Proton Power Systems plc

Annual report and financial statements

Registered number 05700614

31 December 2009

Contents

Chairman and CEO's statement

Overview

We are pleased to report our results for the year ended 31 December 2009, which is our third full year as a public company on the AIM market of the London Stock Exchange

Business development

Proton Power had a year of transition from a research and design focused company to an industrialised commercial provider of fuel cells and related applications and technology

During the year Proton Power filed for German government grants for R&D and market introduction projects in the amount of €5 4 million (of which 48% will be grant funded by the German Government) and expects formal government approval in the second half of 2010 These projects are mainly testing and improvements to our own stack design, design and testing for transport applications and development of a new stack generation for high power applications We have also applied for support for a €3 8 million project for 20 light duty vehicles, to be developed jointly with Smith Electric Vehicles (of which 48% will be grant funded by the German Government)

Proton Power has entered into new long-term agreements with contract manufacturers and suppliers In May 2009 Proton Power signed a five-year collaboration agreement with Deutsche Mechatronics GmbH, a leading contract manufacturer to facilitate the volume production of the Group's fuel cell systems in Germany An initial project with Deutsche Mechatronics, a 19-inch 5kW fuel cell auxiliary power unit ("APU"), has been jointly developed and was introduced in April 2010 at the Hanover Fair, an influential trade show for the power industry The modular design of the APU will enable up to 15kW of power output from a 19-inch industrial cabinet for IT and telecom applications Subsequent to introducing the unit at Hanover, Proton Power has signed an agreement with SPower to collaborate on the development, marketing and sales of uninterruptible power supply ('UPS") systems supported by fuel cells

Proton Power has partnered with leading original equipment manufacturers ('OEMs") and has developed new innovative products during the period, including the world's first triple hybrid passenger bus with Skoda Electric in the Czech Republic, which was one of the top five nominees for the Hanover Fair's Hermes Award, the most important industrial award in Germany In addition, the triple hybrid drive train won the IDWI Award from the German Chamber of Industry and Commerce Frankfurt

The Bucher Schorling street sweeper powered by a Proton Power fuel cell went into test trial operation in the middle of 2009 in Switzerland and generated significant field data and knowhow for such applications

During the year the tourist ferry ZEMShip Alsterwasser operated reliably in regular use on the Alster River in Hamburg with over 14,000 passengers in total The operator, ATG, has this year signed a service contract with Proton Power to support the operation of the fuel cell powered ferry for two years until 2012 The ferry will continue operation in regular passenger service The worldwide interest in the world's first fuel cell passenger ferry is remarkable and we expect that continual operation of the ZEMShip will generate interest for follow-up projects

In February 2010 Proton Power signed a Memorandum of Understanding with the UK's Smith Electric Vehicles, to augment the "e-mobility Movement" (an initiative of the German government to support the market introduction of electric powered vehicles) and to increase the range of their electric vehicles Both companies agreed to jointly develop a fuel cell range extender solution for the battery powered Edison vehicle For the above mentioned German funding programme, Proton Power plans to build and market 20 vehicles for German customers during the next 24 months and we are confident that our range extender will help electric vehicle manufacturers break further into their markets

The group has also seen interest in its solutions from outside Europe In 2009 it signed an agreement with L-3 Communications Combat Propulsion Systems ("L-3 CPS"), in which L-3 CPS will market and sell Proton's fuel cell power systems for use in propulsion systems, marine and UPS applications to the North American military and civilian applications market

During the year, 5kW and 50kW systems of Proton Power's core Product, the PM200 stack, were tested in depth and were proven to be highly reliable on our test benches

The strategic development of the Group has made good progress in the last twelve months Proton Power has made changes to important positions within the Group, bringing in experienced and qualified staff Proton Power has also continued to invest in the Group's infrastructure, specifically our testing facilities

The Group has successfully attained DIN EN ISO 9001 quality management certification and in March 2009 received the certificate for Quality and Environmental Standards

Finance

Turnover decreased by 82% to £193,000 mainly as a result of project cancellations or delays due to the current economic situation The loss for the year was £4,819,000

The Company secured new funding in 2009 from convertible loans with a total value of £3,908,000 from the major shareholder Roundstone Properties Limited £500,000 was converted into ordinary shares in 2009 by issuing 25 million shares at 2p each Subsequently in 2010 this convertible loan facility was extended to €4 86 million of which €3 24 million has been drawn down

Outlook

The economic situation improved during 2009 and we are cautiously optimistic for the current year Interest in fuel cell based clean energy applications is very high and Proton Power is recognized as the leading provider of fuel cells and fuel cell applications with in-depth system optimisation and integration know how The experience we have gained based on our bus, sweeper, passenger car and ferry projects, and the solutions we presented have generated significant interest We are now the first contact point for such applications for many companies in Europe with interest for environmentally friendly solutions European government regulations and initiatives support our development

Looking to the future, rising energy prices and demand for environmentally friendly solutions for transportation as well as stationary power will support the growth of our business Fuel cell solutions offer the best potential to reduce greenhouse gas emissions for power generation

Though there are still challenges remaining in the cost of fuel cell systems, Proton Power is working on cost reduction through development and manufacturing Economy of scale through volume manufacturing and service contracts pave the road to future profitability

On behalf of the Board we would like to take this opportunity to thank the Proton Power team and our advisors for their hard work and effort and our customers and suppliers for their confidence and support throughout the year

John Wall FCA
Chairman

Thomas Melczer
CEO

Board of Directors

John Wall (aged 56), Executive Chairman

John is a recently retired corporate finance partner at PricewaterhouseCoopers who, during the course of his career, participated in over 100 major transactions with an aggregate value of approximately £1 5 billion John qualified as an accountant in 1979 and worked in various areas within PricewaterhouseCoopers, including investment banking in Los Angeles and corporate finance in the Republic of Ireland, France and the United Kingdom In 1998 he was appointed regional chairman of PricewaterhouseCoopers's UK corporate finance business with responsibility for all operations outside of London and he also sat on the UK corporate finance Board Since leaving PricewaterhouseCoopers he has been chairman of the Albany RTA Group (an insurance outsourcing business in the UK), chairman of Adderstone Group (a property development and management company) and a senior consultant to Dickinson Dees Law Firm

Thomas Melczer (aged 51), Chief Executive Officer

Thomas is also the CEO and founder of SPower Holding GmbH, Germany, which provides power supply solutions to the world market Before that, Thomas worked for 7 years as VP International Sales for the UK based company Chloride Plc - UPS Systems Division where he was responsible for the international distribution network for Chloride UPS products During that time, Thomas also had responsibility as the General Manager for the Germany based company Masterguard GmbH, which also manufactured UPS Systems as an affiliated company of Chloride Plc and has been involved in the setting up of companies and branch offices in different parts of the world for the Chloride Group Prior to this Thomas worked for 23 years within Siemens AG in various positions including financial director and commercial manager for different business units within Siemens, including the Automotive, Data Network and Cable Network Divisions as well as for a Siemens/Corning Glass works JV Thomas has undertaken some international long term appointments for Siemens AG in Africa, Latin America and North America He also participated in a 3 year in-house training program with Siemens as Commercial Manager (Industriekaufmann) from 1977 to 1980 Thomas has extensive industrial experience with a strong financial, sales, marketing, technical and management background

Achim Loecher (aged 50), Group Financial Director

Achim joined Proton Motor in June 2007 and the Company's Board in October 2007 As financial Director he is responsible for the Group's accounting and finance, treasury and human resource management Achim has many years of expertise in the field of finance and possesses a broad experience in operational and strategic corporate management, fund raising initial public offering, pre- and post-merger management as well as management consultancy Prior to joining Proton Motor Achim worked for over 15 years in international and national companies as a manager and member of the board Achim studied business management at the Ludwig-Maximilians-Universität Munich and started his business career in 1988 as financial analyst for Digital Equipment Corporation in Munich

Dr Faiz Nahab (aged 66), Non-Executive Director

Faiz has over 25 years of executive management experience in company restructuring and expansion For more than 20 years he served as a consultant to major international companies on technical and high technology projects with focus on product sales, marketing and product development He has a strong background in project management including project finance and control As an entrepreneur Faiz successfully developed a medical infrastructure company and developed an expert team for installing and commissioning of industrial equipment and machinery covering areas such as clean and waste water projects, cement and urea factories The main business of his companies is based in the Middle East with involvement in country infrastructure construction in partnership with major international partners such as MSD, Siemens AG, Carl Zeiss and others He still holds various directorships at companies in the pharmaceutical, medical and technology sector, some of them as CEO and Chairman Faiz had academic undergraduate education in Electronics at Southampton, postgraduate PhD at Kent University in electronics and has full membership of MIEEE

Ali Naini (aged 43), Non-Executive Director

Ali specializes in corporate finance and venture capital for energy and the environment He is the founder and managing Director of Turquoise International, a UK FSA authorized corporate finance advisory company He also holds a number of other non-executive directorships, of which the most relevant is Controlled Power Technologies, a developer of CO2 reducing automotive technologies Prior to Turquoise, Ali was a Director at Close Brothers Corporate Finance, and a privatization and project finance specialist at Robert Fleming and PricewaterhouseCoopers He is a graduate of the London School of Economics, with a masters degree in information systems and a first class honours degree in economics

Helmut Gierse (aged 60), Non-Executive Director

Helmut has over 30 years of international industry experience covering the fields of factory automation, process industry and power generation His experience comes from his work in R&D, production, sales and marketing His expertise has been gained from a range of industry positions at the management level, most recently as the CEO and President of the Siemens Group in Automation and Drive in Germany Helmut is currently an independent industry consultant Helmut studied Electronic Engineering at the Universitat Erlangen in Germany He speaks German, English, French and Spanish

