RNS Number : 3324O
ITM Power PLC
31 January 2023

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ITM Power PLC
("ITM" or the "Company")

Interim Results for the Six Months to 31 October 2022 and Strategic Update

Interim results summary

- Revenue £2.0m (H122: £4.2m)
- Adjusted EBITDA loss £54.1m (H122: £12.9m) *
- Net cash at the end of the H123 of £317.7m (H122: £164.2m)
- Majority of Leuna project revenue deferred due to delays and changed delivery model

** Adjusted EBITDA is a non-statutory measure. The calculation methodology is set out in the Note 3*

Two 100 MW contracts signed with Linde Engineering

- Largest PEM electrolyser under execution in the world today
- Deploying the new Linde / ITM Power 10 MW standard modules based on state-of-the-art 3MEP 30bar stacks
- To be installed at RWE's site in Lingen, Germany

Strategic update: 12-month priorities to solidify our foundations for growth

- Concentrating our portfolio on a core product suite, with robust product validation, and preparing for manufacturing at scale
- A rigorous approach to capital allocation and cost management, including a headcount reduction equating to a 30% (£9m) annualised saving on personnel cost, professionalising engineering and manufacturing, and increasing control over spend
- Plans for future testing capacity and incremental automation, improving cycle times, volume output and build quality

Agreement with Vitol to review strategic options for their joint venture Motive Fuels Ltd

- Options to be considered by the shareholders range from the sale of the business to discontinuing activities, and are subject to appropriate consultation
- This is intended to save ITM Power c.£28m to be rerouted to our core business

Financial guidance for FY23

- As previously announced, materially changing earlier guidance
- Full-year revenue now expected to be c.£2m with further revenue deferred into the next financial year
- Adjusted EBITDA loss expected to be in the range of £85m to £95m
- Net cash at year-end expected to be in the range of £245m to £270m

Board change

- Dr Rachel Smith to step down from the Board of Directors from 1 February 2023 and assume a new role in the Company

Sir Roger Bone, Chairman, said: "We raised capital to pursue an expansion strategy and in doing so underestimated the competencies and capabilities required to scale up and to transition from an R&D company to a volume manufacturer. As a consequence, we set unrealistic targets for project completion. This has produced an unacceptable financial performance.

"We have acted swiftly by appointing Dennis as our new CEO. During his 2 months at ITM, Dennis has developed a 12-month plan which lays out the underlying challenges of the business as well as the solutions which we will put into place. I have no doubt that the immediate actions being taken will provide strong foundations for the future which will enable ITM to move into its next phase of development and to play a leading role in the journey to net zero.

"On a separate note, Dr Rachel Smith will step down from the Board on 1 February. With her knowledge, expertise and passion for the Company, Rachel has been pivotal in the delivery of several key strategic projects for a number of years. On behalf of the Board, I would like to thank Rachel for her continued commitment to ITM as she works with the Company in her new role."

Dennis Schulz, CEO, said: "As a former customer of ITM, I had a good understanding of the company's situation before I took on the challenge of leading its transformation. Prior to committing myself, I questioned:

1. Does ITM have a cutting-edge electrolyser technology with the potential to outperform its competitors?
2. Does ITM have a strong enough balance sheet to support the necessary strategic and operational changes required to strengthen the company's foundations?
3. Does the market give us the time window needed to solve the growing pains ITM is encountering?

"In answer, I am confident these crucial preconditions are met.

"Having worked in close partnership with ITM, and selectively with competitors, I am convinced that ITM's technology can outperform the competition. However, product focus must be narrowed significantly. Our balance sheet is robust, but we need a much more rigorous approach to managing cost. This requires scrutinising every aspect of the business for cost saving potential, and it will make difficult decisions necessary. One of those is the need to streamline our organisation via a headcount reduction programme.

"We need to transform ITM from an R&D culture company to a professional and credible delivery organisation ready for volume manufacturing - sustainably growing into a profitable business. Most issues today arise from immature engineering processes, which materialise during manufacturing and lead to project delays and cost overruns. As one key priority, we will change the way we engineer our products and control design changes.

