

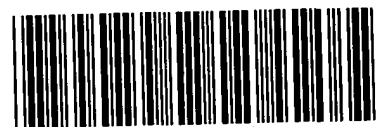
# Proton Power Systems plc

Annual report and financial statements

Registered number 05700614

31 December 2014

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## Contents

Chairman and CEO's statement	1
Board of Directors	5
Shareholder information	6
Strategic report	7
Directors' report	12
Remuneration report	17
Nominations committee report	19
Audit and internal control	20
Independent auditors' report to the members of Proton Power Systems plc	21
Consolidated income statement	23
Consolidated statement of comprehensive income	23
Balance sheets	24
Statements of changes in equity	25
Statements of cash flows	27
Notes to the financial statements	28
Notice of annual general meeting	51

## Chairman and CEO's statement

We are pleased to report our results for the year ended 31 December 2014.

### Business development

The Group is pleased to report the following achievements in 2014:

- Fuel cell products available for go to market solutions from 3kW to 75kW for stationary, mobile and maritime applications
- Further investment has been made in setting up our manufacturing capability for up to 200 systems per annum in a single shift to meet our future demand and expectations
- Completion of the development and successful testing of the new PM400 (25kW) fuel cell stack which is the basis of all our target markets
- The new PM Module S25 has been developed which can provide 25kW and is scalable in parallel operation for high power stationary applications
- Achievement of significant cost reductions for production of fuel cell stacks and systems reducing the cost per kW
- Collaboration with the Austrian government and integration companies for light duty vehicle fuel cell systems
- Successful finalisation of a special maritime feasibility study for a customer in Asia and starting the development project which is now planned for 2016 delivery
- Preparation of projects with international logistics providers for a battery/fuel cell delivery truck
- Preparing detailed plans with European bus manufacturers for a cost reduced hybrid electric bus with fuel cell range extender with our 25kW HyRange Solution for both bus and truck applications in Germany, Austria, Switzerland and France
- World record round trip from Munich to Berlin and back to Munich with our own Smith Newton vehicle equipped with Hybrid Battery/Fuel Cell System
- Containerised energy solution deployed with fuel cell Uninterruptible Power Supply system
- SPower is now fully integrated into the Proton Power organisation optimizing the working processes, with combined sales and technical teams for stationary power supply solutions with products selling in the market for UPS systems, solar storage systems and fuel cell systems for stationary power demand. Complete solutions are now offered in our go to market strategy.
- Successful development and testing of a 10kVA Solar Battery Storage System

The world has identified hydrogen fuel cell applications as a core technology for transport and power supply of the future. Companies like Toyota and VW/Audi are investing heavily in fuel cell technology and Proton Power Systems is leading the development in applications that will enhance our quality of life for a sustainable future. We all need to redesign how we produce and consume energy and clean energy is becoming a must in industrialized societies.

We see strong interest and growing demand for various applications we offer and we continue to improve the operational performance with significant reductions in cost per kW. Our costs for fuel cell systems have dropped significantly and the technology and products are robust and reliable.

We are offering complete systems and solutions to our customers from 3kW to 75kW (in parallel operation >25kW) for maritime, stationary and mobile applications. It is essential to provide the customer with a full turnkey proposition that starts with consulting, simulation, packaging study, integration testing and final rollout with after care services and support. The Group now has a complete portfolio of solutions across its market segments and our strategy is to sell directly in Europe and to establish licensing partners to manufacture solutions for the three target market applications: mobile, stationary and maritime systems in Asia Pacific. The Group provides support to its customers from first feasibility to simulation up to complete solutions with integration and after sales service. Benefits for our customers are:

- A fast integration process
- Fuel cell know how, we have the knowledge, capability and experience
- Continuous cost reductions evolution based on existing Proton Power technology.

Asia Pacific, as a target market, which is suffering severe pollution problems will require commitment from governments to take remedial action to improve the situation. We believe that the significant pollution problems in Asia will drive the demand for clean power applications for us in the near future. This will drive our technology. Therefore, China is an important market and we have established representatives in China to support our expectations. We see "Made in Germany" technology as highly respected with high demand within China. We started our first maritime project for AUVs in China and have ongoing discussions with major Chinese based companies for bus applications. We expect our first project for electric hybrid bus systems based on our fuel cell and hybrid technology in 2015.

Furthermore, we are seeing good progress in the market introduction of our products and solutions in Europe and are in discussion with several European bus manufacturers and logistic companies. We will launch our next electric battery fuel cell bus on the road with a bus manufacturer in the second half of 2015. For this project, we have applied to NOW in Germany (national hydrogen association) for specific funding.

Talks are also underway with a large international logistic company for electric battery fuel cell logistic vehicles, with a first test vehicle integration for Germany planned for 2015. Another collaboration project, funded by the Austrian Government is under progress with an Austrian based automotive supplier. We will be supplying our Range Extender System to be integrated in a passenger van.

Within the stationary power market, we see very positive interest for complete high power systems with electrolysers, hydrogen storage, re-powering with our fuel cell and connection to the load via our UPS systems. There is also strong interest in the containerised solutions the Group offers for large solar and wind parks from Europe, Africa and China. The Group is currently working with different suppliers in Europe for the supply of electrolysers. Our modular fuel cell design based on our 25kW modules allows us to provide high power delivery up to several megawatts.

We have achieved our development targets for 2014: systems have been tested in depth, reliability and the lifetime in use for our fuel cell stacks is now proven for the market.

As the Group sees the increased market demand we will continue our investment with our manufacturing capability and we are now ready to assemble up to 200 systems per annum based on one shift for mobile or stationary applications.

The Group's product strategy includes:

- Modular stationary power of 5kW, 25kW and >50kW for IT, Smart Grid (Solar-and Windparks) and industrial applications
- A modular Range Extender (HyRange) for light duty commercial vehicles and city buses of 8kW and 25kW/50kW or 75kW
- Maritime modular fuel cell systems of 25kW and above for high power applications

#### **A. Fuel cell stack production and development:**

The Group designs and manufactures fuel cell stacks which is at the heart of all fuel cell applications. During 2014, the Group further improved the existing stack design (PM200) with 8kW and successfully completed the development of the new stack design (PM400) which generates 30kW to 60kW of net power. The Group now has the full complement for 3kW to 60kW solutions.

##### **1. PM200 fuel cell stack generation (3kW to 8kW)**

We continue our cost reduction activities within this successful range. We have improved the reliability for prolonged operational activity for our customers.

##### **2. PM400 fuel cell stack generation (up to 60kW)**

The PM400 platform was further extended to a power range of 60kW. We have continued to improve the operational performance with significant reductions in cost per kW. This product forms the basis of all our target market segments, namely mobile applications (buses and light duty vehicles), maritime applications (tourist/ferry boats and auxiliary power supply) and stationary applications in our UPS and smart grid product range.

## B. Systems:

The Group offers complete systems and solutions to its customers. It is essential to provide the customer with a full turnkey proposition that starts with consulting, simulation, packaging study, integration testing and final rollout with after care services and support. The modular approach for the fuel cell products allows the utilisation of similar components for different market segments.

### 1. Mobility - buses and light duty vehicles

During the year the Group has completed the development of the HyRange 25 system. This generates a powerful 25kW for buses and light duty vehicles. The product is modular so can be utilised in parallel creating a system of up to 75kW. This product will address our target markets specifically in Asia which is suffering severe pollution problems. We are also making good progress for our solutions in Europe, and we are in discussions with several bus manufacturers and logistic companies.

### 2. Mobility - maritime segment

In the maritime sector we have built on our successful implementation of the Alsterwasser tourist boat system in Hamburg. It has been in continuous day-to-day operation since 2008 and has transported over 60,000 passengers. Based on this successful project, we are receiving request for concepts for different types of boats powered by fuel cell systems, including:

- yachts;
- underwater AUVs;
- tourist boats.

We expect increased adoption of fuel cell technology for maritime applications as demand for quiet and emission free operation is growing and the technology has shown reliability in day-to-day operations.

The feasibility study with Chinese ship builders is on the way to being finalized in the first half of 2015. As it is a very complex system, it has taken more time than expected. Within the framework of the project, we will also design a unique storage solution for liquid gas which is a unique solution within the industry. A follow up order for the development of the solution is expected.

The market for AUVs worldwide is large and fast growing.

### 3. Stationary segment

The Group is seeing growing demand for safe power specifically in data centres, telecom and grid applications. The combination of fuel cell products and UPS allows a complete solution. These can be delivered as single components, in cabinets or containerised. Standardised fuel cell modules allow scalable power usage for high power applications. Each 25kW can be used in parallel for higher power demand. We have developed the PM Module 25, an outdoor energy container with 5kW or 25kW output as options, which was introduced to the market in late summer 2014. The container can provide UPS power with significant backup times.

We are working with a semi-conductor manufacturer to utilise their processed hydrogen for their own internal power requirements. This is a complex manufacturing process we have developed a turnkey solution to utilise wasted hydrogen that would normally be released into the environment into electrical energy. We are seeing significant market demand for these turnkey solutions. There is large worldwide demand for similar applications. We are planning a first test application in the second half of 2015.

AREVA presented our PM Module 5 together with their electrolyser and LOHC Hydrogen storage device. The plan is to use a special application of our module together with their system. In the future, such a system can be used for energy storage to balance grids and repower on demand.

We have released a new 10kW battery solar storage system during 2014, which, in connection with a solar system, allows the generation of enough power for a family home or small business. It makes the household nearly independent from grid power supply. Although the markets for solar storage has developed more slowly than we expected, we now see large demand for those applications in the near future, based on rising energy cost and the requirement for clean energy generation and storage.

## Finance

Turnover increased by 27% to £1,411,000. The operating loss for the year was £6,181,000 which, when added to net finance costs of £1,261,000 and the non-cash loss arising from the change in the fair value of the embedded derivative on the shareholder loan of £2,696,000 resulted in a total loss of £10,138,000 (2013: £9,267,000). Excluding the fair value loss on the embedded derivative, this was in line with management expectations.

