Proton Power Systems PLC - PPS Final Results
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29 May 2018

Proton Power Systems plc

("Proton" or the "Company")

Final results for the year 2017

Proton Power Systems plc (AIM: PPS), the designer, developer and producer of fuel cells and fuel cell electric hybrid systems, today announces its results for the year ended 31 December 2017.

Highlights:

- 44% decrease in sales in 2017 to £1,115k compared to 2016 sales of £1,989k. The Group delivered 22 systems in 2016 in connection with the DB Bahnbau Gruppe GmbH contract. The subsequent follow up order from DB Bahnbau Gruppe GmbH was received in August 2017 for a total value of £149k, for delivery in Q2 2018.
- Delivered £0.5m order for Orkney Island "Surf and Turf" stationary power project.
- Operating loss excluding exchange and embedded derivative movement decreased by 24% from £7,582k to £5,751k.
- Following the year end, a further €6.5m loan facility has been agreed to ensure operational financing into 2019.
- Cash burn from operating activities decreased by 20% from £6.9m in 2016 to £5.5m in 2017. Cash flow is our key financial performance target and our objective is to achieve a positive cash flow in the shortest time possible. Current contracts are quoted with up-front payments reducing reliance on working capital as we continue to invest in our manufacturing and development capability.
- The funding project to introduce an automated assembly machine to produce annually up to 5,000 fuel cells was further pursued in 2017 with expected delivery of the machine in Q4 2018. This will further reduce our product cost and will allow us to meet the demand and bring our technology quicker to the market.
- Further standardisation of our product for bespoke CleanTech Power Solutions. This strategy shift has accelerated deployment in our target markets with simplification and cost reduction.

\- Ends -

For further information:

Proton Power Systems plc
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A copy of the annual report for the year ended 31 December 2017 is available on the company´s website (www.protonpowersystems.com) and has been posted to the shareholders, together with a notice of the annual general meeting to be held at Stockdale Securities Limited, 7th Floor, 100 Wood Street, London, EC2V 7AN at 12.00pm on Friday 8 June 2018.

Chairman's statement

We are pleased to report our results for the year ended 31 December 2017.

Proton Power has made further progress this year in proving its technology, building on our strategic co-operations and our sales pipeline. Further investment in our manufacturing capability has put us in a stronger strategic position to capitalise in the marketplace and to deliver financial performance. We have strengthened our organisation to be able to deliver complete power supply solutions. We add value with our fuel cell expertise and with our system and solution know-how.

Highlights:

... 44% decrease in sales in 2017 to £1,115k compared to 2016 sales of £1,989k. The Group delivered 22 systems in 2016 in connection with the DB Bahnbau Gruppe GmbH contract. The subsequent follow up order from DB Bahnbau Gruppe GmbH was received in August 2017 for a total value of £149k, for delivery in Q2 2018.

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... Following the year end, a further €6.5m loan facility has been agreed to ensure operational financing into 2019.

... Cash burn from operating activities decreased by 20% from £6.9m in 2016 to £5.5m in 2017. Cash flow is our key financial performance target and our objective is to achieve a positive cash flow in the shortest time possible. Current contracts are quoted with up-front payments reducing reliance on working capital as we continue to invest in our manufacturing and development capability.

... The funding project to introduce an automated assembly machine to produce annually up to 5,000 stack modules was further pursued in 2017 with expected delivery of the machine in Q4 2018. This will further reduce our product cost and will allow us to meet the demand and bring our technology quicker to the market.

... Further standardisation of our product for bespoke CleanTech Power Solutions. This strategy shift has accelerated deployment in our target markets with simplification and cost reduction.

Proton Power is playing a crucial part in shaping the Hydrogen World of the future. Its evolution from Magnet Motor Fuel Cell manufacturer to a premium CleanTech Power Solutions service provider is unique.

Proton Power's pioneering spirit results in consistent focus on the future and forms the basis for the powerful forces that will drive the next 100 years of progress and the Hydrogen World of tomorrow and beyond.

View to the future

The world is committed to protecting the environment. Cities and governments, pushed by the European Commission, must reduce inner-city pollution drastically. China fights against smog in its big cities. After Diesel Gate in the US and Europe, electric vehicles with batteries are on the move. All this is generating a market for clean transport and energy. Based on that development, the world market for fuel cell products and solutions is more active than ever.

Beside pure battery solutions, hydrogen fuel cells are in focus. Companies like Toyota, Hyundai, and Daimler are pushing the technology forward. Fuel cells provide benefits such as fast refuelling and long range of operation. Hydrogen is reproducible and can make use of surplus energy from wind and solar power. Europe has put major funding programmes in place to set up a hydrogen infrastructure. The same is now happening in Japan, Korea and China. The Chinese government is fully committed to fuel cell technology with major regulatory and funding support.

Most of the automotive supply industry is now in a change mode from conventional to electric drive trains with batteries and fuel cells. Know-how can be generated in house which will require years of R&D work or can be acquired via M&A.

All this is very promising. Fuel cell know-how has a major value and will be used in mobile as well as stationary power applications. The experts for fuel cell technology are rare. Those expert companies are only a handful of players worldwide.