"The market for green hydrogen is real, driven by climate change, and decarbonisation imperatives. Increasing carbon taxation in combination with green funding programmes make previously unattractive business cases viable. Recent energy independence considerations are further fuelling demand growth. However, peak electricity prices and inflation have temporarily slowed down customer investment decisions. This gives ITM time to have the breathing space required to focus on getting the fundamentals of the business in order, while delivering on our contractual customer commitments.

"Our detailed 12-month plan will make ITM a stronger, more focused and more capable company. The large-scale opportunities in the market are yet to come, and by putting these foundations in place ITM will be ready for the significant market demand ahead of us."

A presentation for analysts and investors by Dennis Schulz, CEO, and Andy Allen, CFO, will be held at 9.00am GMT.

The presentation will be via the Investor Meet Company platform. Questions can be submitted pre-event via the Investor Meet Company dashboard at any time during the live presentation. Analysts and investors can sign up to Investor Meet Company for free via: https://www.investormeetcompany.com/itm-power-plc/register-investor. Those who already follow the Company on the Investor Meet Company platform will automatically be invited.

A recording will be made available on the Investor Relations section of the ITM website after the event.

For further information please visit www.itm-power.com or contact:

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This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the company's obligations under Article 17 of MAR

About ITM Power PLC:
ITM Power was founded in 2000 and ITM Power PLC was admitted to the AIM market of the London Stock Exchange in 2004. Headquartered in Sheffield, England, ITM Power designs and manufactures electrolysers based on proton exchange membrane (PEM) technology to produce green hydrogen, the only net zero energy gas, using renewable electricity and water.

Interim results
The results for the period to 31 October 2022 reflect the impact of provisions taken for project cost overruns and inventory losses. The causes are discussed below.

Revenue
Revenue for the period was £2.0m (H122: £4.2m). The Leuna project consists of 12 x 2 MW Cube modules and £1.8m was recognised in the first half following completion of the Factory Acceptance Test (FAT) for 2 Cube modules. In order to mitigate on site delays, our customer Linde requested split delivery of Cubes and Stacks for the remaining 10 Cubes meaning revenue will be recognised upon successful Site Acceptance Test (SAT). All Cubes have now been delivered to site. The project now awaits the upgraded MEP 30 bar stacks to be delivered to site for SAT by Linde.

Gross margin
The gross loss was £45.6m (H122: £2.6m) reflecting increased losses on inventory and customer contracts, and a prudent assessment of warranty commitments.

Costs recognised in the period relating to inventory were £15.7m, constituting a £1.6m write-off and a provision of £14.1m. The losses originate from continued iterations of product designs during manufacturing, together with some manufactured products being considered obsolete or in need of rework.

Contract loss provisions relate to a number of factors including changes of scope to projects, additional on-site engineering works, increased energy and labour costs due to extended stack testing times and future costings updated for inflation. Net contract loss provisions increased by £18.0m, with £27.3m created and £9.3m utilised in the period. The total contract loss provision at the period end stood at £30.4m.

The warranty provision increased by a net £2.3m in the period with a £2.8m increase in provision offset by the utilisation of £0.5m. The balance at period end was £5.3m. This includes all projects contracted at period end. We expect to continue to review product performance in the field and for future products to reflect the benefits of the manufacturing we are making.

Adjusted EBITDA
The company posted an adjusted EBITDA loss of £54.1m (£12.9m) for the period. Adjusted EBITDA is a non-statutory measure and is detailed in Note 3.

Capital expenditure
Capital expenditure totalled £7.2m in the period, with £3.5m invested on capital projects, namely Bessemer Park improvements and machinery, and £3.7m on intangible assets.

Working capital
The working capital outflow in the first half was £6.9m, with inventories and receivables increasing by £14.8m and £7.6m respectively, partly offset by an increase in payables of £15.5m.

Cash
Net cash at the period end was £318m (H122: £164m), benefiting from the net £242m raised in November 2021.

Two 100 MW contracts signed with Linde Engineering
ITM Power has signed two contracts, each for the sale of 100 MW of PEM electrolysers to Linde Engineering. Both plants will be installed at a site operated by RWE in Lingen, Germany, and are the largest PEM electrolysers under execution worldwide today.

