Johnson Matthey Fuel Cells Limited

Annual Report and Accounts

For the year ended 31 March 2020

Registered number: 04393161

Johnson Matthey Fuel Cells Limited

Contents

Johnson Matthey Fuel Cells Limited

Strategic report

Principal activities
Johnson Matthey Fuel Cells Limited (the "company") is engaged in the development and manufacture of catalysts and components for emerging fuel cell markets. The principal product of the business is hydrogen fuel cells.

Our purpose
Our purpose is to create a better tomorrow for consumers, businesses, our employees and communities by shaping the world around us to make it a cleaner and healthier place to live. At Johnson Matthey Fuel Cells Limited, being committed to our business means being committed to each other. Our aim is to keep each other safe, work with clear intentions and respect, and do the right thing for our people and our planet.

Changes to the Board
Several changes have been made to the Board this year. Phil Spall joined as one of the Directors on 19th February 2020. He brought with him extensive financial experience and a solid knowledge of the Fuel Cells market. Simon Farrant, Andrew Holford and Chris Rainford have stepped down during the year.

Performance during and position at the end of the year
Revenue increased by 25% to £32,659,000 in 2019/20. Growth continued to be driven by an increasing market demand for fuel cell technology and the business continues to work closely with its customers to develop key strategic relationships. The company's principle activities are associated with the manufacture of Proton-Exchange Membrane fuel cell (PEMFC) products Catalyst Coated Membrane and Membrane (CCM) and Membrane Electrode Assembly (MEA) which it sells predominantly into the automotive and materials handling sectors and Phosphoric Acid Fuel Cell (PAFC) selling this into the stationary sector. The company has a global reach and the revenue growth in the year was delivered through PEMFC.

Future growth in the short to medium term is expected to be delivered in the materials handling and automotive heavy-duty vehicle markets, the company's view remains unchanged that significant sales of electric vehicles are unlikely to take place before 2025.

The company's operating loss for the year ended 31 March 2020 is £215,000 (2019: £1,658,000 loss) a significant improvement on prior year, reflecting the continued uplift in sales year on year but reflecting higher costs than previous years associated with new product development, enhanced customer specifications and scaling up of production.

Although key to the future success this had the impact of diluting the Gross Profit margins in the year. There was also some investment in China to facilitate the building of a new manufacturing plant in FY20/21. This strategic investment will give the business an operating presence in China which accounts for a large proportion of its customer base.

There was little impact on trading due to the COVID-19 pandemic in the latter part of the year as customer demand remained strong and no impact from Brexit as a high proportion of the company's trade is with customers in the Asia region.

Principal risks and uncertainties
The company reviews its risk profile on a bi-annual basis, considering and aligning with the Group's principal risks where appropriate. The company's principal risk and uncertainties are associated with the relative immaturity of the market and the potential future growth demand both in the short and longer term.

In response to this the company continues to build key relationships throughout the value chain, developing supply chain and product development partnerships whilst continuing to invest in its technology and key internal processes as it scales up production.

In response to the ongoing COVID-19 pandemic, the company has put in place measures in line with government guidance and remain open for business. There is not deemed a risk associated with Brexit at this point with a high proportion of company's trade being within the Asia region.

Johnson Matthey Fuel Cells Limited

Strategic report

Section 172 statement

The directors consider that they have acted, in good faith, in a way that is most likely to promote the long-term success of the company for the benefit of its members as a whole. In doing so, the board considers the interest of a range of stakeholders impacted by the business, as well as its duties as set out in law. This statement details how the directors have discharged their duties under section 172 of the Companies Act 2006 during the year under review.

For each matter which comes before the board, stakeholders who may be affected are identified and their interest considered as part of the board's decision process. The board is mindful of the group's governance framework and ensures compliance with this as well as upholding the values and ethical standards set by the group. The board utilises some of the wider group policies and practices to ensure effective stakeholder engagement, and to ensure that the directors' obligations to its shareholder and to its stakeholders are met. Details of the group's stakeholder engagement can be found on pages 28 to 31 of Johnson Matthey Plc, the company's ultimate shareholder, 2020 Annual Report and Accounts which can be viewed online at www.matthey.com/AR20.

During the year under review, the Board worked closely with management to mitigate the impact on the business and customers as a result of COVID-19. Management held quarterly review meetings with key suppliers and customers in order to understand their issues and further develop our strategic partnerships. This provided an understanding of the wider impact across the value chain. The board recognise the importance of fostering good business relationships with suppliers, and the board continues to work with management to ensure the company treats suppliers fairly in line with Group Procurement Policies.

In July 2019, the Company made the decision to establish an operational presence in China. In accordance with the Group Governance Framework, this decision to invest was escalated to the Group Management Committee and Johnson Matthey Plc Board. The investment supported the Company's strategy and would allow the business to serve customers locally in China. This would further support the Company's supply chain providing the ability to source key materials locally.

The company's employee engagement practices are set out in the directors' report on page 4.

The company plays an active role in the local community and the group's initiatives are designed to empower our employees to have a positive impact on their local communities. The board and management are supported by the group's corporate social responsibility committees and community ambassadors who facilitate volunteering in local communities and engagement on specific topics.

