Proton Power Systems plc

Annual report and financial statements
Registered number 05700614
31 December 2017

Fuel Cells · Power Systems

Proton Power Systems PLC

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CHAIRMAN'S STATEMENT

DR. FAIZ NAHAB CHIEF EXECUTIVE OFFICER, **HELMUT GIERSE** CHAIRMAN

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 Deutsche Bahnbau. The subsequent follow up order from Deutsche Bahnbau was received in August 2017 for a total value of £149k, which will be delivered 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 also 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 systems 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

CHAIRMAN'S STATEMENT

customer, Deutsche Bahnbau, 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 Protons 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.

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.

Therefore, CleanTech technology is being prioritised and required to provide zero emission energy solutions to a multi-billion market that is growing year on year.

Proton Power is strategically positioned, after more than 20 years in the industry, to win a significant share.

FINANCE

Turnover decreased by 44% to £1,115,000 (2016: £1,989,000), mainly due to the delivery of 22 systems under the Deutsche Bahnbau 7 year frame agreement in 2016, whilst the first follow up order from Deutsche Bahnbau 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

BOARD OF DIRECTORS

DR. FAIZ NAHAB (AGED 75), CHIEF EXECUTIVE OFFICER

Faiz has over 35 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.

HELMUT GIERSE (AGED 68), CHAIRMAN

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 University of Erlangen in Germany. He speaks German, English, French and Spanish.

SEBASTIAN GOLDNER, (AGED 37) DIRECTOR CUSTOMER PROJECT MANAGEMENT AND SERVICE

Sebastian Goldner has more than 10 years of 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, Mr. Goldner is as the Director of Customer Project Management and Service responsible for all customer projects and the 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.

ROMAN KOTLARZEWSKI, (AGED 59) GROUP FINANCE DIRECTOR

Mr. Roman Kotlarzewski is an Associate of the Institute of Chartered Accountants in England and Wales. Mr. 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. Mr. 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.

MANFRED LIMBRUNNER, (AGED 48) DIRECTOR SALES AND MARKETING

Manfred Limbrunner joined Proton Motor 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 Motor. As PM 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 now he is responsible for the Sales and Marketing at Proton Motor.

Prior to joining Proton Motor, 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.

SHAREHOLDER INFORMATION

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05700614

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NE12 8EG

Registrars

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West Midlands
B63 3DA

BUSINESS REVIEW

The Group's principal activity is the development of hydrogen fuel cells and fuel cell hybrid systems as well as UPS and solar battery storage products through its subsidiary Proton Motor Fuel Cell GmbH. A commentary on the Group's activities, results for the year and future prospects is included in the Chairman's statement on pages 2 to 3.

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, R&D project status is reported to the Board on a monthly basis.

GROUP ACTIVITIES

To date the group has been focusing on selling fuel cell modules from the PM Module product range primarily for stationary power supply applications. The electrical output power of the PM Modules is 5kW, 8kW or 25kW. A master control system has been developed specifically for the PM Module product family, to use up to three units in parallel for applications in the upper power segment or with the requirement of redundancy. The Group offers complete emergency power supply solutions for the power supply of critical infrastructure. These solutions can also be connected to uninterruptible power supply ("UPS") product to provide for an uninterruptible power supply. The Group has thus improved its project and planning capacities to provide these complete solutions, which can be installed in buildings, and in indoor or outdoor containers. These are mainly containerised as a sole fuel cell application with a UPS, to repower existing hydrogen on demand and to feed back to the grid. Within the context of the cooperation agreement with Deutsche Bahnbau Gruppe (BBG) several emergency power supply units with power output of 4kW to 8kW have been designed, delivered and successfully tested as a backup power supply for critical infrastructures in Bavaria. Furthermore the design of fuel cell systems for railway switching stations, together with the process of obtaining the corresponding technology approval from Deutsche Bahn, was initiated in 2017, with projected delivery in quarter two of 2018. The cooperation agreement with the BBG, which was concluded in 2015, aims to offer BBG complete fuel cell solutions. BBG will take responsibility for the planning, installation and after-sales service for power solutions, using hydrogen fuel cells from the Group. Both companies will jointly address the power supply market for industrial, governmental, IT and Banking, Telecom and other applications.