The plants will be the first deployment of the Linde Engineering / ITM Power 10 MW standard module skids for large-scale installations, utilising state-of-the-art MEP 30 bar electrolyser stacks. Whilst we do not expect the project to contribute to our margin, delivery for these two projects will represent a key milestone on ITM Power's journey towards high volume manufacturing of an industrialised product.

As part of its "Growing Green" strategy, RWE announced in November 2021 that it aimed to create electrolyser capacity of at least 2 GW to generate green hydrogen by 2030. The two 100 MW electrolyser plants at Lingen are part of this ambition. In December 2021, Linde Engineering and ITM Power were preselected by RWE as technical provider for the first two 100 MW installations of the so-called GET H2 Nukleus project in Lingen.

Products
Our core electrochemical technology works well. At this stage, we are testing and verifying the latest iteration of our state-of-the-art MEP 30 bar stack which we expect to deploy into existing projects.

Today our product suite is too wide. The services we provide to support older generation technologies are disruptive to our manufacturing process and have become too costly.

Historically, we have started to develop the second generation of an existing product in advance of the first generation having been fully verified for field deployment. This will no longer be the case.

Our portfolio will be rationalised and our focus in the future will be on two core products, our MEP 30 bar stack platform and our Plug and Play containers. The MEP stack platform will benefit from design, manufacture and assembly improvements, thereby reducing production costs, assembly time and delivery lead times. For large-scale installations we are looking forward to deploying Stack & Skid Modules. With regards to Plug and Play containers, some of our engineering processes have been immature and at times disruptive. Remedial actions to address these issues are being put into place from design, to piloting, and validation.

Capital discipline and cost reduction
It is common for a growing technology company developing first-of-a-kind products which need to be manufactured at scale, to be loss making. However, our cost discipline has not been rigorous enough. Constant design changes led to unwelcomed inventory write-downs. In addition, delays in project deliveries caused excessive consumption of working hours. Finally, an overly-optimistic recruitment programme has led to organisational overcapacity. We will address the underlying causes of these issues as three parts of a 12-month priorities plan.

First, we are in the process of reshaping our organisational structure to be leaner and flatter, where accountability is clear and which will create an environment for effective engineering, manufacturing and project delivery. Today we have announced an anticipated 25% headcount reduction in full-time equivalents (FTEs), subject to employee consultation, leading to a £9m (30%) cost reduction on an annualised basis. The benefits will start to be recognised in FY24.

Second, to address the causes of the inventory losses for FY23, we will bring in new capabilities in design to professionalise engineering, including enhanced simulation tools as well as a strengthening of the compliance and validation function. We will improve supplier audits on quality and will develop inspection and test planning to reflect our supplier capability risk. A new process for enhanced parts traceability from incoming goods to shipping will be introduced into our warehousing and a new Enterprise Resource Planning (ERP) system will ensure seamless tracking of warehouse stock to work orders.

Lastly, to avoid future project losses, there will be enhanced discipline around the sale of standard products as opposed to customised solutions with a strengthening of sales governance from the initial bid phase through to project execution and covering areas such as costings, scheduling and risk estimations. Our project management requires the strengthening of capabilities and accountability. Controls will be strengthened with the introduction of a clear phase gate process which will be strictly adhered to.

Agreement with Vitol to review strategic options for their joint venture Motive Fuels Ltd
Today the Company also announces it has agreed with Vitol to review the strategic options for Motive Fuels Ltd. Options to be considered by the shareholders range from the sale of the business to discontinuing activities, subject to appropriate consultation.

The vision of the JV partners was one of building a significant UK refuelling business, with £30m committed by each party as seed funding to be geared to create a refuelling network. However, the landscape has changed since the establishment of the joint venture, with lower availability of heavy-duty hydrogen vehicles than originally anticipated adversely affecting fuelling asset utilisation.

ITM expects to save £28m of the original committed sum, which will support the core business of electrolyser manufacturing.

De-bottlenecking
One of the challenges over the past year has been managing our testing capacity alongside our expected manufacturing output. It is our intention to locate increased testing capacity as near to manufacturing as possible with a phased approach in order to satisfy project delivery needs.

