

Proton Power Systems PLC

Corporate Governance QCA statement

All members of the board strongly believe in the importance and value of good corporate governance and in our accountability to all of Proton Power Systems' stakeholders, including shareholders, staff, clients, and relevant suppliers. In the statement below, we explain our approach to governance, and how the board and its committees operate.

Changes to AIM rules on 30 March 2018 require AIM companies to apply a recognised corporate governance code by 28 September 2018 in order to comply with the new requirements of AIM Rule 26.

The corporate governance framework which the group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The board considers that it does not depart from any of the principles of the QCA Code.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors. At the date of this statement the Board is composed of one non-executive Chairman and four executive Directors. The Board Committees are comprised as follows:

Remuneration Committee: Chair: CEO, second member: Group Director Finance

Audit Committee: Chair: Chairman of the Board, second member: Director Sales and Marketing

Nominations Committee: Chair: CEO, second member: Group Director Finance

Board evaluation

For many years we have supported the principle to review regularly the effectiveness of the board's performance as a unit, as well as that of its committees and individual directors. The most recent review was carried out in March 2018, on the occasion of the Director Customer Project Management and Service and the Director Sales and Marketing being appointed to the Proton Power Systems Board. The review was initiated by the Chairman.

Shareholder engagement

In this respect it is necessary to take note of the fact that the Directors regard Roundstone Properties Limited to be the ultimate controlling party of Proton Power Systems with a holding in excess of 90%. Dr. Faiz Nahab is connected to Roundstone Properties Limited, and is also CEO of the Proton Power Systems group. In this capacity Dr. Nahab is fully involved in the operations of the group. Additionally the Directors ensure that the remaining shareholders of the Proton Power Systems Group are kept up to date via RNS statements of all major developments within the group. Furthermore the Directors regard the AGM as a forum to present to and meet with shareholders.

The board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its audit committee. The directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

The following paragraphs set out Proton Power Systems' compliance with the ten principles of the QCA Code.

Establish a strategy and business model which promote long-term value for shareholders

Proton Motor is a provider of Power Solutions using CleanTech technologies such as industrial fuel cells, fuel cell and hybrid systems with more than 20 years of experience in this sector. Operationally based in Puchheim near Munich, Germany, Proton Motor offers complete fuel cell and hybrid systems from a single source - from the development and production through the implementation of customized solutions. The focus of Proton Motor is on back-to-base, for example, for mobile, marine and stationary applications. The product portfolio consists of base-fuel cell systems, standard complete systems, as well as customized systems.

Proton Motor serves IT, Telecoms, public infrastructure and healthcare customers in Germany, Europe and Middle East with power supply solutions for DC and AC power demand. In addition to power supply, the SPower product range also offers solutions for Solar Systems.

The PLC Board has formulated the strategic framework for the business, which includes the identification of target market segments, and how each segment is to be approached when matched against the resources available. Further essential elements of the strategy relate to the areas of production, product development and the forms of strategic cooperations being sought.

Key challenges we face include:

- **Increasing the awareness of the market with respect to the group's technology offer** – the group with its innovative and CLEAN TECH based (environmentally friendly emission free) technology is competing against long established fuel

technologies with strong lobbies (e.g. diesel fuel). The group's marketing activities are directed towards increasing market awareness for its technology offer.

-
- **Recruiting and retaining suitable staff** – the group's ability to execute its strategy is dependent on the skills and abilities of its staff. We undertake ongoing initiatives to foster good staff engagement and ensure that remuneration packages are competitive in the market.

We believe we have the right strategy and service in place to deliver strong growth in sales and other income forms such as licensing over the medium to long term, which will enable us to deliver sustainable shareholder value.

Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the Group Finance Director. During 2018 the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the group's shareholder base:

Date:	Event:	Participants:	Comments:
Jun 18	AGM	CEO, Group Finance Director, Auditor, NOMAD, Shareholders	All shareholder questions answered
Monthly	Operative Board Meetings	GmbH Board members	Operational reviews
Quarterly	PLC Board Meetings	PLC Board members	Strategic and top level review

The group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM). A range of corporate information (including all Proton Power Systems announcements) is also available to shareholders, investors and the public on our website.

Private shareholders: The AGM is the principal forum for dialogue with private shareholders, and we encourage all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The Chairman of the board and/or the CEO, together with the Group Finance Director, attend the AGM and are available to answer questions raised by shareholders. The results of shareholder voting are issued as a RNS Statement and are published on the website.

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage
Staff – our ability to fulfil client demand and develop and enhance the technology provided relies on having talented and motivated staff.	Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation.	Quarterly staff meetings. Staff can ask questions of management at these meetings. Topics covered include: Financial Results Sales Pipeline Status of technology offer
Clients – our success and competitive advantage are dependent upon fulfilling client requirements, particularly in relation to the quality and reliability of the technology offer and post sales service, together with its speed of delivery and security.	Understanding current and emerging requirements of clients enables us to develop a new and enhanced technology offer and service.	Seek feedback on technology offer and service levels.
Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.	Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.	Regulatory news releases. Keeping the investor relations section of the website up to date. Annual and half-year reports. AGM.

Embed effective risk management, considering both opportunities and threats, throughout the organisation

The group risk profile in terms of risk pertaining to individual orders and to the business environment in which the company is operating is evaluated on a regular basis by Group Management and Board Members in the monthly GmbH Board meetings and in the quarterly PLC Board meetings.

Within the scope of the annual audit, specific financial risks are evaluated in detail, including in relation to foreign currency, interest rates, liquidity and credit.

Maintain the board as a well-functioning, balanced team led by the chair

The members of the board have a collective responsibility and legal obligation to promote the interests of the group, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board consists of five directors of which four are executive and one is an independent non-executive, two of whom were appointed during the period. The board is supported by three committees: nomination, audit and remuneration. The board intends to appoint additional non-executive directors as its business expands.

Non-executive directors are required to attend 4 quarterly board meetings per year (at the Puchheim operational location in Germany) and to be available at other times as required for face-to-face and telephone meetings with the executive team.

Meetings held to date in 2018 and the attendance of directors is summarised below:

Executive Directors	PLC Board Meetings* Possible	PLC Board Meetings* Attended	GmbH Board Meetings Possible	GmbH Board Meetings Attended
Sebastian Goldner	3	3	7	7
Roman Kotlarzewski	3	3	7	7
Dr. Faiz Nahab	3	3	7	7
Manfred Limbrunner	3	3	7	7
Non-Executive Director				
Helmut Gierse	3	3	N/A	N/A

* There was one further meeting called and held by conference call by the Audit Committee for the sole purpose of approving the annual results announcement

The board has a schedule of regular business, financial and operational matters, and each board committee has compiled a schedule of work to ensure that all areas for which the board has responsibility are addressed and reviewed during the course of the year. The chairman is responsible for ensuring that, to inform decision-making, directors receive accurate, sufficient and timely information. The company secretary compiles the board and committee papers which are circulated to directors prior to meetings. The company secretary provides minutes of each meeting and every director is aware of the right to have any concerns minuted and to seek independent advice at the group's expense where appropriate.

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The members of the board bring relevant sector and public market experience and one member is a chartered accountant. All five directors are male. The board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

Helmut Gierse, Independent Chairman

Term of office: Appointed as Director on 20 January 2009 and as Chairman on 20 December 2017; Chair of the Audit Committee.

Background and suitability for the role: Helmut Gierse 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 Gierse is currently an independent industry consultant.

Helmut Gierse studied Electronic Engineering at the Universität Erlangen in Germany. He speaks German, English, French and Spanish.

Time commitment: one to two days per quarter.

