,320)
Change in net debt resulting from cash flows		**(5,048)**	(2,106)
Translation difference	23	**47**	222
Movement in net debt in the year		**(5,001)**	(1,884)
Net debt at start of year		**(37,271)**	(35,387)
Net debt at end of year		**(42,272)**	(37,271)

The accompanying notes are an integral part of the accounts.

Accounting policies

For the year ended 31 March 2006

Accounting convention
The accounts are prepared in accordance with applicable accounting standards under the historical cost convention.

Basis of preparation
The consolidated accounts comprise the accounts of the company and its subsidiary undertakings. The results of companies acquired or disposed of in the period are dealt with from or up to the effective date of acquisition or disposal respectively. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the group at the date of acquisition.

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

Turnover
Turnover comprises all sales of goods and services at the fair value of the right to consideration exclusive of discounts and sales taxes. Turnover is recognised when the goods are despatched or made available to the customer or by reference to the stage of completion of the service being rendered.

Research and development expenditure
Expenditure is charged against profits in the year in which it is incurred.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each tangible asset which is generally on a straight-line basis over its estimated useful life as follows:

Freehold buildings	3.33% per annum
Leasehold property	3.33% per annum (or at higher rates based on the life of the lease)
Plant and machinery	10% - 33% per annum
Fixtures, fittings and equipment	10% - 33% per annum

No depreciation is provided on freehold land.

Investments
Fixed asset investments are shown at cost less provision for impairment.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow-moving or defective items.

Taxation
Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the future.

Pensions and other retirement benefits
The cost of contributions to the group's defined benefit schemes is charged to the profit and loss account as incurred. The cost of group contributions to personal pension schemes is charged to the profit and loss account as incurred.

The cost of post-retirement medical benefits is charged to the profit and loss account as incurred.

Accounting policies

For the year ended 31 March 2006

Foreign currencies
Profit and loss accounts in foreign currencies and cash flows included in the cash flow statement are translated into sterling at average exchange rates for the period. Net assets of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Gains and losses on this translation are taken to reserves.

Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies are translated at rates prevailing at the balance sheet date or, if appropriate, at the forward contract rate.

Derivatives
Gains and losses arising from forward currency contracts used to reduce exchange rate exposure are recognised when the relevant sale or purchase is recorded in the profit and loss account.

Leases
Rentals under operating leases are expensed as incurred.

Precious metal stocks
Stocks of gold, silver and platinum group metals are valued according to the source from which the metal is obtained. Metal which has been purchased and committed to future sales to customers or hedged in metal markets is valued at the price at which it is contractually committed or hedged, adjusted for unexpired contango or backwardation. Leased metal is valued at market prices at the balance sheet date. Other precious metal stocks owned by the group, which are unhedged, are valued at the lower of cost and net realisable value.

Grants
Grants received in respect of capital expenditure are included in creditors and released to the profit and loss account in equal instalments over the expected useful lives of the related assets.

Change in presentation
The presentation of the profit and loss account has been changed to exclude dividends to comply with FRS 25 'Financial Instruments: Disclosure and Presentation'.

Notes to the accounts

For the year ended 31 March 2006

1 ***Segmental information***

The group has a single class of business, supplying products to customers in:

Turnover	2006 £000	2005 £000
United Kingdom	**15**	230
Continental Europe	**222**	440
North and South America	**1,335**	1,872
Rest of World	**334**	1,222
	1,906	*3,764*

2 **Exceptional administrative expenses**

The exceptional expense of £278,000 in the year ended 31 March 2005 relates to rationalisation costs.