Looking ahead, automation will play an important role in optimising build quality, reducing manufacturing costs, accelerating output and reducing delivery lead times. We will incrementally introduce automation into Bessemer Park in a controlled way and only after new equipment and new processes have been validated.

Financial Guidance for FY23
The main factors which will impact the outcome for the financial year are expected losses on customer contracts, legacy commitments for earlier product generations causing on-site support costs, warranty provisions, and inventory write-downs and provisions originating from iterations of product designs during manufacturing. Another important factor affecting guidance is the revenue recognition timing for contracted projects.

The guidance for FY23 is:
- Full year product revenue of c.£2.0m
- Adjusted EBITDA loss of £85m to £95m
- Net cash of £245m to £270m

Revenue
Design, manufacturing and testing bottlenecks have affected our original plan to fully recognise the revenues associated with notable projects such as Leuna and Yara. For Leuna, whilst we anticipate delivering all elements of the project to site before year end, we do not expect that customer-led SAT will be completed for ITM to recognise revenue in the current financial year. SAT and therefore revenue recognition for the Yara project will also occur after year end in April.

Based on the products revenue recognised in the first half, we therefore expect revenue for the full year to be c.£2.0m.

As set out in the strategic update, decisive actions have been identified to limit the recurrence of these predominantly process-based factors on our future product delivery capabilities.

EBITDA
EBITDA guidance includes the contract loss provisions taken in the first half which are expected to unwind with project progress. Further details are in Note 5. All contracted warranty obligations including those relating to the Lingen project announced today are reflected in the full year guidance. The warranty provisions will be included within contract loss provisions prior to deployment.

We expect inventory write-downs for the full-year of £18-23m. The majority of write-down, consisting of £15.7m, was recognised in H1, with the balance projected against production volumes in H2.

Net cash
Our balance sheet remains strong, with net cash at the year-end expected to be in the range of £245m to £270m. Capital discipline and rigour will be at the heart of every spending decision that we take.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Results for the six months ended 31 October 2022

	Note	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
Revenue	**2**	2,031	4,156	5,627
Cost of sales		(47,590)	(6,766)	(29,104)
Gross loss		**(45,559)**	**(2,610)**	**(23,477)**
Operating costs				
Staff and employment costs		(4,284)	(7,662)	(4,316)
Consultancy and consumables		(3,699)	(1,902)	(11,225)
Building overheads		(871)	(1,276)	(2,564)
Depreciation and amortisation		(877)	(1,538)	(3,189)
Impairment of obsolete assets		(1,193)	-	-

Other	158	(241)	(609)
Expected credit risk	(11)	18	84
Other income - government grants	175	172	560
Loss from operations	**(56,161)**	**(15,039)**	**(44,736)**
Share of loss of associate companies and joint ventures	(1,384)	(82)	(10)
Finance income	1,282	38	325
Finance costs	(270)	(259)	(532)
Loss on deemed disposal of subsidiary	-	-	(1,710)
Loss before tax	**(56,533)**	**(15,342)**	**(46,663)**
Tax	(15)	(21)	(31)
Loss for the period	**(56,548)**	**(15,363)**	**(46,694)**
Other total comprehensive income:			
Foreign currency translation differences on foreign operations	(260)	(141)	(71)
Total comprehensive loss for the period	**(56,808)**	**(15,504)**	**(46,765)**
Basic and diluted loss per share	(9.2p)	(2.8p)	(8.1p)
Weighted average number of shares	613,658,155	550,658,155	576,699,822

All results presented above are derived from continuing operations. The loss per ordinary share and diluted loss per share are equal because share options are only included in the calculation of diluted earnings per share if their issue would decrease the net profit per share. The number of potentially dilutive shares not included in the calculation above due to being anti-dilutive at 31 October 2022 were 7,991,625 (31 October 2021: 7,460,734; 30 April 2022: 45,064,658).