Dr. Faiz Nahab, CEO

Term of office: Joined as CEO on 1 September 2008; Chair of the Nomination Committee and Chair of the Remuneration Committee.

Background and suitability for the role: Dr. Faiz Nahab has over 35 years of executive management experience in company restructuring and expansion. For more than 20 years he served as 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 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 as MSD, Siemens AG, Carl Zeiss and others.

He still holds various Directorships at companies in the pharmaceutical, medical and technology sector, some of them as CEO and Chairman. Faiz Nahab had academic undergraduate education in Electronics at Southampton, postgraduate PhD at Kent University UK in Electronics and full membership of MIEEE.

Time commitment: two to three days per month.

Sebastian Goldner, COO

Term of office: Appointed as Director on 20 February 2018, originally in the role of Director Customer Project Management and Service, and appointed COO on 14 September 2018.

Background and suitability for the role: Sebastian Goldner has more than 10 years' experience in the design and construction of mobile, marine and stationary fuel cell applications. His experience is based on various leadership positions in sales & marketing, project management and development. Currently, Sebastian Goldner is the COO responsible for production, customer projects and customer service.

Sebastian Goldner studied engineering computer science with a focus on electrical engineering at the University of Paderborn. As part of his studies, he completed his diploma thesis at Infineon Technologies in Munich.

Time commitment: full time.

Roman Kotlarzewski ACA, Group Finance Director and Company Secretary

Term of office: Appointed as Group Financial Controller in February 2017 and became Group Finance Director on 10 August 2017 and Company Secretary on 20 February 2018. Member of the Nomination Committee and member of the Remuneration Committee.

Background and suitability for the role: Roman Kotlarzewski is an Associate of the Institute of Chartered Accountants in England and Wales. Roman Kotlarzewski has over 30 years of industry experience including significant private and public company experience also on an international level via financial leadership roles within the Boots Company PLC, Standex International Corporation and BASF AG. Roman Kotlarzewski occupied the position of CFO Europe at the private company goetzpartners Corporate Finance, was CFO with the startup Carfrogger GmbH and is Director at the Globe Business College Munich.

Mr Kotlarzewski studied Modern Languages and Economics at Northumbria University and speaks English, German and French.

Time commitment: full time.

Manfred Limbrunner, Director Sales and Marketing

Term of office: Appointed as director on 20 February 2018. Member of the Audit Committee.

Background and suitability for the role: Manfred Limbrunner joined Proton in November 2000 as a design engineer and project manager for various mobile and maritime projects. In his early years he was also in charge of the systems engineering and the homologation of the Fuel Cell Hybrid Systems of Proton. As the company developed further he formed and led the design department, played a significant role in implementing the quality management system and rotated in October 2009 to the product management position, until he was appointed as CTO in March 2011. By November 2016 he took over the newly founded Mobility Business Unit and he is now responsible for Sales and Marketing at Proton. Prior to joining Proton, Manfred Limbrunner worked for 5 years in the pulp & paper plant engineering business. His main duties and responsibilities were in the design of complex

plant sub assembly groups, supervising their mounting through external suppliers, plant engineering, customer support, supervising the mounting team as well as the project management.

Manfred Limbrunner studied mechanical engineering with a focus on design at the University of Applied Science in Kempten and started his career at Hoerbiger Fluidtechnik GmbH in 1995.

Time commitment: full time.

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

A board evaluation process led by the chairman took place in March 2018. The Chairman conducted interviews with then current directors, with the exception of the CEO. The chairman then reviewed the results of these interviews with the CEO.

The review considers effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

As the business expands, the executive directors will be required to identify potential internal candidates who could potentially occupy board positions, and set out development plans for these individuals.

