Macfarlan Smith Limited

Directors' Report and Accounts

For the year ended 31 March 2020

Registered number: SC035640

Macfarlan Smith Limited

Contents

Macfarlan Smith Limited

Strategic report

Principal activities

Macfarlan Smith Limited (the "company") is engaged in the manufacture of active pharmaceutical ingredients (API), in particular opiates and other controlled drugs.

Performance during and position at the end of the year

Turnover remained stable increasing by 1% to £109,485,000 (2019: £108,044,000). Operating profit before the major impairment and restructuring credit decreased by 21% to £13,571,000 (2019: £17,223,000) driven by increased operating expenditure and impact of COVID-19.

Major impairment and restructuring charges are shown separately on the face of the income statement and excluded from underlying operating profit. The company restructured its business during the year ended 31 March 2018. As well as costs associated with restructuring, the company impaired certain tangible fixed assets. This gave rise to an additional charge of £663,000 in the year ended 31 March 2019. During the year, a write off of inventories of £2,705,000 recognised as part of the operational efficiency programme was released.

Net assets at the year-end were £20,153,000 (2019: £9,530,000). The balance sheet remains healthy with net assets excluding loans from the ultimate parent company increasing by £15,075,000 to £210,596,000 (2019: £195,521,000). Given the assurances provided by the ultimate parent company, in relation to these group loans, as outlined in the accounting policies, the board are content with the current position on the balance sheet.

The capital project to bring the facility in Annan up to current good manufacturing practice (cGMP) standards was completed during the year. The site is now manufacturing three key products and successfully released commercial products to customers in the year ended 31 March 2019. The site remained in the process of qualifying additional products for customer transition in the year ended 31 March 2020.

Principal risks and uncertainties

The Johnson Matthey group, of which the company is a subsidiary, continues to monitor closely the potential EU exit risks to our business. Our well established working group, which is composed of a number of functional and sector experts, has assessed the implications of a 'no-deal'. A number of mitigating activities were put in place ahead of original exit date of 29 March 2019 in preparation for this eventuality, for example, through building inventory. As part of the preparations, the project team conducted scenario analysis to assess the impact of individual risks and combinations of risks, and as the probability of a hard Brexit (without a transition agreement recognising the existing trading rules) increased, the working group approved the acceleration of the project team's contingency plans, with the primary objective of ensuring the continuity of the European business across the whole business model. To that end, we remain comfortable that our current contingency planning will be effective should the UK exit the transition period without a deal. We remain vigilant and alert to changes in the UK and EU's stance on Brexit and the potential implications these may have on our operations.

Patent risks – The company supplies active pharmaceutical ingredients to generic manufacturers and can benefit when third party patents expire. If actual patent lives differ from the expectations such as by being extended or successfully challenged, this can affect the company's results.

Commercial relationships – The company benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms could have a material impact on the company's results.

Raw materials – The company's principal raw materials are alkaloids extracted from commercially grown poppy crops. Any increases or volatility in prices and any significant decrease in availability of these raw materials could affect the company's results. The company has long term agreements in place to mitigate market price variations and ensure robust supply chains are maintained.

Regulatory risk – The company requires licences from the UK Medicines & Healthcare products Regulatory Agency (MHRA), UK Home Office and US Food & Drug Administration (FDA) in order to undertake certain of its business activities in the UK, EU and US. The loss or non-renewal of such licences, or an adverse change to the terms of such licences, could significantly impair the ability of the Company to undertake its business.

Litigation risk – Civil proceedings have been issued by 45 individuals against the company claiming damages arising from the 2012 legionella outbreak in Edinburgh which the claimants allege was caused by the company. If found liable there is the potential that the company may incur a financial liability in the form of an award of damages against the company.

Foreign exchange – The company sells products and buys raw materials in currencies other than sterling and is therefore exposed to movements in exchange rates between sterling and other currencies. The company uses forward exchange contracts to hedge foreign exchange exposures on forecast sales and purchases in foreign currencies.

Opioid market – The opioid market is being challenged by physician perceptions and new ways to treat pain without opioid usage, resulting in a low projected growth rate for future years.

COVID-19 – the company continues to monitor the effects of the COVID-19 pandemic on the business, its stakeholders and the wider market. The health and safety of employee remains the company's primary focus and resultantly, temperate checking, social distancing controls and measures and where possible, home working, have been implemented across both plants. The effects of COVID-19 on the company's ability to continue as a going concern have been considered on page 4 of the Directors' 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 are available to view at www.matthey.com/AR20.