Proton Power has long lasting experience in applications like buses, trucks, passenger vehicles, stationary power, ships and fork lifts. With less than 100 people it is relatively small but regarding IP and experience a very powerful company. Proton Power is developing its own fuel cell stacks. Systems are designed from first simulation, prototype up to final solution for volume manufacturing. Proton Power is cooperating with German, European and China based companies in the field of fuel cell technology.

The business is organized into three business units - stationary, mobile and maritime.

Stationary fuel cell units can replace diesel generators in telecoms, data centers and eco-houses. Proton Power has a seven-year cooperation agreement with its major customer, DB Bahnbau Gruppe GmbH, to replace old diesel back-up generators used to power track signals when there is disruption to the main power supply. The benefits for the end user are that these new units require less maintenance than the old polluting generators that were prone to algae build-up in the diesel tank, which is causing high maintenance cost. It is also possible to monitor the Proton Power system remotely, which again saves time and manpower.

Mobile applications of the Proton Power technology will be seen in the public transport and logistics arena. Proton Power was the first company to develop a hybrid range extender battery/fuel cell system. This technology permits the usage of both systems in an optimised way with long lifetime expectation. In the meantime, the range extender concept is adopted by the industry especially for heavy duty vehicle applications.

Constantly evolving to stay a decisive step ahead has always formed the basis for Proton Power's thinking and actions as a company. The Company is looking two or three decades into the future and considering today the CleanTech Power Solution concepts of tomorrow.

A changing brand in Stationary, Mobility and Maritime markets.

The Company began as Magnet Motor, opening its factory in 1980. The technology and application roadmap went from the world's first triple hybrid fork lift truck to a fuel cell ship. After that we have developed the triple hybrid Skoda bus in 2008. Containerised power solutions completed the application portfolio. All those applications are powered via our own fuel cell stacks, with a robust design for a long lifetime. The Company established operations close to Munich area and was one of the first German designers and manufacturers of fuel cells. International growth is now planned by looking for good partners with the same vision.

The ongoing "Dieselgate" situation and the COP21 targets present the industry as a whole but in particular the automotive, industry with a huge challenge.

Proton Stationary for businesses and people

This market includes back up power for telecoms and data centre installations which has an estimated value of €8 billion for the European market alone. Buildings are also becoming an interesting growing market as evidenced by the installation of the autonomous ecosystem in Switzerland.

Proton Mobility

This market includes city buses, airport vehicles, trucks, off-road vehicles to fork lift trucks. This market's size is estimated at over €20 billion worldwide. The mobility sector sees many future challenges with emission free to automated driving with the vehicle becoming a power source itself. The FCREEV demonstrator delivered to Magna for the Geneva road show again shows Proton´s capability in the sector.

Proton Maritime

Building on the success with our tourist ship in Hamburg, Proton sells the know-how capability to partners to evolve this market. Proton delivered the first feasibility study for an underwater vessel. Proton, again, clearly demonstrates capability within the technology.

Power Solutions are becoming tailor-made

CleanTech Power Solutions will become more diverse and more flexible. That is why at Proton Power we are making our offering of products and services bespoke to customer requirements based on our standard suite of CleanTech products aimed at each market sector in a scalable modular approach. As power requirements increase our approach allows users to simply add additional modules all controlled from our unique software. This shift towards modular standardisation results in accelerated deployment in our target markets with simplification and cost reduction.

In 2017 the Group initiated a new development program to design the fourth generation of fuel cell systems. The new fourth-generation high efficiency stacks and fuel cell systems will be completed in 2018. The new lighter weight and higher integration single stack modular designs cover power ranges from 2 up to 16 kW steps in the lower power class (PM200) and from 15 to 75 kW in 7.5 kW steps in the upper power class (PM400). Both power classes are available not just for stationary, but also for logistic, automotive, rail and maritime applications.

With these fourth-generation fuel cell stacks and systems the Group has set up strategic partnerships with electrical drive train manufacturers and vehicle OEMs. The systems can be used in combination with a battery to a hybrid drive train for electric driven light duty vehicles or inner city buses. We also expect growing demand in the near future from truck manufacturers for municipality maintenance vehicles. Additionally operation as a Range Extender is possible. 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 carried out extensive testing in vehicles which proves the benefit of range extension based on the combination of a battery and a fuel cell system.

Also offered are multi stack systems for power demands beyond 100 kW for larger trucks, trains, ships and larger stationary applications.

In 2017, in order to meet the worldwide increase in demand for fuel cell systems, the Group initiated a program to ramp up manufacturing capabilities in order to be able to produce up to 1,000 fuel cells per year. In the second step, an automated fuel cell manufacturing line will be installed by the end of 2018, to increase manufacturing capacity further up to 5,000 fuel cells per year.

Market Drivers

At the November 2015 conference in Paris (COP 21) hosted by the United Nations, 196 countries vowed to take actions designed to limit global warming. Many businesses and corporations have pledged their support for the world effort. This global event engaged a lot of corporate leaders and we believe that neither countries nor companies take these kinds of public pledges lightly. Indeed, on top of polishing their public image, companies are being good citizens of the world when they pitch in with initiatives like reducing greenhouse gas emissions, increasing their use of renewable energy, and being more energy efficient.