Shareholder information

Registered office and head office

St Ann's Wharf
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Financial advisers and stockbrokers

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Solicitors

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NE99 1SB

Auditors

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BR3 4TU

Operating and financial review

Group activities

The Group has developed a standard hydrogen fuel cell module which is designed to enable it to provide customers with complete hydrogen fuel cells and fuel cell hybrid systems that can be integrated into their product range The Group's fuel cell modules can be combined into stacks to meet the power needs of particular applications from 5kW to 50kW and higher kW ratings in parallel operation

Milestones during the year were

- the appointment in January 2009 of Helmut Gierse as Non Executive Director of Proton Power Systems plc,
- the grant of the ISO certification for its quality management system (DIN EN ISO 9001 2008) on the 24th of March 2009,
- the appointment in April 2009 of Dr Christian Meyne as Chief Operating Officer of Proton Motor Fuel Cell GmbH,
- the launch of the world's first triple-hybrid fuel cell passenger bus on the 11th of May 2009,
- the signature of an exclusive, five-year framework collaboration agreement with Deutsche Mechatronics GmbH, a leading contract manufacturer, to facilitate volume production of the Company's fuel cell systems in Germany in May 2009,
- the delivery of a fuel cell street cleaning vehicle in July 2009,
- the appointment in October 2009 of Jesse Schneider as Head of R&D of Proton Motor Fuel Cell GmbH, and
- the appointment in October 2009 of Bernhard Wolshofer as Head of Sales & Marketing of Proton Motor Fuel Cell GmbH

Strategy

Sales strategy
Although Proton Motor has been historically reliant on a small number of key customers, it has established strong relationships with key OEMs in its target market The Group anticipates expanding this customer base as volume manufacturing capability increases The Directors believe that effective execution with their OEM partners should enable Proton to be recognised as a global fuel cell technology platform

Attractive primary markets and applications for the Group's fuel cell system, identified by the Group, generally display the following characteristics

- potential material volume sales,
- 'back-to-base' refuelling or stationary applications,
- existing power generation technology applications with notable disadvantages, for example
  - slow recharge time of battery technology as well as additional working capital infrastructure where continuous battery use is required,
  - combustion engines emitting harmful emissions and noise pollution,
  - external electric power is generally delivered by overhead cables, for example trolley buses, and has geographical and logistical limitations,
  - applications with long backup time and space limitations (APU's)
- need to reduce industrial noise and emissions

Manufacturing strategy
To date, the Group's fuel cell modules and fuel cell hybrid systems have been produced in relatively small volumes, on a project-by-project basis, largely utilising a combination of semi-automated processes and manual assembly However, Proton Motor's technology development has been undertaken with the key objective of designing and manufacturing fuel cells and fuel cell hybrid systems for volume production with experienced contract manufacturers In order to seek to achieve this, the Directors have

- identified target markets and commercial applications,

Operating and financial review (continued)

- established key commercial partnerships within these target markets,
- designed the Group's fuel cells and fuel cell hybrid systems to meet the engineering requirements for volume manufacturing,
- started to switch over to a new and more cost effective stack generation which will lead to a decrease in production costs by more than 60%
- established quality control procedures,
- installed professional commercial test benches to ensure high quality standards for the Group's fuel cells and fuel cell systems,
- built up and installed 5kW and 50kW test systems for in house performance and lifetime tests,
- reviewed, risk assessed and secured supplier and component manufacturing relationships,
- identified and assessed major commercial factors, such as cost, availability, robustness and durability of components,
- secured and properly documented necessary regulatory and operational approvals for each application,
- selected Deutsche Mechatronics as contract manufacturer for stacks and systems and signed a framework contract in May 2009, and
- started the development of a 5kW fuel cell system in 19" – technology for serial production in cooperation with Deutsche Mechatronics

Market and competitive environment

The Board believes the growth in the fuel cell market will be determined by the following factors

- the ongoing depletion of fossil fuel reserves,
- current and future air quality regulation,
- growing industrial and consumer demand for alternative sources of energy,
- the potential long term competitiveness of the auto and transportation industries, and
- energy security concerns

Initial market segments have been identified, which the Board believes, would benefit from the advantages of fuel cell hybrid systems and are target market segments for the Group Those market segments are

- city busses,
- passenger ferry boats,
- light duty vehicles,
- street cleaning vehicles, and
- APU's

The Directors see significant growth and demand in those market segments for fuel cell applications

Competitive advantages
The Directors are confident that Proton's technology brings the following distinct combination of characteristics to the power systems market

- zero harmful emissions,
- lower fuel consumption than comparable commercial alternatives,
- no recharge requirement, unlike batteries,
- silent operation,

Operating and financial review (continued)

- a standard fuel cell module for use in multiple applications,
- a reliable, robust and durable technology, and
- successful integration of fuel cell technology into a hybrid and Triple-Hybrid© system

Future prospects

The Group's principal objective is to establish a volume manufacturing partnership based upon solid sales orders This will enable the Group to achieve an economically viable unit cost for its fuel cells and fuel cell hybrid systems The Group will invest in increased operational and sales infrastructure appropriate to its ongoing growth The Directors believe that the advanced stage of commercialisation of the Group's technology, coupled with the Group's existing partnerships, will enable the business to firmly establish itself as a leading, global, fuel cell and fuel cell hybrid system provider

Principal risks and uncertainties

Operating revenues
Although the Directors have confidence in the Group's future revenue earning potential, there can be no certainty that the Group will achieve or sustain significant revenues, profitability or positive cash flow from its operating activities This could impair the Group's ability to sustain operations or secure any required funding To date, the Group has incurred substantial losses and expects losses and cash expenditure to continue until it achieves volume sales production at commercial unit prices

Early stage of commercialisation
The Group is at an early stage in the commercialisation and marketing of its technology A number of the Group's relationships are also at an early stage and there is no assurance that any relationships will continue to result in revenue generating contracts with the Group Continuing development of the Group's technology may be required and there can be no assurance that any of the Group's future technology will be commercially successful The Group may encounter delays and incur additional research and development costs and expenses over and above those anticipated or allowed for by the Directors

Material contracts
The Group has been, and in the short to medium term will continue to be, dependent on a limited number of key customers A concentrated client base places considerable dependence in meeting contracted operating performance levels If a major client or a number of clients terminate their contracts or significantly reduce or modify their business relationships with the Group, the Group may not be able to replace the shortfall in revenues

A number of the Group's material contracts are public sector contracts which may be dependent upon public grants and/or subsidies The Group may not have control over payment of its costs under these contracts since it is reliant upon the lead partner(s) making claims for payment to the relevant public authority Further, under the terms and conditions of public sector contracts, there may be a risk of claims for repayment from public authorities if the terms and conditions of such contracts are breached

Technology risk
A core component within the Group's product offering is its fuel cell module This has undergone testing in prototype form however, as with any new technology, there are risks associated with the long-term operational life of the product

Competing power technologies
As the Group's fuel cell technology has the potential to replace existing power products, competition for the Group's products will come from current power technologies, from improvements to current power technologies and from new alternative power technologies, including other types of fuel cells or other self-contained energy systems Each of the Group's target markets is currently serviced by existing manufacturers with existing customers and suppliers These manufacturers use proven and widely accepted technologies such as internal combustion engines, turbines, batteries and overhead contact lines

Additionally, there are competitors working on development technologies other than fuel cells (such as advanced batteries, ultracapacitors and hybrid battery/internal combustion engines) in each of the Group's targeted markets Some of these technologies may be as capable of fulfilling the existing and proposed regulatory requirements as the Group's fuel cell technology

Many of the Group's competitors have financial resources, customer bases, businesses or other resources, which give them significant competitive advantages over the Group Competitors and potential competitors may develop technologies and products that are less costly and/or more effective than the technology or products of the Group, or which may make those of the Group obsolete or uncompetitive

Operating and financial review (continued)

Governmental regulation
There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities

Commercial relationships
The success of the Group will depend on its ability to integrate the Group's fuel cell technology into products manufactured by OEMs There is no guarantee that OEMs will manufacture appropriate products or, if they do manufacture such products, that they will choose to use the Group's fuel cell technology Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for the Group's fuel cell technology and the Group's financial results

Dependence on key personnel
In order to successfully implement the Group's anticipated growth, the Group will be dependent on its ability to hire and retain additional skilled and qualified personnel, particularly in relation to sales, sales support, technological development, management, marketing and technical personnel There can be no assurance that the Group will be able to retain or hire necessary personnel

Future funding
The Group is dependent on the continuing financial support of its main investor to meet its day-to-day working capital requirements At this point in time there has been no indication that this financial support will be withdrawn, however, the Board recognises that the Group must show improved financial performance to warrant further financial support

Currency exchange rate fluctuations
The Group intends to conduct much of its business overseas in currencies other than sterling and as such its financial performance is subject to the effects of fluctuations in foreign exchange rates

By order of the Board

J Wall
Director

21 May 2010

Directors' report

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2009 The Chairman and CEO's statement and Operating and financial review on pages 1 to 2 and 6 to 9 form part of the Directors' report

Principal activities

The Group's principal activity is the development of hydrogen fuel cells and fuel cell hybrid systems through its subsidiary Proton Motor Fuel Cell GmbH which is registered and operates in Germany

Business review

A commentary on the Group's activities and results for the period and future prospects is included in the Chairman and CEO's statement and the Operating and financial review on pages 1 to 2 and 6 to 9 respectively

The Group undertakes comprehensive business planning to define long-term strategic objectives and goals Annual budgets and operational plans are prepared utilising financial and non-financial Key Performance Indicators ("KPIs") Business performance, measured by KPIs which include monitoring of actual against budget and rolling forecasts, is reported to the Board on a monthly basis