3 **Interest payable (net)**

	2006 £000	2005 £000
Interest payable to other group companies	***1,903***	*1,788*
Other interest payable	**22**	-
Total interest payable	**1,925**	1,788
Interest receivable from other group companies	**(22)**	(5)
Interest payable (net)	**1,903**	1,783

4 **Loss on ordinary activities before taxation**

		2006 £000	2005 £000
Loss on ordinary activities before taxation is arrived at after charging / (crediting):			
Depreciation of tangible fixed assets - owned		**1,275**	1,765
Government grants receivable		**(398)**	(2,538)
Auditors' remuneration	- statutory audit services - parent	**7**	8
	- statutory audit services – subsidiaries	**2**	1
	- audit related regulatory reporting	**8**	14
Operating lease rentals:			
- land and buildings		**-**	7
- plant and machinery		***28***	*56*

Notes to the accounts

For the year ended 31 March 2006

5 Employee costs and numbers

Aggregate remuneration comprised:	2006 £000	2005 £000
Wages and salaries	**4,098**	5,872
Social security costs	**303**	424
Other pension costs (note 21)	**738**	883
	5,139	7,179

Average monthly number of employees:	2006 Number	2005 Number
Production	**34**	47
Sales and distribution	**6**	12
Research and development	**34**	58
Administration	**32**	49
	106	166

The employee numbers and costs above include all employees who work for and are paid by the group, including certain employees whose contracts of service are with the ultimate parent company (note 24).

6 Directors' remuneration

Mr N A P Carson, Mr D W Morgan and Mr J N Sheldrick are remunerated by the ultimate parent company and details of their remuneration are disclosed in that company's annual report (note 24). No other amounts were paid by the group in respect of directors' emoluments for the year ended 31 March 2006 (2005 £ nil).

7 Taxation

Analysis of tax credit for the year	2006 £000	2005 £000
Current tax		
UK corporation tax credit on losses for the year	**(2,119)**	(2,272)
Adjustment for prior years	**-**	(66)
Foreign taxation on profits for the year	**1**	3
Total current tax credit	**(2,118)**	(2,335)
Deferred tax		
Origination and reversal of timing differences	**312**	307
Adjustment to estimated recoverable amount of deferred tax assets arising in prior years	**(6)**	66
Total deferred tax	**306**	373
Total taxation credit	**(1,812)**	(1,962)

Notes to the accounts

For the year ended 31 March 2006

7 Taxation (continued)

Factors affecting tax credit for the year	2006 £000	2005 £000
Loss on ordinary activities before taxation	**(11,926)**	(12,579)
Tax credit at UK corporation tax rate of 30%	**(3,578)**	(3,774)
Effects of:		
Overseas tax rates	**(134)**	(149)
Capital allowances in excess of depreciation	**(332)**	(308)
Provisions	**24**	-
Expenses not deductible for tax purposes	**4**	5
Unutilised losses for the year	**627**	578
Losses surrendered to Johnson Matthey Plc	**3,390**	3,717
Payment for losses surrendered	**(2,119)**	(2,338)
Adjustments for prior years	**-**	(66)
Current tax credit for year	**(2,118)**	(2,335)

Factors that may affect future tax charges

The group expects to continue to surrender its losses to Johnson Matthey Plc and receive payment of 62.5% for these losses.

8 Dividends

	2006 £000	2005 £000
Preference dividend accrued	**332**	335

Johnson Matthey Fuel Cells Limited

Notes to the accounts

For the year ended 31 March 2006

9 Tangible fixed assets

Group	Freehold land & buildings £000	Short leasehold £000	Plant & machinery £000	Fixtures, fittings & equipment £000	**Total £000**
Cost					
At beginning of year	19,304	59	15,713	371	**35,447**
Additions	227	-	917	1	**1,145**
Disposals	-	(6)	(1,252)	(14)	**(1,272)**
Exchange adjustments	7	6	297	2	**312**
At end of year	19,538	59	15,675	360	**35,632**
Depreciation					
At beginning of year	193	51	4,199	69	**4,512**
Charge for year	66	1	1,170	38	**1,275**
Disposals	-	-	(414)	-	**(414)**
Exchange adjustments	2	4	78	1	**85**
At end of year	261	56	5,033	108	**5,458**
Net book value at 31 March 2006	**19,277**	**3**	**10,642**	**252**	**30,174**
Net book value at 31 March 2005	19,111	8	11,514	302	30,935

Company	Freehold land & buildings £000	Plant & machinery £000	Fixtures, fittings & equipment £000	**Total £000**
Cost				
At beginning of year	19,221	12,025	342	**31,588**
Additions	227	722	-	**949**
Disposals	-	(540)	(14)	**(554)**
At end of year	19,448	12,207	328	**31,983**
Depreciation				
At beginning of year	185	3,167	54	**3,406**
Charge for year	63	761	35	**859**
At end of year	248	3,928	89	**4,265**
Net book value at 31 March 2006	**19,200**	**8,279**	**239**	**27,718**
Net book value at 31 March 2005	19,036	8,858	288	28,182