Coming out of Paris we now have legislation with targets for countries and businesses which are held accountable to the public. When insurance companies are pricing this into business premiums, CO2 emissions are starting to have an impact on businesses' and economies' profitability.

From a purely business standpoint, considerations of where and how to build facilities (or alter existing ones) to lessen climate risk have moved up the risk management priority list. Such moves are the main market drivers for Proton Power's CleanTech power solutions and the new Hydrogen world and zero emissions. These market drivers underpin the confidence the Directors and shareholders have in Proton Power's technology to be a real game changer for society.

Finance

Turnover decreased by 44% to £1,115,000 (2016: £1,989,000), mainly due to the delivery of 22 systems under the DB Bahnbau Gruppe GmbH 7 year frame agreement in 2016, whilst the first follow up order from DB Bahnbau Gruppe GmbH in 2017 was not received until August of that year, with delivery anticipated in Q2 2018.

The operating loss for the year was £5,751,000 (2016: £7,582,000) which, when added to net finance costs of £3,127,000 (2016: £2,448,000), the non-cash movement arising from the change in the fair value of the embedded derivative on the shareholder loan of £3,199,000 (2016: £5,799,000) and the exchange loss £1,655,000 (2016: £3,669,000) resulted in a total loss of £13,732,000 (2016: £19,498,000). Excluding the fair value loss on the embedded derivative and the exchange loss, this was in line with management expectations.

The loan funding facility amounting to €28,000,000 in 2017 from Mr Falih Nahab, has been uplifted by a further €6,500,000 in 2018 to a total of €34,500,000.

Cash burn from operating activities decreased by 20% from £6,906,000 in 2016 to £5,537,000 in 2017.

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.
I personally thank all our customers who believe in us, our committed employees and our shareholders who have the vision to invest in our mission.

Helmut Gierse
Chairman

Consolidated income statement
for the year ended 31 December 2017

	Note	**2017**	2016
		£'000	£'000
Revenue	*4*	**1,115**	1,989
Cost of sales		**(1,976)**	(4,094)
Gross loss		**(861)**	(2,105)
Other operating income		**165**	113
Administrative expenses		**(5,055)**	(5,590)
Operating loss		**(5,751)**	(7,582)
Finance income	*9*	**2**	2
Finance costs	*10*	**(4,784)**	(6,119)
Fair value loss on embedded derivatives		**(3,199)**	(5,799)
Loss for the year before tax	*5*	**(13,732)**	(19,498)
Tax	*8*	**-**	-
Loss for the year after tax		**(13,732)**	(19,498)
Loss per share (expressed as pence per share)			
Basic	*11*	**(2.1)**	(3.0)
Diluted	*11*	**(2.1)**	(3.0)

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	2017	2016
	£'000	£'000
Loss for the year	**(13,732)**	(19,498)
Other comprehensive income / (expense)		
Items that may not be reclassified to profit and loss		
Exchange differences on translating foreign operations	**(42)**	(122)
Total other comprehensive income / (expense)	**(42)**	(122)
Total comprehensive expense for the year	**(13,774)**	(19,620)
Attributable to owners of the parent	**(13,774)**	(19,620)

Group and Company balance sheets
as at 31 December 2017

		Group		**Company**	
	Note	**2017**	2016	**2017**	2016
		£'000	£'000	**£'000**	£'000
Assets					
Non-current assets					
Intangible assets	*12*	**89**	125	**-**	-
Property, plant and equipment	*13*	**1,048**	941	**-**	-
Investment in subsidiary undertakings	*14*	**-**	-	**-**	-

		1,137	1,066	-	-
Current assets					
Inventories	*15*	**914**	1,043	-	-
Trade and other receivables	*16*	**414**	381	**78**	111
Cash and cash equivalents	*17*	**795**	2,467	**4**	17
		2,123	3,891	**82**	128
Total assets		**3,260**	4,957	**82**	128
Liabilities					
Current liabilities					
Trade and other payables	*18*	**1,913**	2,172	**65**	240
Borrowings	*19*	**226**	2,662	-	7
		2,139	4,834	**65**	247
Non-current liabilities					
Borrowings	*19*	**47,243**	35,813	**47,243**	35,813
Embedded derivatives on convertible interest	*20*	**18,540**	15,341	**18,540**	15,341
		65,783	51,154	**65,783**	51,154
Total liabilities		**67,922**	55,988	**65,848**	51,401
Net liabilities		**(64,662)**	(51,031)	**(65,776)**	(51,273)
Equity					
Equity attributable to equity holders of the parent Company					
Share capital	*22*	**9,722**	9,712	**9,722**	9,712
Share premium		**18,362**	18,346	**18,362**	18,346
Merger reserve		**15,656**	15,656	**15,656**	15,656
Reverse acquisition reserve		**(13,862)**	(13,862)	-	-
Share option reserve		**1,635**	1,518	**1,635**	1,518
Foreign translation reserve		**9,345**	6,569	-	-
Capital contributions reserves		**1,208**	1,161	-	-
Accumulated losses					
At 1 January 2017		**(90,131)**	(69,885)	**(96,505)**	(77,449)
Loss for the year attributable to the owners		**(13,732)**	(19,498)	**(14,636)**	(19,056)
Other changes in retained earnings		**(2,865)**	(748)	-	-
Total equity		**(64,662)**	(51,031)	**(65,776)**	(51,273)