Non-financial key performance indicators

It is difficult to disclose non-financial key performance indicators which are not commercially sensitive, such as the number of fuel cells produced and the fuel cell production cost per kW of output, however, despite economically challenging boundary conditions, production output was kept almost stable during 2009 in comparison to 2008 In addition, the production of fuel cells was characterized by the change to a new and more cost effective stack generation which will lead to a decrease in production costs of more than 60%

Share capital

There have been substantial movements in the share capital of the Company during the year including the issue of share options Full details of these movements are set out in notes 7 and 19 to the financial statements

Post balance sheet events

On 18 January 2010 the Company converted £1m of a loan from Roundstone Properties Limited into 50,000,000 new ordinary shares of 1 pence each in the capital of the Company (the "Placing Shares") at 2 pence per Placing Share to raise £1 0 million (before expenses)

On 27 January 2010 and 23 April 2010 the company entered into further extensions of €1 62m each to the convertible loan agreement with Roundstone Properties Limited dated 29 April 2009 The net proceeds of the loan extensions will be used by the Company to provide additional working capital

Research and development

A fuel cell is a device that converts the chemical energy of a fuel and an oxidant into electricity In principle, it functions like a battery but does not require recharging so long as an ongoing fuel source, such as hydrogen, is available

Fuel cell systems are widely regarded as a potential alternative to internal combustion engines, power from fossil fuels and battery technology Fuel cell systems produce no noxious gases and pure hydrogen fuel cells produce no harmful emissions such as carbon dioxide There are a number of types of fuel cell, classified by the type of electrolyte used, including alkali, molten carbonate, PEM, phosphoric acid, and solid oxide Proton Motor has selected a PEM-based fuel cell as the Directors believe that, based on the PEM's power in operation, efficiency and operating temperature, it is the only technology able to meet the overall criteria which the Group has specified for its intended commercial applications

The Group has always recognised the commercial importance and value of protecting its intellectual property ("IP") and, therefore, the need to protect it wherever possible by way of patents and trademarks The Group's key IP portfolio comprises a mixture of granted patents, patent applications, trademarks, confidential information and know-how

Directors' report (continued)

Fuel Cell Technology has advanced in recent years to be able to develop similar power requirements as conventional power sources with double the efficiency and at the same time zero local emissions The new Proton Motor Fuel Cell, PM 200 is able to generate 8 kW net power per 96 cell stack and has proven to be many times more reliable than the previous generation The stack was developed over a number of years of bench testing and has already begun to be sold The PM 200 is being prepared for small series production with Proton Motor's partners The stack, currently being developed to be introduced into the market, has already begun field testing in 3 fuel cell fork lift trucks at an OEM fuel cell customer in Austria and in 2009 has completed over 3,500 hours of continuous rigorous bench, vibration and shock testing The stack is planned to be built into multiple systems in 2010

The product ranges for the PM 200 stack range from stationary to mobile power UPS backup power, range extender for heavy duty vehicles, bus and ship applications This wide range of applications shows the flexibility of the stack technology Separate systems, however, have been developed for stationary and mobile power uses The first prototype designs were completed for the UPS backup power and ship systems to be built in 2010

The UPS Backup power first functional prototype has passed its robustness test and is undergoing tuning and optimization in the anticipation of the next level prototype

Proton Motor has built a number of test stands for constant operation durability testing of systems for 5kW and 50kW respectively The goal of these stands is to test to the end of life and are planned to run well into 2011 and beyond These reference points will be used as accelerated lessons learned as well as system optimization

Proton Motor has updated the development system to include multiple steps to verify system performance and durability before release for customer applications such as design validation testing

Safety, health and environment

It is Group policy to minimise risks to employees and other stakeholders associated with the Group's activities The Chief Executive is accountable to the Board for the performance of the Group's safety programme During the last year, the Group had no major or minor accidents or dangerous occurrences There have also been no reportable environmental or loss of containment incidents

Corporate and social responsibility

The Group has a continuing commitment to act ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled every effort will be made to ensure that their employment with the Group continues and that appropriate training is arranged It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

Proposed dividend

The Directors do not recommend the payment of a dividend

Policy and practice on payment of creditors

The Group does not follow any specific code or payment practice It is the Group's policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, providing that the supplier has met their contractual obligations At 31 December 2009 the number of days trade creditors for the Group was 35 *(2008 30)* and for the Company was 32 days *(2008 32)*

Directors' report (continued)

Directors

The Directors who held office during the year and up to the date of approval of this report were as follows

J Wall FCA	Executive Chairman[2,3,4]
T Melczer	Chief Executive[6]
F Nahab	Non-Executive Director[1,6]
A Naimi	Deputy Chairman & Non-Executive Director (resigned 20 May 2010)
A Loecher	Group Finance Director
H Gierse	Non-Executive Director[5] (appointed 20 January 2009)

1 Chairman of the Remuneration Committee
2 Chairman of the Audit Committee
3 Chairman of the Nomination Committee
4 Member of the Remuneration Committee
5 Member of the Audit Committee
6 Member of the Nomination Committee

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below

		Number of options during the year					
	At start of year	Granted	Exercised	At end of year	Exercise Price	Date from which exercisable	Expiry date
Thomas Melczer	1,000,000	-	-	1,000,000	£0 10	2 October 2010	1 October 2018
Ali Naimi	500,000	400,000	-	900,000	£0 10	2 October 2010 9 December 2011	1 October 2018 9 December 2019
Achim Loecher	100,000	250,000	-	350,000	£0 10	2 October 2010 22 July 2011	1 October 2018 22 July 2019
John Wall	700,000	-	-	700,000	£0 775 & £0 10	1 February 2009 2 October 2010	31 January 2017 1 October 2018
Helmut Gierse	-	150,000	-	150,000	£0 10	22 July 2011	22 July 2019

Major shareholdings

As at 30 March 2010 the following shareholders held 3% or more of the ordinary share capital of the Company

	Ordinary Shares	
	Number	Percentage
Roundstone Properties Limited	117,981,769	75 15
Saad Investment Company Limited	9,125,000	5 81
Dr Gotz Heidelberg	6,285,932	4 00

Corporate governance

The Directors recognise the value of the corporate governance principles enshrined in the 2008 FRC Combined Code and have applied them as far as is practicable and appropriate for a company of this size The Company also seeks to follow the recommendations within the 'Guidance for Smaller Quoted Companies – The Committee on Corporate Governance Report and the Combined Code' issued by the Quoted Companies Alliance

The Board has established an Audit Committee, a Nominations Committee and a Remuneration Committee with formally delegated duties and responsibilities

The Audit Committee receives and reviews reports from management and the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group The Audit Committee has unrestricted access to the Company's auditors

Directors' report (continued)

The Nominations Committee reviews the balance and effectiveness of the Board and identifies the skills and needs of the Board and those individuals who might best provide them It also ensures that the Board has formal and transparent appointment procedures

The Remuneration Committee reviews the scale and structure of the executive Directors' remuneration and the terms of their service contracts The remuneration and terms and conditions of appointment of the non-executive Directors are set by the Board The Remuneration Committee also administers the Group's share option scheme

Risk management objectives and policies

Risk management objectives and policies and the Group's exposure to price risk, credit risk, liquidity and cash flow risk are disclosed in notes 23 to 27

Going concern

Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependant on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market The Group is currently dependent on the continuing financial support of its main investor to meet its day-to-day working capital requirements and at this point in time there has been no indication that this financial support will be withdrawn, as evidenced by the additional funding received in January and April of 2010 as disclosed in note 22

After making these and other relevant enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this report For this reason, they have adopted the going concern basis in preparing the financial statements

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) The financial statements are required by law to give a true and fair view of the state of affairs of the group and parent Company and of the profit or loss of the group for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Disclosure of information to auditors

In so far as each Director is aware

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Directors' report (continued)

Auditors

Grant Thornton UK LLP have expressed willingness to continue in office In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting

By order of the Board

J Wall
Director

21 May 2010

St Ann's Wharf
112 Quayside
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NE99 1SB

Remuneration report

This report for the year ended 31 December 2009 has been prepared with regard to the Directors' Remuneration Report Regulations 2002 and the provisions of the Combined Code relating to Directors' remuneration achieving a level of compliance which the Directors consider appropriate for an AIM listed company of this size As an AIM listed company Proton Power Systems plc is not required to comply with the provisions of the Companies Act 2006 relating to Directors' Remuneration reports

The Remuneration Committee

The Remuneration Committee is chaired by Faiz Nahab and its other member is John Wall The Committee keeps itself informed of all relevant developments and best practice in the field of remuneration and corporate governance and seeks advice where appropriate Dickinson Dees has been appointed as external adviser to the Remuneration Committee The Committee has appropriate policies and procedures to monitor the size of potential remuneration awards

The Remuneration Committee's remit is set out in its terms of reference Its delegated responsibilities include setting the remuneration of all executive Directors The remuneration of non-executive Directors is determined by the Board and is made up of an annual fee for acting as a non-executive Director of the Company and fees for chairing and for membership of a Board committee The non-executive Directors do not take part in discussions on their own remuneration The fees are set to reflect the time which they are required to commit to their duties, their experience and the amounts paid to non-executive Directors in comparable companies

Remuneration policy

The Company's policy is to provide competitive remuneration packages that will attract, retain and motivate Directors and other individuals of the quality required to successfully drive the business forward The remuneration policy is designed to support the business strategy, align executives' interests with shareholders and be cost effective In constructing the remuneration packages, the Committee aims to achieve an appropriate balance between fixed and variable compensation for each executive Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short and long-term The annual bonus is designed to incentivise and reward the achievement of demanding financial and non-financial corporate and individual objectives Long-term share plans are designed to align the interests of executives with the longer-term interests of shareholders The Remuneration Committee considers it important that this approach to remuneration should be maintained so far as possible