CONSOLIDATED BALANCE SHEET
As at 31 October 2022

	Note	As at 31 October 2022 (unaudited) £'000	As at 31 October 2021 (unaudited) £'000	As at 30 April 2022 (audited) £'000
Non-current assets				
Investment in associate		720	155	1,662
Loan notes		1,577	-	1,548
Intangible assets		11,916	3,856	9,081
Right of use assets		6,095	6,203	6,454
Property, plant and equipment		17,400	13,732	15,637
Financial asset at amortised cost		168	155	161
Total non-current assets		37,876	24,101	34,543
Current assets				
Inventories	4	47,003	11,742	32,198
Trade and other receivables		33,073	21,481	25,542
Cash and cash equivalents		317,738	164,235	365,882
Total current assets		397,814	197,458	423,622
Current liabilities				
Trade and other payables		(49,785)	(22,487)	(34,296)
Provisions	5	(19,702)	(10,237)	(15,207)
Lease liability		(755)	(512)	(626)
Total current liabilities		(70,242)	(33,236)	(50,129)
Net current assets		327,572	164,222	373,493
Non-current liabilities				
Lease liability		(6,271)	(6,033)	(6,522)
Provisions	5	(20,034)	-	(6,561)
Total non-current liabilities		(26,305)	(6,033)	(13,083)
Net assets		339,143	182,290	394,953

Equity			
Called up share capital	30,808	27,533	30,658
Share premium account	542,461	302,248	542,323
Merger reserve	(1,973)	(1,973)	(1,973)
Foreign exchange reserve	(248)	(58)	12
Retained loss	(231,905)	(145,460)	(176,067)
Total Equity	339,143	182,290	394,953

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Results for the six months ended 31 October 2022

	Share capital £'000	**Share premium £'000**	**Merger reserve £'000**	**Foreign Exchange reserve £'000**	**Retained loss £'000**	**Total Equity £'000**
At 1 May 2022	30,658	542,323	(1,973)	12	(176,067)	394,953
Transactions with Owners						
Issue of shares	150	138	-	-	-	288
Credit to equity for share based payment	-	-	-	-	710	710
Total Transactions with Owners	150	138	-	-	710	998
Loss for the period	-	-	-	-	(56,548)	(56,548)
Other comprehensive income	-	-	-	(260)	-	(260)
Total comprehensive income	-	-	-	(260)	(56,548)	(56,808)
At 31 October 2022 (unaudited)	30,808	542,461	(1,973)	(248)	(231,905)	(339,143)
At 1 May 2021	27,533	302,248	(1,973)	83	(130,444)	197,447
Transactions with Owners						
Issue of shares	-	-	-	-	-	-
Credit to equity for share based payment	-	-	-	-	347	347
Total Transactions with Owners	-	-	-	-	347	347
Loss for the period	-	-	-	-	(15,363)	(15,363)
Other comprehensive income	-	-	-	(141)	-	(141)
Total comprehensive income	-	-	-	(141)	(15,363)	(15,504)
At 31 October 2021 (unaudited)	27,533	302,248	(1,973)	(58)	(145,807)	182,285
At 1 May 2021	27,533	302,248	(1,973)	83	(130,444)	197,447
Transactions with Owners						
Issue of shares	3,125	240,075	-	-	-	243,200
Credit to equity for share based payment	-	-	-	-	1,071	1,071
Total Transactions with Owners	3,125	240,075	-	-	1,071	244,271
Loss for the year	-	-	-	-	(46,694)	(46,694)
Other comprehensive income	-	-	-	(71)		(71)
Total comprehensive income	-	-	-	(71)	(46,694)	(46,765)
At 30 April 2022 (audited)	30,658	542,323	(1,973)	12	(176,067)	394,953

CONSOLIDATED CASH FLOW STATEMENT
Results for the six months ended 31 October 2022

	Note	**Six months to 31 October 2022 (unaudited) £'000**	**Six months to 31 October 2021 (unaudited) £'000**	**Year ended 30 April 2022 (audited) £'000**
Net cash used in operating activities	**6**	(41,818)	(9,800)	(38,155)