Group and Company statements of changes in equity

for the year ended 31 December 2017

Group	**Share Capital**	**Share Premium**	**Merger Reserve**	**Reverse Acquisition Reserve**	**Share Option Reserve**	**Foreign Translation Reserve**	**Capital Contribution Reserves**	**Accumulated Losses**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2016	**9,708**	**18,334**	**15,656**	**(13,862)**	**1,244**	**6,102**	**1,002**	**(69,885)**	**(31,701)**
Share based payments	-	-	-	-	274	-	-	-	274
Proceeds from share issues	4	12	-	-	-	-	-	-	16
Currency translation differences	-	-	-	-	-	589	159	(748)	-
Transactions with owners	**4**	**12**	**-**	**-**	**274**	**589**	**159**	**(748)**	**290**
Loss for the year	-	-	-	-	-	-	-	(19,498)	(19,498)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	(122)	-	-	(122)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(122)**	**-**	**(19,498)**	**(19,620)**
Balance at 31 December 2016	**9,712**	**18,346**	**15,656**	**(13,862)**	**1,518**	**6,569**	**1,161**	**(90,131)**	**(51,031)**
Balance at 1 January 2017	**9,712**	**18,346**	**15,656**	**(13,862)**	**1,518**	**6,569**	**1,161**	**(90,131)**	**(51,031)**
Share based payments	-	-	-	-	117	-	-	-	117
Proceeds from share issues	10	16	-	-	-	-	-	-	26
Currency translation differences	-	-	-	-	-	2,818	47	(2,865)	-
Transactions with owners	**10**	**16**	**-**	**-**	**117**	**2,818**	**47**	**(2,865)**	**143**
Loss for the year	-	-	-	-	-	-	-	(13,732)	(13,732)
Other comprehensive income:									

Currency translation differences	-	-	-	-	-	(42)	-	-	(42)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(42)**	**-**	**(13,732)**	**(13,774)**
Balance at 31 December 2017	**9,722**	**18,362**	**15,656**	**(13,862)**	**1,635**	**9,345**	**1,208**	**(106,728)**	**(64,662)**

Company statement of changes in equity

Company	**Share Capital**	**Share Premium**	**Merger Reserve**	**Share Option Reserve**	**Accumulated Losses**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2016	**9,708**	**18,334**	**15,656**	**1,244**	**(77,449)**	**(32,507)**
Share based payments	-	-	-	274	-	274
Proceeds from share issues	4	12	-	-	-	16
Transactions with owners	**4**	**12**	**-**	**274**	**-**	**290**
Loss for the year	-	-	-	-	(19,056)	(19,056)
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(19,056)**	**(19,056)**
Balance at 31 December 2016	**9,712**	**18,346**	**15,656**	**1,518**	**(96,505)**	**(51,273)**
Balance at 1 January 2017	**9,712**	**18,346**	**15,656**	**1,518**	**(96,505)**	**(51,273)**
Share based payments	-	-	-	117	-	117
Proceeds from share issues	10	16	-	-	-	26
Transactions with owners	**10**	**16**	**-**	**117**	**-**	**143**
Loss for the year	-	-	-	-	(14,636)	(14,636)
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(14,636)**	**(14,636)**
Balance at 31 December 2017	**9,722**	**18,362**	**15,656**	**1,635**	**(111,141)**	**(65,766)**

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.

Group and Company statements of cash flows
for the year ended 31 December 2017

	Group Year ended 31 December		**Company Year ended 31 December**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash flows from operating activities				
Loss for the year	**(13,732)**	(19,498)	**(14,636)**	(19,056)
Adjustments for:				
Depreciation and amortisation	**262**	282	**-**	-
Impairment of investment	**-**	-	**6,376**	6,435
Interest income	**(2)**	(2)	**(16)**	(28)
Interest expense	**3,129**	2,450	**3,105**	2,445
Share based payments	**117**	290	**117**	195
Movement in inventories	**129**	(351)	**-**	-

Movement in trade and other receivables	**(33)**	(85)	**33**	(36)
Movement in trade and other payables	**(261)**	692	**(182)**	59
Movement in fair value of embedded derivatives	**3,199**	5,799	**3,199**	5,799
Effect of foreign exchange rates	**1,655**	3,517	**1,655**	4,043
Net cash (used in) / generated from operations	**(5,537)**	(6,906)	**(349)**	(144)
Interest paid	**-**	-	**-**	-
Net cash (used in) / generated from operating activities	**(5,537)**	(6,906)	**(349)**	(144)
Cash flows from investing activities				
Capital contribution to subsidiaries	**-**	-	**(6,376)**	(6,435)
Purchase of intangible assets	**(30)**	(62)	**-**	-
Purchase of property, plant and equipment	**(259)**	(236)	**-**	-
Interest received	**2**	2	**16**	-
Net cash used in investing activities	**(287)**	(296)	**(6,360)**	(6,435)
Cash flows from financing activities				
Proceeds from issue of loan instruments	**6,670**	8,947	**6,670**	6,578
Proceeds from issue of new shares	**26**	16	**26**	16
Repayment of short term borrowings	**(2,662)**	-	**-**	-
Net cash generated from financing activities	**4,034**	8,963	**6,696**	6,594
Net increase/(decrease) in cash and cash equivalents	**(1,790)**	1,761	**(13)**	15
Effect of foreign exchange rates	**118**	172	**-**	-
Opening cash and cash equivalents	**2,467**	534	**17**	2
Closing cash and cash equivalents	**795**	2,467	**4**	17

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.