Basic salary

The Committee will normally review the executive Directors' and other senior executives' remuneration annually against companies similar in size and sector The Committee sets salaries at levels to reflect the individual's position, responsibilities, experience and performance The Committee also considers executive salary increases in the context of salary increases across the Group's wider employee population

Long-term share plans

The Company gained approval in advance of Admission to AIM to put in place certain long-term share plans, details of which are set out below in the section headed Proton Power Systems plc's current long-term incentive arrangements

Proton Power System plc's current long-term incentive arrangements

The Remuneration Committee has discretion to grant awards under Proton Power Systems plc Share Option Scheme in any one year When exercising their discretion to grant awards, the Remuneration Committee will take into consideration the overall quantum and structure of the compensation package

Remuneration report (continued)

Proton Power Systems plc Share Option Scheme (the "SOS")

The SOS allows the Company to grant options to acquire shares to eligible employees Options granted under the SOS are unapproved by HM Revenue & Customs

Share options were granted over 1,170,000 shares on 23 July 2009 and 10 December 2009 to three Directors and to nine staff of Proton Motor Fuel Cell GmbH at an option price of 10 pence These options will normally become exercisable following the end of a period of two years from the date of grant

The maximum number of shares over which options may be granted to an employee under the SOS may not be greater than 10 per cent of the Company's issued share capital at the date of grant when added to options or awards granted in the previous 10 years

The exercise of options can take place at any time after the second anniversary of the date of grant Options can not, in any event, be exercised after the tenth anniversary of the date of grant

Directors' service agreements and letters of appointment

It is the Company's policy to minimise the termination obligations of Directors' contracts recognising however the market requirements for executive Directors' contracts The arrangements set out below reflect the Company's policy

One new non-executive director was appointed during the year The non-executive Directors have not entered into letters of appointment however Ali Naimi is the only non-executive director to be paid a salary which is £30,000 per annum Mr Naimi agreed to waive this salary from 1 July 2009 onwards

The appointments of non-executive Directors may be terminated by either party without notice and are subject to the provisions of the Company's Articles The terms of appointment of the non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM

The Remuneration Committee has considered the financial consequences of early termination of Directors' service contracts If the Company terminates the employment of an executive Director by exercising its right to pay in lieu of notice, or terminates the employment other than in accordance with the terms of his service agreement, the Company is required to make a payment equal to the aggregate of the executive Director's basic salary and the value of his contractual benefits for the notice period

Directors' emoluments

Information on the remuneration of each Director for the full year is set out in the following table

Name	**Salary**	**Pension Contributions**	**Total 2009**	**Total 2008**
	£'000	**£'000**	**£'000**	**£'000**
T Melczer*	78	-	78	15
F Heidelberg*	-	-	-	66
B Eska*	-	-	-	111
A Loecher*	91	-	91	90
B Robinson	-	-	-	3
J Wall	40	-	40	70
P Svantesson	-	-	-	29
A Naimi	15	-	15	13

* paid by Proton Motor Fuel Cell GmbH

Remuneration report (continued)

Details of the Directors' interest in the SOS are given in the Directors' Report

On behalf of the Board

F Nahab 21 May 2010
Chairman of the Remuneration Committee

Nominations committee report

The Company recognised that the Board should be structured to reflect the requirements for listed companies in accordance with the Combined Code

One new non-executive Director was appointed to the Board of Proton Power Systems plc Helmut Gierse was appointed in January 2009 and his skills and experience include running market leading companies, expansion of new businesses with particular experience of R&D, production, sales and marketing

On 5 November 2008 the Company's Articles of Association were amended to permit any person who is solely and beneficially interested in at least 9% of the issued share capital of the Company to nominate a person to act as a Director Such a shareholder may appoint a separate Director for each complete multiple of 9% interest in the Company Thomas Melczer and Faiz Nahab are the nominee appointees of Roundstone Properties Limited

The Nominations Committee was chaired by John Wall and its other members are Faiz Nahab and, following his appointment Thomas Melczer

J Wall 21 May 2010
Chairman of the Nominations Committee

Audit and internal control

Non-audit services

The fees paid to Grant Thornton UK LLP for audit and non-audit services are set out in note 6 on page 33

The Audit Committee has developed a policy on the provision by the external auditors of non-audit services The objective of the Audit Committee's policy is to ensure that the provision of such services does not impair the external auditor's independence or objectivity In this context, the Audit Committee will consider

- whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service,
- whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor,
- the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate, relative to the audit fee, and
- the criteria which govern the compensation of the individuals performing the audit

The policy covers amongst other things

- monitoring the external auditors' independence (e g that the auditors and their immediate family have no family, financial or employment relationship with the Company), and checking that the Group engagement partner and audit senior manager do not work on the audit for a period in excess of that permitted,
- the identification of three categories of accounting services audit-related services, which the Company's auditors provide (such as interim and full-year reporting), prohibited services, which the Company's auditors may never provide, and potential services, which the Company's auditors may in certain circumstances provide, subject to the policy (such as tax advisory services or services where the auditors are acting as the Company's reporting accountants) Prohibited services are those which would result in
    - o the external auditors auditing their own firm's work,
    - o the external auditors making management decisions for the Company,
    - o a mutuality of interest being created, or
    - o the external auditors being put in the role of advocate for the Company
- reporting at each meeting of the Audit Committee on non-audit services being provided by the auditors

J Wall 21 May 2010
Chairman of the Audit Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROTON POWER SYSTEMS PLC

We have audited the financial statements of Proton Power Systems plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and parent Company statements of changes in equity, the consolidated and parent Company statement of cash flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at
www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Grant Thornton UK LLP

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
21 May 2010

Consolidated income statement
for the year ended 31 December 2009

	Note	2009	2008
		£'000	£'000
Continuing operations			
Revenue	*2,3,4*	193	1,093
Cost of sales		(3,150)	(2,514)
Gross loss		(2,957)	(1,421)
Other operating income		73	74
Administrative expenses		(1,844)	(1,416)
Operating loss		(4,728)	(2,763)
Finance income		5	26
Finance costs		(165)	(61)
Loss for the year attributable to equity holders of the parent	*5*	(4,888)	(2,798)
Loss per share (expressed as pence per share)			
Basic	*9*	(5 3)	(5 4)
Diluted	*9*	(5 3)	(5 4)

Consolidated statement of comprehensive income

	2009	2008
	£'000	£'000
Loss for the period	(4,888)	(2,798)
Other comprehensive income		
Exchange differences on translating foreign operations	(487)	187
Other comprehensive income	(487)	187
Total comprehensive income for the period	(5,375)	(2,611)
Attributable to equity holders of the parent	(5,375)	(2,611)

Balance sheets
as at 31 December 2009

	Note	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Assets					
Non-current assets					
Intangible assets	*10*	**759**	783	**-**	-
Property, plant and equipment	*11*	**793**	362	**-**	-
Investment in subsidiary	*12*	**-**	-	**4,012**	4,555
		1,552	1,145	**4,012**	4,555
Current assets					
Inventories		**105**	137	**-**	-
Trade and other receivables	*13*	**266**	270	**16**	25
Cash and cash equivalents	*14*	**187**	772	**1**	200
		558	1,179	**17**	225
Total assets		**2,110**	2,324	**4,029**	4,780
Liabilities					
Current liabilities					
Trade and other payables	*15*	**1,429**	1,348	**35**	97
Borrowings	*16*	**2,832**	-	**2,832**	-
Derivatives on convertible loans	*17*	**477**	-	**477**	-
Total liabilities		**4,738**	1,348	**3,344**	97
Net (liabilities) / assets		**(2,628)**	976	**685**	4,683
Equity **Equity attributable to equity holders of the parent company**					
Ordinary shares	*19*	**4,350**	3,570	**4,350**	3,570
Share premium		**7,052**	6,275	**7,052**	6,275
Merger reserve		**15,656**	15,656	**15,656**	15,656
Reverse acquisition reserve		**(13,862)**	(13,862)	**-**	-
Share option reserve		**328**	346	**328**	346
Other equity reserve		**232**	-	**232**	-
Foreign translation reserve		**(28)**	(304)	**-**	-
Capital contributions		**1,224**	1,324	**-**	-
Retained earnings		**(17,580)**	(12,029)	**(26,933)**	(21,164)
Total equity		**(2,628)**	976	**685**	4,683

These financial statements were approved by the Board of Directors on 21 May 2010 and were signed on its behalf by