Notes to the accounts

For the year ended 31 March 2006

10 Fixed asset investments

Group	Unlisted investments £000
Cost	
At beginning of year	1,920
Additions	535
At end of year	**2,455**

Company	Subsidiary undertakings £000	Unlisted investments £000	**Total £000**
Cost			
At beginning of year	9,446	1,920	**11,366**
Additions	-	535	**535**
At end of year	**9,446**	**2,455**	**11,901**

The company's wholly owned subsidiary undertakings are Johnson Matthey Fuel Cells Inc, a company incorporated in the USA, and Johnson Matthey Japan Fuel Cells Limited, a company incorporated in Japan. Both subsidiaries are engaged in the research and development of fuel cell components.

11 Stocks

	Group		**Company**	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Raw materials and consumables	**166**	139	**158**	88
Work in progress - precious metals	**1**	31	**-**	-
- other	**36**	24	**36**	11
Finished goods	**62**	18	**38**	8
	265	212	**232**	107

12 Debtors

	Group		**Company**	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Trade debtors	**501**	594	**279**	440
Amounts owed by subsidiary undertakings	**-**	-	**6**	27
Amounts owed by other group undertakings	**765**	1,205	**705**	1,182
Loans to other group undertakings	**1,022**	966	**-**	-
Other debtors	**156**	20	**156**	20
Prepayments and accrued income	**1,080**	1,380	**1,073**	1,372
	3,524	4,165	**2,219**	**3,041**

For the year ended 31 March 2006

13 Creditors

Amounts falling due within one year	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank overdrafts	**1,202**	6,930	**1,161**	6,915
Trade creditors	**821**	268	**727**	226
Amounts owed to other group undertakings	**5,148**	2,976	**4,929**	2,832
Loans from other group undertakings	**40,030**	30,989	**39,350**	30,494
Other loans	**1,325**	-	**1,325**	-
Amounts owed to subsidiary undertakings	**-**	-	**42**	405
Corporation tax payable	**1**	3		-
Other taxes and social security	**8**	3	**-**	-
Other creditors	**380**	60	**380**	33
Preference dividends	**1,051**	719	**1,051**	719
Accruals and deferred income	**2,064**	1,375	**1,463**	1,155
	52,030	43,323	**50,428**	42,779

Amounts falling due after more than one year				
Loans from other group undertakings	**1,951**	1,416	**1,951**	1,416
Accruals and deferred income	**1**	-	**1**	-
	1,952	1,416	**1,952**	1,416

The bank overdraft is subject to a cross-guarantee between the company and other Johnson Matthey UK legal entities.

14 Provisions for liabilities and charges

Group	Rationalisation provisions	Deferred taxation (note 15)	Total
	£000	£000	**£000**
At beginning of year	315	1,511	**1,826**
Charge for the year	-	306	**306**
Utilised	(121)	-	**(121)**
At end of year	**194**	**1,817**	**2,011**

Company	Rationalisation provisions	Deferred taxation (note 15)	Total
	£000	£000	**£000**
At beginning of year	315	1,511	**1,826**
Charge for the year	-	306	**306**
Utilised	(103)	-	**(103)**
At end of year	**212**	**1,817**	**2,029**

The rationalisation provisions are expected to be fully spent during 2006.

Notes to the accounts

For the year ended 31 March 2006

15 Deferred taxation

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Timing differences on fixed assets	**1,841**	1,511	**1,841**	1,511
Other timing differences	**(24)**	-	**(24)**	-
	1,817	1,511	**1,817**	1,511

16 Called up share capital

	Authorised		Allotted, called up and fully paid	
	Number	**£000**	**Number**	**£000**
Ordinary shares of £1 each				
At beginning and end of year	**200**	**-**	**200**	**-**
Preference shares of £1 each				
At beginning and end of year	**7,000,000**	**7,000**	**7,000,000**	**7,000**
Total share capital				
At beginning and end of year	**7,000,200**	**7,000**	**7,000,200**	**7,000**

The preference shares of £1 each are cumulative and entitle the holder to dividends accruing at a rate based on three month sterling LIBOR. Such dividends may only be paid when the directors determine that the company has sufficient resources to settle the amounts due. The preference shares may only be redeemed by the company when amounts owed to shareholders start to be repaid.