During the year under review, the board worked closely with the company's management to mitigate the impact on the business and customers as a result of COVID-19. They continue to work closely with management to ensure the needs of customers are met and any issues are appropriately escalated.

The board reviewed and approved the company's Modern Slavery and Human Trafficking Transparency Statement. As part of this approval, the board discussed the actions taken to ensure that slavery or human trafficking had not taken place in any supply chain or part of the business. All group supplier related activity is managed in line with the Group Procurement Policies which ensure that supply risk is managed appropriately, this includes our Supplier Code of Conduct and supplier due diligence programme. The group promotes a 'speak up' culture and provides employees and third parties with an independently run speak up helpline where concerns about slavery or human trafficking can also be raised. In addition, the board recognises the importance of fostering good business relationships with suppliers, and as part of this the board reviewed the company's payment practices reports and associated actions for the six months ended 30 September 2019 and 31 March 2020.

The board work with the company's management to ensure good communications to the company's regulators MHRA, UK Home Office and the FDA regarding licence renewals or term changes to existing licences.

The company's employee engagement practices are set out in the directors' report on page 5.

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.

By order of the board

DocuSigned by:
Terry Cooke
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T B Cooke
Director
18 December 2020

Directors' report

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

Results and dividends
The company's profit for the year ended 31 March 2020 is £11,140,000 (2019: £10,423,000 profit). The income statement is set out on page 10. The directors recommend the payment of a final ordinary dividend for the year ended 31 March 2020 of £6,000,000 (2019: £2,062,000) which will be paid during the year ending 31 March 2021.

Financial Instruments
The company's activities expose it to certain financial risks including credit risk, liquidity risk and cash flow risk.

Credit risk
The company's principal financial assets are bank balances and 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.

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.

Cash flow risk
A significant portion of the company profit is earned outside the UK. In order to protect the company's sterling balance sheet, the company uses forward exchange contracts to hedge foreign exchange exposures.

Going concern
Notwithstanding net current liabilities of £109,369,000 as at 31 March 2020 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 £190,443,000 and providing additional financial support during that period. Johnson Matthey plc has confirmed its support of the company by continuing to make available such funds as are needed by the company, and that is does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

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. The company is seeing consistent demand across the majority of product groups with increases in the Fentanyl and Bitrex businesses as a direct result of COVID-19. Production is being maintained at previous levels.

Donations
The company donated £nil (2019: £3,000) to charitable organisations in the UK. No political donations 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 S Farrant (resigned 31 March 2020), T B Cooke, D M Payne (resigned 13 October 2020), C M Grant (appointed 13 October 2020), A P Wesztergom (appointed 13 October 2020) and L A Milne (appointed 1 December 2020).

Directors' indemnity

Under a Deed Poll dated 31 January 2017, the ultimate parent company 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.

Independent auditors

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

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

Carbon reporting

Usage and output

The company used the following energy on its sites in the year ended 31 March 2020. Each of these is tracked through the use of meters:

- Gas – 17,094,199 KWh
- Electricity – 11,302,707 KWh
- Fuel Oil – 9,431 litres

The company had the following greenhouse gas emissions in the year ended 31 March 2020:

- Total Carbon Dioxide (CO2) emissions = 3,470 tonnes (10.1 tonnes per FTE)
- Total Nitrogen Oxide (NOx) emissions = 12,899kg

Both emissions are calculated from the company's total gas and diesel consumption, using a balanced equation on the combustion of the fuel in question. Gas makes up over 99.5% of this consumption as diesel is rarely utilised. Combustion is measured via the boiler houses held on the sites; there are no active processes outside the boiler house which release CO2 or NOx but if there were any, these would be measured using an estimated quantity based on the process put in place itself.

Energy efficiency

During the year ended 31 March 2020, the following energy efficiency initiatives, practices and projects took place within the company:

- A new energy reduction strategy to identify areas of improvement in both the Edinburgh and Annan sites began in early 2020. This will include improved electricity sub-metering and consideration of the feasibility of Combined Heat and Power (CHP) Generation. The company anticipates that this strategy will deliver significant improvements in energy efficiency and sustainability in future years.
- Energy efficient lighting was installed across various areas of the sites;
- The efficiency rating and life cycle costs of all new equipment purchased was placed at the centre of capital projects.