Investing activities			
Investment in associate	(428)	-	(1,838)
Cashflows arising from loss of control of subsidiary	-	-	(993)
Loan notes (loan to joint venture)	-	-	(1,899)
Purchases of property, plant and equipment	(3,549)	(1,064)	(4,119)
Capital Grants received against purchases of non-current assets	4	97	150
Proceeds on disposal of plant & equipment	-	-	352
Payments for intangible assets	(3,667)	(1,059)	(7,036)
Interest received	1,247	32	304
Net cash used in investing activities	(6,393)	(1,994)	(15,079)
Financing activities			
Issue of ordinary share capital	900	-	250,000
Costs associated with fund raise	(612)	-	(6,800)
Payment of lease liabilities	(165)	(65)	(69)
Net cash from financing activities	123	(65)	243,131
(Decrease)/ increase in cash and cash equivalents	(48,088)	(11,859)	189,897
Cash and cash equivalents at the beginning of period	365,882	176,078	176,078
Effect of foreign exchange rate changes	(56)	15	(93)
Cash and cash equivalents at the end of period	317,738	164,234	365,882

The interim summary accounts were approved by the board of Directors on 30 January 2023.

Notes to the interim summary accounts

1. **Basis of preparation of interim figures**

These interim summary accounts have been prepared using accounting policies consistent with UK-adopted international accounting standards, in conformity with the requirements of the Companies Act 2006. Whilst the financial information has been compiled in accordance with the recognition and measurement principles of UK-adopted international accounting standards (IFRSs), it does not contain sufficient information to comply with IFRSs. This interim financial information does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006.

The financial information has been prepared on the historical cost basis. The principal accounting policies adopted by the Group are as applied in the Group's latest audited financial statements.

The information relating to the year ended 30 April 2022 has been extracted from the Group's published financial statements for that year, which contain an unqualified audit report that does not draw attention to any matters of emphasis, and did not contain statements under section 498(2) and 498(3) of the Companies Act 2006 and which have been filed with the Registrar of Companies.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at the year ended 30 April 2022.

Going Concern

The Directors have prepared a cash flow forecast for the period ending 31 January 2024. This forecast indicates that the Company would expect to remain cash positive without the requirement for further fund raising based on delivering the existing pipeline, for a period of at least 12 months from the date of approval of these summary accounts.

This cash flow forecast has also been stress tested. As a worst-case scenario, if all payments had to continue as forecast while receipts were not received at all, the business would remain cash positive for the full twelve months from the date of approval of these summary accounts.

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

2. **Revenue and other operating income**

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

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000

Revenue from product sales recognised over time	-	510	808
Revenue from product sales recognised at point in time	1,751	670	1,231
Consulting contracts recognised over time	-	2,840	2,948
Maintenance contracts recognised at point in time	169	32	43
Fuel sales	111	104	229
Other	-	-	368
Revenue in the Consolidated Income Statement	**2,031**	**4,156**	**5,627**
Grant income (claims made for projects)	52	61	271
Other government grants (R&D claims)	123	111	289
Grant income in the Consolidated Income Statement	**175**	**172**	**560**
	2,206	**4,328**	**6,187**

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
Power-to gas	107	16	207
Refuelling	173	859	1,704
Industrial	1,751	412	507
Other	-	2,869	3,209
	2,031	**4,156**	**5,627**

GEOGRAPHIC ANALYSIS OF REVENUE

A geographical analysis of the Group's revenue is set out below:

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
United Kingdom	45	2,976	3,359
Germany	1,751	425	770
Rest of Europe	124	85	246
United States	111	-	22
Australia	-	670	1,230
	2,031	**4,156**	**5,627**

The following accounted for more than 10% of total revenue:

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
Customer A	1,751	N/A	N/A
Customer B	N/A	2,840	2,840
Customer C	N/A	670	673

3. **Calculation of Adjusted EBITDA**

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

	Six months to 31 October 2022	Six months to 31 October 2021	Year ended 30 April 2022 (audited) £'000

	(unaudited) £'000	(unaudited) £'000	
Loss from operations	(56,161)	(15,039)	(44,736)
Add back:			
Depreciation	1,318	1,149	2,340
Impairment	1,193	-	-
Amortisation	482	396	849
Loss on disposal	35	-	-
Fair value loss on loan notes	-	-	344
Share based payment (credit) / charge	(952)	552	1,429
	(54,085)	(12,942)	(39,774)

4. **Inventories**

	October 2022 £000	October 2021 £000	April 2022 £000
Raw Materials	36,013	9,486	24,311
Work in progress	10,990	2,256	7,887
	47,003	11,742	32,198

Inventories are stated after a provision for impairment of £18.1 million (October 2021: £1.5 million; April 2022: £2.7 million).