The Group secured further loan funding in 2014 of €5,550,000 from Roundstone Properties Limited and €500,000 from Mr Faiz Nahab. It also received grant funding of €135,000 from the German Government.

The total funds raised financed the working capital for the year. The Company continues to be interested in involving other investors alongside Roundstone Properties Limited in this exciting opportunity.

## Outlook

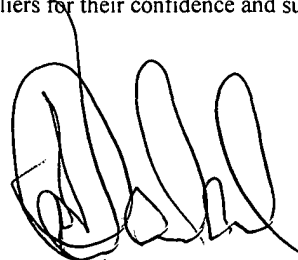
Proton Power has made great progress in 2014 and is seeing significant interest for our solutions in all of our market segments, and our objective is to expand volume manufacturing with industrial partners based on licensing agreements. The Board can proudly state, that Proton Power now has technically proven products and a go to market solution portfolio. Also, we have in place enhanced production facilities and continue to expand our worldwide sales and marketing activities. The unique know how and positioning of Proton Power underlines the high expectation of business development. Together with continuous cost reductions, driving down the cost per kW is our foundation for growth and success of our technology in the world markets.

Targets for 2015 are:

- First orders from Asia Pacific for our products and solutions
- Orders for buses with our new HyRange system in Europe
- Orders for HyRange systems for logistic vehicles
- Further strengthening of our product platform
- Growing capability with our team with highly qualified staff.

The Directors are confident with the outlook of the business and has secured future finance to meet future commitments.

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



**Dr Faiz Nahab**  
CEO

**Ian Peden FCMA**  
Chairman

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**Ian Peden FCMA**  
Chairman

**Dr Faiz Nahab**  
CEO

## Board of Directors

### **Ian Peden (aged 52), Non-Executive Chairman**

Ian, aged 52, is a Fellow of the Chartered Institute of Management Accountants and currently serves as a non-executive director and partner at Team B LLP. Mr Peden has significant public company and international experience through senior divisional roles at Chloride Group plc, as finance director for the UK Sales & Service Division, and Marconi plc, as European Finance Director in the Access Division. Mr Peden has over 30 years of industry experience, beginning his career as a qualified electronic and communications engineer before also qualifying as a production engineer. Prior to his role at Team B LLP, Mr Peden held the position of CFO at Trilogy Communications Holdings Ltd, a global communications provider.

### **Dr. Faiz Nahab (aged 72), Chief Executive Officer**

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 sectors, 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.

### **Thomas Melczar (aged 55), Business Development Director**

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 seven 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, 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 three 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 55), 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.

### **Helmut Gierse (aged 65), 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 Universität Erlangen in Germany. He speaks German, English, French and Spanish.

## Shareholder information

### Registered number

05700614

### Registered office and head office

St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

### Financial advisers and stockbroker

Westhouse Securities Limited  
Heron Tower  
110 Bishopsgate  
London  
EC2N 4AY

### Solicitors

Bond Dickinson LLP  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Central Square South, Orchard Street  
Newcastle upon Tyne  
NE1 3AZ

### Registrars

Neville Registrars Limited  
Neville House  
18 Laurel Lane  
Halesowen  
West Midlands  
B63 3DA

## Strategic report

### Business review

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, as well as products for UPS and Solar battery storage applications through its SPower product line. A commentary on the Group's activities, results for the year and future prospects is included in the Chairman and CEO's statement on pages 1 to 4.

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.

### Group activities

The Group is now selling PM Module S5 with 5kW for stationary power. The PM Module S5 can be used in parallel with up to three units for applications requiring 15kW. For higher power demand, the new PM Module S25 has been developed, which can provide 25kW and is scalable in parallel operation. The Group aims to offer its customers complete solutions as a stand-alone application, or connected to an uninterruptible power supply ("UPS") system, each with 25kW can be used in parallel for higher power demand. The Group designs even higher power solutions, if required by its customers, above 100kW for stationary power to be used in UPS or Smart Grid applications. These are mainly containerised as sole Fuel Cell application with a UPS, to repower existing Hydrogen on demand and to feed back to the grid, or also as complete Power Stations in combination of Electrolysers, Hydrogen Storage, Fuel Cells and UPS's. Those can be used to store solar or wind power and to repower on demand. In collaboration with Mossau, a Germany company, the Group developed a complete solution including fuel cell, electrolyzer to produce Hydrogen and tank facilities to do large scale Hydrogen storage. The solution can provide up to 5kW of continuous or back up power. Hydrogen can be produced for example from wind or solar power. That product will be up scaled up to 25kW.

The Group has also developed mobile 8kW and 25kW fuel cell system (HyRange) to operate as a Range Extender for battery driven light duty vehicles, or inner city buses. A Range Extender is continuously charging the battery based on a hydrogen fuel cell. The benefits are a significant increase in their range of operation and support for air-conditioning or heating devices with zero emissions. The Group has done extensive testing in vehicles which proves the benefit of range extension based on the combination of a battery and fuel cell system.

The fuel cell Range Extender concept also provides exciting opportunities for urban electric bus applications. For that reason, the Group is offering a 25kW Range Extender version for buses (HyRange), which can be used in modular operation with 25kW, 50kW and 75kW. An Austrian funding project in cooperation with Magna Steyr has started in 2014 with the integration of the 25kW Range Extender into a German branded light duty vehicle. HyRange can be used for any kind of duty vehicle, bus or truck. We also expect growing demand in the near future from truck manufacturers for municipality maintenance vehicles.

The Group has now completed the full integration of SPower. The SPower solar battery storage system with 3kW and 10kW of output power is a very attractive solution for markets in Europe and the Middle East. SPower further expanded the usage of the system by allowing full monitoring and control of each unit via a centralised monitoring station. This is a very interesting solution for smart grid applications, operated by utility companies. The UPS product range was further expanded by a modular 3-phase product.

### Strategy

#### *Sales strategy*

Proton Motor is targeting mid-size technology companies as well as large multinationals to co-operate with. The Group is specifically looking for partners with market access for its applications and solutions. These partners should already be active in the market for battery powered electric solutions, or be planning to address those markets. Adding a fuel cell is often seen as the key to solving critical problems with pure battery powered products. The Group will offer licensing partnerships which will allow manufacture of the complete system locally by a licensing partner.

China is seen as the market with the largest potential in the near future for Hydrogen solutions. Talks with potential cooperation partners have commenced and the first project was started. The Group will offer solutions for all three target markets: mobility, maritime and stationary power in China. The Group will also continue its focus on further developing fuel cell stacks and systems.

## Strategic report (continued)

The sales process always starts with consulting, simulation, packaging study, integration, testing and final roll out with service support. Proton Motor can act as turnkey supplier for a complete solution with all the necessary know how under one roof. To have its own fuel cell stack gives a complete product offering from stack to final application which the Directors see as necessary to supply customers with a complete and optimised solution. The benefits for customers are obvious. Know-how and solutions are available for a fast integration process, saving time and money for our customers.

With regard to our UPS business, the Group sees growing market demand for safe power world-wide. Data centre demand will be significant in the coming years. The combination of the fuel cell-series: Module S5 and S25, with a UPS and the optimisation of both systems will help to boost sales in the near future. Solar power storage with small cost efficient systems by using batteries for private residences will also play an important role in the future. The newly designed product with capabilities to be integrated and controlled via a smart grid will also have great potential.

### *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. A project has been undertaken with IAV, an automotive consulting company, to organise production for a size up to 200 units per annum at single shift operation. 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 licence partners. In order to seek to achieve this, the Directors have:

- identified target markets and commercial applications;
- established further 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;
- switched over to a new and more cost effective stack generation which will lead to a decrease in production costs;
- 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 a new electrical infrastructure for continuous testing;
- reviewed, risk assessed and secured supplier and component manufacturing relationships;
- identified second source suppliers and addressed new suppliers for critical components;
- identified and assessed major commercial factors, such as cost, availability, robustness and durability of components; and
- secured and properly documented necessary regulatory and operational approvals for each application.

### **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;
- energy security concerns;
- limitations of purely battery powered propulsion systems;
- solar power storage for private residences and
- discussions regarding hydrogen as an energy storage for green energy (power to gas).

## Strategic report (continued)

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 buses;
- passenger ferry boats;
- duty and light duty vehicles;
- auxiliary power units (“APUs”) for back-up power and smart grid applications; and
- Power supply systems for IT and Infrastructure.

The Directors see significant growth and demand in those market segments for the existing product range.

### *Competitive advantages*

The Directors are confident that the Group’s technology brings the following distinct combination of characteristics to the power systems market:

- zero harmful emissions;
- lower fuel consumption than comparable commercial alternatives;
- silent operation;
- standard fuel cell stack for use in multiple applications;
- modular fuel cell and UPS systems for easy customer adoptions;
- integrated system with UPS and/or electrolyzer;
- 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 expand volume manufacturing with industrial partners based on licence agreements. This will enable the Group to achieve an economically viable unit cost for its fuel cells and fuel cell hybrid systems. Also the Group will utilize the sales channels of its industrial partners to address various markets and ensure growth of sales volume. The Directors believe that the advanced stage of commercialisation of the Group’s technology, coupled with the Group’s preferred partnerships, will enable the business to establish itself firmly as a leading, global, fuel cell, fuel cell hybrid system, UPS and wind/solar power storage system provider.

### **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. Production volume has increased in 2014 and will increase in 2015 at larger scale based on the current order book.

### **Principal risks and uncertainties**

#### *Operating revenues and future funding*

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. The Directors constantly monitor operational cash flows and prepare projections to identify cash flow shortages. Loans to cover operating cash flow shortages have been provided by the Group’s principal shareholder and it is expected that these loan agreements will be extended or renewed as required for the foreseeable future. Whilst support has been committed from the shareholders for at least the next 12 months, the Board recognises that the Group must show improved financial performance to warrant further financial support.

## Strategic report (continued)

### *Further development activities*

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. A core component within the Group's product offering is its fuel cell module. This is now fully validated according to its product specifications and has gone through all necessary legislative certification processes, so that it is now commercially available. Systems have also gone through a number of internal validation processes and meet their specifications. However, as with any new technology, there are risks associated with the long-term operational life of the product above the proven 10,000 hours.