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 profit or 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.

Macfarlan Smith Limited

Directors' 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 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.

By order of the board

DocuSigned by:
Terry Cooke
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T B Cooke
Director
18 December 2020

Independent auditors' report to the members of Macfarlan Smith Limited

Report on the audit of the financial statements

Opinion

In our opinion, Macfarlan Smith 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 profit 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 Directors' Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the income statement, the statement of comprehensive income and 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.

Independent auditors' report to the members of Macfarlan Smith Limited

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 for the financial statements and the audit

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 set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for 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.

Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
18 December 2020

Macfarlan Smith Limited

Income statement

For the year ended 31 March 2020

	Notes	2020	2019
		£'000	£'000
Revenue	1	**109,485**	108,044
Cost of sales		**(79,429)**	(77,165)
Gross profit		**30,056**	30,879
Other income		**61**	-
Distribution costs		**(1,636)**	(1,383)
Administrative expenses		**(14,910)**	(12,273)
Major impairment and restructuring credit/(charges)	2	**2,705**	(663)
Operating profit	3	**16,276**	16,560
Finance costs		**(2,498)**	(3,307)
Profit before tax		**13,778**	13,253
Income tax expense	6	**(2,638)**	(2,830)
Profit for the year		**11,140**	10,423

Statement of total comprehensive income

For the year ended 31 March 2020

	2020	2019
	£'000	£'000
Profit for the year	**11,140**	10,423
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(4)**	1
Movement in cash flow hedges	**(633)**	(357)
Tax on above items taken directly to or transferred from equity	**120**	63
	(517)	(293)
Total comprehensive income for the year	**10,623**	10,130

The accompanying notes set out on pages 13 to 29 are an integral part of the accounts.

Macfarlan Smith Limited

Balance sheet

As at 31 March 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Goodwill	8	**57,868**	57,868
Other intangible assets	10	**512**	537
Property, plant and equipment	9	**72,743**	71,193
Right-of-use assets	16	**308**	-
Total non-current assets		**131,431**	129,598
Current assets			
Inventories	11	**76,881**	61,401
Trade and other receivables	12	**26,467**	21,535
Cash and cash equivalents - cash and deposits		**35**	-
Total current assets		**103,383**	82,936
Total assets		**234,814**	212,534
Liabilities			
Current liabilities			
Bank overdraft		**-**	(627)
Current income tax liabilities		**(1,712)**	(355)
Trade and other payables	13	**(210,901)**	(200,908)
Lease liabilities	16	**(139)**	-
Total current liabilities		**(212,752)**	(201,890)
Non-current liabilities			
Lease liabilities	16	**(154)**	-
Deferred income tax liabilities	14	**(1,403)**	(762)
Provisions for liabilities	15	**(352)**	(352)
Total non-current liabilities		**(1,909)**	(1,114)
Total liabilities		**(214,661)**	(203,004)
Net assets		**20,153**	9,530
Equity			
Share capital	17	**7,500**	7,500
Hedging reserve		**(545)**	(32)
Retained earnings		**13,198**	2,062
Total equity		**20,153**	9,530

The accounts were approved by the board on 18 December 2020 and signed on its behalf by:

DocuSigned by:
Terry Cooke
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T B Cooke
Director

Company registration number: SC035640
The accompanying notes set out on pages 13 to 29 are an integral part of the accounts.

Macfarlan Smith Limited

Statement of changes in equity

For the year ended 31 March 2020

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2018	7,500	262	(8,362)	(600)
Profit for the year	-	-	10,423	10,423
Movement in cash flow hedges	-	(357)	-	(357)
Currency translation differences	-	-	1	1
Tax on other comprehensive income	-	63	-	63
Total comprehensive income	-	(294)	10,424	10,130
Share based payments	-	-	553	553
Cash paid in relation to share-based payments	-	-	(553)	(553)
At 31 March 2019	7,500	(32)	2,062	9,530
Profit for the year	-	-	11,140	11,140
Movement in cash flow hedges	-	(633)	-	(633)
Currency translation differences	-	-	(4)	(4)
Tax on other comprehensive income	-	120	-	120
Total comprehensive income	-	(513)	11,136	10,623
Share based payments	-	-	516	516
Cash paid in relation to share-based payments	-	-	(516)	(516)
At 31 March 2020	**7,500**	**(545)**	**13,198**	**20,153**

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Macfarlan Smith Limited

Accounting policies

For the year ended 31 March 2020

Macfarlan Smith Limited is a private company limited by share incorporated, domiciled and registered in Scotland in the UK. The registered number is SC035640 and the registered address is Wheatfield Road, Edinburgh EH11 2QA.