Directors

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

Helmut Gierse	Chairman[2]
Sebastian Goldner	Director Customer Project Management and Service (appointed 20 February 2018)
Roman Kotlarzewski	Group Finance Director and Company Secretary[4,6] (appointed 10 August 2017)
Achim Loecher	Non-Executive Director (resigned 21 November 2017)
Manfred Limbrunner	Director Sales and Marketing[5] (appointed 20 February 2018)
Dr. Faiz Nahab	Chief Executive[1,3]
Ian Peden	Non-Executive Director (resigned 23 March 2018)

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

2. Summary of significant accounting policies

The Board approved this announcement on 29 May 2018.
The financial information included in this announcement does not constitute the Group´s statutory accounts for the years ended 31 December 2017 or 31 December 2016. Statutory accounts for the year ended 31 December 2016 have been delivered to Companies House. The statutory accounts for the year ended 31 December 2017 will be delivered to Companies House following the Company´s annual general meeting.

Basis of preparation

These financial statements for the year ended 31 December 2017 have been prepared under the historical cost convention with the exception of embedded derivative financial instruments, which are stated at fair value.

The accounting policies used are consistent with those contained in the Group´s last annual report and accounts for the year ended 31 December 2016.

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 (IFRS IC) 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 loans with Roundstone of €2.4m and €16.5m. The redemption dates of this loan were extended by Roundstone in April 2017 as follows:

- €2.4m to 31 December 2019
- €16.5m to 31 December 2019

The Group also has a loan facility with Mr. Falih Nahab of €28m, of which €23.25m were drawn down at the year end. This facility is also due for repayment in December 2019.

Cash flow forecasts demonstrate that the committed facilities from Mr Falih Nahab enable the Company and the group to meet its cash requirements for the period up to May 2019. The Company and Group are also able to defer discretionary spend during this period to provide further cash flow headroom, should this be required.

At this point in time there has been no indication of circumstances which would lead to Mr Falih Nahab withdrawing this support. 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 available financial information, the Directors are unable to confirm that Falih Nahab has 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 Falih Nahab has supported the Group and the Company in recent years and that funding has been agreed by Falih Nahab for at least the next 12 months.

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

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 12.

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.

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 property, plant and equipment is located in Germany.

Revenue from external customers

	2017	2016
	£'000	£'000
Germany	**308**	1,769

Rest of Europe	**719**	120
Rest of the World	**88**	100
	1,115	1,989

Sales to Arcola Energy Ltd represented 41.1% of the Group's revenue in 2017 (2016: Deutsche Bahn 73.6%).

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 (2016: loss) on the fair value of the embedded derivative of £3,199,000 (2016: £5,799,000) and the associated impact on the balance sheet.

5. Loss for the year before tax

	2017	2016
	£'000	£'000
Loss on ordinary activities before taxation is stated		
after charging		
Depreciation and amortisation	**262**	282
Hire of other assets - operating leases	**293**	281
Pension contributions	**73**	73
Change in fair value of embedded derivatives	**3,199**	5,799
Foreign exchange losses	**1,665**	3,778
after crediting		
Amortisation of grants from public bodies	**(185)**	(22)

6. Auditors' remuneration

	2017	2016
	£'000	£'000
Audit services		
Fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	**32**	41
Fees payable to the Company's auditor and its associates for other services:		
Other services	**-**	-
	32	41

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:

	2017	2016
Development and construction	**48**	56
Administration and sales	**26**	23
	74	79

The aggregate payroll costs of these persons were as follows:

	Group	
	2017	2016
	£'000	£'000
Wages and salaries	**3,329**	3,716
Share based payments	**117**	274
Social security costs	**623**	643
Other pension costs	**73**	73
	4,142	4,706

There are no staff, or direct wages specific to the Company. Share based payments charge to the non-executive Directors of the Company is £1,000 (2016: £253,000)

Share based payments

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

	Group		**Company**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000

Share options	**117**	274	**117**	194
Shares	**26**	16	**26**	16
	143	290	**143**	210

Details of share options granted during 2017 are disclosed in the Directors' report on page 12. 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 2017 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 15 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.

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:

		2017		2016
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		£	000´s	£
Opening balance	**77,690,000**	**0.048**	81,245,000	0.049
Granted	**200,000**	**0.080**	-	-
Exercised	**-**	**-**	-	-
Forfeited	**(1,515,000)**	**(0.058)**	(3,555,000)	(0.081)
Closing balance	**76,375,000**	**0.048**	77,690,000	0.048

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 98%, based on expected share price. Risk-free interest rate was determined between 0.640% and 5.125% for the various grants of options. It is assumed that options granted under the SOS have an average remaining life of 5 months *(2016:5 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.