The ultimate shareholder is Johnson Matthey Plc and there is ongoing communication and engagement with the Johnson Matthey Plc board and its relevant committees.

On behalf of the board

DocuSigned by:
Phil Spall
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P A Spall
Director
4 March 2021

Johnson Matthey Fuel Cells Limited

Directors' report

The directors present their report and audited accounts for the year ended 31 March 2020.

Results and dividends
The future developments in the company's business have been included in the strategic report. The company's loss for the year ended 31 March 2020 is £3,648,000 (2019: £4,735,000 loss). The income statement is set out on page 8.

The directors do not recommend the payment of an ordinary dividend. A preference dividend of £129,000 (2019: £133,000) has been accrued.

Going concern
Notwithstanding net liabilities of £157,889,000 as at 31 March 2020 and a loss for the year then ended of £3,648,000, the accounts have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared a cash flow forecast for a period of 12 months from the date of approval of these accounts which indicates that, taking account of reasonably possible downsides, the company will have sufficient funds, through its overdraft facility and funding from its ultimate parent company, Johnson Matthey Plc, to meet its liabilities as they fall due for that period. Those forecasts are dependent on Johnson Matthey Plc not seeking repayment of the loan amounts currently due to the group, which at 31 March 2020 amounted to £185,803,000. Johnson Matthey Plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecast. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these accounts, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the accounts and consequently have prepared the accounts on a going concern basis. The company continues to monitor the effects of the COVID-19 pandemic. The directors are of the view that COVID-19 has not caused a significant impact on the company's financial position nor on its ability to continue as a going concern.

Financial instruments
The company's activities expose it to certain financial risks including credit risk and liquidity risk.

Credit risk
The company's principal financial assets are trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. Counterparties are assessed against the appropriate credit ratings, trading experience and market position. Credit limits are then defined and exposures monitored against these limits and the contractual payment terms include upfront payments for the higher risk customers.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments the company uses short-term loans from group companies. Johnson Matthey Plc has indicated its intention to continue making further funding available by increasing its group loan facility when required. Working capital requirements are continuously monitored by the company and upfront payments are requested from customers.

Donations
The company contributed £3,000 (2019: £2,000) to charitable organisations in the UK. No political contributions were made (2019: £nil).

Directors
The directors of the company who were in office during the year and up to the date of signing the accounts were J L Butcher, S Farrant(resigned 31 March 2020), C C Rainford(resigned 11 December 2019), A Holford(resigned 31 January 2020), L Bruce-Watt (appointed 16 April 2020, resigned on 5 February 2021) and P A Spall (appointed 19 February 2020).

Directors' report

Directors' indemnity

Under a Deed Poll dated 31 January 2017, the ultimate parent company has granted indemnities in favour of each director of its subsidiaries in respect of any liability that he or she may incur to a third party in relation to the affairs of any group member. Such indemnities were in force during the year ended 31 March 2020 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31 March 2020 and remain in force for the benefit of all persons who are directors of the subsidiaries at the date when this report was approved.

Employees

The company aims to keep employees informed on matters relevant to them as employees through regular communications and meetings.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. Should a member of staff become disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged.

The Johnson Matthey ("JM") group strives to be a truly inclusive organisation that fosters employee engagement and development within a diverse and global workforce. Throughout the year the group has engaged with the workforce through several formal and informal channels. JM's people strategy continues to develop our cultural environment and future capabilities which are key in the successful delivery of our strategy. JM seeks to ensure that we maintain high standards of business conduct, supported by our values and our culture, and JM's policies and procedures.

The group has country engagement focus groups in the UK, US, China and Germany, in order to engage in a two-way dialogue on key topics, gather insights on factors impacting the workforce at a local level and to obtain recommendations on ways in which engagement with the workforce can be further enhanced. These comprise a diverse group of people drawn from all sectors and functions, job type, age, tenure and gender and are sponsored by senior leaders. Initial meetings have been held in all countries and going forward, each focus group will meet twice a year. The JM Plc board and Group Management Committee receive feedback from the focus groups via the Chief HR Officer which is distilled down to the various leadership teams as appropriate.

During 2019, a 'pulse' employee engagement survey was carried out and we were pleased to see overall engagement levels continue to improve with significant upturns in company pride. Following the survey, smaller workshops were held to help provide valuable insight into how strategic and cultural change is being embedded across different business sectors.

Further information on the group's policies and employee engagement practices can be found on pages 41 and 42 of the JM Plc 2020 Annual Report and Accounts, available on matthey.com

Independent auditors

In accordance with sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are re-appointed as auditors of the company.

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 or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Repayment of preference share dividend

In the prior year accounts, the directors acknowledged a distribution of the preference share dividend of £3,690,000 paid to the company's parent, Johnson Matthey Plc, during the year ending 31 March 2018 when there were insufficient reserves available for distribution. Based on the legal advice received by the company on 20th December 2019, Johnson Matthey Plc agreed to repay the preference dividend back to the company in full (note 11). This was duly received by Johnson Matthey Fuel Cells Ltd on 3rd July 2020.

Johnson Matthey Fuel Cells Limited

Directors' report

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the accounts
The directors are responsible for preparing the strategic report, the directors' report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare the accounts for each financial year. Under that law the directors have prepared the accounts in accordance with United Kingdom Generally Accepted Accounting Practise (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the loss of the company for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors 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 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 accounts comply with the Companies Act 2006.