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

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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. The company is seeing consistent demand across the majority of product groups with increases in the Fentanyl and Bitrex businesses as a direct result of COVID-19. Production is being maintained at previous levels.

Exemptions
The accounting policies have been applied consistently. 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;

- 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; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d), 134(f) and 135(c) to 135(e) of IAS 36, Impairment of Assets.

Critical accounting estimates and assumptions
The company makes estimates of the recoverable value of its goodwill. The recoverable amount of the goodwill is determined using value in use calculations which generally use cash flow projections based on financial budgets and plans covering a three-year period approved by management. The budgets and plans are based on a number of assumptions, including market share, expected changes to selling prices, product profitability, and other direct input costs, based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. The budgets and plans used for the impairment reviews reflect management's estimate of the impact of COVID-19, which is a deep recession involving a period of lower demand followed by an extended recovery period.

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 24.

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

Revenue
Revenue comprises all sales of goods and rendering of services at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. Revenue is recognised as performance obligations are satisfied as control of the goods or services is transferred to the customer. With the sale of goods, revenue is recognised at the point in time that control 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.

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.

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

Finance costs
Finance costs that are directly attributable to the construction of an asset that necessarily takes a substantial period to get ready for its intended use are capitalised as part of the cost of that asset. Other finance costs and finance income are recognised in the income statement in the year incurred.

Leases – accounting policy applied since 1st April 2019
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 a straight-line basis over the lease term in operating profit.

The company leases precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (less than 12 months) and the company pays a fee which is expensed on a straight-line basis over the lease term in finance costs. The company holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due.

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.

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.

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.

Goodwill

The company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £3 million (2019: £3 million) against operating profit, and a reduction of £3 million (2019: £3 million) in the carrying value of goodwill in the balance sheet.

Other intangible assets

Other 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 years.

Property, plant and equipment

Property, plant and equipment is 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 on a straight line basis over its useful life. The useful lives vary according to the class of asset but are typically: freehold buildings 30 years; and plant and machinery 4 to 10 years. Freehold land is not depreciated.

Inventories

Precious metal

Inventories 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 is valued at the price at which it is contractually committed, adjusted for unexpired contango and backwardation. Other precious metal inventories owned by the company, which are unhedged, are valued at the lower of cost and net realisable value using the weighted average cost formula.

Other

Inventories are valued at the lower of cost, including attributable overheads, and net realisable value. Except where costs are specifically identified, the first-in, first-out cost formula is used to value inventories.

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.

Provisions

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.

Taxation

Current and deferred tax are recognised in the income statement, except when they relate to items recognised directly in equity, in which case 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 amounts 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. No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries and branches where the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Pensions
The company is included in the Johnson Matthey Employees Pension Scheme which is mainly of the defined benefit type. The scheme 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 scheme is charged to the income statement as incurred. Information about the scheme is disclosed in the ultimate parent company's consolidated accounts (note 23).

Macfarlan Smith Limited

Notes to the accounts

For the year ended 31 March 2020

1. Revenue

The company has a single class of business, supplying products from the United Kingdom.

	2020	2019
	£'000	£'000
Revenue		
United Kingdom	**25,421**	27,867
Continental Europe	**35,130**	33,222
North and South America	**42,204**	41,206
Rest of World	**6,730**	5,749
	109,485	108,044

2. Major impairment and restructuring charges

Major impairment and restructuring charges are shown separately on the face of the income statement and excluded from underlying operating profit. The company restructured its business during the year ended 31 March 2018. As well as costs associated with restructuring, the company impaired certain tangible fixed assets. This gave rise to an additional charge of £663,000 in the year ended 31 March 2019. During the year, a write off of inventories of £2,705,000 recognised as part of the operational efficiency programme was released.