5. **Provisions**

Half year to October 2022	Leasehold Property Provision £000	Warranty £000	Provision for contract losses £000	Other Provisions £000	Employers' National Insurance Provision £000	Total Provisions £000
Balance at 1 May 2022	(854)	(2,938)	(12,493)	(1,330)	(4,153)	(21,768)
Provision created in the period	(21)	(2,842)	(27,255)	(1,454)	-	(31,572)
Use of the provision	-	496	9,304	-	376	10,176
Release in the period	-	-	-	-	3,428	3,428
Balance at 31 October 2022	(875)	(5,284)	(30,444)	(2,784)	(349)	(39,736)
In the balance sheet:						
Expected within 12 months (current)	-	(534)	(16,954)	(2,214)	-	(19,702)
Expected after 12 months (non-current)	(875)	(4,750)	(13,490)	(570)	(349)	(20,034)

Full year to April 2022	Leasehold Property Provision £000	Warranty £000	Provision for contract losses £000	Other Provisions £000	Employers' National Insurance Provision £000	Total Provisions £000
Balance at 1 May 2021	(1,024)	(797)	(4,820)	(677)	(4,958)	(12,276)
Provision created in the year	(36)	(2,163)	(15,052)	(1,330)	-	(18,581)
Use of the provision	206	18	7,379	509	-	8,112
Release in the year	-	4	-	168	805	977
Balance at 30 April 2022	(854)	(2,938)	(12,493)	(1,330)	(4,153)	(21,768)
In the balance sheet:						
Expected within 12 months (current)	-	(1,145)	(9,453)	(456)	(4,153)	(15,207)
Expected after 12 months (non-current)	(854)	(1,793)	(3,040)	(874)	-	(6,561)

Half year to October 2021	Leasehold Property Provision £000	Warranty £000	Provision for contract losses £000	Other Provisions £000	Employers' National Insurance Provision £000	Total Provisions £000
Balance at 1 May 2021	(1,024)	(797)	(4,820)	(677)	(4,958)	(12,276)
Provision created in the year	(20)	(569)	(1,344)	(313)	(7)	(2,253)
Use of the provision	142	18	4,065	67	-	4,292
Balance at 31 October 2021	(902)	(1,348)	(2,099)	(923)	(4,965)	(10,237)

The leasehold property provision represents management's best estimate of the present value of the dilapidations work that may be required to return our leased buildings to the landlords at the end of the lease term. The discount applied to this is amortising over the lease term.

The warranty provision is recognised in line with revenue recognition on contracts and represents management's best estimate of the Group's liability under warranties granted on products. It is based on historical knowledge of the products or their components and adjusted for any new knowledge that becomes available. As with any product warranty, there is an inherent uncertainty around the likelihood and timing of a fault occurring that would trigger further work or part replacement.

The provision for contract losses is created when it becomes known that a commercial contract has become onerous. Project Managers provide rolling spend forecasts, updating these as quotes are obtained. The provision is therefore based on best estimates and information known at the time to ensure the expected losses are recognised immediately through the statement of comprehensive income. This provision will be used to offset the costs of the project as it reaches completion in future periods.

Provision is also made at the point when project forecasts suggest that the contractual clauses for liquidated damages might be triggered. The other provisions category relates to potential liquidated damages for overruns on contracts with customers.

There is a provision for Employer's NIC due on share options as they exercise.