8. Tax

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:

	2017	2016
	£'000	£'000
Tax reconciliation		
Loss before tax	**(13,732)**	(19,498)
Expected tax credit at 20% (2016: 20%)	**(2,746)**	(3,900)
Effects of different tax rates on foreign subsidiaries	**(274)**	(589)
Expenses not deductible for tax purposes	**2,445**	1,650
Tax losses carried forward	**575**	2,839
Tax charge	**-**	-

9. Finance income

	Group	
	2017	2016
	£'000	£'000
Interest	**2**	2
	2	2

10. Finance costs

	Group	
	2017	2016
	£'000	£'000
Interest	**3,129**	2,450
Exchange loss on shareholder loans	**1,655**	3,669

	4,784	6,119

11. 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.

11. Loss per share

	2017		2016	
	Basic	**Diluted**	Basic	Diluted
	£'000	**£'000**	£'000	£'000
Loss attributable to equity holders of the Company	**(13,732)**	**(13,732)**	(19,498)	(19,498)
Weighted average number of Ordinary shares in issue (thousands)	**643,975**	**643,975**	643,250	643,250
Effect of dilutive potential Ordinary shares from share options and convertible debt (thousands)	**-**	**-**	-	-
Adjusted weighted average number of Ordinary shares	**643,975**	**643,975**	643,250	643,250
	Pence per share	**Pence per share**	Pence per share	Pence per share
Loss per share (pence per share)	**(2.1)**	**(2.1)**	(3.0)	(3.0)

12. Intangible assets - Group

	Goodwill	**Copyrights, trademarks and other intellectual property rights**	**Development costs**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January 2016	2,126	252	1,099	3,477
Exchange differences	-	43	174	217
Additions	-	62	-	62
Transfers	-	-	-	-
Disposals	-	-	-	-
At 31 December 2016	**2,126**	**357**	**1,273**	**3,756**
At 1 January 2017	2,126	357	1,273	3,756
Exchange differences	-	10	33	43
Additions	-	30	-	30
Transfers	-	-	-	-
Disposals	-	(190) -	(1,306)	(1,496)
At 31 December 2017	**2,126**	**207**	**-**	**2,333**
Accumulated Amortisation				
At 1 January 2016	2,126	127	1,095	3,348
Exchange differences	-	24	174	198
Charged in year	-	81	4	85
Disposals	-	-	-	-
At 31 December 2016	**2,126**	**232**	**1,273**	**3,631**
At 1 January 2017	2,126	232	1,273	3,631
Exchange differences	-	10	33	43
Charged in year	-	71	-	71
Disposals	-	(195)	(1,306)	(1,501)

At 31 December 2017	**2,126**	**118**	**-**	**2,244**
Net book value				
At 31 December 2017	**-**	**89**	**-**	**89**
At 31 December 2016	-	125	-	125
At 1 January 2016	-	125	4	129

Self-developed intangible assets in the amount of £30,000 (2016: £62,000) are recognised in the reporting year, because the prerequisites of IAS 38 have been fulfilled.

Amortisation and impairment charges are recognised within administrative expenses.

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.

The company does not hold any intangible assets.

13. Property, plant and equipment - Group

	Leasehold property improvements	Technical equipment & machinery	Office & other equipment	Self-constructed plant & machinery	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 January 2016	498	558	192	121	1,369
Exchange differences	80	104	35	14	233
Additions	20	117	89	10	236
Transfers	-	94	5	(99)	-
Disposals	-	-	-	-	-
At 31 December 2016	**598**	**873**	**321**	**46**	**1,838**
At 1 January 2017	598	873	321	46	1,838
Exchange differences	25	(114)	14	109	34
Additions	48	9	30	172	259
Transfers	-	16	-	(16)	-
Disposals	(129)	(5)	(39)	-	(173)
At 31 December 2017	**542**	**779**	**326**	**311**	**1,958**
Accumulated Depreciation					
At 1 January 2016	242	272	77	-	591
Exchange differences	40	55	14	-	109
Charge for year	43	112	42	-	197
Disposals	-	-	-	-	-
At 31 December 2016	**325**	**439**	**133**	**-**	**897**
At 1 January 2017	325	439	133	-	897
Exchange differences	13	(31)	13	-	(5)
Charge for year	51	94	46	-	191
Disposals	(129)	(5)	(39)	-	(173)
At 31 December 2017	**260**	**497**	**153**	**-**	**910**
Net book value					
At 31 December 2017	**282**	**282**	**173**	**311**	**1,048**
At 31 December 2016	273	434	188	46	941
At 1 January 2016	256	286	115	121	778

The company does not hold any property, plant and equipment.

14. Investment in subsidiary undertakings

	2017	2016

Company	£'000	£'000
Shares in Group undertaking		
Cost		
At beginning of year	**63,357**	56,922
Additions	**6,376**	6,435
At end of year	**69,733**	63,357
Impairment		
At beginning of year	**63,357**	56,922
Charge for the year	**6,376**	6,435
At end of year	**69,733**	63,357
Net book value		
At end of year	**-**	-

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 in the year of £6,376,000 (2016: £6,435,000) the Board has determined the recoverable amount on a value in use basis using a discounted cash flow model.