J Wall FCA
Director

Statements of changes in equity

	Attributable to equity holders of the Company									
Group	**Share Capital**	**Share Premium**	**Merger Reserve**	**Reverse Acquisition Reserves**	**Share Option Reserve**	**Other Equity Reserve**	**Translation Reserve**	**Capital Contribution Reserves**	**Retained Earnings**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2008	1,570	4,735	15,656	(13,862)	430	-	44	1,002	(9,444)	131
Share based payments debit	-	-	-	-	(84)	-	-	-	-	(84)
Proceeds from share issues	2,000	2,000	-	-	-	-	-	-	-	4,000
Share issue costs	-	(460)	-	-	-	-	-	-	-	(460)
Transactions with owners	**2,000**	**1,540**	-	-	**(84)**	-	-	-	-	**3,456**
Loss for the year	-	-	-	-	-	-	-	-	(2,798)	(2,798)
Other comprehensive income										
Currency translation differences	-	-	-	-	-	-	(348)	322	213	187
Total comprehensive income for the year	-	-	-	-	-	-	**(348)**	**322**	**(2,585)**	**(2,611)**
Balance at 31 December 2008	**3,570**	**6,275**	**15,656**	**(13,862)**	**346**	-	**(304)**	**1,324**	**(12,029)**	**976**
Balance at 1 January 2009	3,570	6,275	15,656	(13,862)	346	-	(304)	1,324	(12,029)	976
Share based payments debit	-	-	-	-	(18)	-	-	-	-	(18)
Proceeds from share issues	780	780	-	-	-	(500)	-	-	-	1,060
Proceeds from issues of compound financial instruments	-	-	-	-	-	732	-	-	-	732
Share issue costs		(3)	-	-	-	-	-	-	-	(3)
Transactions with owners	**780**	**777**	-	-	**(18)**	**232**	-	-	-	**1,771**
Loss for the year	-	-	-	-	-	-	-		(4,888)	(4,888)
Other comprehensive income										
Currency translation differences	-	-	-	-	-	-	276	(100)	(663)	(487)
Total comprehensive income for the year	-	-	-	-	-	-	**276**	**(100)**	**(5,551)**	**(5,375)**
Balance at 31 December 2009	**4,350**	**7,052**	**15,656**	**(13,862)**	**328**	**232**	**(28)**	**1,224**	**(17,580)**	**(2,628)**

Statements of changes in equity

	Attributable to equity holders of the Company						
Company	**Share Capital**	**Share Premium**	**Merger Reserve**	**Share Option Reserve**	**Other Equity Reserve**	**Retained Earnings**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2008	1,570	4,735	15,656	430	-	(7,245)	15,146
Proceeds from share issues	2,000	2,000	-	-	-	-	4,000
Share issue costs	-	(460)	-	-	-	-	(460)
Share based payments debit	-	-	-	(84)	-	-	(84)
Transactions with owners	**2,000**	**1,540**	-	**(84)**	-	-	**3,456**
Loss for the year	-	-	-	-	-	(13,919)	(13,919)
Total comprehensive income for the year	-	-	-	-	-	**(13,919)**	**(13,919)**
Balance at 31 December 2008	**3,570**	**6,275**	**15,656**	**346**	-	**(21,164)**	**4,683**
Balance at 1 January 2009	3,570	6,275	15,656	346	-	(21,164)	4,683
Proceeds from share issues	780	780	-	-	(500)	-	1,060
Proceeds from issues of compound financial instruments					732		732
Share issue costs	-	(3)	-	-	-	-	(3)
Share based payments debit	-	-	-	(18)		-	(18)
Transactions with owners	**780**	**777**	-	**(18)**	**232**	-	**1,771**
Loss for the year	-	-	-	-	-	(5,769)	(5,769)
Total comprehensive income for the year	-	-	-	-	-	**(5,769)**	**(5,769)**
Balance at 31 December 2009	**4,350**	**7,052**	**15,656**	**328**	**232**	**(26,933)**	**685**

Share premium account
Costs directly associated with the issue of the new shares have been set off against the premium generated on issue of new shares

Merger reserve
The merger reserve of £15,656,000 arises as a result of the acquisition of Proton Motor Fuel Cell GmbH and represents the difference between the nominal value of the share capital issued by the Company and their fair value at 31 October 2006, the date of the acquisition

Reverse acquisition reserve
The reverse acquisition reserve (Group only) arises as a result of the method of accounting for the acquisition of Proton Motor Fuel Cell GmbH by the Company In accordance with IFRS 3 the acquisition has been accounted for as a reverse acquisition

Share option reserve
The Group operates an equity settled share-based compensation scheme The fair value of the employee services received for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted At each balance sheet date the Company revises its estimate of the number of options that are expected to vest The original expense and revisions of the original estimates are reflected in the income statement with a corresponding adjustment to equity The share option reserve represents the balance of that equity

Other equity reserve
Other equity reserve represents the residual element on initial recognition of compound financial instruments measured at fair value less the debt component

Statements of cash flows
for the year ended 31 December 2009

	Group Year ended 31 December		Company Year ended 31 December	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Loss for the period	(4,888)	(2,798)	(5,769)	(13,919)
Adjustments for				
Depreciation and amortisation	434	489	5,329	13,672
Interest income including loan waivers	(5)	(26)	(1)	(21)
Interest expenses	165	60	164	42
Share based payments	(18)	(84)	(18)	(84)
Movement in inventories	32	(26)	-	-
Movement in trade and other receivables	4	661	9	74
Movement in trade payables	(410)	(53)	(66)	(34)
Movement in fair value of derivatives	(53)	-	(53)	-
Net cash used in operations	(4,739)	(1,777)	(405)	(270)
Interest paid	(1)	(65)	-	(48)
Net cash used in operating activities	(4,740)	(1,842)	(405)	(318)
Cash flows from investing activities				
Capital contribution to subsidiary	-	-	(4,786)	(2,719)
Purchase of intangible assets	(202)	(643)	-	-
Purchase of property, plant and equipment	(639)	(162)	-	-
Interest received	5	28	1	23
Net cash used in investing activities	(836)	(777)	(4,785)	(2,696)
Cash flows from financing activities				
Proceeds from issue of share capital	1,057	3,540	1,057	3,540
Proceeds from issue of loan instruments	3,934	-	3,934	-
Loan repayments	-	(831)	-	(831)
Net cash generated from financing activities	4,991	2,709	4,991	2,709
Net (decrease)/increase in cash and cash equivalents	(585)	90	(199)	(305)
Opening cash and cash equivalents	772	682	200	505
Closing cash and cash equivalents	187	772	1	200

Notes to the financial statements

1. General information

Proton Power Systems plc ("the Company") and its subsidiary (together "the Group") design, develop, manufacture and test fuel cells and fuel cell hybrid systems as well as the related technical components The Group's design, research and development and production facilities are located in Germany

The Company is a public limited liability company incorporated in England & Wales The address of its registered office is St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE99 1SB The Company's initial public offering took place at the Alternative Investment Market of the London Stock Exchange on 31 October 2006 and its shares are listed on this exchange

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

The consolidated financial statements for the year ended 31 December 2009 (including comparatives) were approved and authorised for issue by the board of directors on 21 May 2010

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied

Development of the Group
Proton Power Systems plc was incorporated on 7 February 2006 and on 31 October 2006 acquired the entire share capital of Proton Motor Fuel Cell GmbH As a result of this transaction, the shareholders in Proton Motor Fuel Cell GmbH received shares in the Company

In preparing the consolidated financial statements, Proton Motor Fuel Cell GmbH has been deemed to be the acquirer and the Company, the legal parent, has been deemed to be the acquiree Under IFRS 3 "Business Combinations", the acquisition of Proton Motor Fuel Cell GmbH by the Company has been accounted for as a reverse acquisition and the consolidated IFRS financial information of the Company is therefore a continuation of the financial information of Proton Motor Fuel Cell GmbH

As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent Company The loss for the financial period dealt within the accounts of the parent Company was £5,769,000

Basis of preparation
The consolidated financial statements of Proton Power Systems plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to those companies under IFRS The consolidated financial statements have been prepared under the historical cost convention and on the basis that the Group continues to be a going concern Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependant on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgment in the process of applying the Group's accounting policies The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3

Presentation of financial statements
The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007) The Group has elected to present the 'Statement of comprehensive income' in two statements the 'Income statement' and a 'Statement of comprehensive income'

Two comparative periods are presented for the Balance Sheet when the Group

- applies an accounting policy retrospectively,
- makes a retrospective restatement of items in its financial statements, or
- reclassifies items in the financial statements

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Management considers that this is not necessary because the 2007 Balance Sheet is unchanged from the version previously published

Basis of consolidation
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

Share-based payments
The Company issues equity-settled share-based payments to certain employees of the Group A fair value for the equity settled share awards is measured at the date of grant The Group measures the fair value using the valuation technique most appropriate to value each class of award being a Black-Scholes pricing model The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions

The value of shares issued to settle fees and finance costs has been measured by reference to the fair value of services provided

Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in the British Pound ("Sterling"), which is the Group's presentation currency Given the Company's listing on the Alternative Investment Market of the London Stock Exchange, the Directors consider that it is more appropriate to present the financial statements in Sterling

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and
- all resulting exchange differences are recognised as other comprehensive income

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

New IFRS standards and interpretations applied

As noted above IAS 1 (revised 2007) has been applied in the period IFRS 8 has been adopted in the period The adoption of IFRS 8 has not changed the segments that are disclosed in these financial statements because in the previous annual report, segments were already based on the internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker IAS 23 'Borrowing Costs' has been adopted in the period The adoption of IAS 23 has not affected the financial position or results of the Group

Cost of investment

The cost of an acquisition is measured at the fair values, on the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition At each balance sheet date, the Company reviews the carrying amount of the investment to determine whether there is any indication that the investment has suffered an impairment loss Any impairment loss is recognised as an expense immediately

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost or, as the case may be, production cost, reduced by accumulated depreciation and impairment losses Costs of acquisition / costs of production include the expenses directly attributable to the acquisition All repairs and maintenance are reported in the income statement as expenditure in the financial year in which they were incurred The costs of production include all directly attributable costs, as well as the appropriate proportion of the overheads relating to production

Depreciation is charged on the basis of the economic life of the assets on a straight line basis as follows

• Office equipment, furniture & equipment	10% - 33%
• Technical equipment & machinery	20%
• Leasehold property improvements	over the life of the lease

Additions in the financial year are depreciated from the time of their acquisition

The residual values and the useful lives of property, plant and equipment are reviewed at each financial year-end and, if applicable, are adjusted When the carrying amount of an asset exceeds its recoverable amount, the carrying amount is reduced to the recoverable amount To determine the recoverable amount, the Group's management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows

Gains and losses arising from the disposal of assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the income statement

Intangible assets

Intangible assets are capitalised at acquisition cost and amortised over their estimated economic life of the assets of 3 years, on a straight-line basis

A self-developed intangible asset is recognized if the following criteria are fulfilled

- identification of the self-developed asset is possible,
- the technical feasibility of completing the self-developed asset so that it will be available for use or sale,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell,
- probability that the expected future economic benefits that are attributable to the self-developed intangible asset will flow to the entity, and
- the development costs of the asset can be measured reliably

Self-developed intangible assets are amortized over the assumed economic life of the assets, on a straight-line basis If a self-developed intangible asset is not recognized in accordance with IAS 38, the development costs are expensed in the period in which they are incurred

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Amortization starts at the first-time usage of the asset The capitalized costs include all directly attributable costs, as well as reasonable parts of the overheads relating to production If applicable, received government grants are deducted from the capitalized development costs in accordance with IAS 20 24 Amortisation is charged to administrative expenses

Self-developed intangible assets are tested for impairment annually Insofar as there are indications of an impairment for other intangible assets, the planned amortizable intangible assets shall be subjected to an impairment test and, if necessary, the carrying amount reduced to the recoverable amount within the meaning of IAS 36

Impairment of non-financial assets
At each balance sheet date, the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs An intangible asset with an identifiable life is tested for impairment annually and whenever there is an indication that the asset may be impaired

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase

Inventories
Inventories are stated at the lower of cost and net realisable value Cost is determined using the first-in, first-out (FIFO) method The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses

Customer-specific contracts
Accounting for customer-specific contracts is carried out in accordance with IAS 11 If the result of a construction contract can be reliably estimated, the revenue and expenses are reported in accordance with the percentage of completion as per the reporting date This is usually determined from the ratio of the costs of the contract incurred up to the reporting date in comparison with the estimated overall costs of the contract, unless this would lead to a distortion in the presentation of the percentage of completion Insofar as the result of a contract cannot be reliably estimated, the proceeds of the contract are to be recorded only in the amount of the costs of the contract incurred which are likely to be collectible

Where it is probable that the total cost of the construction contract will exceed the total contract revenue the expected loss is recognised immediately as an expense in the income statement

Trade receivables
Trade and other receivables are recorded at the time of their initial recognition at fair value and subsequently at amortized cost less any impairment in value that may be necessary An impairment in value in the case of trade and other receivables is recognized if there are objective indications that the amount of the debt due cannot be collected in full The impairment in value is recognized in the income statement Insofar as the reasons for value adjustments made in previous periods no longer exist, corresponding write-ups shall be made

Deposits with financial institutions
Deposits with financial institutions are measured at their fair value

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

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

Trade and other payables
Trade and other payables, payables in respect of shareholders as well as other payables, are initially valued at fair value and subsequently at amortised cost

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

Equity
Share capital represents the nominal value of shares that have been issued Share premium includes any premiums received on issue of share capital Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits

Taxes on income and revenue
Tax expenses are the aggregate amount of current taxes and deferred taxes Current taxes are measured in respect of the taxable profit (tax loss) for a period Current tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax liabilities are the future tax expense (tax income) on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date Deferred taxes are recognized in the income statement, except to the extent that it relates to items previously charged or credited to equity

Employee benefits
The Company makes discretionary contributions to the personal pension plans of employees The contributions are expensed on an accruals basis

Other provisions
Other provisions are made insofar as there is a constructive obligation arising from past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated The valuation of the provisions is reviewed at each reporting date Provisions for guarantees are made in relation to individual cases

Recognition of revenue and expenses
Revenue comprises revenue from the sale of goods and the rendering of services Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT, rebates and trade discounts Recognition of revenues from interest and interest expenses is made on an accrual basis Financing costs are recorded as expenses in the period in which they are incurred Research costs are expensed in the period in which they are incurred in accordance with IAS 38 54 Expenses for development costs that fulfil the criteria of IAS 38 57 are capitalized (see Intangible assets above) Amortization over the assumed economic life begins when the asset is available for use in accordance with IAS 38 97

Royalty income
Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate Government grants for expenses already incurred are recognized as income in the period in which the corresponding claim is created

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease

Compound financial instruments
Compound financial instruments are measured at fair value The debt component is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method The residual element on initial recognition is recognised as other equity

Derivative financial instruments
All derivative financial instruments are accounted for at fair value through profit and loss

Standards, amendments and interpretations not yet applied by Proton Power Systems plc

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IAS 39 Financial Instruments Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
- Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010)
- Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the Group's financial statements when these standards or interpretations become effective

3 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below

Estimated useful life of property, plant and equipment and impairment
The Group estimates the useful life of property, plant and equipment and reviews this estimate at each financial period end The Group also tests for impairment whenever a trigger event occurs See Note 11

Notes to the financial statements (continued)

3. Critical accounting estimates and judgements (continued)

Recognition of development costs
Self developed intangible assets are recognised where the Group can estimate that it is probable that future economic benefits will flow to the entity See Note 10

Revenue recognition
The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver project services Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed

Classification and fair value of financial instruments
The Group uses judgement to determine the classification of certain financial instruments, in particular convertible loans advanced during the year Judgement is applied to determine whether the instrument is a debt, equity or compound instrument and whether any embedded derivatives exist within the contracts

The Group uses valuation techniques to measure the fair value of these financial instruments In applying these valuation techniques, management use estimates and assumptions that are, as far as possible, consistent with observable market data Where applicable market data is not observable, management uses its best estimate about the assumptions that market participants would make These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date

4 Segmental information

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments for which discreet financial information is available and is regularly reviewed by the Chief Operating Decision Maker

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable operating segment, green energy

All non current assets are located in Germany

Revenue from external customers

	2009	2008
	£'000	£'000
UK	-	-
Rest of Europe	193	1,093
	193	1,093

Notes to the financial statements (continued)

5. Loss on ordinary activities before taxation

	2009	2008
	£'000	£'000
Loss on ordinary activities before taxation is stated		
after charging		
Depreciation and other amounts written off property, plant and equipment and intangible assets		
Owned	**434**	489
Hire of other assets - operating leases	**214**	228
Pension contributions	**25**	30
Foreign exchange loss	**35**	-
after crediting		
Foreign exchange gains	**-**	(51)
Grants from public bodies	**(107)**	(713)
Change in fair value of derivatives	**(53)**	-

6. Auditor's remuneration

	2009	2008
	£'000	£'000
Audit services		
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	**17**	17
Fees payable to the Company's auditor and its associates for other services		
All other services	**7**	7
	24	24

7 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows

	Number of employees			
	Group		Company	
	2009	2008	2009	2008
Development and construction	**37**	28	**-**	-
Administration and sales	**13**	15	**5**	5
	50	43	**5**	5

Notes to the financial statements (continued)

7 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Wages and salaries	**2,188**	1,742	**55**	115
Share based payments	**3**	102	**43**	51
Share options forfeited	**(21)**	(187)	**-**	(184)
Social security costs	**363**	257	**6**	10
Other pension costs	**25**	30	**-**	-
	2,558	1,944	**104**	(8)

Share based payments

The Group has incurred an expense in respect of 1,170,000 (2008 2,700,000) share options during the year issued to employees as follows

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Share options	**3**	13	**-**	10
Shares	**-**	-	**-**	-
	3	13	**-**	10

Details of share options granted during 2009 are disclosed in the Directors' report on page 12 and the Remuneration report on pages 15 to 17 The cost of these options to the Group is being written off over a two year period from the date of grant at which point they become exercisable

At 31 December 2009 the Group operated a single share option scheme ('SOS") The SOS allows the Company to grant options to acquire shares to eligible employees Options granted under the SOS are unapproved by HM Revenue & Customs The maximum number of shares over which options may be granted to an employee under the SOS may not be greater than 10 per cent of the Company's issued share capital at the date of grant when added to options or awards granted in the previous 10 years The exercise of options can take place at any time after the second anniversary of the date of grant Options can not, in any event, be exercised after the tenth anniversary of the date of grant

All share-based employee remuneration will be settled in equity The Group has no legal or constructive obligation to repurchase or settle options Share options and weighted average exercise price are as follows for the reporting periods presented

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		£		£
Opening balance	**3,160,000**	**0 200**	1,337,500	0 787
Granted	**1,170,000**	**0 100**	2,700,000	0 100
Forfeited	**(345,000)**	**0.373**	(877,500)	0 788
Closing balance	**3,985,000**	**0 145**	3,160,000	0 200

At 31 December 2009 265,000 of the above options were exercisable at an exercise price of 77 5p and 79p

Notes to the financial statements (continued)

7. Staff numbers and costs (continued)

The fair values of options granted were determined using the Black-Scholes valuation model Significant inputs into the calculation include a weighted average share price and exercise prices as illustrated above Furthermore, the calculation takes into account future dividends of nil and volatility rates of between 50% and 94%, based on expected share price Risk-free interest rate was determined between 4 160% and 5 125% for the various grants of options It is assumed that options granted under the SOS have an average remaining life of 14 months *(2008 25 months)*

The underlying expected volatility was determined by reference to the historical data, of the Company No special features inherent to the options granted were incorporated into measurement of fair value

Directors' remuneration
Details of Directors' remuneration are given in the Remuneration report on pages 15 to 17

The remuneration of key management of the Group was as follows

	Group	
	2009	2008
	£'000	£'000
Wages and salaries including social security contributions	**247**	407
Share-based payment charge	**46**	51
	293	458

The Company has no key management other than Directors

8 Taxation

Due to losses within the Group, no expenses for tax on income were required in either the current or prior periods