6. Notes to the Cashflow Statement

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
Loss from operations	(56,161)	(15,039)	(44,736)
Adjustments:			
Depreciation of property, plant and equipment	1,318	1,149	2,340
Loss on disposal	35	-	-
Impairment	1,193	-	-
Amortisation	482	396	849
Share based payment (as seen through equity)	710	347	1,071
Foreign exchange on intercompany transactions	(270)	-	(43)
Fair value adjustment and expected credit loss on loan notes	-	-	359
Operating cash flows before movements in working capital	(52,693)	(13,147)	(40,160)
Increase in inventories	(14,805)	(5,324)	(25,780)
(Increase)/ decrease in receivables	(7,548)	1,377	(2,550)
Increase in payables	15,488	9,630	21,437
Increase/ (decrease) in provisions	17,989	(2,039)	9,492
Cash used in operations	(41,569)	(9,503)	(37,561)
Interest paid	(249)	(235)	(532)
Income taxes received	-	(62)	(62)
Net cash used in operating activities	(41,818)	(9,800)	(38,155)

Cash Burn

Cash burn is a measure used by key management personnel to monitor the performance of the business.

	Six months to 31 October 2022 (unaudited) £'000	Six months to 31 October 2021 (unaudited) £'000	Year ended 30 April 2022 (audited) £'000
(Decrease)/ increase in Cash and Cash equivalents per the cash flow statement	(48,088)	(11,859)	189,897
Effect of foreign exchange rates	(56)	15	(93)
Less share issue proceeds (net)	(288)	-	(243,200)
Cash Burn	(48,432)	(11,844)	(53,396)

7. Related Parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. All related party transactions which were not intra-group have been conducted at arms' length.

During the period purchases from Linde/BOC Group, represented on the Board by J Nowicki, totalled £0.3m (H1 2022: £0.4m; YE 2022: £0.5m) with £0.1m outstanding for payment at period-end (H1 2022: £0.1m; YE 2022 £0.1m). Furthermore, an amount of £0.6m brought forward from the year-end relates to stage payments made for goods not yet received (H1 2022 & YE 2022: £0.6m). Sales invoices raised to Linde/BOC group in the period totalled £9.4m (H1 2022: £nil; YE 2022: £7.0m) with £5.3m outstanding (H1 2022: £nil; YE 2022: £1.7m).

There were also stage payments of £nil (H1 2022: £4.1m; YE 2022: £5.4m), and £nil remained outstanding from ITM Linde Electrolysis GmbH at period end (H1 2022: £0.2m; YE 2022: £1.0m). Purchases from ILE in the period equated to £nil (H1 2022: £0.2m; YE 2022: £0.2m, which was paid immediately and therefore settled by both period ends). Sales to ILE in the period were £1.8m (H1 2022 and YE 2022: £nil). The Group also continued to pay for the hosting of ILE's website.

Transactions with Motive Fuels Limited amounted to £0.1m in the period with £0.3m remaining outstanding at period end (YE 2022: total transactions of £0.2m that remained outstanding at year end).

8. Subsequent events

The Company announced the appointment of Dennis Schulz and the official resignation of Dr Graham Cooley as Chief Executive Officer with effect from 1 December 2022.

The Company today announced the official resignation of Dr Rachel Smith from the Board of Directors with effect from 1 February 2023.

The Company today announced an agreement with Vitol to seek exit from their joint venture Motive Fuels Ltd.

The Company today announced it has signed two contracts, each for the sale of 100 MW of PEM electrolysers to Linde Engineering. Both plants will be installed at a site operated by RWE in Lingen, Germany.

Independent review report to ITM Power PLC

Conclusion

We have reviewed the summary set of financial statements in the half-yearly financial report for the six months ended 31 October 2022 which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related explanatory notes.
Based on our review, nothing has come to our attention that causes us to believe that the summary set of financial statements in the half-yearly financial report for the six months ended 31 October 2022 is not prepared, in all material respects, in accordance with the recognition and measurement principles of UK adopted International Accounting Standards.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 (UK), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 3, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.
We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the summary set of financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.
In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's business model including effects arising from macro-economic uncertainties, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's financial resources or ability to continue operations over the going concern period.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

In preparing the half-yearly financial report, 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.

Our responsibility
Our responsibility is to express to the company a conclusion on the financial information in the half-yearly financial report based on our review.

Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report
This report is made solely to the company in accordance with guidance contained in ISRE (UK) 2410. Our review work has been undertaken so that we might state to the company those matters we are required to state to it in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
30 January 2023

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