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.

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 electric power supply 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 or diesel powered products. The Group will offer licensing partnerships which will allow manufacture of the complete system locally by a licensing partner.

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.

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. A one-stop CleanTech Power Solution provider. 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. The Group has signed cooperation agreements with companies, which provide the planning and integration part of a project.

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 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. In order to meet our manufacturing goals and achieve the market demand, 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;
- COP21 legalisation on climate change;
- 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).

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:

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

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 electrolyser;
- 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.

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 Falih Nahab 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.

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

Stationary: Off Grid housing complex

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:

Category	Risk
Competing power technologies	As the Group's fuel cell technology has the potential to replace existing power products, competition for the Group's products will come from current power technologies, from improvements to current power technologies and from new alternative power technologies, including other types of fuel cells or other self-contained energy systems. Each of the Group's target markets is currently serviced by existing manufacturers with existing customers and suppliers. These manufacturers use proven and widely accepted technologies such as internal combustion engines, turbines, batteries and overhead contact lines. The Directors believe this risk has reduced during 2017 and will continue to reduce during 2018. 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. The Directors believe this risk has reduced during 2017 and will continue to reduce during 2018.
Governmental regulation	There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities. The Directors see government activities improving for hydrogen technology.
Commercial relationships	The success of the Group will depend on its ability to integrate the Group's fuel cell technology into products manufactured by OEMs. There is no guarantee that OEMs will manufacture appropriate products or, if they do manufacture such products, that they will choose to use the Group's fuel cell technology. Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for the Group's fuel cell technology and the Group's financial results.
Dependence on key personnel	In order to 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.
Currency exchange rate fluctuations	The Group intends to conduct much of its business overseas in currencies other than sterling and as such its financial performance is subject to the effects of fluctuations in foreign exchange rates.

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

Dr. Faiz Nahab
Director

8 May 2018

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2017. The Chairman's statement and Strategic report on pages 2 to 3 and 6 to 8 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 22 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 Deutsche Bahn back up power solutions, Containerised 75kw power solution for Orkney Surf and Turf project, 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.

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.

MANUFACTURING

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.

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 (2016: £nil).

DIRECTORS' REPORT

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 Marketing5 (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.

According to the register of Directors' interests, rights to subscribe for shares in Group companies granted to any of the Directors and exercised by them are summarised in the table below. No rights to subscribe for debentures of Group companies were granted to any of the Directors or their immediate families during the financial year.

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

		Number of options during the year					
	At start of year	Granted	Exercised/ Waived	At end of year	Exercise Price	Date from which exercisable	Expiry Date
Helmut Gierse	6,050,000	–	–	6,050,000	£0.10, £0.03,	2 October 2010	1 October 2018
					£0.02 & £0.06	1 July 2012	30 June 2020
						2 July 2013	30 June 2021
						22 December 2013	21 December 2021
						28 November 2014	27 November 2022
						28 February 2016	27 February 2024
Faiz Nahab	10,000,000	–	–	10,000,000	£0.08	27 July 2017	26 July 2025
Roman Kotlarzewski	–	200,000	–	200,000	£0.08	1 July 2019	30 June 2027
Sebastian Goldner	1,034,250	–	–	1,034,250	£0.79	20 February 2009	19 January 2017
					£0.10	23 July 2011	22 July 2019
					£0.10	1 July 2012	30 June 2020
					£0.10	1 July 2013	30 June 2021
					£0.03	22 December 2013	21 December 2021
					£0.04	12 February 2017	11 February 2025
					£0.08	27 July 2017	26 July 2025
Manfred Limbrunner	7,862,500	–	–	7,862,500	£0.79	20 February 2009	19 January 2017
					£0.10	23 July 2011	22 July 2019
					£0.10	1 July 2012	30 June 2020
					£0.10	1 July 2013	30 June 2021
					£0.03	22 December 2013	21 December 2021
					£0.02	28 November 2014	27 November 2022
					£0.06	28 February 2016	27 February 2024
					£0.04	12 February 2017	11 February 2025
					£0.08	27 July 2017	26 July 2025

DIRECTORS' REPORT

Directors' attendance at various meetings was as follows:

	Board meetings attended (Out of 4)	Audit Committee meetings attended (Out of 2)
Dr. Faiz Nahab	4	N/A
Helmut Gierse	4	2
Roman Kotlarzewski	3	N/A
Achim Loecher (resigned)	3	2
Ian Peden (resigned)	4	2
Sebastian Goldner	N/A	N/A
Manfred Limbrunner	N/A	N/A

There were no meetings of the Nominations and Remuneration Committees.