The Group's current activities are focused on transferring from a purely project based company into a manufacturing company. In order to achieve this, a production planning process is currently in place with the focus on reducing manufacturing time and costs. Future decisions regarding what will be transferred to an external manufacturer, or licensed and when, will be based purely on costs.

### **Other business risks**

In addition to the current principal risks identified above and general business risks, the Group's business is subject to risks inherent in oil and gas exploration, development and production activities. There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. The Company has identified certain risks pertinent to its business including:

<b>Category</b>	<b>Risk</b>
<i>Competing power technologies</i>	<p>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.</p> <p>Additionally, there are competitors working on development of 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.</p>
<i>Governmental regulation</i>	There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities.
<i>Commercial relationships</i>	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.
<i>Dependence on key personnel</i>	In order to implement the Group's anticipated growth successfully, 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. There can be no assurance that the Group will be able to retain or hire necessary personnel.
<i>Currency exchange rate fluctuations</i>	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.

## Strategic report (continued)

### Capital structure

The Group is financed by a mixture of share capital and loans, some of which are classified as equity, details of which are contained elsewhere in the financial statements. The Group has an ongoing requirement for external capital to fund its product development and day-to-day requirements. This capital requirement has been met by accepting the further finance of an existing majority shareholder and Mr Falih Nahab on commercial terms.

On behalf of the Board



**I Peden FCMA**  
*Director*

6 May 2015

## Directors' report

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2014. The Chairman and CEO's statement and Strategic report on pages 1 to 4 and 6 to 11 form part of the Directors' report.

### Share capital

There have been 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.

### 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. It also emits heat which can be used for example to support heating of passenger buses. This increases the system efficiency significantly.

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, proton exchange membrane ("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 sees a strong movement in the market from pure battery driven to hybrid systems (fuel cells and batteries). The Group has significant know-how regarding fuel cell stacks and hybridisation. Over the years, different application like the TriHyBus in Czech Republic, the SEV Newton truck and the Alsterwasser ship in Hamburg are good examples of Proton Motor's in depth know-how.

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.

The Group has in its portfolio two different fuel cell stack types: PM200 and PM400. Both are currently in the second generation of development. Within this generation significant cost reductions have been achieved. 'Generation C' of the PM400 is under way with further improvement to its lifetime, environmental robustness and cost reductions.

The Proton Motor PM200 fuel cell stack is designed as a standardised modular building kit with 24, 48, 72 and 96 cells. This allows generation, in steps, up to a gross electrical power of more than 8kW. The stacks were developed over a number of years, including life time bench testing, freeze start and stop procedures, shock and vibration testing. Internal life time testing has now run for more than 10,000 hours over five years with further testing over 15,000 hours under way.

The PM400 Proton Motor fuel cell stack is designed as a standard 96 cells. This allows generation in steps of more than 25kW. The stack was also developed over a number of years, including life time bench testing, freeze start and stop procedures, shock and vibration testing. Internal life time testing has now run for more than 6,000 hours over a little less than one year. Further lifetime testing commenced in November 2014 at the institute of Fraunhofer .

The PM200 and PM400 are being prepared for small series production within the Proton Motor facility. Both stack types meet the international standard IEC 62282-2.

The Group has also made great progress in the optimization and industrialization of the current 5kW stationary (PM Module S5) and 25kW mobile (HyRange25) systems. The systems have been standardized for easier and faster integration. Cost reductions of up to 30% have been achieved in cooperation with suppliers of key components. Control software has been optimized and the balance of plant components validated and improved. The number of suppliers has been reduced by further integration and second source suppliers have been evaluated to reduce the risk.

The specific power of the systems has been further improved and the costs have been reduced. We are achieving higher power output with less weight and volume at lower costs. That process will continue and will be our main development focus.

The PM Module generation A is fully tested and certified to satisfy the CE conformity requests. The generation B will be released in the second quarter of 2015 and will undergo validation to meet European standards.

## Directors' report (continued)

The HyRange25, for mobile applications and PM Module S25 for stationary power, are based on the PM 400 fuel cell stack. The HyRange25 is currently under testing and validation for lifetime testing, shock/vibration and surrounding temperatures. The HyRange25 will be integrated within a funded project into a Vito from Daimler with their partner Magna Steyr.

The PM Module S25 is currently under development and will be available for the market by the end of 2015. The modular design allows several systems to be run in parallel for high power demand.

Proton Motor has updated the development process to include multiple steps to verify system performance and durability, before release for customer applications, such as design validation testing. Proton Motor has invested further in its testing infrastructure (outdoor test facility, test benches for stacks at institutes, electric loads, component test benches).

### 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 to 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 considered fully, 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 (2013: £nil).

### Directors

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

I Peden FCMA	Chairman <sup>2,3,4</sup>
F Nahab	Chief Executive <sup>1,6</sup>
T Melczer	Business Development Director <sup>6</sup>
A Loecher	Group Finance Director
H Gierse	Non-Executive Director <sup>5</sup>
J Wall	Chairman (deceased June 2014)

<sup>1</sup> Chairman of the Remuneration Committee.

<sup>2</sup> Chairman of the Audit Committee.

<sup>3</sup> Chairman of the Nominations Committee.

<sup>4</sup> Member of the Remuneration Committee.

<sup>5</sup> Member of the Audit Committee.

<sup>6</sup> Member of the Nominations Committee.

## Directors' report (continued)

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. A summary of the existing share options held by the Directors is as follows:

	At start of year	Number of options during the year		At end of year	Exercise Price	Date from which exercisable	Expiry Date
		Granted	Exercised				
Thomas Melczer	12,500,000	500,000	(400,000)	12,600,000	£0.10, £0.03, £0.02 & £0.06	2 October 2010 1 July 2012 2 July 2013 22 December 2013 28 November 2014 28 February 2016	1 October 2018 30 June 2020 30 June 2021 21 December 2021 27 November 2022 27 February 2024
Achim Loecher	8,450,000	500,000	-	8,950,000	£0.10, £0.03, £0.02 & £0.06	2 October 2010 1 July 2012 2 July 2013 22 December 2013 28 November 2014 28 February 2016	1 October 2018 30 June 2020 30 June 2021 21 December 2021 27 November 2022 27 February 2024
John Wall	11,000,000	1,500,000	-	12,500,000	£0.775, £0.10, £0.03, £0.02 & £0.06	1 February 2009 2 October 2010 1 July 2012 2 July 2013 22 December 2013 28 November 2014 28 February 2016	31 January 2017 1 October 2018 30 June 2020 30 June 2021 21 December 2021 27 November 2022 27 February 2024
Helmut Gierse	5,250,000	300,000	-	5,550,000	£0.10, £0.03, £0.02 & £0.06	2 October 2010 1 July 2012 2 July 2013 22 December 2013 28 November 2014 28 February 2016	1 October 2018 30 June 2020 30 June 2021 21 December 2021 27 November 2022 27 February 2024

Directors' attendance at various meeting was as follows:

	Board meetings attended (Out of 6)	Audit Committee meetings attended (Out of 2)
Ian Peden	1	N/A
John Wall (deceased)	4	2
Faiz Nahab	4	N/A
Thomas Melczer	3	N/A
Achim Loecher	6	N/A
Helmut Gierse	3	2

There were no meetings of the Remuneration Committee or the Nominations Committee.

## Directors' report (continued)

### Major shareholdings

As at 30 March 2015 the following shareholder held 3% or more of the ordinary share capital of the Company:

	Ordinary Shares	
	Number	Percentage
Roundstone Properties Limited	596,279,682	92.87

### Corporate governance

The Directors recognise the value of the corporate governance principles enshrined in the UK Corporate Governance Code 2012 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 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 auditor, who also receives these reports.

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 credit risk, liquidity and cash flow risk and foreign exchange risk are disclosed in notes 22 to 25.

### 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 dependent 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 Roundstone Properties Limited and Mr Falih Nahab to meet its day-to-day working capital requirements. The Group has loans with Roundstone Properties Limited of €2.4m and €16.5m, which are due for repayment in July 2016 and May 2017. The Group also has a €10m loan facility with another investor, Mr Falih Nahab, of which €0.5m was drawn down at the year end. This facility is due for repayment in December 2017. Roundstone Properties Limited also previously provided short-term loans directly to SPower of €335,000, which are interest free and repayable on demand.

Roundstone Properties Limited and Mr Falih Nahab have indicated that they will continue to provide further support for at least the next 12 months.

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.

### Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

## Directors' report (continued)

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge and belief:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

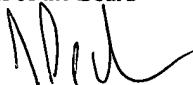
### Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

### Auditor

A resolution to confirm the re-appointment of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



**I Peden FCMA**  
Director

6 May 2015

St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

## Remuneration report

### The Remuneration Committee

The Remuneration Committee is chaired by Faiz Nahab and its other member is Ian Peden. 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. Bond Dickinson has been appointed as external adviser to the Remuneration Committee. Bond Dickinson also provide legal services in connection with company secretarial, corporate governance and general legal matters. 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.

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

### 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 as follows during the year:

- 6,650,000 shares on 28 February 2014 to four Directors, 13 members of staff of Proton Motor Fuel Cell GmbH and to one consultant of the Company at an option price of 6 pence.
- 700,000 shares on 28 May 2014 to four members of staff of Proton Motor Fuel Cell GmbH and to two consultants of the Company at an option price of 7.5 pence.

## Remuneration report (continued)

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.

Performance conditions attach to some option awards covering technological and product development milestones, finance raising and financial performance of the Group. Conditions are employee specific.

### 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.

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 (audited information)

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

Name	Salary	Pension	Total 2014	Total 2013
	£'000	Contributions £'000		
Dr F Nahab	-	-	-	-
T Melczer	108	-	108	117
A Loecher	103	-	103	112
I Peden	-	-	-	-
J Wall (deceased)	8	-	8	15
H Gierse	-	-	-	-
<b>Total</b>	<b>219</b>	<b>-</b>	<b>219</b>	<b>244</b>

During the year Helmut Gierse submitted an invoice to the Company for €24,200 for professional consultancy fees provided for the year ended 31 January 2014. The invoice was settled by the issue of 330,682 ordinary shares of 1p each at a price of 6p.