Directors' confirmations
In the case of each director in office at the date the Directors' Report is approved:
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

DocuSigned by:
Phil Spall
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P A Spall
Director
4 March 2021

Independent auditor's report to the members of Johnson Matthey Fuel Cells Limited

Report on the audit of the financial statements

Opinion

In our opinion, Johnson Matthey Fuel Cells Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the income statement, the statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the strategic report, the directors' report and the accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for

Independent auditor's report to the members of Johnson Matthey Fuel Cells Limited

being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Catherine Schroeder (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Johnson Matthey Fuel Cells Limited

Income statement

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Revenue	1	**32,659**	26,024
Cost of sales		**(25,037)**	(19,229)
Gross profit		**7,622**	6,795
Distribution costs		**(1,156)**	(1,204)
Research and development costs		**(3,300)**	(2,032)
Administrative expenses		**(3,541)**	(4,807)
Other income		**160**	-
Major impairment and restructuring charge		**-**	(410)
Operating loss	3	**(215)**	(1,658)
Finance costs	2	**(3,521)**	(3,504)
Loss before taxation		**(3,736)**	(5,162)
Tax credit	6	**88**	427
Loss for the year		**(3,648)**	(4,735)

The comprehensive loss for the year is the same as the loss for the year.

The accompanying notes set out on pages 11 to 27 are an integral part of the accounts.

Johnson Matthey Fuel Cells Limited

Balance sheet

As at 31 March 2020

	Notes	**2020** **£'000**	2019 £'000
Assets			
Non-current assets			
Intangible assets	7	**67**	154
Property, plant and equipment	8	**14,572**	12,917
Right-of-use assets	15	**74**	-
Investments in subsidiaries	9	**9,446**	9,446
Deferred income tax asset	13	**1,032**	1,296
Total non-current assets		**25,191**	23,813
Current assets			
Inventories	10	**5,947**	5,978
Trade and other receivables	11	**13,493**	7,211
Total current assets		**19,440**	13,189
Total assets		**44,631**	37,002
Liabilities			
Current liabilities			
Trade and other payables	12	**(195,110)**	(187,739)
Lease liabilities	15	**(41)**	-
Cash and cash equivalents - bank overdrafts		**(36)**	(23)
Total current liabilities		**(195,187)**	(187,762)
Non-current liabilities			
Lease liabilities	15	**(33)**	-
Preference shares	14	**(7,300)**	(7,171)
Total non-current liabilities		**(7,333)**	(7,171)
Net liabilities		**(157,889)**	(157,931)
Equity			
Share capital	16	**-**	-
Share premium		**20,600**	20,600
Accumulated losses		**(178,489)**	(178,531)
Shareholders' deficit		**(157,889)**	(157,931)

The accounts on pages 8 to 27 were approved by the board of Directors on 4th March 2021 and signed on its behalf by:

DocuSigned by:
Phil Spall
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P A Spall
Director
Company registration number: 04393161

The accompanying notes set out on pages 11 to 27 are an integral part of the accounts.

Johnson Matthey Fuel Cells Limited

Statement of changes in equity

For the year ended 31 March 2020

	Share premium £'000	Accumulated losses £'000	Shareholders' deficit £'000
At 1 April 2018	20,600	(173,796)	(153,196)
Loss for the year	-	(4,735)	(4,735)
At 31 March 2019	20,600	(178,531)	(157,931)
Loss for the year	-	(3,648)	(3,648)
Repayment of preference share dividend	-	3,690	3,690
At 31 March 2020	**20,600**	**(178,489)**	**(157,889)**

In the prior year accounts, the directors acknowledged a distribution of the preference share dividend of £3,690,000 paid to the company's parent, Johnson Matthey Plc, during the year ending 31 March 2018 when there were insufficient reserves available for distribution. Based on the legal advice received by the company on 20th December 2019, Johnson Matthey Plc agreed to repay the preference dividend back to the company in full (note 11). This was duly received by Johnson Matthey Fuel Cells Ltd on 3rd July 2020.

The accompanying notes set out on pages 11 to 27 are an integral part of the accounts.

Johnson Matthey Fuel Cells Limited

Accounting policies

For the year ended 31 March 2020

Johnson Matthey Fuel Cells Limited is a private company limited by share incorporated, domiciled and registered in England in the United Kingdom. The address of its registered office is 5th Floor, 25 Farringdon Street, London, EC4A 4AB.

Basis of preparation
The accounts are prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The accounts are prepared in accordance with the Companies Act 2006 under the historical cost convention with the exception of derivative financial assets and financial liabilities that are measured at fair value through profit or loss.

Notwithstanding net liabilities of £157,889,000 as at 31 March 2020 and a loss for the year then ended of £3,648,000, the accounts have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared a cash flow forecast for a period of 12 months from the date of approval of these accounts which indicates that, taking account of reasonably possible downsides, the company will have sufficient funds, through its overdraft facility and funding from its ultimate parent company, Johnson Matthey Plc, to meet its liabilities as they fall due for that period. Those forecasts are dependent on Johnson Matthey Plc not seeking repayment of the loan amounts currently due to the group, which at 31 March 2020 amounted to £185,803,000. Johnson Matthey Plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecast. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these accounts, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the accounts and consequently have prepared the accounts on a going concern basis.