15. Inventories

	Group		**Company**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Finished goods	**119**	142	**-**	-
Work in progress	**36**	195	**-**	-
Consumable stores	**-**	-	**-**	-
Raw materials	**759**	706	**-**	-
	914	1,043	**-**	-

The cost of goods sold during 2017 is £1,976,000 (2016: £2,568,000). It includes £164,000 impairment loss for slow moving finished goods and goods anticipated to be sold at a loss (2016: £322,000).

16. Trade and other receivables

	Group		**Company**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Trade receivables	**125**	241	**-**	-
Other receivables	**265**	120	**5**	11
Amounts due from Group companies	**-**	-	**66**	93
Prepayments and accrued income	**24**	20	**7**	7
	414	381	**78**	111

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	
	2017	2016
	£'000	£'000
Not more than three months (all denominated in Euros)	**2**	228

The Directors consider that trade and other receivables which are not past due or impaired show no risk of requiring impairment.

17. Cash and cash equivalents

	Group		**Company**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000

Cash at bank and in hand	**795**	2,467	**4**	17
	795	2,467	**4**	17

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

18. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Trade payables	**163**	822	**-**	-
Other payables	**1,150**	583	**3**	-
Accruals and deferred income	**600**	767	**62**	240
	1,913	2,172	**65**	240

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

19. Borrowings

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Bank overdraft	**226**	-	**-**	-
Loans				
Current	**-**	2,662	**-**	7
Non-current	**47,243**	35,813	**47,243**	35,813
Current and total borrowings	**47,469**	38,475	**47,243**	35,820

During 2014 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 were 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 was originally 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. On 7 April 2016 the Group replaced its €10m loan facility with Mr Falih Nahab with a new loan facility of €20m with Mr Falih Nahab on the same terms. Subsequently on 19 April 2017 it was agreed that this loan facility would be increased by a further €8m to €28m. At 31 December 2017 total advances under this facility were €23,250,000. Subsequent to the year end it was also agreed that this loan facility would be increased by a further €6.50m to €34.5m. Mr Falih Nahab is the brother of Mr Faiz Nahab, a Director of the Company and both are treated as related parties.

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 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.

The redemption dates of these loans were extended by Roundstone Properties Limited and Mr Falih Nahab in April 2017 as follows:

... €2.4m to 31 December 2019

... €16.5m to 31 December 2019

... €28m to 31 December 2019

During 2013 Roundstone Properties Limited provided short-terms loans directly to SPower Holdings GmbH of €335,000. On 1 January 2015 this loan was transferred to SPower GmbH. The loans are interest free and repayable on demand.

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

20. Embedded derivatives on convertible interest

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000

Embedded derivatives on convertible interest	**18,540**	15,341	**18,540**	15,341

The embedded derivatives relate to the conversion features attached to convertible interest as disclosed under note 19. The derivatives are initially recognised at fair value and fair valued at each subsequent accounting reference date.

21. 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 £16,507,000 (2016: £14,494,000) in respect of losses amounting to £7,182,000 (2016: £6,865,000) and €64,438,000 (2016: €58,237,000).

22. Share capital

The share capital of Proton Power Systems plc consists of fully paid Ordinary shares with a par value of £0.01 (2016: £0.01) and Deferred Ordinary shares with a par value of £0.01 (2016: £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 8 March 2017 821,732 Ordinary shares of 1p each were issued each at a price of 2.50p per share in settlement of a supplier's invoice. On 26 June 2017 176,396 shares of 1p each were issued at a price of 3.00p in settlement of a supplier's invoice.

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

The number of shares in issue at the balance sheet date is 644,268,505 (2016: 643,270,377) Ordinary shares of 1p each (2016: 1p each) and 327,963,452 (2016: 327,963,452) Deferred Ordinary shares of 1p each (2016: 1p each).

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.

	2017				2016			
	Ordinary shares		**Deferred ordinary shares**		Ordinary shares		Deferred ordinary shares	
	No. ´000	**£'000**	**No. '000**	**£'000**	No. '000	£'000	No. '000	£'000
Shares authorised, issued and fully paid								
At the beginning of the year	**643,270**	**6,432**	**327,963**	**3,280**	642,822	6,428	327,963	3,280
Share issue	**998**	**10**	**-**	**-**	448	4	-	-
	644,268	**6,442**	**327,963**	**3,280**	643,270	6,432	327,963	3,280

23. 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:

	2017		2016	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£'000**	**£'000**	£'000	£'000
Operating leases payable:				
Within one year	**289**	**80**	333	79
In the second to fifth years inclusive	**787**	**44**	638	93
After more than five years	**-**	**-**	-	-
	1,076	**124**	971	172

24. Related party transactions

During the year ended 31 December 2017 the Group and Company entered into the following related party transactions:

	Group		**Company**	
	Year ended 31 December		**Year ended 31 December**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
(Expenses) / Income				
Roundstone Properties Limited effective loan interest	**(1,449)**	(1,362)	**(1,449)**	(1,362)
Falih Nahab effective loan interest	**(1,749)**	(1,018)	**(1,749)**	(1,018)
Roundstone Properties Limited other loan interest	**(37)**	(64)	**(37)**	(64)
IJP Business & Finance Services Limited	**(73)**	(122)	**(73)**	(122)

Key management personnel remuneration is disclosed in Note 7.