During the year Team B Partners LLP submitted invoices to the Company for £14,000 for professional fees and expenses provided for the year ended 31 January 2014 by I Peden.

Details of the Directors' interests in the SOS are given in the Directors' Report.

On behalf of the Board



**F Nahab**  
 Chairman of the Remuneration Committee

6 May 2015

## Nominations committee report

The Company recognised that the Board should be structured to reflect the requirements for listed companies in accordance with the UK Corporate Governance Code.

Ian Peden was appointed as non-executive Chairman to the Board of Proton Power Systems plc during the year.

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 up until June 2014 and is now chaired by Ian Peden. Its other members are Faiz Nahab and Thomas Melczer.



**I Peden FCMA**  
*Chairman of the Nominations Committee*

6 May 2015

## Audit and internal control

### Internal audit

In the opinion of the Board the Group is not big enough for an internal audit function to operate in any meaningful way. The Directors consider their involvement in the day-to-day operation of the Group mitigates any risks associated with not having an internal control function, but will continue to assess this regularly.

### Non-audit services

The fees paid to PricewaterhouseCoopers LLP for audit and non-audit services are set out in note 6.

The Audit Committee has developed a policy on the provision by the external auditor 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 auditors' 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 auditor provide (such as interim and full-year reporting); prohibited services, which the Company's auditor may never provide; and potential services, which the Company's auditor may in certain circumstances provide, subject to the policy (such as tax advisory services or services where the auditor is acting as the Company's reporting accountants). Prohibited services are those which would result in:
  - the external auditor auditing their own firm's work;
  - the external auditor making management decisions for the Company;
  - a mutuality of interest being created; or
  - the external auditor 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 auditor.



**I Peden FCMA**  
*Chairman of the Audit Committee*

6 May 2015

## Independent auditors' report to the members of Proton Power Systems plc

### Report on the financial statements

#### Our opinion

In our opinion:

- Proton Power Systems plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2014 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Emphasis of matter - Group - Going concern

In forming our opinions on the Group and the Company financial statements, which are not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group and the Company's ability to continue as a going concern. The Group and the Company are dependent on the continuing support of the majority shareholder, Roundstone Properties Limited and a further investor, Mr Falih Nahab, in order to meet their day to day working capital commitments. Due to the lack of audited accounts or other available financial information, the directors are unable to confirm that either Roundstone or Falih Nahab have the ability to provide such support. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group and the Company's ability to continue as a going concern. The Group and the Company's financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

#### What we have audited

Proton Power Systems plc's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the statements of cash flows for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the Directors**

As explained more fully in the Directors' Responsibilities Statement set out on pages 30 and 31, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

#### **What an audit of financial statements involves**

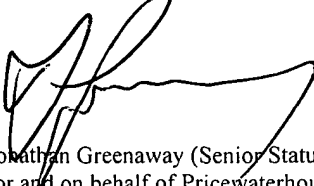
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jonathan Greenaway (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
6 May 2015

**Consolidated income statement**  
*for the year ended 31 December 2014*

	<i>Note</i>	<b>2014</b>	2013
		<b>£'000</b>	£'000
Revenue	4	1,411	1,114
Cost of sales		<u>(4,635)</u>	<u>(4,735)</u>
<b>Gross loss</b>		<b>(3,224)</b>	<b>(3,621)</b>
Other operating income		93	26
Administrative expenses		<u>(3,050)</u>	<u>(1,301)</u>
<b>Operating loss</b>		<b>(6,181)</b>	<b>(4,896)</b>
Finance income		7	1
Finance costs		<u>(1,268)</u>	<u>(829)</u>
Fair value loss on embedded derivatives		<u>(2,696)</u>	<u>(3,543)</u>
<b>Loss for the year before tax</b>	5	<b>(10,138)</b>	<b>(9,267)</b>
Tax	8	<u>-</u>	<u>-</u>
<b>Loss for the year after tax</b>		<b><u>(10,138)</u></b>	<b><u>(9,267)</u></b>
<b>Loss per share (expressed as pence per share)</b>			
Basic	9	<u>(1.6)</u>	<u>(1.5)</u>
Diluted	9	<u>(1.6)</u>	<u>(1.5)</u>

**Consolidated statement of comprehensive income**

	<b>2014</b>	2013
	<b>£'000</b>	£'000
<b>Loss for the year</b>	<b>(10,138)</b>	<b>(9,267)</b>
<b>Other comprehensive (expense) / income</b>		
Items that may not be reclassified to profit and loss		
Exchange differences on translating foreign operations	<u>(26)</u>	<u>99</u>
<b>Total other comprehensive (expense) / income</b>	<b><u>(26)</u></b>	<b><u>99</u></b>
<b>Total comprehensive expense for the year</b>	<b><u>(10,164)</u></b>	<b><u>(9,168)</u></b>
<b>Attributable to equity holders of the parent</b>	<b><u>(10,164)</u></b>	<b><u>(9,168)</u></b>

**Balance sheets**  
*as at 31 December 2014*

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	10	64	2,219	-	-
Property, plant and equipment	11	672	650	-	-
Investment in subsidiary undertakings	12	-	-	-	1,937
		<b>736</b>	<b>2,869</b>	<b>-</b>	<b>1,937</b>
<b>Current assets</b>					
Inventories		312	426	-	-
Trade and other receivables	13	341	230	47	67
Cash and cash equivalents	14	180	392	-	-
		<b>833</b>	<b>1,048</b>	<b>47</b>	<b>67</b>
<b>Total assets</b>		<b>1,569</b>	<b>3,917</b>	<b>47</b>	<b>2,004</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	15	782	1,152	171	83
Borrowings	16	262	280	-	-
		<b>1,044</b>	<b>1,432</b>	<b>171</b>	<b>83</b>
<b>Non-current liabilities</b>					
Borrowings	16	16,782	11,711	16,782	11,711
Embedded derivatives on convertible interest	17	6,622	3,771	6,622	3,771
		<b>23,404</b>	<b>15,482</b>	<b>23,404</b>	<b>15,482</b>
<b>Total liabilities</b>		<b>24,448</b>	<b>16,914</b>	<b>23,575</b>	<b>15,565</b>
<b>Net liabilities</b>		<b>(22,879)</b>	<b>(12,997)</b>	<b>(23,528)</b>	<b>(13,561)</b>
<b>Equity</b>					
<b>Equity attributable to equity holders of the Parent Company</b>					
Share capital	19	9,695	9,679	9,695	9,679
Share premium		18,298	18,224	18,298	18,224
Merger reserve		15,656	15,656	15,656	15,656
Reverse acquisition reserve		(13,862)	(13,862)	-	-
Share option reserve		971	779	971	779
Foreign translation reserve		5,598	5,144	-	-
Capital contributions		1,065	1,137	-	-
Accumulated losses		(60,300)	(49,754)	(68,148)	(57,899)
<b>Total equity</b>		<b>(22,879)</b>	<b>(12,997)</b>	<b>(23,528)</b>	<b>(13,561)</b>

These financial statements on pages 23 to 50 were approved by the Board of Directors on 6 May 2015 and were signed on its behalf by:



**I Peden FCMA**  
 Director

## Statements of changes in equity

Group	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition Reserves	Share Option Reserve	Foreign Translation Reserve	Capital Contribution Reserves	Accumulated Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2013</b>	<b>9,672</b>	<b>18,211</b>	<b>15,656</b>	<b>(13,862)</b>	<b>608</b>	<b>4,716</b>	<b>1,113</b>	<b>(40,134)</b>	<b>(4,020)</b>
Share based payments	-	-	-	-	171	-	-	-	171
Proceeds from share issues	7	13	-	-	-	-	-	-	20
Currency translation differences	-	-	-	-	-	329	24	(353)	-
<b>Transactions with owners</b>	<b>7</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>171</b>	<b>329</b>	<b>24</b>	<b>(353)</b>	<b>191</b>
Loss for the year	-	-	-	-	-	-	-	(9,267)	(9,267)
<b>Other comprehensive income:</b>									
Currency translation differences	-	-	-	-	-	99	-	-	99
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>99</b>	<b>-</b>	<b>(9,267)</b>	<b>(9,168)</b>
<b>Balance at 31 December 2013</b>	<b>9,679</b>	<b>18,224</b>	<b>15,656</b>	<b>(13,862)</b>	<b>779</b>	<b>5,144</b>	<b>1,137</b>	<b>(49,754)</b>	<b>(12,997)</b>
<b>Balance at 1 January 2014</b>	<b>9,679</b>	<b>18,224</b>	<b>15,656</b>	<b>(13,862)</b>	<b>779</b>	<b>5,144</b>	<b>1,137</b>	<b>(49,754)</b>	<b>(12,997)</b>
Share based payments	-	-	-	-	192	-	-	-	192
Proceeds from share issues	16	74	-	-	-	-	-	-	90
Currency translation differences	-	-	-	-	-	480	(72)	(408)	-
<b>Transactions with owners</b>	<b>16</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>192</b>	<b>480</b>	<b>(72)</b>	<b>(408)</b>	<b>282</b>
Loss for the year	-	-	-	-	-	-	-	(10,138)	(10,138)
<b>Other comprehensive income:</b>									
Currency translation differences	-	-	-	-	-	(26)	-	-	(26)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(26)</b>	<b>-</b>	<b>(10,138)</b>	<b>(10,164)</b>
<b>Balance at 31 December 2014</b>	<b>9,695</b>	<b>18,298</b>	<b>15,656</b>	<b>(13,862)</b>	<b>971</b>	<b>5,598</b>	<b>1,065</b>	<b>(60,300)</b>	<b>(22,879)</b>

## Statements of changes in equity

Company	Share Capital	Share Premium	Merger Reserve	Share Option Reserve	Accumulated Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2013</b>	9,672	18,211	15,656	608	(37,671)	6,476
Proceeds from share issues	7	13	-	-	-	20
Share based payments	-	-	-	171	-	171
<b>Transactions with owners</b>	<b>7</b>	<b>13</b>	<b>-</b>	<b>171</b>	<b>-</b>	<b>191</b>
Loss for the year	-	-	-	-	(20,228)	(20,228)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,228)</b>	<b>(20,228)</b>
<b>Balance at 31 December 2013</b>	<b>9,679</b>	<b>18,224</b>	<b>15,656</b>	<b>779</b>	<b>(57,899)</b>	<b>(13,561)</b>
<b>Balance at 1 January 2014</b>	<b>9,679</b>	<b>18,224</b>	<b>15,656</b>	<b>779</b>	<b>(57,899)</b>	<b>(13,561)</b>
Proceeds from share issues	16	74	-	-	-	90
Share based payments	-	-	-	192	-	192
<b>Transactions with owners</b>	<b>16</b>	<b>74</b>	<b>-</b>	<b>192</b>	<b>-</b>	<b>282</b>
Loss for the year	-	-	-	-	(10,249)	(10,249)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,249)</b>	<b>(10,249)</b>
<b>Balance at 31 December 2014</b>	<b>9,695</b>	<b>18,298</b>	<b>15,656</b>	<b>971</b>	<b>(68,148)</b>	<b>(23,528)</b>

### Share premium

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 its 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.