The accounting policies have been applied consistently other than where new policies have been adopted (i.e. IFRS 16). The following exemptions from the requirements of IFRS have been applied in the preparation of these accounts, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2, Share-based Payment;
- the requirements of IFRS 7, Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13, Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1, Presentation of Financial Statements, to present comparative information in respect of: paragraph 73(e) of IAS 16, Property, Plant and Equipment; and paragraph 118(e) of IAS 38, Intangible Assets;
- the requirements of paragraphs 10(d), 38A, 38B, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1, Presentation of Financial Statements;
- the requirements of IAS 7, Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24, Related Party Disclosures; and
- 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;

Exemption from preparing consolidated accounts
The accounts contain information about Johnson Matthey Fuel Cells Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated accounts of its ultimate parent, Johnson Matthey Plc.

New standards effective for the current financial year - IFRS 16, Leases
IFRS 16 became applicable to the company on 1st April 2019 and the company has changed its accounting policies as a result of adopting the new standard. The impact of the adoption of IFRS 16 is disclosed in note 21.

Functional and presentation currency
Items included in the accounts of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The accounts are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Revenue
Revenue comprises all sales of goods at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. Depending on the nature of performance obligation under the sales contract and the payment terms specified in the customer agreements, the company either recognises revenue at a point in time or over time.

Point in time revenue recognition
The company enters into short-term campaign contracts to deliver its products to customers supported by a purchase order and generic sales T&C's. Within the existing contracts, the company has a clause that states that the company may invoice any associated costs incurred at any point in the process if customers cancel. This is not legally enforceable. There are no 'timed' or scheduled performance obligations embedded within such contracts. The revenue associated with these contracts is recognised at point of shipping the finished goods (where ownership switches) and is dependent on the agreed contractual incoterms.

Revenue is recognised as performance obligations are satisfied as control of the goods is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, when the goods are despatched or delivered in line with the International Chamber of Commerce's International Commercial Terms (Incoterms®) as detailed in the relevant contract or on notification that the goods have been used when they are consignment products located at customers' premises.

Over time revenue recognition
The company also enters into more complex sales contracts where the revenue is recognised over time based on the percentage of completion method due to the bespoke nature of the end product and the fact that the company is entitled to the compensation including margin should the customer cancel the contract. The percentage of completion method relies on company's measure of progress compared to total effort to complete and deliver performance obligations under the contract. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Contract receivables
Contract receivables represent amounts for which the company has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date.

Contract liabilities
Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.
Finance costs

Finance costs are recognised in the income statement in the year incurred.

Leases – accounting policy applied since 1st April 2019
The company enters into leases as part of its business operations. Leases are recognised as a right-of-use asset, together with a corresponding lease liability, at the date at which the leased asset is available for use.

The right-of-use asset is initially measured at cost, which comprises the initial value of the lease liability, lease payments made (net of any incentives received from the lessor) before the commencement of the lease, initial direct costs and restoration costs. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term in operating profit.

The lease liability is initially measured as the present value of future lease payments discounted using the interest rate implicit in the lease or, where this rate is not determinable, the company's incremental borrowing rate, which is the interest rate the company would have to pay to borrow the amount necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Interest is charged to finance costs at a constant rate of interest on the outstanding lease liability over the lease term.

Payments in respect of short-term leases, low-value leases and precious metal leases are charged to the income statement on straight-line basis over the lease term in operating profit.

Leases – accounting policy applied until 31st March 2019
Under IAS 17, Leases, all of the company's leases were classified as operating leases and lease payments made (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases whenever they transfer substantially all the risks and rewards of ownership to the company. The assets are included in property, plant and equipment and the capital elements of the leasing commitments are shown as obligations under finance leases. The assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. The company, leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (typically a few months) and the company pays a fee which is expensed on a straight-line basis over the lease term in finance costs.

All other leases are classified as operating leases and the lease costs are expensed on a straight-line basis over the lease term in operating profit.

Grants
Grants related to assets are included in deferred income and released to income statement in equal instalments over the expected useful lives of the related assets. Grants related to income are deducted in reporting the related expense.

Research and development
Research expenditure is charged to the income statement in the year incurred.

Development expenditure is charged to the income statement in the year incurred unless it meets the IFRS recognition criteria for capitalisation. When the recognition criteria have been met, any further development expenditure is capitalised as an intangible asset.

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. All other intangible assets are amortised by using the straight-line method over the useful lives from the time they are first available for use. The estimated useful lives vary according to the specific asset but are typically: 3 to 10 years for capitalised computer software and 3 to 8 years for capitalised development currently being amortised. Intangible assets which are not yet being amortised are subject to annual impairment reviews.

Property, plant and equipment– accounting policy applied until 31st March 2020
Property, plant and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its useful life. Freehold buildings and some plant and machinery are depreciated using the units of production method, as this more closely reflects their expected consumption. All other assets are depreciated using the straight-line method. The useful lives vary according to the class of asset but are typically: freehold buildings 30 years; plant and machinery 10 years; and fixtures, fittings and equipment 3 to 10 years. Freehold land is not depreciated.