MAJOR SHAREHOLDINGS

As at 10 April 2018 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	92.55

CORPORATE GOVERNANCE

The Directors recognise the value of the corporate governance principles enshrined in the UK Corporate Governance Code 2016 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.

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 25 to 28.

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 Properties Limited, of €2.4m and €16.5m, which are due for repayment in 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. Subsequent to the year end it was also agreed that this loan facility would be increased by a further €6.5m to €34.5m. This facility is also due for repayment in December 2019.

Roundstone Properties Limited also previously provided short-term loans directly to SPower Holdings GmbH of €335,000, which are interest free and repayable on demand. The Group is dependent on the continuing financial support of Mr Falih Nahab, a related party of Mr Faiz Nahab to meet its day-to-day working capital requirements. Mr Falih Nahab has indicated that he 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

DIRECTORS' REPORT

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the 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 accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 4 confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and company's auditors are 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.

INDEPENDENT AUDITORS

A resolution to confirm the re-appointment of RMT Accountants and Business Advisors Ltd, as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

STRATEGIC REPORT

The Group has chosen in accordance with Companies Act 2006, s. 414C(ii) to set out in the Group´s Strategic Report information required by the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the Directors´report. It has done so in respect of the future developments of the Group.

On behalf of the Board

DR. FAIZ NAHAB
Director

8 May 2018

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

REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Dr. Faiz Nahab and its other member is Roman Kotlarzewski. 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. Womble Bond Dickinson UK LLP has been appointed as external adviser to the Remuneration Committee. Womble Bond Dickinson UK LLP 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 Share Option Scheme.

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 during the year, as disclosed in note 7 of the financial statements.

Share 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 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.

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 £'000	Termination payments £'000	**Total 2017 £'000**	Total 2016 £'000
Dr Faiz Nahab	–	–	**–**	–
Thomas Melczer (resigned 2/8/16)	–	–	**–**	106
Achim Loecher (resigned 21/11/17)	–	19	**19**	115
Ian Peden (resigned 23/3/18)	–	–	**–**	–
Helmut Gierse	–	–	**–**	–
Roman Kotlarzewski	68	–	**68**	–
Sebastian Goldner	–	–	**–**	–
Manfred Limbrunner	–	–	**–**	–
Total	68	19	**87**	221

The share based payment charge expensed in operating expenses in respect of the directors was £1,000 (2016: £253,000).

During the year Helmut Gierse submitted an invoice to the Company for €21,300 for professional consultancy fees provided for the year ended 31 January 2017. The invoice was settled by the issue of 821,732 Ordinary shares of 1p each at a price of 2.500p.

During the year Achim Loecher submitted an invoice to the Company for €6,000 for professional consultancy fees provided for the quarter ended June 2017. The invoice was settled by the issue of 176,396 Ordinary shares of 1p each at a price of 3.000p.

During the year IJP Business & Finance Services Limited submitted invoices to the Company for £73,077 (2016: £150,206) for professional fees and expenses provided for the year ended 31 December 2017 by Ian Peden.

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

On behalf of the Board

DR. FAIZ NAHAB
Chairman of the Remuneration Committee

8 May 2018

Stationary: Orkney delivery on its way from Puchheim

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.

On 10 August 2017 Roman Kotlarzewski was appointed to the Board of Proton Power Systems plc. On 20 February 2018 Sebastian Goldner and Manfred Limbrunner were appointed to the Board of Proton Power Systems plc.

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. Dr. Faiz Nahab is the nominee appointee of Roundstone Properties Limited.

The Nominations Committee is chaired by Dr. Faiz Nahab. Its other member is Roman Kotlarzewski.

DR. FAIZ NAHAB
Chairman of the Nominations Committee

8 May 2018

We are one team with one vision

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 payable to RMT Accountants and Business Advisors Ltd for audit and non-audit services are set out in note 6 to the financial statements.