**Statements of cash flows**  
*for the year ended 31 December 2014*

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
<b>Cash flows from operating activities</b>				
Loss for the year	(10,138)	(9,267)	(10,249)	(20,227)
<i>Adjustments for:</i>				
Depreciation and amortisation	2,415	251	-	-
Impairment of investment	-	-	6,873	15,793
Loss on disposal of property, plant and equipment and intangible assets	11	1	-	-
Interest income	(7)	(1)	(22)	(14)
Interest expenses	1,268	829	1,256	818
Share based payments	192	190	192	190
Movement in inventories	114	(135)	-	-
Movement in trade and other receivables	(111)	53	20	3
Movement in trade and other payables	(295)	(1,643)	166	18
Movement in fair value of embedded derivatives	2,696	3,543	2,696	3,543
Effect of foreign exchange rates	(868)	(106)	(840)	(17)
<b>Net cash (used in) / generated from operations</b>	<b>(4,723)</b>	<b>(6,285)</b>	<b>92</b>	<b>107</b>
Interest paid	(34)	(20)	-	(16)
<b>Net cash (used in) / generated from operating activities</b>	<b>(4,757)</b>	<b>(6,305)</b>	<b>92</b>	<b>91</b>
<b>Cash flows from investing activities</b>				
Capital contribution to subsidiaries	-	-	(4,936)	(6,543)
Purchase of intangible assets	(28)	(65)	-	-
Purchase of property, plant and equipment	(313)	(218)	-	-
Interest received	7	1	22	14
<b>Net cash used in investing activities</b>	<b>(334)</b>	<b>(282)</b>	<b>(4,914)</b>	<b>(6,529)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of loan instruments	4,886	6,790	4,886	6,435
Settlement of loan instruments	-	-	(76)	-
Proceeds from issue of new shares	12	-	12	-
<b>Net cash generated from financing activities</b>	<b>4,898</b>	<b>6,790</b>	<b>4,822</b>	<b>6,435</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(193)</b>	<b>203</b>	<b>-</b>	<b>(3)</b>
Effect of foreign exchange rates	(19)	1	-	-
Cash acquired on acquisition	-	3	-	-
Opening cash and cash equivalents	392	185	-	3
<b>Closing cash and cash equivalents</b>	<b>180</b>	<b>392</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

### 1. General information

Proton Power Systems plc ("the Company") and its subsidiaries (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 and domiciled in the UK. The address of its registered office is: St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE1 3DX. 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.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently, other than where new standards have been adopted during the year.

#### *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.

On 7 February 2013 Group acquired 100% of the share capital of SPower Holding GmbH with its subsidiary SPower GmbH.

The parent Company has produced its own income statement for approval by the Board, although 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 year dealt within the financial statements of the parent Company was £10,249,000 (2013: £20,228,000).

#### *Basis of preparation*

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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 and the financial statements of the Company have been prepared under the historical cost convention and in accordance with IFRS interpretations (IFRICs) except for embedded derivatives which are carried at fair value through the income statement 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 dependent on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market. The Group has historically been dependent on the continuing financial support of its main investor, Roundstone Properties Limited ("Roundstone") to meet its day-to-day working capital requirements. The group has a loan with Roundstone for €2,383,000 which is due for repayment in July 2016. During the year, the group combined certain other existing loans with Roundstone Properties Limited into a new loan agreement to provide total facilities of €16,500,000, repayable in May 2017.

Roundstone has provided the directors with a letter of support as follows "It is Roundstone Properties Limited's intention to provide financial support to ensure the continued trading of Proton Power Systems plc and its subsidiaries for the next twelve months. At this point in time there has been no indication of circumstances which would lead to withdrawing the support".

Roundstone Properties Limited, is registered in the British Virgin Islands ("BVI") and as such is not subject to the requirement for have publicly available audited accounts. Roundstone is a related party of the group.

In December 2014, a further loan agreement was entered into with Falih Nahab to provide €10,000,000, repayable in December 2017. As at 31 December 2014, €500,000 had been drawn on this facility. Mr Falih Nahab has provided the directors with a letter of support as follows "It is my intention to provide financial support to ensure the continued trading of Proton Power Systems plc and its subsidiaries for the next twelve months. At this point in time there has been no indication of circumstances which would lead to withdrawing the support".

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

Mr Falih Nahab, is a private individual based in Jordan and as such is unable to produce financial information to support his ability to fund the debt facility. Mr Falih Nahab is a related party.

Due to the lack of audited accounts or other available financial information, the directors are unable to confirm that either Roundstone or Falih Nahab have the ability to provide such support. This condition indicates the existence of a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. However, the directors firmly believe that the Group and Company remain a going concern on the grounds that Roundstone has supported the Group and the Company extensively in recent years, that funding has been agreed by Falih Nahab for at least the next 12 months, and that the Directors have no reason to doubt that Roundstone or Falih Nahab will not continue to provide funding.

The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

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

#### ***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 consolidated fully 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. 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 non-controlling 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. Acquisition costs are expensed as incurred. 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.

#### ***Goodwill***

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### ***Share-based payments***

The Company issues equity-settled share-based payments to certain employees of the Group as consideration for equity instruments (options) 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 of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

#### **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 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, liabilities and equity 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.

#### **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. 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.

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

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

- Office & other equipment 10% - 33%
- Technical equipment & machinery 20%
- Leasehold property improvements over the life of the lease, or useful economic life where shorter
- Self constructed plant and machinery transferred when complete and depreciated according to the above

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.

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 recognised in the income statement.

#### *Intangible assets*

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

A self-developed intangible asset is recognised 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 amortised 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.

Amortisation starts when the asset is available for use. The capitalized costs include all directly attributable costs, as well as reasonable parts of the overheads relating to production.

#### *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 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 contract will exceed the total contract revenue the expected loss is recognised immediately as an expense in the income statement.

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### *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.

#### *Cash and cash equivalents*

Deposits with financial institutions are initially measured at their fair value. There are no cash equivalents.

#### *Share capital*

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. 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.

Where it is deemed that a host debt instrument contains an embedded derivative, the embedded derivative is recognised separately, initially at fair value, then fair valued through the income statement.

#### *Current and deferred income taxes*

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. The Group has no further payment obligations once the contributions have been paid.

#### *Recognition of revenue and expenses*

Revenue comprises the sales value 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. Revenue is recognised at the point that the goods or services have been provided to the customer. Recognition of revenues from interest and interest expenses is made on an accruals 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. Expenses for development costs that fulfil the intangible assets policy are capitalised in the year incurred (see Intangible assets above).

## 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 recognised as income in the period in which the corresponding claim is created. If applicable, received government grants are deducted from the capitalised development costs in accordance with IAS 20.24. Amortisation is charged to administrative expenses.

#### *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.

#### *Derivative financial instruments*

All derivative financial instruments are accounted for at fair value through the income statement.

#### *Conversion of debt instruments*

On conversion of debt instruments the total consideration is deemed to be the fair value of the liabilities extinguished in accordance with the Companies Act.

#### *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

The following new standards, amendments and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements:

- Annual improvements 2011-13 (1 July 2014)
- Amendment to IAS 19 (revised 2011): 'Employee benefits' regarding defined benefit plans (1 July 2014)
- Amendment to IFRS 11: 'Joint arrangements' on acquisition of an interest in a joint operation (1 January 2016)
- Amendment to IAS 16: 'Property plant and equipment' and IAS 38: 'Intangible assets' on depreciation and amortisation (1 January 2016)
- Amendment to IAS 16: 'Property plant and equipment' and IAS 41: 'Agriculture' regarding bearer plants (1 January 2016)
- IFRS 14: 'Regulatory deferral accounts' (1 January 2016)
- Amendments to IAS 27: 'Separate financial statements' on the equity method (1 January 2016)
- Amendments to IFRS 10: 'Consolidated financial statements' and IAS 28: 'Investments in associates and joint ventures' (1 January 2016)
- Annual improvements 2014 (1 January 2016)
- IFRS 15: 'Revenue from contracts with customers' (1 January 2017)
- IFRS 9: 'Financial instruments' (1 January 2018)
- Amendments to IFRS 9: 'Financial instruments' regarding general hedge accounting (1 January 2018)

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### *Changes in accounting policy and disclosures*

The following amendments to existing standards are effective for this year:

- IFRS 10: 'Consolidated financial statements'
- IFRS 11: 'Joint arrangements'
- IFRS 12: 'Disclosures of interests in other entities'
- IAS 27 (revised 2011): 'Separate financial statements'
- IAS 28 (revised 2011): 'Associates and joint ventures'
- Amendments to IFRS 10: 'Consolidated financial statements', IFRS 12 and IAS 27 on consolidation for investment entities
- Amendments to IFRS 10, 11 and 12 on transition guidance
- Amendments to IAS 32 on Financial instruments asset and liability offsetting
- Amendments to IAS 36: 'Impairment of assets' on recoverable amount disclosures
- Amendments to IAS 39: 'Financial instruments: recognition and measurement' on novation of derivatives and hedge accounting
- IFRIC 21: 'Levies'

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements.