At 31 December 2017 the Group and Company had the following balances with related parties:

	Group		**Company**	
	Year ended 31 December		**Year ended 31 December**	
	2017	2016	**2017**	2016

	£'000	£'000	**£'000**	£'000
Amounts due (to) / from				
Roundstone Properties Limited borrowings and embedded derivatives (see Notes 19 and 20)	**(31,569)**	(33,072)	**(31,641)**	(30,703)
Roundstone Properties Limited bank guarantee	**(284)**	(177)	-	(177)
Roundstone Properties Limited loans to SPower GmbH	**(2,214)**	(2,069)	-	-
Falih Nahab borrowings and embedded derivatives (See Notes 19 & 20)	**(32,000)**	(20,451)	**(32,000)**	(20,451)

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 £6,376,000 (2016: £6,435,000) and to SPower GmbH of £nil (2016: £nil).

25. Risk management objectives and policies

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

- ˚¨ # foreign exchange risk (note 26);
- ˚¨ # credit risk (note 27); and
- ˚¨ # liquidity risk (note 28).

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.

26. 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 2017		Year ended 31 December 2016	
	€'000	**£'000**	€'000	£'000
Financial assets	**1,489**	**1,320**	3,295	2,813
Financial liabilities	**(77,975)**	**(69,235)**	(65,300)	(55,741)
Short-term exposure	**(76,486)**	**(67,915)**	(62,005)	(52,928)

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 +/- 7.59% change of the Sterling/Euro exchange rate for the year ended at 31 December 2017 (2016: 23.58%). 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 7.59% (2016: 23.58%) then this would have had the following impact:

	Year ended 31 December 2017	Year ended 31 December 2016
	£'000	£'000
Net result for the year	**(5,155)**	(12,481)
Equity	**(5,155)**	(12,481)

If the Euro had weakened against Sterling by 7.59% (2016: 23.58%) then this would have had the following impact:

	Year ended 31 December 2017	Year ended 31 December 2016
	£'000	£'000
Net result for the year	**5,155**	12,481
Equity	**5,155**	12,481

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.

27. Credit risk analysis

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

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

The Group's 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**	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**795**	2,467	**4**	17
Trade and other receivables	**390**	363	**12**	11
Short-term exposure	**1,185**	2,830	**16**	28

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.

28. 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 2017, 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	163	-	-
Other short term financial liabilities	1,748	-	-
Borrowings and embedded derivatives on convertible loans	226	-	47,243

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	822	-	-
Other short term financial liabilities	461	-	-
Borrowings and embedded derivatives on convertible loans	2,662	-	35,813

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.

29. Financial instruments

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

As at 31 December 2017		**Group**			**Company**	
	Loans and receivables	**Non-financial assets / financial assets not in scope of IAS 39**	**Total**	**Loans and receivables**	**Non-financial assets / financial assets not in scope of IAS 39**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Intangible assets	-	89	89	-	-	-
Property, plant and equipment	-	1,048	1,048	-	-	-
Investment in subsidiary	-	-	-	-	-	-
Inventories	-	914	914	-	-	-
Trade and other receivables	390	24	414	78	-	78
Cash and cash equivalents	795	-	795	4	-	4
	1,185	**2,075**	**3,260**	**82**	**-**	**82**

As at 31 December 2016	**Group**	**Company**

	Loans and receivables	Non-financial assets / financial assets not in scope of IAS 39	Total	Loans and receivables	Non-financial assets / financial assets not in scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	-	125	125	-	-	-
Property, plant and equipment	-	941	941	-	-	-
Investment in subsidiary	-	-	-	-	-	-
Inventories	-	1,043	1,043	-	-	-
Trade and other receivables	363	18	381	104	7	111
Cash and cash equivalents	2,467	-	2,467	17	-	17
	2,830	**2,127**	**4,957**	**121**	**7**	**128**

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

As at 31 December 2017	**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	1,798	-	115	1,913	65	-	-	65
Borrowings	47,243	-	-	47,243	47,243	-	-	47,243
Embedded derivatives on convertible loans	-	18,540	-	18,540	-	18,540	-	18,540
	49,041	**18,540**	**115**	**67,696**	**47,308**	**18,540**	**-**	**65,848**

As at 31 December 2016	**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	1,653	-	519	2,172	240	-	-	240
Borrowings	38,475	-	-	38,475	35,820	-	-	35,820
Embedded derivatives on convertible loans	-	15,341	-	15,341	-	15,341	-	15,341
	40,128	**15,341**	**519**	**55,988**	**36,060**	**15,341**	**-**	**51,401**

Fair values
Management believe that the fair value of trade and other payables and borrowings is approximately equal to book value.

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.

30. 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.

	Group		**Company**	
	2017	2016	**2017**	2016

	£'000	£'000	£'000	£'000
Total liabilities	**67,922**	55,988	**65,848**	51,401
Less: cash and cash equivalents	**(795)**	(2,467)	**(4)**	(17)
Adjusted net debt	**67,127**	53,521	**65,844**	51,384

31. Ultimate controlling party

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

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