17 Reserves

Group	Share premium account £000	Profit and loss account £000	**Total £000**
At beginning of year	20,600	(35,835)	**(15,235)**
Exchange adjustments	-	320	**320**
Loss for the financial year	-	(10,114)	**(10,114)**
Dividends (note 8)	-	(332)	**(332)**
At end of year	**20,600**	**(45,961)**	**(25,361)**

Company	Share premium account £000	Profit and loss Account £000	**Total £000**
At beginning of year	20,600	(29,836)	**(9,236)**
Loss for the financial year	-	(8,559)	**(8,559)**
Dividends (note 8)		(332)	**(332)**
At end of year	**20,600**	**(38,727)**	**(18,127)**

Johnson Matthey Fuel Cells Limited

Notes to the accounts

For the year ended 31 March 2006

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Loss for the financial year	***(10,114)***	*(10,617)*	***(8,559)***	*(9,117)*
Dividends (note 8)	**(332)**	(335)	**(332)**	(335)
Retained loss for the year	**(10,446)**	(10,952)	**(8,891)**	(9,452)
Other recognised gains and losses relating to the year	**320**	(97)	**-**	-
Net movement in shareholders' funds	**(10,126)**	(11,049)	**(8,891)**	(9,452)
Opening shareholders' funds	**(8,235)**	2,814	**(2,236)**	7,216
Closing shareholders' funds	**(18,361)**	(8,235)	**(11,127)**	(2,236)

19 Related party transactions

The company is a subsidiary of Johnson Matthey Plc and therefore Johnson Matthey Plc and its subsidiaries are related parties of the group. The group entered into the following transactions with other members of the Johnson Matthey group:

	2006	2005
	£000	£000
Sale of finished goods	**317**	1,181
Purchases	**(335)**	(653)
Payments for research and development	**(1,070)**	(792)
Service charges payable	**(1,468)**	(1,731)
Retirement benefits contributions	**(723)**	(813)
Net interest payable	**(1,901)**	(1,783)
Sale of tangible fixed assets	**569**	-
Purchase of tangible fixed assets	**(13)**	-
Receivable for tax losses surrendered	**2,119**	2,338

The group sold its gas purification technology business to Johnson Matthey Inc. for £5,173,000 in the year ended 31 March 2005.

The receivable for tax losses surrendered represents 62.5% of the total value surrendered under the terms of a shareholders' agreement between Johnson Matthey Plc and the minority shareholder.

At the end of the year the following balances were outstanding with Johnson Matthey Plc and its subsidiaries:

	2006	2005
	£000	£000
Trade debtors	**77**	50
Receivable for tax losses surrendered	**688**	1,155
Trade creditors and accruals	**(5,148)**	(2,976)
Loans receivable within one year	**1,022**	966
Loans payable within one year	**(40,030)**	(30,989)
Loans payable after more than one year	**(1,951)**	(1,416)

Notes to the accounts

For the year ended 31 March 2006

19 Related party transactions (continued)

During the year, the group leased precious metals from Johnson Matthey Plc under operating leases. The amount outstanding under these leases at the year end was £2,508,000 (2005 £1,364,000).

The group also has an equity interest owned by Rustenburg Platinum Mines Limited and therefore Rustenburg Platinum Mines Limited and other subsidiaries of Anglo Platinum Limited are related parties of the group.