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:
  - o the external auditor auditing their own firm's work;
  - o the external auditor making management decisions for the Company;
  - o a mutuality of interest being created; or
  - o 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.

HELMUT GIERSE
Chairman of the Audit Committee

8 May 2018

OPINION

We have audited the financial statements of Proton Power Systems plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Group and Company balance sheets, Group and Company statements of changes in equity, Group and Company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, 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 2017 and of the Group's and the Company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

In forming our opinions on the Group and 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's and the Company's ability to continue as a going concern. The Group and the Company are dependent on the continuing support of Mr Falih Nahab, in order to meet their day to day working capital commitments. 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, 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's and the Company's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Group revenue is recognised at the point that the goods or services have been provided to the customer, which exposes the Group to the risk of incomplete and incorrect cut-off of revenue recognised in the period. The Group's revenue recognition policy is shown in note 2 to the financial statements.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

To address the risk of improper revenue recognition, our audit work included, but was not restricted to:

- performed substantive testing to determine whether the accounting policy had been correctly applied, taking into account the timing of goods or services being provided to the customer, primarily through the review of delivery notes;
- reviewed a sample of sales transactions around the year end to ensure cut-off was correct and sales had been recognised in the correct period;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the disclosures in the financial statements regarding revenue.

KEY OBSERVATIONS

The results of our testing were satisfactory and no significant issues were identified from our work over revenue recognition.

MANAGEMENT OVERRIDE

In preparing the financial statements management are required to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not available from other sources.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT
During the course of our audit we performed the following procedures to address the risk of management override:

- assessed the appropriateness of accounting policy choices made by management and the basis of key judgements, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity; and
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias.

KEY OBSERVATIONS
The results of our testing were satisfactory and we consider the disclosure surrounding accounting policy choices and key accounting judgements to be appropriate.

GOING CONCERN
The Group has historically been dependent on the continuing financial support of its main investors to meet its day-to-day working capital requirements. We therefore identified the going concern of the Group as a significant risk.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT
During the course of our audit we performed the following procedures to address the risk of going concern:

- reviewed forecasts including estimates on cash burn;
- considered post year end performance in relation to budgets and forecasts to assess their reasonableness; and
- considered the disclosures in the financial statements regarding going concern.

KEY OBSERVATIONS
As discussed above, a material uncertainty exists over the Group's and Company's ability to continue as a going concern. The disclosure made in note 2 to the financial statements is considered to be reasonable.

RELATED PARTY TRANSACTIONS
Due to the high level of potential related parties and transactions there is a significant risk that not all balances and transactions are disclosed within the financial statements or are incorrectly disclosed.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT
To address the risk surrounding related party transactions, our audit work included, but was not restricted to:

- reviewed the disclosures in the financial statements regarding related party transactions, reconciling balances to underlying accounting records; and
- we paid particular attention to non-routine transactions and any with unusual characteristics that might indicate unrecorded related parties.

KEY OBSERVATIONS
The results of our testing were satisfactory and we consider the disclosure in note 24 to the financial statements regarding related party transactions to be adequate.

OPENING BALANCES
Given that this is the first year we have been engaged to perform the Group audit, there is a risk that the opening balance sheet position is misstated.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT
During the course of our audit we performed the following procedures to address the risk of incorrect opening balances:

- performed a review of the prior year audit file after obtaining professional clearance from the previous auditor, PricewaterhouseCoopers LLP, to ascertain the level of work undertaken and determined the level of reliance to be placed on this work.

KEY OBSERVATIONS
The results of our testing were satisfactory and no significant issues were identified from our work over opening balances. No material misstatements have been highlighted during the audit with regards to opening balances.

OUR APPLICATION OF MATERIALITY
In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement we determined materiality for the Group financial statements as a whole to be £603,000, based on a combination of benchmarks. Performance materiality of £301,500 was applied for testing which is 50% of Group materiality.

The Group's significant component was also audited by the Group's audit team, with a component materiality of £37,500 used.

We agreed with the Audit Committee to report to it all identified errors considered to be above a trivial level, being 5% of Group materiality at £30,100, in addition to other identified misstatements that warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls and the industry in which they operate.