	2009	2008
	£'000	£'000
Tax reconciliation		
Loss before tax	**(4,888)**	(2,798)
Expected tax credit at 29 65 % (2008 29 65%)	**(1,449)**	(830)
Expenses not deductible for tax purposes	**(3)**	(33)
Tax losses carried forward	**1,452**	863
Tax charge	**-**	-

Notes to the financial statements (continued)

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary share The Company has one category of dilutive potential ordinary shares, share options, however, these have not been included in the calculation of loss per share because they are anti dilutive for these periods

	2009		2008	
	Basic	**Diluted**	Basic	Diluted
	£'000	**£'000**	£'000	£'000
Loss attributable to equity holders of the Company	**(4,888)**	**(4,888)**	(2,798)	(2,798)
Weighted average number of ordinary shares in issue (thousands)	**92,521**	**92,521**	51,418	51,418
Shares issuable (weighted) - share options (thousands)	**-**	**3,178**	-	1,124
Adjusted weighted average number of ordinary shares	**92,521**	**95,699**	51,418	52,542
	Pence per share	Pence per share	Pence per share	Pence per share
Loss per share (pence per share)	**(5 3)**	**(5.3)**	(5 4)	(5 4)

Details of shares issued after the balance sheet date are given in Note 22

Notes to the financial statements (continued)

10. Intangible assets - Group

	Copyrights, trademarks and other intellectual property rights	Development costs	Total
	£'000	**£'000**	**£'000**
Cost			
At 1 January 2008	42	549	591
Exchange differences	14	320	334
Additions	5	638	643
At 31 December 2008	**61**	**1,507**	**1,568**
At 1 January 2009	61	1,507	1,568
Exchange differences	(3)	(52)	(55)
Additions	8	250	258
Disposals	-	(474)	(474)
At 31 December 2009	**66**	**1,231**	**1,297**
Amortisation			
At 1 January 2008	33	160	193
Exchange differences	12	148	160
Charged in year	4	428	432
At 31 December 2008	**49**	**736**	**785**
At 1 January 2009	49	736	785
Exchange differences	(3)	4	1
Charged in year	6	220	226
Eliminated re disposals	-	(474)	(474)
At 31 December 2009	**52**	**486**	**538**
Net book value			
At 31 December 2009	**14**	**745**	**759**
At 31 December 2008	12	771	783
At 1 January 2008	9	389	398

Self-developed intangible assets in the amount of £258,000 (2008 £643,000) are recognized in the reporting year, because the prerequisites of IAS 38 have been fulfilled

The useful life of self-developed intangible assets is 3 years from completion of the asset

For self-developed intangible assets brought into use no indications of impairment in value that would trigger an impairment test arose in the reporting year Self-developed intangible assets costing £440,000 have not yet been brought into use and have been reviewed for impairment

There are no individually significant intangible assets

Notes to the financial statements (continued)

11 Property, plant and equipment - Group

	Leasehold property	Technical equipment & machinery	Office & other equipment	Self-constructed plant & machinery	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2008	58	188	533	96	875
Reclassification	-	-	(90)	90	-
Exchange differences	24	72	146	76	318
Additions	23	47	18	74	162
At 31 December 2008	**105**	**307**	**607**	**336**	**1,355**
At 1 January 2009	105	307	607	336	1,355
Reclassification	-	336	-	(336)	-
Exchange differences	7	(15)	(41)	1	(48)
Additions	142	433	47	12	634
At 31 December 2009	**254**	**1,061**	**613**	**13**	**1,941**
Depreciation					
At 1 January 2008	23	175	468	33	699
Reclassification	-	-	(81)	81	-
Exchange differences	8	58	129	42	237
Charge for year	5	10	21	21	57
At 31 December 2008	**36**	**243**	**537**	**177**	**993**
At 1 January 2009	36	243	537	177	993
Reclassification	-	177	-	(177)	-
Exchange differences	(1)	(14)	(38)	-	(53)
Charge for year	13	165	30	-	208
At 31 December 2009	**48**	**571**	**529**	**-**	**1,148**
Net book value					
At 31 December 2009	**206**	**490**	**84**	**13**	**793**
At 31 December 2008	69	64	70	159	362
At 1 January 2008	35	13	57	71	176

The economic life of leasehold property improvements as well as of technical equipment and machinery is 5 years

Notes to the financial statements (continued)

12 Investment in subsidiary undertaking

	2009	2008
Company	**£'000**	£'000
Shares in Group undertaking		
Cost		
At beginning of year	**23,890**	21,170
Additions	**4,786**	2,720
At end of year	**28,676**	23,890
Impairment		
At beginning of year	**19,335**	5,663
Charge for the year	**5,329**	13,672
At end of year	**24,664**	19,335
Net book value		
At end of year	**4,012**	4,555

On 31 October 2006 the Company acquired the entire share capital of Proton Motor Fuel Cell GmbH, a company incorporated in Germany The cost of investment comprises shares issued to acquire the company valued at the listing price of 80p per share, together with costs relating to the acquisition and subsequent capital contributions made to the subsidiary

Following a review of the Company's assets the Board has concluded that there are sufficient grounds for its investment in the subsidiary undertaking to be subject to an impairment charge under IAS 36 In arriving at the charge in the year of £5 329m (2008 £13 672m) the Board has determined the recoverable amount by reference to the fair value of the asset demonstrated by the market price of the Group's equity on AIM

13 Trade and other receivables

	Group		**Company**	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Trade receivables	**196**	218	**-**	-
Other debtors	**28**	12	**3**	12
Prepayments and accrued income	**42**	40	**13**	13
	266	270	**16**	25

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values

Notes to the financial statements (continued)

13 Trade and other receivables (continued)

In addition some of the unimpaired trade receivables are past due as at the reporting date The age of financial assets past due but not impaired is as follows

	Group	
	2009	2008
	£'000	£'000
Not more than 3 months	**32**	53
More than 3 months but not more than 6 months	-	17
More than 12 months	-	72
	32	142

14 Cash and cash equivalents

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Cash at bank and on hand	**187**	447	**1**	7
Short term bank deposits	-	325	-	193
	187	772	**1**	200

15 Trade and other payables

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Trade payables	**809**	795	**1**	69
Bank overdraft	**5**	-	**5**	-
Payments on account on contracts	**101**	135	-	-
Social security and other taxes	**1**	3	**1**	3
Other creditors	**77**	48	-	1
Accruals and deferred income	**436**	367	**28**	24
	1,429	1,348	**35**	97

The Directors consider that the carrying amount of trade and other payables approximates to their fair values

Notes to the financial statements (continued)

16. Borrowings

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Loan				
Current and total borrowings	**2,832**	-	**2,832**	-

During the year the Group and Company entered into several convertible loan agreements and drew down a total of £1,500,000 and €2,700,000 under these agreements

£500,000 proceeds were received in respect of an instrument classified as equity in nature and therefore was recognised solely within equity This balance was subsequently converted into share capital during the year

£1,000,000 proceeds were received in respect of an instrument classified as a compound financial instrument The debt element was fair valued using a discount rate of 20% (calculated by reference to market rate on a similar instrument) and has subsequently been accounted for at amortised cost The residual value of the instrument has been recognised in other equity

€2,700,000 proceeds were received in respect of instruments classified as a debt host instrument with an embedded derivative being the conversion feature The embedded derivative has been fair valued and the residual value of the instrument has been recognised as debt The debt has subsequently been measured at amortised cost

17 Derivatives

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Derivatives on convertible loan	**477**	-	**477**	-

The derivatives relate to the conversion features attached to convertible loans as disclosed under note 16 The derivatives are initially recognised at fair value and fair valued at each subsequent accounting reference date

18 Deferred income tax - Group

	2009	2008
	£'000	£'000
Accelerated capital allowances	**222**	230
Losses carried forward	**(222)**	(230)
	-	-

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related benefit through future taxable profits is probable The Group did not recognise deferred income tax assets of £6,071,000 *(2008 £4,897,000)* in respect of losses amounting to £1,589,000 *(2008 £1,260,000)* and €21,027,000 *(2008 €15,670,000)*

Notes to the financial statements (continued)

19 Share capital

The share capital of Proton Power Systems plc consists of fully paid Ordinary shares with a par value of £0 01 (2008, £0 05) and Deferred Ordinary shares with a par value of £0 01 All Ordinary shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Proton Power Systems plc Deferred Ordinary shares have no rights other than the repayment of capital in the event of a winding up None of the parent's shares are held by any company in the Group

During the year 10 6m ordinary shares of 5p each were issued at 10p per share and 25m ordinary shares of 1p each were issued at 2p per share

Details of share options in issue are given in Note 7

The number of shares in issue at the balance sheet date is 106,990,863 (2008 71,390,893) Ordinary shares of 1p each (2008 5p each) and 327,963,452 (2008 nil) Deferred Ordinary shares of 1peach

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less registration and other regulatory fees and net of related tax benefits Costs of new shares charged to equity amounted to £3,000 (2008 £460,000)

On 23 July 2009 each of the 81,990,863 Ordinary shares of 5p each in the capital of the Company in issue were sub-divided into five shares of 1p each, of which upon the occurrence of such sub-division, one share shall be a new ordinary share of 1p each and four shares shall be converted into and reclassified as four Deferred Ordinary shares of 1p each having the following rights and being subject to the following restrictions -