3. Operating profit

	2020	2019
	£'000	£'000
Operating profit is arrived after charging/(crediting):		
Depreciation of property, plant and equipment	**7,495**	6,046
Depreciation of right-of-use assets	**182**	-
Amortisation of other intangible assets	**372**	193
Inventories recognised as an expense	**39,489**	42,875
Write-down of inventories recognised as an expense	**4,500**	3,650
Reversal of write-down of inventories arising from increases in net realisable value	**(500)**	-
Net gains on foreign exchange	**(1)**	(1)
Fees payable to the company's auditors for the audit of the annual accounts	**45**	44

The following items are shown separately on the face of the income statement:

A write off of inventories of £2,705,000 recognised as part of the operational efficiency programme announced in March 2017 was released.

4. Employee costs and numbers

	2020 £'000	2019 £'000
Aggregate remuneration comprised:		
Wages and salaries	**18,012**	17,948
Social security costs	**1,826**	1,903
Other pension costs (note 22)	**2,716**	2,564
Share-based payments (note 19)	**516**	553
Termination benefits	**202**	-
	23,272	22,968

	2020 Number	2019 Number
Average monthly number of employees:		
Production	**280**	265
Other	**63**	62
	343	327

The employee numbers and costs above include all employees who work for and are paid by the company, including certain employees whose contracts of service are with the ultimate parent company (note 23).

5. Directors' remuneration

In the year ended 31 March 2020 S Farrant (resigned 31 March 2020) was remunerated by the ultimate parent company (note 23). No remuneration was paid to this director in respect of services to this company. T B Cooke and D M Payne (resigned 13 October 2020) were remunerated by the company and their remuneration is as follows:

	2020 £'000	2019 £'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	**379**	390
Company contributions to defined benefit pension scheme	**20**	20
Number of directors who were members of the defined benefit pension scheme	**2**	1

The highest paid director's emoluments were as follows:

	2020 £'000	2019 £'000
Total amount of emoluments (including the estimated money value of benefits in kind) in respect of managing the affairs of the company	**231**	215

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

6. Income tax expense

	2020	2019
	£'000	£'000
Current tax		
UK corporation tax charge on profits for the year	**-**	1,429
Adjustment for prior years	**1,877**	1,458
Foreign taxation on profits for the year	**-**	(1)
Total current tax	**1,877**	2,886
Deferred tax		
Origination and reversal of temporary differences	**761**	1,221
Changes in tax rates and laws	**-**	(92)
Adjustment for prior years	**-**	(1,185)
Total deferred tax	**761**	(56)
Tax expense	**2,638**	2,830

The tax expense for the year can be reconciled to the profit per the income statement as follows:

	2020	2019
	£'000	£'000
Profit before tax	**13,778**	13,253
Tax expense at UK corporation tax rate of 19% (2019: 19%)	**2,618**	2,518
Effects of:		
Share-based payments	**-**	11
Non-taxable income	**126**	120
Double tax relief	**73**	(92)
Non-recognition of deferred tax assets	**(199)**	273
Tax expense	**2,618**	2,830

In September 2016 the UK government substantively enacted changes in the UK corporation tax rate to 17% from 1 April 2020 and so the deferred tax balance at 31 March 2020 has been calculated at this rate (31 March 2019: 17%).

7. Dividends

	2020	2019
	£'000	£'000
2018/19 Final ordinary dividend (27 pence per ordinary share)	**-**	2,062
2019/20 Final ordinary dividend	**6,000**	-
	6,000	2,062

The directors recommend the payment of a final ordinary dividend of £6,000,000 for the year ended 31 March 2020.

In relation to the year-ended 31 March 2019, the directors recommended the payment of a final ordinary dividend of £2,062,000 (27 pence per ordinary share) for the year ended 31 March 2019 which was paid on 22 May 2020.

8. Goodwill

	£'000
Cost	
At beginning and end of year	57,868
Carrying amount at 31 March 2020	**57,868**
Carrying amount at 31 March 2019	57,868

The parent company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the goodwill is determined using value in use calculations which generally use cash flow projections based on financial budgets and plans covering a three-year period approved by management. The budgets and plans are based on a number of assumptions, including market share, expected changes to selling prices, product profitability, and other direct input costs, based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. The budgets and plans used for the impairment reviews reflect management's estimate of the impact of COVID-19, which is a deep recession involving a period of lower demand followed by an extended recovery period. The three-year cash flows are extrapolated using the long term average growth rates for the relevant products, industries and countries in which the company operates. Post-tax discount rates, derived from the company's post-tax weighted average cost of capital of 8.5% (2019: 8.1%), adjusted for the risks applicable to the company are used to discount these projected risk-adjusted cash flows.