The Group operates through a significant component trading subsidiary, based in Germany. This comprises the Group's operating business and centralised functions. The head office in Germany maintains all accounting records and controls for all entities.

The Group audit team performed all of the statutory audit work at the head office, including the audit of the Group's significant component.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement relating to the Group's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report.

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

- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Maxine Pott (Senior Statutory Auditor)
for and on behalf of RMT Accountants & Business Advisors Ltd
Statutory Auditors
Newcastle upon Tyne

8 May 2018

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 £'000**	2016 £'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 £'000	2016 £'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 £'000**	2016 £'000	**2017 £'000**	2016 £'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)

These financial statements on pages 21 to 44 were approved and authorised for issue by the Board of Directors on 8 May 2018 and were signed on its behalf by:

Roman Kotlarzewski ACA
Director

GROUP COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Reverse Acquisition Reserve £'000	Share Option Reserve £'000	Foreign Translation Reserve £'000	Capital Contribution Reserves £'000	Accumulated Losses £'000	Total Equity £'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)**

STATEMENTS OF CHANGES IN EQUITY

Company	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Share Option Reserve £'000	Accumulated Losses £'000	Total Equity £'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		Company	
	Year ended 31 December		Year ended 31 December	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'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.

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 .On 1 January 2015 the trade and assets of SPower GmbH were transferred to Proton Motor Fuel Cell GmbH, whilst SPower Holding GmbH was merged into SPower GmbH at the same date.

Subsidiary	Registered Office
Proton Motor Fuel Cell GmbH	Benzstraße 7, 82178 Puchheim, Germany
SPower GmbH	Benzstraße 7, 82178 Puchheim, Germany

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 £14,636,000 (2016: £ 19,056,000).

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 (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.

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 control. The Group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the 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).

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 functional currency is the Euro. 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.

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	10% - 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.

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

Government grants

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

Implementation of new accounting standards

There have been no new International Financial Reporting Standards (IFRSs), International Accounting Standards or amendments to existing standards that have had a material impact on the Group financial statements for the year ended 2017.

Impact of standards issued but not yet applied

Standard	*Effective date*
• IFRS 9, 'Financial Instruments	1 January 2018
• IFRS 15, 'Revenue from contracts with customers	1 January 2018
• IFRS 16, 'Leases'	1 January 2019

The Directors are assessing the impact of these new standards. The full financial impact on the financial statements is yet to be quantified.

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 £'000	2016 £'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 £'000	2016 £'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	**(211)**	(22)

6. AUDITORS' REMUNERATION

	2017 £'000	2016 £'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	**47**	56
Administration and sales	**27**	23
	74	79

The aggregate payroll costs of these persons were as follows:

	Group	
	2017 £'000	2016 £'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 £'000	2016 £'000	**2017 £'000**	2016 £'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 10. 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 £'000	**Weighted average exercise price £**	Number £'000	Weighted average exercise price £
Opening balance	**77,690**	**0.048**	81,245	0.049
Granted	**200**	**0.080**	–	–
Exercised	**–**	**–**	–	–
Forfeited	**(1,515)**	**(0.058)**	(3,555)	(0.081)
Closing balance	**76,375**	**0.048**	77,690	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.

Directors' remuneration

Details of Directors' remuneration are given in the audited section of the Remuneration report on page 13.

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

	Group	
	2017 £'000	2016 £'000
Short-term employee benefit	**186**	343
Share-based payment charge	**1**	253
	187	596

The Group has no key management other than Directors.

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 £'000	2016 £'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 £'000	2016 £'000
Interest	**2**	2
	2	2

10. FINANCE COSTS

	Group	
	2017 £'000	2016 £'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 anti-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.