- no right to participate in any dividends declared, made or paid by the Company,
- the right on a return of assets in a winding up to the repayment of the capital paid up on such shares after the rights of all holders of Ordinary shares have been discharged in full and the sum of £10,000,000 has been paid in respect of each issued Ordinary share in the capital of the Company but no other right to participate in the assets of the Company, but so that none of the rights and restrictions attached to such Deferred Ordinary shares shall be or be deemed to be varied or abrogated in any way by the passing or coming into effect of any special resolution of the Company to reduce its share capital (including a special resolution to reduce the capital paid up on, and cancel, such Deferred Ordinary shares),
- no right to receive notice of or to attend at any general meeting of the Company,

	2009				2008			
	Ordinary shares		**Deferred ordinary shares**		Ordinary shares		Deferred ordinary shares	
	No '000	**£'000**	**No '000**	**£'000**	No '000	£'000	No '000	£'000
Shares issued and fully paid								
At the beginning of the year	**71,391**	**3,570**	**-**	**-**	31,391	1,570	-	-
Share issue	**35,600**	**780**	**-**	**-**	40,000	2,000	-	-
Reclassified under share reorganisation	**-**	**(3,280)**	**327,963**	**3,280**	-	-		
	106,991	**1,070**	**327,963**	**3,280**	71,391	3,570	-	-

Notes to the financial statements (continued)

20. Commitments

Neither the Group nor the Company had any capital commitments at the end of the financial year, for which no provision has been made Total future lease payments under non-cancellable operating leases are as follows

	2009 Land and buildings	2009 Other	2008 Land and buildings	2008 Other
Group	**£'000**	**£'000**	£'000	£'000
Operating leases which expire				
Within one year	7	-	7	-
In the second to fifth years inclusive	-	-	-	-
After more than five years	2,138	-	2,377	-
	2,145	-	2,384	-

21 Related party transactions

During the year ended 31 December 2009 the Group and Company entered into the following related party transactions

	Group Year ended 31 December 2009	Group Year ended 31 December 2008	Company Year ended 31 December 2009	Company Year ended 31 December 2008
	£'000	£'000	**£'000**	£'000
Income / (expenses)				
Turquoise International Limited corporate finance fee	-	60	-	60
Ms K Hauck consultancy fees	-	10	-	10
Roundstone Properties Limited effective loan interest	164	-	164	-

At 31 December 2009 the Group and Company had the following balances with related parties

	Group Year ended 31 December 2009	Group Year ended 31 December 2008	Company Year ended 31 December 2009	Company Year ended 31 December 2008
	£'000	£'000	**£'000**	**£'000**
Amounts owing from / (due to)				
Turquoise International Limited corporate finance fee	-	(60)	-	(60)
Roundstone Properties Limited borrowing (see Note 16)	(2,832)	-	(2,832)	-

22 Post balance sheet events

On 18 January 2010 the Company converted £1m of a loan from Roundstone Properties Limited into 50,000,000 new ordinary shares of 1 pence each in the capital of the Company (the "Placing Shares") at 2 pence per Placing Share to raise £1 0 million (before expenses)

On 27 January 2010 and 23 April 2010 the Company entered into further extensions of €1 62m each to the convertible loan agreement with Roundstone Properties Limited dated 29 April 2009 The net proceeds of the loan extensions will be used by the Company to provide additional working capital

Notes to the financial statements (continued)

23 Risk management objectives and policies

The Group's activities expose it to a variety of financial risks

- foreign exchange risk,
- interest rate risk,
- credit risk, and
- liquidity risk,

The Group's overall risk management programme focuses on the unpredictability of cash flows from customers and seeks to minimise potential adverse effects on the Group's financial performance The Board has established an overall treasury policy and has approved procedures and authority levels within which the treasury function must operate The Directors conduct a treasury review at least monthly and the Board receives regular reports covering treasury activities Treasury policy is to manage risks within an agreed framework whilst not taking speculative positions

The Group's risk management is co-ordinated at Proton Motor Fuel Cell GmbH in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets Long term financial investments are managed to generate lasting returns

24 Foreign currency sensitivity

The Group's functional currency is Euros The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Sterling Foreign exchange risk arises from the Group's conversion of its subsidiary's results to the reporting currency of Sterling

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of Euro business

Foreign currency denominated financial assets and liabilities, translated into Sterling at the closing rate, are as follows

	Year ended 31 December 2009		Year ended 31 December 2008	
	€'000	**£'000**	€'000	£'000
Financial assets	**457**	**411**	839	817
Financial liabilities	**(1,499)**	**(1,348)**	(1,285)	(1,251)
Short-term exposure	**(1,042)**	**(937)**	(446)	(434)

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the Sterling/Euro exchange rate It assumes a +/- 16 56% change of the Sterling/Euro exchange rate for the year ended at 31 December 2009 (2008 24 40%) This percentage has been determined based on the average market volatility in exchange rates in the previous 12 months The sensitivity analysis is based on Group's foreign currency financial instruments held at each balance sheet date

If the Euro had strengthened against Sterling by 16 56% (2008 24 40%) then this would have had the following impact

	Year ended 31 December 2009	Year ended 31 December 2008
	£'000	£'000
Net result for the year	**(155)**	(106)
Equity	**(155)**	(106)

If the Euro had weakened against Sterling by 16 56% (2008 24 40%) then this would have had the following impact

	Year ended 31 December 2009	Year ended 31 December 2008
	£'000	£'000
Net result for the year	**155**	106
Equity	**155**	106

Notes to the financial statements (continued)

24 Foreign currency sensitivity (continued)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions Nonetheless, the analysis above is considered to be representative of Group's exposure to currency risk

25 Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing Longer-term borrowings are therefore usually at fixed rates At 31 December 2009, the Group is exposed to changes in market interest rates through its bank deposits, which are subject to variable interest rates All financial liabilities have fixed rates

The following table illustrates the sensitivity of the net result for the year and equity to a possible change in interest rates of +1 5% and –0 1% (2008 +/-4 75%), with effect from the beginning of the year These changes are considered to be reasonably possible based on observation of current market conditions The calculations are based on the Group's financial instruments held at each balance sheet date All other variables are held constant

	Year ended 31 December 2009		Year ended 31 December 2008	
	£'000	**£'000**	£'000	£'000
	+1 5%	**-0 1%**	+4 75%	-4 75%
Group				
Net result for the year	**3**	-	37	(37)
Equity	**3**	-	37	(37)
Company				
Net result for the year	-	-	10	(10)
Equity	-	-	10	(10)

26 Credit risk analysis

Credit risk is managed on a Group basis Credit risk arises from cash and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted If customers are independently rated, these ratings are used Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties The Directors do not consider there to be any significant concentrations of credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below

	Group		**Company**	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**187**	772	**1**	200
Trade and other receivables	**224**	230	**16**	25
Short-term exposure	**411**	1,002	**17**	225

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used The Group's policy is to deal only with creditworthy counterparties

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due

None of the Group's financial assets are secured by collateral or other credit enhancements

Notes to the financial statements (continued)

26 Credit risk analysis (continued)

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings

27 Liquidity risk analysis

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities The Group maintains cash to meet its liquidity requirements

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly

As at 31 December 2009, the Group's liabilities have contractual maturities which are summarised below

	Within 6 months	6 to 12 months	1 to 5 years
	£'000	£'000	£'000
Trade payables	809	-	-
Other short term financial liabilities	83	-	-
Borrowings and derivatives on convertible loans	-	-	3,309

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows

	Within 6 months	6 to 12 months	1 to 5 years
	£'000	£'000	£'000
Trade payables	795	-	-
Other short term financial liabilities	51	-	-

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date Borrowings and derivatives on convertible loans have been combined as they relate to the same instruments Contractual maturities have been assumed based on the assumption that the lender does not convert the loans into equity before the repayment date

28 Financial Instruments

The assets of the Group and Company are categorised as follows

As at 31 December 2009

	Group			Company		
	Loans and receivables	Non-financial assets	Total	Loans and receivables	Non-financial assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	-	759	759	-	-	-
Property, plant and equipment	-	793	793	-	-	-
Investment in subsidiary	-	-	-	4,012	-	4,012
Inventories	-	105	105	-	-	-
Trade and other receivables	224	42	266	16	-	16
Cash and cash equivalents	187	-	187	1	-	1
	411	1,699	2,110	4,029	-	4,029

Notes to the financial statements (continued)

28. Financial Instruments (continued)

As at 31 December 2008	Group			Company		
	Loans and receivables	Non-financial assets	Total	Loans and receivables	Non-financial assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	-	783	783	-	-	-
Property, plant and equipment	-	362	362	-	-	-
Investment in subsidiary	-	-	-	4,555	-	4,555
Inventories	-	137	137	-	-	-
Trade and other receivables	230	40	270	25	-	25
Cash and cash equivalents	772	-	772	200	-	200
	1,002	1,322	2,324	4,780	-	4,780

The liabilities of the Group and Company are categorised as follows

As at 31 December 2009	Group				Company			
	Financial liabilities at amortised cost	Financial liabilities valued at fair value through profit and loss	Liabilities not within the scope of IAS 39	Total	Financial liabilities at amortised cost	Financial liabilities valued at fair value through profit and loss	Liabilities not within the scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	891	-	538	1,429	6	-	29	35
Borrowings	2,832	-	-	2,832	2,832	-	-	2,832
Derivatives on convertible loans	477	-	-	477	477	-	-	477
	4,200	-	538	4,738	3,315	-	29	3,344

Note all financial liabilities valued at fair value through profit and loss were designated as such on initial recognition

As at 31 December 2008	Group				Company			
	Financial liabilities at amortised cost	Financial liabilities valued at fair value through profit and loss	Liabilities not within the scope of IAS 39	Total	Financial liabilities at amortised cost	Financial liabilities valued at fair value through profit and loss	Liabilities not within the scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	843	-	505	1,348	70	-	27	97
	843	-	505	1,348	70	-	27	97