Property, plant and equipment – accounting policy applied since 1st April 2020
Property, plant and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its useful life.

Effective from 1st April 2020, the company changed its method of calculating the depreciation on the building from the units of measure to the straight line. Had the company applied the straight line method from the date of acquisition, this would have resulted in an additional charge to the income statement of £1,153,000 over the 15 year period the building has been in operation. The company will charge this depreciation to the income statement on a prospective basis over the remaining useful life of the asset (15 years). This will result in an additional depreciation charge of £77,000 per year.

With the exception of certain plant and machinery, all other assets are depreciated using the straight-line method. Some plant and machinery are depreciated using the units of production method, as this more closely reflects their expected consumption. The useful lives vary according to the class of asset but are typically: freehold buildings 30 years; plant and machinery 10 years; and fixtures, fittings and equipment 3 to 10 years. Freehold land is not depreciated.

Investments
Investments in subsidiaries are stated at cost less any provisions for impairment.

Inventories
Inventories are stated at the lower of cost, including attributable overheads, and net realisable value.

Taxation
Current and deferred tax are recognised in the income statement, except when they relate to items recognised directly in equity when the related tax is also recognised in equity.

Current tax is the amount of income tax expected to be paid in respect of taxable profits using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the balance sheet. It is provided using the tax rates that are expected to apply in the period when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions for liabilities and charges and contingencies
Provisions are recognised when the company has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome.

Share-based payments
The fair value of outstanding shares allocated to employees under the ultimate parent company is long term incentive plans is calculated by adjusting the share price on the date of allocation for the present value of the expected dividends that will not

be received. The resulting cost is charged to the profit and loss account over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting where appropriate.

Derivative financial instruments
Derivative financial instruments are measured at their fair value. Derivative financial instruments may be designated at inception as cash flow hedges if appropriate. Derivative financial instruments which are not designated as hedging instruments are used to manage financial risk.

Changes in the fair value of any derivative financial instruments that are not designated as or are not determined to be effective hedges are recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income, to the extent that the hedges are effective. Ineffective portions are recognised in the income statement immediately. If the hedged item results in the recognition of a non-financial asset or liability, the amount previously recognised in other comprehensive income is transferred out of equity and included in the initial carrying amount of the asset or liability. Otherwise, the amount previously recognised in other comprehensive income is transferred to the income statement in the same period that the hedged item is recognised in the income statement. If the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs. If a forecast transaction is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to the income statement.

Critical accounting estimates and judgements

Deferred tax asset
The company has made a judgement that its historic losses should give rise to a deferred tax asset on the basis that it has future profits against which these historic losses may be offset.

Carrying value of investments in subsidiaries
The company makes estimates of the recoverable value of its investments in subsidiaries. These estimates are based on a forecast of future operating cashflows reflect the impacts of COVID-19 and Brexit and is sensitive to both short and long term growth assumptions as well as other assumptions, notably around the suitability of a discount rate to apply to the calculation of recoverable values. A change in key inputs to these calculations could lead to a material reduction in the carrying value of these investments within the next financial year.

Revenue recognition
The company has made judgement on the revenue recognition based on percentage of completion, which is driven by three main stages within production operating model.

Cash and cash equivalents
Cash and deposits comprise cash at bank and in hand and short-term deposits with a maturity date of three months or less from the date of acquisition. The company routinely uses short-term bank overdraft facilities, which are repayable on demand, as an integral part of its cash management policies and, therefore, cash and cash equivalents include cash and deposits and bank overdrafts.

Financial assets
The company classifies its financial assets in the following measurement categories:
• those to be measured at fair value either through other comprehensive income or through profit or loss; and

• those measured at amortised cost.

At initial recognition, the company measures financial assets at fair value plus, in the case of financial assets not measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

The company subsequently measures equity investments at fair value and have elected to present fair value gains and losses on equity investments in other comprehensive income. There is, therefore, no subsequent reclassification of cumulative fair value gains and losses to profit or loss following disposal of the investments.

The company subsequently measures trade and other receivables and contract receivables at amortised cost, with the exception of trade receivables that have been designated as at fair value through other comprehensive income because the group has certain operations with business models to hold trade receivables for collection or sale. For trade and contract receivables, the company apply the simplified approach permitted by IFRS 9, Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition. All other financial assets, including short-term receivables, are measured at amortised cost less any impairment provision.

Trade and other payables
These amounts represent liabilities for services provided to the company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are measured at amortised cost.

Employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares
Preference shares, which are mandatorily redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as liabilities. The dividends on these preference shares are taken to the income statement as finance expense.

Post-employment benefits
The company is included in the Johnson Matthey Employees' Pension Scheme which includes both defined benefit and defined contribution schemes. The centrally administered schemes includes employees of several companies in the Johnson Matthey group. There is no contractual agreement or stated policy for charging the net defined benefit cost for the scheme to the individual group entities. The cost of the company's contributions to the defined contributions scheme is charged to the income statement as incurred. Information about the scheme is disclosed in the ultimate parent company's consolidated accounts (note 20).

1. Revenue

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

	2020 £'000	2019 £'000
Continental Europe	**2,053**	3,133
North and South America	**10,593**	8,169
China	**6,328**	4,557
Rest of World	**13,685**	10,165
Revenue	**32,659**	26,024

2. Finance costs

	2020 £'000	2019 £'000
Interest payable to other Johnson Matthey companies	**3,374**	3,351
Interest payable to subsidiary companies	**18**	20
Preference dividends	**129**	133
Total interest payable	**3,521**	3,504

3. Operating loss

	2020 £'000	2019 £'000
Operating loss is arrived after charging / (crediting):		
Depreciation of property, plant and equipment	**311**	171
Depreciation of right-of-use assets	**16**	-
Amortisation of intangible fixed assets	**99**	514
Impairment loss included in major impairment and restructuring charges	**-**	410
Inventories recognised as an expense	**15,046**	10,845
Write-down of inventories recognised as an expense	**1,313**	640
Reversal of write-down of inventories from increases in net realisable value	**(125)**	(3)
Government grants receivable	**(974)**	(1,233)
Net gain on foreign exchange	**(192)**	(37)
Fees payable to the company's auditors for the audit of the annual accounts	**49**	30

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For the year ended 31 March 2020

4. Employee costs and numbers

	2020	2019
	£'000	£'000
Aggregate remuneration comprised:		
Wages and salaries	**10,051**	8,005
Social security costs	**731**	566
Post-employment costs	**1,195**	953
Share-based payments (note 19)	**247**	225
Termination benefits	**74**	-
	12,298	9,749

The cost of the company's contributions to the Johnson Matthey Employee Pension Scheme amounted to £56,000 (2019: £318,000). The amount recognised as an expense for defined contribution schemes amounted to £1,139,000 (2019: £635,000).

	2020	2019
	Number	Number
Average monthly number of employees:		
Production	**208**	166
Research and development	**56**	46
Other	**25**	21
	289	233

The employee numbers and costs above include all employees who work for and are paid by the company, including employees whose contracts of services are with the parent company (note 20).

5. Directors' remuneration

In the year ended 31 March 2020 S Farrant(resigned 31 March 2020) and A Holford(resigned 31 January 2020) were remunerated by the ultimate parent company (note 20).

P A Spall (appointed 19 February 2020), J L Butcher and C C Rainford(resigned 11 December 2019) were remunerated by the company and their remuneration was:

	2020	2019
	£'000	£'000
Aggregate amounts of emoluments of directors (including the estimated money value of benefits in kind) in respect of managing the affairs of the company	**539**	420
Company contributions to defined benefit pension scheme	**40**	42
Number of directors who were members of the defined benefit pension scheme	**2**	1

The highest paid director was paid emoluments of £327,305 and had annual accrued pension entitlements under the defined benefit pension scheme of £23,718.

During the year none of the directors (2019: none) exercised share options in the ultimate parent company and four of the directors (2019: five) received shares under the ultimate parent company long term incentive plan.

6. Tax credit

	2020	2019
	£'000	£'000
Current tax		
Corporation tax credit on losses for the year	**(89)**	(1,011)
Adjustment for prior years	**(263)**	402
Total current tax credit	**(352)**	(609)
Deferred tax		
Origination and reversal of timing differences	**416**	484
Adjustment for prior years	**1**	(453)
Impact of changes in tax rates and laws	**(153)**	151
Total deferred tax	**264**	182
Tax credit	**(88)**	(427)

6. Tax credit (continued)

The tax for the year can be reconciled to the loss per the profit and loss account as follows:

	2020	2019
	£'000	£'000
Loss on ordinary activities before taxation	**(3,736)**	(5,162)
Tax credit at UK corporation tax rate of 19% (2019 19%)	**(710)**	(981)
Effects of:		
Capital allowances in excess of depreciation	**-**	7
Expenses not deductible for tax purposes	**1,044**	199
Group relief	**-**	202
Share-based payments	**5**	(14)
Other items	**-**	60
Adjustments for prior years	**(263)**	(51)
Tax rate adjustments	**(153)**	151
Other timing differences	**(11)**	-
Tax credit	**(88)**	(427)

In September 2016, the UK government substantively reduced the UK corporation tax rate down to 17% effective from 1 April 2020, so the deferred tax balance as at 31 March 2019 was calculated using this rate.

In March 2020, the government announced that the UK corporation tax rate for years starting 1st April 2020 and 2021 would remain at 19%, so the UK deferred tax balance dated 31 March 2020 was calculated using this rate.

7. Intangible assets

	Development expenditure £'000	**Computer software £'000**	**Total £'000**
Cost			
At beginning of year	18,561	1,877	20,438
Additions	-	12	12
At end of year	18,561	1,889	20,450
Accumulated amortisation and impairment			
At beginning of year	18,561	1,723	20,284
Charge for the year	-	99	99
At end of year	18,561	1,822	20,383
Net book value at 31 March 2020	**-**	**67**	**67**
Net book value at 31 March 2019	-	154	154

8. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At beginning of year	20,440	33,994	610	55,044
Additions	64	1,816	86	1,966
At end of year	20,504	35,810	696	57,010
Accumulated depreciation				
At beginning of year	11,701	29,946	480	42,127
Charge for the year	56	243	12	311
At end of year	11,757	30,189	492	42,438
Net book value at 31 March 2020	**8,747**	**5,621**	**204**	**14,572**
Net book value at 31 March 2019	8,739	4,048	130	12,917

Effective from 1st April 2020, the company changed its method of calculating the depreciation on the building from the units of measure to the straight line. Had the company applied the straight line method from the date of acquisition, this would have resulted in an additional charge to the income statement of £1,153,000 over the 15 year period the building has been in operation. The company will charge this depreciation to the income statement on a prospective basis over the remaining useful life of the asset (15 years). This will result in an additional depreciation charge of £77,000 per year.