At the end of the year the following balances were outstanding with Anglo Platinum Limited and its subsidiaries:

	2006	2005
	£000	£000
Loans payable within one year	**1,325**	-

20 Financial commitments

Capital commitments

Group

	2006	2005
	£000	£000
Contracted but not provided for	**42**	16

Company

	2006	2005
	£000	£000
Contracted but not provided for	**42**	16

Leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	2006	2005
	£000	£000
Other operating leases which expire:		
- within 1 year	**2,515**	1,381
- within 2-5 years	**34**	23
	2,549	1,404

Company

	2006	2005
	£000	£000
Other operating leases which expire:		
- within 1 year	**633**	373
- within 2-5 years	**34**	17
	667	390

Notes to the accounts

For the year ended 31 March 2006

21 Retirement benefits

Group

The group is included in three Johnson Matthey group pension schemes, all of which are defined benefit schemes. The schemes include employees of several companies in the Johnson Matthey Plc group. Consequently, the group is unable to identify its share of the underlying assets and liabilities and so the group accounts for its contributions to the schemes as if they were defined contribution schemes. The cost of the group's contributions to the schemes amounted to £699,000 (2005 £813,000). At 31 March 2006, under International Accounting Standard (IAS) 19 – 'Employee Benefits', the UK scheme had a surplus of £70.6 million and the US scheme had a deficit of £11.4 million and so contributions should continue at a similar rate. The group also makes defined contributions to some employees' personal pension schemes. The cost of these contributions amounted to £15,000 (2005 £31,000).

The group is included in the Johnson Matthey group post retirement medical benefits schemes. The schemes include employees of several companies in the Johnson Matthey Plc group. Consequently, the group is unable to identify its share of the underlying assets and liabilities and so the group accounts for its contributions to the schemes as if they were defined contribution schemes. The cost of the group's contributions to the schemes amounted to £24,000 (2005 £39,000). At 31 March 2006 the Johnson Matthey group schemes had a deficit of £29.5 million.

Company

The company is included in the Johnson Matthey Employees Pension Scheme which is of the defined benefit type. The scheme includes employees of several companies in the Johnson Matthey Plc group. Consequently, the company is unable to identify its share of the underlying assets and liabilities and so the company accounts for its contributions to the scheme as if it were a defined contribution scheme. The cost of the company's contributions to the scheme amounted to £643,000 (2005 £734,000).

22 Gross cash flows

Returns on investments and servicing of finance	**2006 £000**	2005 £000
Interest paid	**(57)**	(82)
Net cash flow from returns on investments and servicing of finance	**(57)**	(82)

Taxation	**2006 £000**	2005 £000
Payments received for group relief from other group companies	**2,586**	6,111
Payments made to overseas tax authorities	**(3)**	(3)
Net cash flow from taxation	**2,583**	6,108

Capital expenditure and financial investment	**2006 £000**	2005 £000
Purchase of tangible fixed assets	**(1,145)**	(1,944)
Sale of tangible fixed assets	**575**	19
Purchase of unlisted investment	**(535)**	(1,032)
Net cash flow from capital expenditure and financial investment	**(1,105)**	(2,957)

Notes to the accounts

For the year ended 31 March 2006

22 Gross cash flows (continued)

Acquisitions and disposals	**2006 £000**	2005 £000
Disposal of gas processing technology business	-	5,173
Bank overdraft disposed of with gas processing technology business	-	25
Net cash flow from acquisitions and disposals	**-**	5,198

Financing	**2006 £000**	2005 £000
Increase in net loans from group undertakings falling due within one year	**9,034**	5,288
Increase in other loans falling due within one year	**1,325**	-
Increase in loans from group undertakings falling due after more than one year	**535**	1,032
Net cash flow from financing	**10,894**	6,320

23 Analysis of net debt

	Cash at bank and in hand £000	Bank overdrafts £000	Net loans due within one year £000	Loans due after one year £000	**Total £000**
At beginning of year	1,098	(6,930)	(30,023)	(1,416)	**(37,271)**
Cash flow					
From cash and overdrafts	116	5,730	-	-	**5,846**
From borrowings	-	-	(10,359)	(535)	**(10,894)**
Net cash flow	116	5,730	(10,359)	(535)	**(5,048)**
Exchange differences	-	(2)	49	-	**47**
At end of year	**1,214**	**(1,202)**	**(40,333)**	**(1,951)**	**(42,272)**

24 Ultimate parent company

The company's ultimate parent company is Johnson Matthey Plc. The consolidated accounts of Johnson Matthey Plc are available to the public and may be obtained from 40-42 Hatton Garden, London EC1N 8EE.