### 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.

#### *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.

#### *Impairment of goodwill*

The carrying value of goodwill must be assessed for impairment annually, or more frequently if there are indications that goodwill might be impaired. This requires an estimation of the value in use of the cash generating units to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the cash generating unit and the use of an appropriate discount rate to discount those cash flows to their present value.

#### *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.

Judgements have been made regarding whether the conversion feature meets the "fixed for fixed" test in each instrument. In the case of each instrument it is deemed it is not met on the basis that the loan is in Euros and shares are in Sterling.

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.

## Notes to the financial statements (continued)

### 4. Segmental information

The Group has adopted the requirements of IFRS8 'Operating segments'. The standard requires operating segments to be identified on the basis of internal financial information about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ('CODM') to allocate resources to the segments and to assess their performance. The CODM has been identified as the Board of Directors. The Board considers the business from a product/services perspective.

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

	2014	2013
	£'000	£'000
Germany	887	843
Rest of Europe	200	259
Rest of the world	324	12
	<u>1,411</u>	<u>1,114</u>

Siemens AG represented 49.0% of the Group's revenue in 2014 (2013: 40.8%).

The results as reviewed by the CODM for the only identified segment are as presented in the financial statements with the exception of the revaluation loss (2013: loss) on the fair value of the embedded derivative of £2,696,000 (2013: £3,543,000) and the associated impact on the balance sheet.

### 5. Loss for the year before taxation

	2014	2013
	£'000	£'000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Depreciation and amortisation	289	252
Impairment of goodwill in SPower Group	2,126	-
Hire of other assets - operating leases	199	214
Pension contributions	63	47
Change in fair value of embedded derivatives	2,696	3,543
<i>after crediting</i>		
Foreign exchange gains	(723)	(106)
Amortisation of grants from public bodies	(106)	(230)

### 6. Auditors' remuneration

	2014	2013
	£'000	£'000
Audit services		
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	40	40
Fees payable to the Company's auditor and its associates for other services:		
Other services	-	-
	<u>40</u>	<u>40</u>

## Notes to the financial statements (continued)

### 7. Staff numbers and costs

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

	2014	2013
Development and construction	45	43
Administration and sales	25	22
	70	65

The aggregate payroll costs of these persons were as follows:

	Group	
	2014	2013
	£'000	£'000
Wages and salaries	2,729	2,779
Share based payments	193	170
Social security costs	508	502
Other pension costs	65	47
	3,495	3,498

### Share based payments

The Group has incurred an expense in respect of share options during the year issued to employees as follows:

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Share options	193	170	41	37
Shares	20	20	20	20
	213	190	61	57

Details of share options granted during 2014 are disclosed in the Directors' report on page 14 and the Remuneration report on pages 17 to 18. The cost of these options to the Group is being charged over a two year period from the date of grant at which point they become exercisable.

At 31 December 2014 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 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 cannot, in any event, be exercised after the tenth anniversary of the date of grant.

## Notes to the financial statements (continued)

### 7. Staff numbers and costs (continued)

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:

	2014		2013	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Opening balance	58,015,000	0.041	51,015,000	0.043
Granted	7,350,000	0.061	7,000,000	0.020
Exercised	(400,000)	(0.030)	-	-
Forfeited	(1,680,000)	(0.036)	-	-
Closing balance	63,285,000	0.043	58,015,000	0.041

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. 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 2.130% and 5.125% for the various grants of options. It is assumed that options granted under the SOS have an average remaining life of 2 months (2013: 7 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 17 to 18.

The remuneration of key management of the Group was as follows:

	Group	
	2014 £'000	2013 £'000
Short-term employee benefit	219	244
Share-based payment charge	105	116
	324	360

The Group has no key management other than Directors.

## Notes to the financial statements (continued)

### 8. Taxation

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

The tax on the Group's loss before tax differs from the theoretical amounts that would arise using the weighted average tax rate applicable to losses of the Companies as follows:

	2014	2013
	£'000	£'000
Tax reconciliation		
Loss before tax	(10,138)	(9,267)
Expected tax credit at 21.5 % (2013: 23.25%)	(2,180)	(2,154)
Effects of different tax rates on foreign subsidiaries	(310)	(223)
Expenses not deductible / income not chargeable for tax purposes	1,941	1,128
Tax losses carried forward	549	1,249
Tax charge	-	-

### 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 shares. The Company has two categories of dilutive potential ordinary shares, share options and convertible debt; however, these have not been included in the calculation of loss per share because they are anti dilutive for these periods.

	2014		2013	
	Basic	Diluted	Basic	Diluted
	£'000	£'000	£'000	£'000
Loss attributable to equity holders of the Company	(10,138)	(10,138)	(9,267)	(9,267)
Weighted average number of ordinary shares in issue (thousands)	640,865	640,865	639,919	639,919
Effect of dilutive potential ordinary shares from share options and convertible debt (thousands)	-	-	-	-
Adjusted weighted average number of ordinary shares	640,865	640,865	639,919	639,919
	<b>Pence per share</b>	<b>Pence per share</b>	<b>Pence per share</b>	<b>Pence per share</b>
Loss per share (pence per share)	(1.6)	(1.6)	(1.5)	(1.5)

## Notes to the financial statements (continued)

### 10. Intangible assets - Group

	Goodwill	Copyrights, trademarks and other intellectual property rights	Development costs	Total
	£'000	£'000	£'000	£'000
<i>Cost</i>				
At 1 January 2013	-	161	1,328	1,489
Exchange differences	-	1	29	30
Additions	2,126	65	-	2,191
Acquisitions	-	44	-	44
<b>At 31 December 2013</b>	<b>2,126</b>	<b>271</b>	<b>1,357</b>	<b>3,754</b>
At 1 January 2014	2,126	271	1,357	3,754
Exchange differences	-	(18)	(86)	(104)
Additions	-	24	4	28
Disposals	-	(12)	-	(12)
<b>At 31 December 2014</b>	<b>2,126</b>	<b>265</b>	<b>1,275</b>	<b>3,666</b>
<i>Accumulated Amortisation</i>				
At 1 January 2013	-	111	1,328	1,439
Exchange differences	-	1	29	30
Charged in year	-	39	-	39
Acquisitions	-	27	-	27
<b>At 31 December 2013</b>	<b>-</b>	<b>178</b>	<b>1,357</b>	<b>1,535</b>
At 1 January 2014	-	178	1,357	1,535
Exchange differences	-	(13)	(86)	(99)
Charged in year	2,126	43	-	2,169
Disposals	-	(3)	-	(3)
<b>At 31 December 2014</b>	<b>2,126</b>	<b>205</b>	<b>1,271</b>	<b>3,602</b>
<i>Net book value</i>				
<b>At 31 December 2014</b>	<b>-</b>	<b>60</b>	<b>4</b>	<b>64</b>
At 31 December 2013	2,126	93	-	2,219
At 1 January 2013	-	50	-	50

Self-developed intangible assets in the amount of £28,000 (2013: £65,000) are recognized in the reporting year, because the prerequisites of IAS 38 have been fulfilled.

The amortisation charge above is recognized in the administrative expenses in the income statement.

As self-developed intangible assets are not material to the Group financial statements no impairment test has been performed.

There are no individually significant intangible assets.

## Notes to the financial statements (continued)

### 10. Intangible assets - Group

Goodwill relates to SPower Group and is tested annually for impairment or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by estimating future cash flows from the cash generating units to which goodwill has been allocated and discounting these cash flows to their present value. Each unit to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. The key assumptions in this calculation are in respect of discount rates used and the change in cash flows. Management estimates discount rates using pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash generating unit.

Cash flows are estimated using the most recent budget information for the year to December 2015 and the latest forecasts up to December 2019, which has been approved by the Board and extrapolates perpetuity cash flows based on an estimated growth rate of 2%. The pre-tax discount rate used to discount the forecast cash flows is 15%.

The Directors consider the assumptions adopted in calculating the cash flows to be reasonable given current market conditions and expectations for the future performance of the business.

Based on the latest forecasts the goodwill has been impaired in full.

Amortisation and impairment charges are recognised within administrative expenses.

## Notes to the financial statements (continued)

### 11. Property, plant and equipment - Group

	Leasehold property improvements £'000	Technical equipment & machinery £'000	Office & other equipment £'000	Self- constructed plant & machinery £'000	Total £'000
<i>Cost</i>					
At 1 January 2013	379	1,096	628	16	2,119
Exchange differences	8	34	11	-	53
Additions	30	97	37	54	218
Acquisitions	-	-	84	-	84
Transfers	-	17	-	(17)	-
Disposals	-	(1)	(27)	-	(28)
<b>At 31 December 2013</b>	<b>417</b>	<b>1,243</b>	<b>733</b>	<b>53</b>	<b>2,446</b>
At 1 January 2014	417	1,243	733	53	2,446
Exchange differences	(30)	(67)	(47)	(7)	(151)
Additions	123	31	40	119	313
Transfers	-	(20)	-	20	-
Disposals	-	-	(36)	-	(36)
<b>At 31 December 2014</b>	<b>510</b>	<b>1,187</b>	<b>690</b>	<b>185</b>	<b>2,572</b>
<i>Accumulated Depreciation</i>					
At 1 January 2013	116	832	562	-	1,510
Exchange differences	2	28	10	-	40
Charge for year	37	129	47	-	213
Acquisitions	-	-	60	-	60
Disposals	-	(1)	(26)	-	(27)
<b>At 31 December 2013</b>	<b>155</b>	<b>988</b>	<b>653</b>	<b>-</b>	<b>1,796</b>
At 1 January 2014	155	988	653	-	1,796
Exchange differences	(12)	(54)	(42)	-	(108)
Charge for year	87	117	42	-	246
Disposals	-	-	(34)	-	(34)
<b>At 31 December 2014</b>	<b>230</b>	<b>1,051</b>	<b>619</b>	<b>-</b>	<b>1,900</b>
<i>Net book value</i>					
<b>At 31 December 2014</b>	<b>280</b>	<b>136</b>	<b>71</b>	<b>185</b>	<b>672</b>
At 31 December 2013	262	255	80	53	650
At 1 January 2013	263	264	66	16	609

## Notes to the financial statements (continued)

### 12. Investment in subsidiary undertaking

	2014	2013
Company	£'000	£'000
Shares in Group undertaking		
<i>Cost</i>		
At beginning of year	46,821	40,278
Additions	4,936	6,543
At end of year	<u>51,757</u>	<u>46,821</u>
<i>Impairment</i>		
At beginning of year	44,884	29,091
Charge for the year	6,873	15,793
At end of year	<u>51,757</u>	<u>44,884</u>
<i>Net book value</i>		
At end of year	-	<u>1,937</u>

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 undertakings to be subject to an impairment review under IAS 36. In arriving at the charge (2013: charge) in the year of £6,873,000 (2013: £15,793,000) the Board has determined the recoverable amount on a value in use basis using a discounted cash flow model.