9. Investments in subsidiaries

	Subsidiary undertakings £'000	Unlisted investments £'000	Total £'000
Cost			
At beginning and end of the year	9,446	5,026	14,472
Accumulated impairment			
At beginning of the year	-	5,026	5,026
Carrying amount at 31 March 2020	**9,446**	**-**	**9,446**
Carrying amount at 31 March 2019	9,446	-	9,446

The company’s wholly owned subsidiary undertakings are Johnson Matthey Fuels Cells, Inc., a company incorporated in the USA with its registered office at Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington DE 19808, USA, and Johnson Matthey Fuel Cells Japan Limited, a company incorporated in Japan with its registered office address at 5123-3 Kitsuregawa, Sakura-shi, Tochigi, 329-1412, Japan.

The unlisted investments are investments in investment vehicles that invest in start up companies. These are not expected to realise any returns and have been impaired to a net book value of £nil (2019: £nil).

10. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	**2,627**	3,334
Work in progress	**195**	273
Finished goods	**3,125**	2,371
	5,947	5,978

A provision of £1,218,100 (2019: £514,325) has been recognised within the inventory balances against raw materials and consumables category. The inventory balances are shown net of any provisions.

11. Trade and other receivables

	2020 £'000	2019 £'000
Current		
Trade receivables	**4,605**	4,868
Contract receivables	**430**	232
Amounts owed by ultimate parent company	**3,296**	-
Other receivables	**312**	172
Prepayments	**4,850**	1,939
	13,493	7,211

The amounts owed by the ultimate parent company Johnson Matthey plc include £3,690,000 receivable towards the repayment of the preference share dividend incorrectly distributed to the parent company in prior periods (see Director's report). The balance was settled in full on 3rd July 2020 with no interest charged.
The expected credit losses recognised in the year on the closing trade receivables balance amounted to £675,000.

12. Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	**2,251**	1,546
Amounts owed to subsidiary undertakings	**264**	430
Amounts owed to other Johnson Matthey companies	**20**	21
Loan from ultimate parent company	**185,803**	179,083
Amounts owed to ultimate parent company	**-**	1,149
Other taxes and social security	**67**	19
Accruals	**3,225**	3,450
Government grants received but not recognised as revenue	**582**	931
Contract liabilities	**2,898**	1,110
	195,110	187,739

The loan from ultimate parent company is repayable on demand and interest is accrued daily at one-month LIBOR plus 1.13%.
Amounts owed to subsidiary undertaking, amounts owed to other Johnson Matthey companies and amounts owed to ultimate parent company are non-interest bearing and repayable on demand.

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13. Deferred income tax asset

	Property, plant and equipment £'000
At 1 April 2018	1,478
Charge to income statement	(182)
As at 31 March 2019	1,296
Charge to income statement	(264)
As at 31 March 2020	**1,032**

In September 2016, the UK government announced the reduction of the UK corporation tax rate down to 17% effective from 1 April 2020, therefore the deferred tax balance as at 31 March 2019 was calculated using this rate.

In March 2020, the government announced that the UK corporation tax for years starting 1st April 2020 and 2021 would remain at 19%, so the UK deferred tax balance as at 31 March 2020 was calculated using that rate.

14. Preference shares

	2020 £'000	2019 £'000
Nominal value	**7,000**	7,000
Accrued interest	**300**	171
Preference shares	**7,300**	7,171

The preference shares of £1 each are cumulative and entitle the holder Johnson Matthey Plc to dividends accruing at a rate based on one month LIBOR plus 1.500% (2019: one month LIBOR plus 1.500%). 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. There were 7,000,000 shares in issue at the balance sheet date (2019: 7,000,000).

15. Leases

Leasing activities

The company leases some of its property, plant and equipment which are used by the company in its operations. The impact of the company's transition to IFRS 16 is disclosed in note 21.

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For the year ended 31 March 2020

15. Leases (continued)

Right-of-use assets

	2020 **Plant and machinery** **£'000**
At 1 April 2019	29
Additions	61
Depreciation charge for the year	(16)
At 31 March 2020	**74**

Lease liabilities	**2020** **£'000**
Current	(41)
Non-current	(33)
Lease liabilities	**(74)**

	2020 **£'000**
Interest expense	**1**

16. Share capital

Issued and fully paid shares

	Number	£'000
Ordinary shares of £1 each - at beginning and end of year	200	-
Total share capital - at beginning and end of year	**200**	**-**

17. Related party transactions

There were no related party transactions during the year other than between the company and other wholly owned Johnson Matthey group companies.

18. Commitments

	2020 £'000	2019 £'000
Capital commitments - future capital expenditure contracted but not provided		
Property, plant and equipment	**2,569**	-

At 31st March 2020, precious metal leases were £6,135,000 (2019: nil) at year-end prices.

19. Share-based payments

Performance Share Plan (PSP)
From 2017, shares in the ultimate parent company are awarded to certain of the company's directors and senior managers under the PSP based on a percentage of salary and are subject to performance targets over a three-year period. At 31 March 2020, shares awarded in 2017, 2018 and 2019 were outstanding. The minimum release of 15% of the award is subject to achieving underlying earnings per share (uEPS) growth of 4% compound per annum and the full release is subject to uEPS growing by at least 10% compound per annum. The number of awarded shares released varies on a straight-line basis between these points. Awards lapse if the uEPS growth is less than the minimum.

Restricted Share Plan (RSP)
From 2017, shares in the ultimate parent company are awarded to certain of the company's directors and senior managers under the RSP based on a percentage of salary. Awards under the RSP are not subject to performance targets. The shares are subject only to the condition that the employee remains employed by the group on the vesting date (three years after the award date). At 31 March 2020, shares awarded in 2017, 2018 and 2019 were outstanding.

All employee share incentive plan (SIP)
Under the SIP, all employees with at least one year of service within the Johnson Matthey Plc group and who are employed by a participating group company are entitled to contribute up to 2.5% of base pay each month, subject to a £125 per month limit. The SIP trustees buy shares (partnership shares) at market value each month with the employees' contributions. For each partnership share purchased, the group purchases two shares (matching shares) which are allocated to the employee. If the employee sells or transfers partnership shares within three years from the date of award, the linked matching shares are forfeited.

Long term incentive plan (LTIP)
Prior to 2017, shares in the ultimate parent company were awarded to certain directors, senior managers of the company under the LTIP based on a percentage of salary and were subject to performance targets over a three year period. At 31 March 2020, there were no shares outstanding (31 March 2019: shares awarded in 2016 were outstanding). For the 2016 awards, the minimum release of 15% of the award was subject to the ultimate parent company achieving underlying earnings per share (uEPS) growth of 4% compound per annum over the three-year period to 31st March 2019 and the full release is subject to uEPS growing by at least 10% compound per annum.Actual uEPS growth was 7.7%, which represented 67% of the full award. In August 2019, 67% of the outstanding shares were released. The remainder expired.

20. Ultimate parent company

The company's immediate and ultimate parent company is Johnson Matthey Plc. The largest and only group in which the results of the company are consolidated is Johnson Matthey Plc. The consolidated accounts of Johnson Matthey Plc are available to the public and may be obtained from 5th Floor, 25 Farringdon Street, London EC4A 4AB or www.matthey.com

21. Changes in accounting policies

This note explains the impact on the company's accounts of the adoption of IFRS 16, Leases, that has been applied from 1st April 2019.

IFRS 16 became effective from 1st April 2019, replacing IAS 17, 'Leases', and related interpretations. Whilst lessor accounting is similar to IAS 17, lessee accounting is significantly different. Under IFRS 16, the company recognise on the balance sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases unless the underlying assets are of low value or the lease term is 12 months or less. In the income statement, rental expense on the impacted leases is replaced with depreciation on the right-of-use asset and interest expense on the lease liability.

The company have applied the modified retrospective transition approach and has not restated comparative amounts for the year ended 31st March 2019. Under this approach, the company have chosen to measure right-of-use assets at 1st April 2019 at an amount equal to the lease liability as adjusted for lease prepayments, accrued lease expenses and onerous lease provisions.

The company have elected to adopt the following practical expedients on transition:

- not to capitalise a right-of-use lease asset or lease liability where the lease expires before 31st March 2020;
- not to reassess contracts to determine if the contract contains a lease;
- to utilise onerous lease provisions to reduce right-of-use asset values;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right of use asset; and
- to apply the portfolio approach when determining a discount rate where a group of leases has similar characteristics.

Impact of adoption on the primary statements

Income statement
The adoption of IFRS 16 has not had a material impact on the company's profit for the year.

Balance sheet
The following statement shows the effect of adopting IFRS 16 on the company's balance sheet at 1st April 2019.

21. Changes in accounting policies (continued)

	£'000
Non-current assets	
Right-of-use assets	29
Total non-current assets	**29**
Total assets	**29**
Current liabilities	
Lease liabilities	13
Total current liabilities	**13**
Non-current liabilities	
Lease liabilities	16
Total non-current liabilities	**16**
Total liabilities	**29**
Net assets	**-**

The weighted average incremental borrowing rate applied to lease liabilities was 2.5%.

Reconciliation between operating lease commitments and lease liabilities

	£'000
Future minimum amounts payable under non-cancellable operating leases reported under IAS 17 at 31st March 2019	30
Leases outside the scope of IFRS 16 (low value or the lease term is 12 months or less)	(1)
Lease liabilities recognised on transition to IFRS 16 at 1st April 2019	**29**
Current	13
Non-current	16
Lease liabilities recognised on transition to IFRS 16 at 1st April 2019	**29**

22. Events after balance sheet date

On 1 January 2020, the UK left the European Union and entered into a transition period until 31 December 2020. Although the precise trading agreements post-transition remain unclear, the Directors believe that the principal risk facing the company arising from Brexit is longer lead times to service customer demands and increased freight costs.