Promote a corporate culture that is based on ethical values and behaviour

Our long-term growth is underpinned by five core values, which are:

1. We place our **customers first**, putting ourselves in their shoes to understand the current and future needs of those who use our products and services, and always striving to exceed their expectations.
2. We have an enduring **positive attitude** that stems from being self-motivated, adaptable and agile and feeling fully empowered to make a difference, speaking out with ideas and suggestions to make things better.
3. We are **team players** who recognise that Proton Power Systems is a company worth much more than the sum of its parts, we are passionate about communicating with colleagues and with our customers and are committed to learning from one another.
4. We are committed to **innovation** in what we do and how we do it, and to working smarter rather than harder to reduce costs, increase efficiency and make lives easier by being creative, pragmatic and different.
5. We **respect** one another and are courteous, honest and straightforward in all our dealings, we honour diversity, individuality and personal differences, and are committed to conducting our business with the highest personal, professional and ethical standards.

The culture of the group is characterised by these values which are communicated regularly to staff via the quarterly staff meetings. The board believes that a culture that is based on the five core values is a competitive advantage and consistent with fulfilment of the group's mission and execution of its strategy.

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The **PLC Board** provides strategic leadership for the group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the group implements in its business plans. The board defines a series of matters reserved for its decision and has approved terms of reference for its audit and remuneration committees to which certain responsibilities are delegated. The chair of each committee reports to the board on the activities of that committee.

The **Audit Committee** is primarily responsible for monitoring the quality of internal control and ensuring the proper measurement of and reporting on the financial performance of the Group as well as for reviewing reports from the Group's auditor.

The **Remuneration Committee** is responsible for the determination of terms and conditions of service of executive directors.

The **Nomination Committee** is primarily responsible for reviewing the balance and effectiveness of the Board and identifying the skills needed and those individuals who might best provide them, and shall ensure a formal and transparent appointment procedure of the Board.

The **GmbH Executive Board**, consisting of the executive directors, operates as a management committee, chaired by the CEO, which reviews operational matters and performance of the business, and is responsible for significant management decisions while delegating other operational matters to individual managers within the business.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the group. He leads and chairs the board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual directors, the board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the group and its shareholders.

The **CEO** provides coherent leadership and management of the group, leads the development of objectives, strategies and performance standards as agreed by the board, monitors, reviews and manages key risks and strategies with the board, ensures that the assets of the group are maintained and safeguarded, leads on investor relations activities to ensure communications and the group's standing with shareholders and financial institutions is maintained, and ensures that the board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the board, making operational and financial decisions required in the day-to-day operation of the group, providing executive leadership to managers, championing the group's core values and promoting talent management.

The **Company Secretary** is responsible for providing clear and timely information flow to the board and its committees and supports the board on matters of corporate governance and risk.

The matters reserved for the board are:

- Setting long-term objectives and commercial strategy.
- Approving annual operating and capital expenditure budgets.
- Changing the share capital or corporate structure of the group.
- Approving half-year and full-year results and reports.
- Approving dividend policy and the declaration of dividends, if applicable.
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.
- Approving changes to the board structure.

The board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the group evolves.

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described above, the following audit and remuneration committee reports are provided.

Audit Committee Report

During the year, the Audit Committee has continued to focus on the effectiveness of the controls throughout the group. The Audit Committee consists of Helmut Gierse, Chair, and Manfred Limbrunner. The committee met once via a telephone conference, and the external auditor and Group Finance Director were invited to attend this telephone call. Consideration was given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in both the annual and interim reports. The Chair also met with the auditors with no executives present.

Remuneration Committee Report

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the board on the remuneration of executive directors. The Remuneration Committee consists of Dr. Faiz Nahab, chair, and Roman Kotlarzewski. It has not been necessary for this committee to hold a meeting to date in 2018.

Nomination Committee Report

The remit of the Nomination Committee is to review the balance and effectiveness of the Board and identifying the skills needed and those individuals who might best provide them, and shall ensure a formal and transparent appointment procedure of the Board.

The Nomination Committee consists of Dr. Faiz Nahab, chair, and Roman Kotlarzewski. It has not been necessary for this committee to hold a meeting to date in 2018.