### 13. Trade and other receivables

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Trade receivables	308	206	-	-
Other receivables	17	13	3	1
Amounts due from group companies	-	-	35	55
Prepayments and accrued income	16	11	9	11
	<u>341</u>	<u>230</u>	<u>47</u>	<u>67</u>

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

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	
	2014	2013
	£'000	£'000
Not more than three months (all denominated in Euros)	<u>134</u>	<u>42</u>

## Notes to the financial statements (continued)

### 14. Cash and cash equivalents

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Cash at bank and in hand	180	392	-	-

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair values.

### 15. Trade and other payables

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Trade payables	202	443	23	6
Other payables	92	264	-	2
Accruals and deferred income	488	445	148	75
	782	1,152	171	83

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

### 16. Borrowings

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Loan				
Current	262	280	-	-
Non-current	16,782	11,711	16,782	11,711
Current and total borrowings	17,044	11,991	16,782	11,711

During the year the Group and Company entered into a new loan agreement with Roundstone Properties Limited which combined all existing Roundstone Properties Limited's loans and provided total facilities of €16,500,000. The loans under this facility are repayable on 6 May 2017 and carry interest at 10% per annum. Roundstone Properties Limited has the option to convert accrued interest and outstanding interest at any time into ordinary shares in the Company at 2p per share. This facility was fully utilised during 2014.

On 14 December 2014 the Group and Company entered into a loan agreement with Mr Falih Nahab which provides facilities of €10,000,000. The loan is repayable on 13 December 2017 and carries interest at 10% per annum. Mr Falih Nahab has the option to convert accrued interest and outstanding interest at any time into ordinary shares in the Company at 2p per share. At 31 December 2014 total advances under this facility were €500,000. Mr Falih Nahab is the brother of Mr Faiz Nahab, a director of the Company and both are treated as related.

These instruments were 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 had been recognised as debt. The debt has subsequently been measured at amortised cost.

On 24 July 2013 the Group and Company entered into a new loan agreement with Roundstone Properties Limited providing €2,383,841. The loan is unsecured, repayable on 23 July 2016 and carries interest at LIBOR plus 2% per annum. Interest is to be rolled up and repaid at the termination of the agreement. The Company has the option to repay interest annually.

## Notes to the financial statements (continued)

### 16. Borrowings (continued)

During 2013 Roundstone Properties Limited provided short-terms loans directly to SPower of €335,000. The loans are interest free and repayable on demand.

The directors consider that the carrying amount of borrowings approximates to their fair value.

### 17. Embedded derivatives on convertible interest

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Embedded derivatives on convertible interest	6,622	3,771	6,622	3,771

The embedded derivatives relate to the conversion features attached to convertible interest 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

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 has not recognised deferred income tax assets of £9,731,000 (2013: £9,182,000) in respect of losses amounting to £3,661,000 (2013: £4,232,000) and €43,112,000 (2013: €37,380,000).

### 19. Share capital

The share capital of Proton Power Systems plc consists of fully paid Ordinary shares with a par value of £0.01 (2013: £0.01) 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.

On 5 February 2014 330,682 ordinary shares of 1p each were issued each at a price of 6p per share in settlement of a supplier's invoice.

On 13 February 2014 291,462 ordinary shares of 1p each were issued each at a price of 6p per share in settlement of a supplier's invoice.

On 4 April 2014 166,222 ordinary shares of 1p each were issued each at a price of 7.4p per share in settlement of a supplier's invoice.

On 16 June 2014 100,000 ordinary shares of 1p each were issued each at a price of 3p per share for cash in settlement of share options exercised.

On 9 July 2014 169,972 ordinary shares of 1p each were issued each at a price of 7.01p per share in settlement of a supplier's invoice.

On 1 October 2014 240,490 ordinary shares of 1p each were issued each at a price of 6.75p per share in settlement of a supplier's invoice.

On 8 October 2014 300,000 ordinary shares of 1p each were issued each at a price of 3p per share for cash in settlement of share options exercised.

Details of share options in issue are given in Note 7.

The number of shares in issue at the balance sheet date is 641,517,561 (2013: 639,918,733) Ordinary shares of 1p each (2013: 1p each) and 327,963,452 (2013: 327,963,452) Deferred Ordinary shares of 1p each.

## Notes to the financial statements (continued)

### 19. Share capital (continued)

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.

	2014				2013			
	Ordinary shares		Deferred ordinary shares		Ordinary shares		Deferred ordinary shares	
	No. '000	£'000	No. '000	£'000	No. '000	£'000	No. '000	£'000
<i>Shares authorised, issued and fully paid</i>								
At the beginning of the year	639,919	6,399	327,963	3,280	639,239	6,392	327,963	3,280
Share issue	1,599	16	-	-	680	7	-	-
	<b>641,518</b>	<b>6,415</b>	<b>327,963</b>	<b>3,280</b>	<b>639,919</b>	<b>6,399</b>	<b>327,963</b>	<b>3,280</b>

### 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:

Group	2014		2013	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	343	-	169	-
In the second to fifth years inclusive	415	-	628	-
After more than five years	-	-	-	-
	<b>758</b>	<b>-</b>	<b>797</b>	<b>-</b>

### 21. Related party transactions

During the year ended 31 December 2014 the Group and Company entered into the following related party transactions:

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
<i>(Expenses) / Income</i>				
Roundstone Properties Limited effective loan interest	(1,215)	(786)	(1,215)	(786)
Roundstone Properties Limited other loan interest	(41)	(32)	(41)	(32)
Thomas Melzcer	2	1	-	-
Helmut Gierse	(20)	(20)	(20)	(20)
Team B Partners LLP	(14)	-	(14)	-

## Notes to the financial statements (continued)

### 21. Related party transactions (continued)

At 31 December 2014 the Group and Company had the following balances with related parties:

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
<i>Amounts due (to) / from</i>				
Roundstone Properties Limited borrowings and embedded derivatives (see Notes 16 and 17)	(23,007)	(15,482)	(23,007)	(15,482)
Roundstone Properties Limited interest accrual	(73)	(32)	(73)	(32)
Roundstone Properties Limited loansto SPower	(262)	(280)	-	-
Falih Nahab	(397)	-	(397)	-
Thomas Melzcer	62	26	-	-
Team B Partners LLP	(3)	-	(3)	-

Further borrowings were drawn down during the year which contained embedded derivatives. In accordance with IAS 39 these have been fair valued.

During the year the Company made capital contributions to Proton Motor Fuel Cells GmbH of £4,936,000 (2013: £4,606,000) and to SPower of £nil (2013: £1,937,000).

The amount due from Thomas Melzcer relates to a director loan balance which was extended during the year.

### 22. Risk management objectives and policies

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

- foreign exchange risk (note 23);
- credit risk (note 24); and
- liquidity risk (note 25).

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.

## Notes to the financial statements (continued)

### 23. Foreign currency sensitivity

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Sterling.

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

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

	Year ended 31 December 2014		Year ended 31 December 2013	
	€'000	£'000	€'000	£'000
Financial assets	420	329	260	217
Financial liabilities	(30,971)	(24,240)	(20,133)	(16,830)
Short-term exposure	(30,551)	(23,911)	(19,873)	(16,613)

The following table illustrates the sensitivity of the net result for the year and equity with regard to the parent Company's financial assets and financial liabilities and the Sterling/Euro exchange rate. It assumes a +/- 7.04% change of the Sterling/Euro exchange rate for the year ended at 31 December 2014 (2013: 6.28%). 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 the parent Company's foreign currency financial instruments held at each balance sheet date.

If the Euro had strengthened against Sterling by 7.04% (2013: 6.28%) then this would have had the following impact:

	Year ended 31	Year ended 31
	December 2014	December 2013
	£'000	£'000
Net result for the year	(1,683)	(1,043)
Equity	(1,683)	(1,043)

If the Euro had weakened against Sterling by 7.04% (2013: 6.28%) then this would have had the following impact:

	Year ended 31	Year ended 31
	December 2014	December 2013
	£'000	£'000
Net result for the year	1,683	1,043
Equity	1,683	1,043

Exposures to foreign exchange rates vary during the year depending on the value of Euro denominated loans. Nonetheless, the analysis above is considered to be representative of Group's exposure to currency risk.

### 24. 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.

## Notes to the financial statements (continued)

### 24. Credit risk analysis (continued)

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

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Cash and cash equivalents	180	392	-	-
Trade and other receivables	325	219	-	-
Short-term exposure	505	611	-	-

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.

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.

### 25. 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 2014, 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	202	-	-
Other short term financial liabilities	92	-	-
Borrowings and embedded derivatives on convertible loans	-	262	16,782

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	443	-	-
Other short term financial liabilities	264	-	-
Borrowings and embedded derivatives on convertible loans	-	280	11,711

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 embedded 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.