	2017		2016	
	Basic £'000	**Diluted £'000**	Basic £'000	Diluted £'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 £'000	Copyrights, trademarks and other intellectual property rights £'000	Development costs £'000	Total £'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 £'000	Technical equipment & machinery £'000	Office & other equipment £'000	Self-constructed plant & machinery £'000	Total £'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

Company	2017 £'000	2016 £'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 £'000	2016 £'000	2017 £'000	2016 £'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 £'000	2016 £'000	2017 £'000	2016 £'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 £'000	2016 £'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 **£'000**	2016 £'000	**2017** **£'000**	2016 £'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 **£'000**	2016 £'000	**2017** **£'000**	2016 £'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 **£'000**	2016 £'000	**2017** **£'000**	2016 £'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 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'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 Ordinary shares No. '000	2017 Ordinary shares £'000	2017 Deferred ordinary shares No. '000	2017 Deferred ordinary shares £'000	2016 Ordinary shares No. '000	2016 Ordinary shares £'000	2016 Deferred ordinary shares No. '000	2016 Deferred ordinary shares £'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:

Group	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'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 Year ended 31 December		Company Year ended 31 December	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'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 Year ended 31 December		Company Year ended 31 December	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'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 £'000	Year ended 31 December 2016 £'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 £'000	Year ended 31 December 2016 £'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 £'000	2016 £'000	**2017 £'000**	2016 £'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 £'000	6 to 12 months £'000	1 to 5 years £'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 £'000	6 to 12 months £'000	1 to 5 years £'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 £'000	Non-financial assets / financial assets not in scope of IAS 39 £'000	Total £'000	Loans and receivables £'000	Non-financial assets / financial assets not in scope of IAS 39 £'000	Total £'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 Loans and receivables £'000	Group Non-financial assets / financial assets not in scope of IAS 39 £'000	Group Total £'000	Company Loans and receivables £'000	Company Non-financial assets / financial assets not in scope of IAS 39 £'000	Company Total £'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 Financial liabilities at amortised cost £'000	Group Financial liabilities valued at fair value through the income statement £'000	Group Liabilities not within the scope of IAS 39 £'000	Group Total £'000	Company Financial liabilities at amortised cost £'000	Company Financial liabilities valued at fair value through the income statement £'000	Company Liabilities not within the scope of IAS 39 £'000	Company Total £'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 Financial liabilities at amortised cost £'000	Group Financial liabilities valued at fair value through the income statement £'000	Group Liabilities not within the scope of IAS 39 £'000	Group Total £'000	Company Financial liabilities at amortised cost £'000	Company Financial liabilities valued at fair value through the income statement £'000	Company Liabilities not within the scope of IAS 39 £'000	Company Total £'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 £'000	2016 £'000	**2017 £'000**	2016 £'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.

NOTICE OF AGM

PROTON POWER SYSTEMS PLC
NOTICE OF AGM

Notice is hereby given that the annual general meeting of Proton Power Systems PLC (the "Company") will be held at the offices of Stockdale Securities Limited, 7th Floor, 100 Wood Street, London, EC2V 7AN at 12.00pm on Friday 8 June 2018 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 2017 together with the Directors' report, and the Auditors' report.

2. To re-elect Helmut Gierse as a Director of the Company.

3. To re-elect Sebastian Goldner as a Director of the Company.

4. To re-elect Roman Kotlarzewski as a Director of the Company.

5. To re-elect Manfred Limbrunner as a Director of the Company.

6. To re-appoint RMT Accountants and Business Advisors Ltd 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 £2,149,607, provided that:

   8.1 (except as provided in paragraph 7.2 below) this authority shall expire on the date of the next annual general meeting of the Company or, if earlier, fifteen months after the passing of this resolution; 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 £500,000 (being approximately 8.0% of the issued share capital of the Company on the date of this notice of meeting)

NOTICE OF AGM

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.

9 May 2018

BY ORDER OF THE BOARD
Roman Kotlarzewski
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 6 June 2018 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 (but not including non-working days). 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 (but not including non-working days) 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 12.00pm on 6 June 2018 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).

11. Except as provided above, members who have general queries about the Annual General Meeting should contact the Company Secretary at Proton Motor Fuel Cell GmbH, Investor Relations, Benzstrasse 7, 82178 Puchheim, Germany or alternatively at r.kotlarzewski@proton-motor.de. No other methods of communication will be accepted.

NOTICE OF AGM

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.

Resolutions 2-5: Re-election of 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 Helmut Gierse, Sebastian Goldner, Roman Kotlarzewski and Manfred Limbrunner 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 RMT Accountants and Business Advisors Ltd 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 2017 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 2018 or, if earlier, fifteen months after this year's annual general meeting.

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 £2,149,607. 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.

Fuel Cells · Power Systems

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