At March 2020, the impairment test results in the value in use providing significantly more headroom over the carrying value of the relevant assets so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

Macfarlan Smith Limited

Notes to the accounts

For the year ended 31 March 2020

9. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost				
At beginning of year(restated)	12,175	119,207	44,347	175,729
Additions	-	-	10,148	10,148
Disposals	(259)	(3,380)	(645)	(4,284)
Transfers from construction in progress	1,948	40,253	(42,201)	-
Transfers from/(to) intangibles	-	309	(1,206)	(897)
At end of year	13,864	156,389	10,443	180,696
Accumulated depreciation				
At beginning of year(restated)	7,345	96,181	1,010	104,536
Charge for the year	320	8,150	(975)	7,495
Disposals	(206)	(3,322)	-	(3,528)
Transfers from/(to) intangibles	-	(550)	-	(550)
At end of year	7,459	100,459	35	107,953
Carrying amount at 31 March 2020	**6,405**	**55,930**	**10,408**	**72,743**
Carrying amount at 31 March 2019	4,830	23,026	43,337	71,193

The opening balances have been adjusted to reflect a restatement of £36,781k for the gross cost and accumulated depreciation balances. The restatement was completed to restore the gross balances to the correct values at 31 March 2019. There is no impact on the net book value of the fixed assets and net assets.

The impact on the freehold land & buildings is an increase of £2,021k to the cost and increase of £3,147k to the accumulated depreciation. The impact on the plant & machinery is an increase of £36,184k to the cost and increase of £35,221k to the accumulated depreciation. The impact on assets in the course of construction is a decrease of £1,424k in the cost and decrease of £1,587k to the accumulated depreciation.

10. Other intangible assets

	Computer software £'000
Cost	
At beginning of year(restated)	1,426
Disposals	(195)
Transfers from property, plant and equipment	897
At end of year	2,128
Accumulated amortisation	
At beginning of year(restated)	889
Charge for the year	372
Disposals	(195)
Transfers from property, plant and equipment	550
At end of year	1,616
Carrying amount at 31 March 2020	**512**
Carrying amount at 31 March 2019	537

The opening balances have been adjusted to reflect a restatement of £220k for the cost and £5k for the accumulated amortisation balances. The restatement was completed to restore the gross balances to the correct values at 31 March 2019. There is no impact on the net book value of the intangible assets and net assets.

11. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	**23,017**	16,761
Work in progress	**42,557**	33,152
Finished goods	**11,307**	11,488
	76,881	61,401

12. Trade and other receivables

	2020 £'000	2019 £'000
Current		
Trade receivables	**20,127**	19,012
Contract receivables	**466**	456
Amounts receivable from other Johnson Matthey companies	**4,997**	974
Amounts receivable from ultimate parent company	**-**	143
Prepayments and accrued income	**324**	276
Other receivables	**494**	428
Forward foreign exchange contracts designated as cash flow hedges	**59**	246
	26,467	21,535

Forward foreign exchange contracts designated as cash flow hedges are receivable from the ultimate parent company.

13. Trade and other payables

	2020	2019
	£'000	£'000
Current		
Trade payables	**10,405**	2,798
Loans from ultimate parent company	**190,443**	185,991
Amounts payable to ultimate parent company	**-**	1,273
Amounts payable to other Johnson Matthey companies	**1,927**	4,325
Other taxes and social security	**-**	220
Accruals	**7,396**	6,017
Forward foreign exchange contracts designated as cash flow hedges	**730**	284
	210,901	200,908

14. Deferred income tax liabilities

	Property, plant and equipment £'000	**Share-based payments £'000**	**Foreign exchange £'000**	**Other £'000**	**Total deferred liabilities £'000**
At 1 April 2018	1,414	3	56	(592)	881
(Credit)/charge to income statement	(784)	(21)	-	749	(56)
Tax on items taken directly to or transferred from equity	-	-	(63)	-	(63)
At 31 March 2019	630	(18)	(7)	157	762
(Credit)/charge to income statement	830	11	-	(80)	761
Tax on items taken directly to or transferred from equity	-	-	(120)	-	(120)
At 31 March 2020	**1,460**	**(7)**	**(127)**	**77**	**1,403**

15. Provisions for liabilities

	Restructuring provision £'000
At beginning of year	352
At end of year	**352**

16. 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 24.

Right-of-use assets

	2020
	Plant and machinery
	£'000
At 1 April 2019	276
Additions	214
Depreciation charge for the year	(182)
At 31 March 2020	**308**

Lease liabilities	**2020**
	£'000
Current	**(139)**
Non-current	**(154)**
Lease liabilities	**(293)**

	2020
	£'000
Interest expense	**6**

17. Share capital

	Number	£'000
Issued and fully paid ordinary shares of £1 each		
At beginning and end of year	7,500,000	7,500

18. Commitments

	2020 **£'000**	2019 £'000
Future capital expenditure contracted but not provided	**3,775**	1,077

At 31st March 2020, precious metal leases were £2,096,000 (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, no shares 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 awarded 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.

19. Share-based payments (continued)

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 31 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. Contingent liabilities

Civil proceedings have been issued by 45 individuals against the company claiming damages arising from the 2012 legionella outbreak in Edinburgh which the claimants allege was caused by the company. However, the company is currently unable to make a reliable estimate of the expected financial effect to date, if any.

21. 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.

22. Retirement benefits

The cost of the company's contributions to the Johnson Matthey Employees Pension Scheme for the year ended 31 March 2020 amounted to £2,716,000 (2019: £2,123,000). The amount recognised as an expense for defined contribution schemes amount to £766,000 (2019: £441,000).

23. Ultimate parent company

As at 31 March 2020, the Company's immediate parent company is Johnson Matthey Plc.
The largest and only group in which the results of the Company are consolidated is that headed by Johnson Matthey Plc. The consolidated accounts of Johnson Matthey Plc are available to the public and may be obtained from Johnson Matthey plc's registered address at 5th Floor, 25 Farringdon Street London, EC4A 4AB or www.matthey.com.

24 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 1 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 recognises 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.

It is unclear whether contracts entered into by the company to lease metal from third parties constitute leases as defined by IFRS 16. Specifically, it is not clear whether the leased metal represents a defined asset given its fungible nature. However, on the basis that there is no alternative accounting standard applicable to these transactions, the company has continued to recognise the expense in the income statement on a straight-line basis over the lease term, with no recognition on the balance sheet.

The company has applied the modified retrospective transition approach and has not restated comparative amounts for the year ended 31st March 2019. Under this approach, the company has 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 has 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 31 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 table shows the effect of adopting IFRS 16 on the company's balance sheet at 1 April 2019.

24 Changes in accounting policies (continued)

Impact of adoption on the primary statements (continued)

	£'000
Non-current assets	
Right-of-use assets	276
Total non-current assets	**276**
Total assets	**276**
Current liabilities	
Lease liabilities	93
Total current liabilities	**93**
Non-current liabilities	
Lease liabilities	183
Total non-current liabilities	**183**
Total liabilities	**276**
Net assets	**-**

The weighted average incremental borrowing rate applied to lease liabilities was 2.6%.

Reconciliation between operating lease commitments and lease liabilities

	£'000
Future minimum amounts payable under non-cancellable operating leases reported under IAS 17 at 31 March 2019	308
Change in assessment of lease term	35
Leases outside the scope of IFRS 16 (low value or the lease term is 12 months or less)	(52)
Impact of discounting lease liability	(15)
Lease liabilities recognised on transition to IFRS 16 at 1 April 2019	**276**
Current	93
Non-current	183
Lease liabilities recognised on transition to IFRS 16 at 1 April 2019	**276**

25. Events after the end of the reporting period

In June 2020, the company announced the plan to close a production unit in Edinburgh, with operations to be wound down over the next two years as production is transferred to other units on the site. An impairment charge of approximately £5m, together with approximately £3m of closure costs, will be recognised during the year ending 31 March 2021.

The impact of the COVID-19 pandemic on the company's operations is discussed in the principal risks and uncertainties section of the strategic report. Subsequent to the balance sheet date the company has monitored its trading performance and external factors, such as changes in government restrictions. Key judgements that impact the balance sheet at 31st March 2020 have been updated to reflect the impact of COVID-19 in the period since 31st March 2020.