## Notes to the financial statements (continued)

### 26. Financial instruments

The assets of the Group and Company are categorised as follows:

As at 31 December 2014

	Group			Company		
	Non-financial assets / financial assets not in scope of IAS 39		Total	Non-financial assets / financial assets not in scope of IAS 39		Total
	Loans and receivables	Loans and receivables		Loans and receivables	Loans and receivables	
£'000	£'000	£'000	£'000	£'000	£'000	
Intangible assets	-	64	64	-	-	-
Property, plant and equipment	-	672	672	-	-	-
Investment in subsidiary	-	-	-	-	-	-
Inventories	-	312	312	-	-	-
Trade and other receivables	325	16	341	37	10	47
Cash and cash equivalents	180	-	180	-	-	-
	<b>505</b>	<b>1,064</b>	<b>1,569</b>	<b>37</b>	<b>10</b>	<b>47</b>

As at 31 December 2013

	Group			Company		
	Non-financial assets / financial assets not in scope of IAS 39		Total	Non-financial assets / financial assets not in scope of IAS 39		Total
	Loans and receivables	Loans and receivables		Loans and receivables	Loans and receivables	
£'000	£'000	£'000	£'000	£'000	£'000	
Intangible assets	-	2,219	2,219	-	-	-
Property, plant and equipment	-	650	650	-	-	-
Investment in subsidiary	-	-	-	-	1,937	1,937
Inventories	-	426	426	-	-	-
Trade and other receivables	219	11	230	56	11	67
Cash and cash equivalents	392	-	392	-	-	-
	<b>611</b>	<b>3,306</b>	<b>3,917</b>	<b>56</b>	<b>1,948</b>	<b>2,004</b>

The liabilities of the Group and Company are categorised as follows:

As at 31 December 2014

	Group			Company				
	Financial liabilities valued at fair value through the income statement		Liabilities not within the scope of IAS 39	Financial liabilities valued at fair value through the income statement		Liabilities not within the scope of IAS 39	Total	
	Financial liabilities at amortised cost	Financial liabilities at amortised cost		Financial liabilities at amortised cost	Financial liabilities at amortised cost			
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Trade and other payables	744	-	38	782	171	-	-	171
Borrowings	17,044	-	-	17,044	16,782	-	-	16,782
Embedded derivatives on convertible loans	-	6,622	-	6,622	-	6,622	-	6,622
	<b>17,788</b>	<b>6,622</b>	<b>38</b>	<b>24,448</b>	<b>16,953</b>	<b>6,622</b>	<b>-</b>	<b>23,575</b>

## Notes to the financial statements (continued)

### 26. Financial instruments (continued)

As at 31 December 2013

	Group			Company				
	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	1,152	-	-	1,152	83	-	-	83
Borrowings	11,991	-	-	11,991	11,711	-	-	11,711
Embedded derivatives on convertible loans	-	3,771	-	3,771	-	3,771	-	3,771
	<u>13,143</u>	<u>3,771</u>	<u>-</u>	<u>16,914</u>	<u>11,794</u>	<u>3,771</u>	<u>-</u>	<u>15,565</u>

#### Fair values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

The embedded derivatives fall within the fair value hierarchy level 2.

### 27. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, provide returns for shareholders and benefits to other stakeholders and to maintain a structure to optimise the cost of capital. The Group defines capital as debt and equity. In order to maintain or adjust the capital structure, the Group may consider: the issue or sale of shares or the sale of assets to reduce debt.

The Group routinely monitors its capital and liquidity requirements through leverage ratios consistent with industry-wide borrowing standards. There are no externally imposed capital requirements during the period covered by the financial statements.

### 28. Ultimate controlling party

The directors consider Roundstone Properties Limited to be the Ultimate Controlling Party. Dr. Faiz Nahab is connected to Roundstone Properties Limited.

## **PROTON POWER SYSTEMS PLC**

### **NOTICE OF AGM**

The Directors of the Company consider that all the proposals to be considered at the annual general meeting details of which appear below are in the best interests of the Company and its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings.

Notice is hereby given that the annual general meeting of Proton Power Systems plc (the "Company") will be held at the offices of Westhouse Securities, Heron Tower, 110 Bishopsgate, London, EC2N 4AY at 11.00am on 3 June 2015 to consider and, if thought fit, pass the following resolutions as ordinary resolutions other than resolution 9 which will be proposed as a special resolution:-

### **ORDINARY RESOLUTIONS**

1. To receive the accounts for the financial year ended 31 December 2014 together with the Directors' report, and the Auditors' report.
2. To re-elect Ian Peden as a Director of the Company.
3. To re-elect Tomas Melczer as a Director of the Company.
4. To re-elect Achim Loecher as a Director of the Company.
5. To re-elect Helmut Gierse as a Director of the Company.
6. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company.
7. To authorise the Directors to agree the remuneration of the auditors of the Company.
8. That the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £5,500,000, provided that:-
  - 8.1 (except as provided in paragraph 8.2 below) this authority shall expire on the date of the next annual general meeting of the Company; and
  - 8.2 the Company may before such expiry make an offer or agreement which would or might require shares or equity securities, as the case may be, to be allotted or such rights granted after such expiry and the Directors may allot shares or equity securities or grant such rights, as the case may be, in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

All unexercised authorities previously granted to the Directors to allot shares or to grant rights to subscribe for or to convert any security into shares be and are hereby revoked but such revocation shall not have retrospective effect.

### SPECIAL RESOLUTION

9. That, subject to the passing of resolution 8 above, the Directors, pursuant to the general authority conferred on them be empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot for cash, either pursuant to the authority so conferred or where the equity securities are held by the Company as treasury shares (within the meaning of section 724(5) of the Act), to allot equity securities (within the meaning of section 560 of the Act) as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:-

9.1 made in connection with an offer of securities, open for acceptance for a fixed period, by the Directors to ordinary shareholders of the Company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares or any legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any overseas territory or in connection with fractional entitlements) or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and/or

9.2 wholly for cash (otherwise than pursuant to paragraph 9.1 above) up to an aggregate nominal value of £5,500,000 (being 85.89% of the issued share capital of the Company on the date of this notice of meeting);

and shall expire on the conclusion of the next annual general meeting of the Company or, if earlier, fifteen months after the passing of this resolution but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement notwithstanding that the power conferred by this resolution has expired.

6 May 2015

By order of the board



Ian Peden  
Secretary

Registered office:  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

Registered in England and Wales No. 5700614

## Notes

The following notes explain your general rights as a shareholder of the Company and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf.

1. Only those members registered in the Register of Members of the Company as at 6.00pm on 1 June 2015 shall be entitled to attend and vote at the meeting convened above in respect of the number of shares registered in their names at that time. This time will still apply for the purpose of determining who is entitled to attend and vote if the annual general meeting is adjourned from its scheduled time by 48 hours or less. If the annual general meeting is adjourned for longer, members who wish to attend and vote must be on the Company's register of members by 48 hours before the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

2 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. On a poll demanded, all of a member's voting rights may be exercised by one or more duly appointed proxies. Any such member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's Registrars: Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA. A proxy need not be a member of the Company. Appointing a proxy will not prevent a member from attending in person and voting at the meeting. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman of the meeting) and give your instructions directly to them. A proxy must vote in accordance with any instructions given by the appointing member.

3 A form of appointment of proxy is enclosed. To appoint a proxy using this form in hard copy form, this form must be completed and signed, sent or delivered to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney of the company. If you return more than one proxy appointment, either by hard copy form or by electronic form, that received last by the registrar before the latest time for the receipt of proxies will take precedence.

4 The form of proxy includes a vote withheld option. Please note that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against any particular resolution.

5 The appointment of a proxy and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated should be deposited with Neville Registrars Limited at the address shown on the proxy form not later than 11.00am on 1 June 2015 or 48 hours (but not including non-working days) before the time for holding any adjourned meeting or in the case of a poll not taken on the same day as the meeting or adjourned meeting for the taking of the poll at which it is to be used or lodged using the CREST proxy voting service – see below.

6 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) of that meeting by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA11) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

8 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

9 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

10 In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

## **Explanatory Notes on the Annual General Meeting Resolutions**

### **Resolution 1: Report and Accounts**

The Directors must present their report and the annual accounts to the meeting. This gives shareholders the opportunity to ask questions on the content before voting on the resolution.

### **Resolution 2-5: Directors**

The Company's Articles of Association require Directors (other than those appointed as permanent Board members in accordance with Article 22.9) to retire and submit themselves for election at each AGM following their appointment. As a result Ian Peden, Thomas Melczer, Achim Loecher, and Helmut Gierse are all required to retire and submit themselves to re-election at the annual general meeting.

### **Resolution 6: Appointment of auditors**

An ordinary resolution will be proposed to re-appoint PricewaterhouseCoopers LLP as the Company's auditors to hold office from the conclusion of the annual general meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

### **Resolution 7: Remuneration of the auditors**

An ordinary resolution will be proposed to authorise the Directors to determine the remuneration payable to the auditors.

### **Resolution 8: Directors' authority to allot shares**

Resolution 8 seeks shareholder approval for the Directors to be authorised to allot shares. Under the provisions of section 551 of the Companies Act 2006, the Directors are not permitted to allot shares unless authorised to do so by the shareholders. At the Company's 2014 annual general meeting, the Directors were given authority to allot ordinary shares in the capital of the Company up to a maximum nominal amount of £5,500,000. This existing authority expires at the end of this year's annual general meeting and the Company is seeking the renewal of the existing authority until the conclusion of the Company's next annual general meeting in 2016.

### **Resolution 9: Disapplication of pre-emption rights**

Resolution 9, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company proposed by resolution 8. Section 561 of the Companies Act 2006 requires a company proposing to allot equity securities (which includes selling shares held in treasury) to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities includes ordinary shares but does not include shares issued under employee share schemes. If resolution 9 is passed, the requirement imposed by section 561 will not apply to allotments by the Directors in two cases:

1. in connection with a rights (or similar) issue, where strict application of the principle in section 561 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local, legal or regulatory requirements in any given overseas jurisdiction; and
2. allotments of shares for cash up to a total nominal value of £5,500,000. This gives the Directors flexibility to take advantage of business opportunities as they arise.

This authority, which will replace an identical authority granted at last year's annual general meeting, will expire at the conclusion of the next annual general meeting or, if earlier, 15 months after this year's annual general meeting, except in so far as commitments to allot shares have been entered into before that.

The Directors of the Company consider that all the proposals to be considered at the annual general meeting are in the best interests of the Company and its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings.