23 September 2014

Proton Power Systems plc

("Proton Power" or the "Group")

Interim Results

Proton Power Systems plc (AIM:PPS), the designer, developer and producer of fuel cells and fuel cell electric hybrid systems, today announces its unaudited interim results for the six months ended 30 June 2014.

Highlights:

- Turnover increased 60% to £869,000 (2013: £543,000)
- Adjusted[1] loss after tax for the period reduced to £2,642,000 (2012: £3,192,000)
- Completion of the modular Range Extender (HyRange 25) which is commercially ready for light duty commercial vehicles and city buses
- Currently planning with several European manufacturers to deploy vehicles fitted with HyRange 25 Fuel Cell Systems in cities in Germany, Austria, Switzerland and France
- Preparing plans with an Asian based bus manufacturer in relation to a significant number of city buses
- Our HyRange 8 system has now been successfully operational with our customers for two years
- New PM Module S25, which can provide 25kW and is scalable in parallel operation for high power stationary applications, fully developed
- Preparing plans with a semi-conductor manufacturer to utilise its waste hydrogen to generate electricity to meet its internal power requirements.
- Significant interest for our new containerised fuel cells and UPS solutions
- We have continued to reduce the cost of our products to meet our customers' demands
- SPower received another significant order from Siemens AG

[1] Adjusted to exclude to the non-cash loss arising from the change in the fair value of the embedded derivatives on shareholder loans

- The Group's 10kW 3-phase solution has been enhanced to enable solar or wind power to be stored for use on demand

Ian Peden, Chairman of Proton Power, commented:

"I am honoured and excited to have the opportunity to join a very strong management team in a company that has the technology to make the difference to our grandchildren's future. The era of cheap oil and other fuels is over. We need to redesign how we produce and consume energy and Proton Power Systems is leading the development in enhancing our quality of life for a sustainable future.

"I will endeavour to carry on with the late John Wall's passion and commitment to the alternative energy industry and Proton Power Systems in particular. I offer my deepest condolences to his family and friends."

Proton Power Systems plc

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Chairman's and CEO's statement

We are pleased to report our unaudited interim results for the half year ended 30 June 2014.

Business development

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

A. Fuel cell stack production and development:

The Group designs and manufactures fuel cell stacks which is at the heart of all fuel cell applications. During the first half of 2014, the Group further improved the existing stack design (PM200) which generates up to 8kW and successfully completed the development of the new stack design (PM400) which generates up to 30kW. The group can now offer a full range of solutions from 3kW to 30kW.

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

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

2. **PM400 fuel cell stack generation (up to 30kW)**

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

B. Systems:

The Group offers complete systems and solutions to its customers. It is essential to provide our customers with a full turnkey proposition that starts with consulting, simulation, packaging study, integration testing and final rollout with after care services and support.

1. Mobility – buses and light duty vehicles

During the first half of the year the group has completed the development of the HyRange 25 system. This generates 25kW for buses and light duty vehicles. The product is modular so can be used in parallel applications generating up to 75kW. It will address our target markets specifically in Asia which is experiencing severe pollution problems. The commitment from governments to take action to improve the situation, especially in China, will also drive our technology development. We are also making good progress in Europe and we are in discussions with several bus manufacturers and logistic companies for our solutions.

2. Mobility - maritime segment

In the maritime sector we have built on our successful implementation of the Alsterwasser tourist boat system in Hamburg. It has been in day-to-day operation since 2008 and has transported over 60,000 passengers. Based on that success we are now receiving requests for applications for yachts, coast guard and tourist boats.

We expect this market to develop over time but we are well positioned with our unique knowledge in the sector, providing us with a very competitive position. We are currently in extensive talks with a Chinese ship builder for our solution to this market.

3. Stationary segment

The Group is seeing growing demand for safe power, specifically in data centres, telecom and grid applications. The combination of fuel cell products and UPS provides a complete solution. These products can be delivered as single components, in cabinets or containerised. Standardised fuel cell modules allow scalable power usage for high power applications. Each of our PM Modules with 5kW and 25kW can be used in parallel for higher power demand.

We are working with a semi-conductor manufacturer to utilise their waste hydrogen from chip manufacturing lines for their own internal power requirements. We plan to develop a turnkey solution to utilise waste hydrogen that would normally be released into the environment and convert it into electrical energy. We are seeing significant market demand for these and similar solutions.

AREVA, the French/German company presented our stationary PM Module S25 in combination with their electrolyser and hydrogen storage system. The application is generating, storing and repowering hydrogen on demand and feed back to the grid. This solution can be used to store solar or wind power and to generate power on demand.

4. SPower

SPower's most significant order was from Siemens for UPS systems to deliver emergency power to medical equipment. SPower is seeing a high demand for its new 10kW 3 phase battery solar storage system. This allows users to generate and store enough power for a family home, or small business. It is now possible to make households and small businesses more independent from the grid with power available on demand. Although the new markets for solar storage have been slower than expected, we foresee large demand for these applications in the future.

We are seeing significant interest for our solutions in all of our market segments, and our objective is to expand volume manufacturing with industrial partners based on licensing agreements. We are currently in discussion with an Asian based OEM partner. The Group is committed to the future evolution of PEM fuel cells and is also applying for further funding under new R&D programmes.

The Group continues to grow, increasing its headcount with technology engineers and improving the manufacturing facilities in Puchheim.

Finance

The turnover for the half year was £869,000 and the adjusted[2] loss after tax for the half year was £2,642,000 which, when added to the non-cash loss arising from the change in the fair value of the embedded derivatives on the shareholder loan resulted in a total loss of £6,433,000. With the exception of the fair value loss on the embedded derivative, this was in line with the management expectations.

The Group secured new funding in the first half of 2014 from its major shareholder, Roundstone Properties Limited, which provided loans of €2,950,000 under the existing facility agreed with Roundstone. The Group also received grant funding of €121,624 from the German Government.

The total funds raised financed the working capital for the half year.

Outlook

As the Group continues to expand its worldwide sales activities we are seeing significant interest in China which is developing rapidly as a market for fuel cell applications, due to damaging pollution and air quality problems in major cities like Beijing.

We are at an advanced stage of commercialisation of our technology and now have a technically proven product and a market ready solutions portfolio. Continuous cost reductions, driving down the cost per kW will be our platform for growth and the success of our technology in the markets around the world. Together with our strategic partnership plan, we are on-track to be a leading global fuel cell, fuel cell hybrid system, fuel cell/UPS and wind/solar power storage system provider.

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

Ian Peden
Chairman

Dr Faiz Nahab
CEO

[2] Adjusted to exclude to the non-cash loss arising from the change in the fair value of the embedded derivatives on shareholder loans

Consolidated income statement

	Note	**Unaudited 6 months to 30 June 2014**	Unaudited 6 months to 30 June 2013	**Audited Year to 31 December 2013**
		£'000	£'000	**£'000**
Revenue		**869**	543	**1,114**
Cost of sales		**(2,423)**	(2,021)	**(4,735)**
Gross loss		**(1,554)**	(1,478)	**(3,621)**
Other operating income		**37**	15	**26**
Administrative expenses	*4*	**(547)**	(931)	**(1,301)**
Operating loss		**(2,064)**	(2,585)	**(4,896)**
Finance income		**5**	7	**1**
Finance costs		**(583)**	(423)	**(829)**
Fair value loss on embedded derivatives		**(3,791)**	(191)	**(3,543)**
Loss for the period attributable to equity shareholders		**(6,433)**	(3,001)	**(9,267)**
Loss per share (expressed as pence per share)				
Basic	*6*	**(1.0)**	(0.5)	**(1.5)**
Diluted	*6*	**(1.0)**	(0.5)	**(1.5)**

Consolidated statement of comprehensive income

	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	**Audited Year to 31 December 2013**
	£'000	£'000	**£'000**
Loss for the period	**(6,433)**	(3,001)	**(9,267)**
Other comprehensive income and expense			
Exchange differences on translating foreign operations	**(1)**	95	**99**
Other comprehensive income	**(1)**	95	**99**
Total comprehensive income and expense for the period	**(6,434)**	(2,906)	**(9,168)**
Attributable to equity shareholders	**(6,434)**	(2,906)	**(9,168)**

Consolidated balance sheet

	Note	**Unaudited At 30 June 2014**	Unaudited At 30 June 2013	**Audited At 31 December 2013**
		£'000	£'000	**£'000**
Assets				
Non-current assets				
Intangible assets		**2,206**	2,215	**2,219**
Property, plant and equipment		**597**	680	**650**
		2,803	2,895	**2,869**
Current assets				
Inventories		**481**	470	**426**
Trade and other receivables		**399**	507	**230**
Cash and cash equivalents		**229**	265	**392**
		1,109	1,242	**1,048**
Total assets		**3,912**	4,137	**3,917**
Liabilities				
Current liabilities				
Trade and other payables		**1,008**	1,295	**1,152**
Borrowings		**268**	-	**280**
		1,276	1,295	**1,432**
Non-current liabilities				
Borrowings		**14,352**	9,221	**11,711**
Embedded derivatives on convertible interest		**7,563**	419	**3,771**
		21,915	9,640	**15,482**
Total Liabilities		**23,191**	10,935	**16,914**
Net liabilities		**(19,279)**	(6,798)	**(12,997)**
Equity				
Capital and reserves attributable to equity shareholders				
Share capital		**9,688**	9,679	**9,679**
Share premium account		**18,268**	18,224	**18,224**
Merger reserve		**15,656**	15,656	**15,656**
Reverse acquisition reserve		**(13,862)**	(13,862)	**(13,862)**
Share option reserve		**878**	716	**779**
Foreign translation reserve		**5,599**	5,053	**5,144**
Capital contributions		**1,090**	1,164	**1,137**
Accumulated losses		**(56,596)**	(43,428)	**(49,754)**
Total equity		**(19,279)**	(6,798)	**(12,997)**

Consolidated statement of changes in equity

	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition Reserve	Share Based Payment Reserve	Translation Reserve	Capital Contribution Reserve	Retained Earnings	Total Equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2013	**9,672**	**18,211**	**15,656**	**(13,862)**	**608**	**4,716**	**1,113**	**(40,134)**	**(4,020)**
Share based payments credit	-	-	-	-	108	-	-	-	108
Proceeds from share issues	7	13	-	-	-	-	-	-	20
Currency translation differences	-	-	-	-	-	242	51	(293)	-
Transactions with owners	**7**	**13**	**-**	**-**	**108**	**242**	**51**	**(293)**	**128**
Loss for the period	-	-	-	-	-	-	-	(3,001)	(3,001)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	95	-	-	95
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**95**	**-**	**(3,001)**	**(2,906)**
Balance at 30 June 2013	**9,679**	**18,224**	**15,656**	**(13,862)**	**716**	**5,053**	**1,164**	**(43,428)**	**(6,798)**
Balance at 1 July 2013	**9,679**	**18,224**	**15,656**	**(13,862)**	**716**	**5,053**	**1,164**	**(43,428)**	**(6,798)**
Share based payments debit	-	-	-	-	63	-	-	-	63
Currency translation differences	-	-	-	-	-	87	(27)	(60)	-
Transactions with owners	**-**	**-**	**-**	**-**	**63**	**87**	**(27)**	**(60)**	**63**
Loss for the period	-	-	-	-	-	-	-	(6,266)	(6,266)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	4	-	-	4
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**(6,266)**	**(6,262)**
Balance at 31 December 2013	**9,679**	**18,224**	**15,656**	**(13,862)**	**779**	**5,144**	**1,137**	**(49,754)**	**(12,997)**
Balance at 1 January 2014	**9,679**	**18,224**	**15,656**	**(13,862)**	**779**	**5,144**	**1,137**	**(49,754)**	**(12,997)**
Share based payments credit	-	-	-	-	99	-	-	-	99
Proceeds from share issues	9	44	-	-	-	-	-	-	53
Currency translation differences	-	-	-	-	-	456	(47)	(409)	-
Transactions with owners	**9**	**44**	**-**	**-**	**99**	**456**	**(47)**	**(409)**	**152**
Loss for the period	-	-	-	-	-	-	-	(6,433)	(6,433)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	(1)	-	-	(1)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(6,433)**	**(6,434)**
Balance at 30 June 2014	**9,688**	**18,268**	**15,656**	**(13,862)**	**878**	**5,599**	**1,090**	**(56,596)**	**(19,279)**

Share premium account

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

Merger reserve

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

Reverse acquisition reserve

The reverse acquisition reserve arose 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 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.

Consolidated statement of cash flows

	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	Audited Year to 31 December 2013
	£'000	£'000	**£'000**
Cash flows from operating activities			
Loss for the period	**(6,433)**	(3,001)	**(9,267)**
Adjustments for:			
Depreciation and amortisation	**128**	124	**251**
Loss on disposal of property, plant and equipment and intangible assets	**-**	(10)	**1**
Interest income	**(5)**	(7)	**(1)**
Interest expense	**583**	423	**829**
Share based payments	**99**	108	**190**
Movement in inventories	**(55)**	(179)	**(135)**
Movement in trade and other receivables	**(169)**	(224)	**53**
Movement in trade and other payables	**(144)**	(1,617)	**(1,643)**
Movement in fair value of embedded derivatives	**3,792**	775	**3,543**
Exchange rate movements	**(321)**	(273)	**(106)**
Net cash used in operations	**(2,525)**	(3,881)	**(6,285)**
Interest paid	**(8)**	(423)	**(20)**
Net cash used in operating activities	**(2,533)**	(4,304)	**(6,305)**
Cash flows from investing activities			
Purchase of intangible assets	**(79)**	(37)	**(65)**
Purchase of property, plant and equipment	**(13)**	(115)	**(218)**
Interest received	**1**	7	**1**
Net cash used in investing activities	**(91)**	(145)	**(282)**
Cash flows from financing activities			
Proceeds from issue of loan instruments	**2,408**	4,169	**6,790**
Settlement of loan instruments	**-**	-	**-**
Proceeds from issue of new shares	**53**	20	**-**
Net cash generated from financing activities	**2,461**	4,189	**6,790**
Net (decrease) / increase in cash and cash equivalents	**(163)**	(260)	**203**
Effect of foreign exchange rates	**-**	337	**1**
Cash acquired on acquisition	**-**	3	**3**
Opening cash and cash equivalents	**392**	185	**185**
Closing cash and cash equivalents	**229**	265	**392**

Notes to the interim report

1. Basis of preparation

The 31 December 2013 consolidated financial statements of Proton Power Systems plc were 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. They were also prepared under the historical cost convention and in accordance with IFRS interpretations (IFRICS) except for embedded derivatives which are carried at fair value through the income statement and on the basis that the Group continues to be a going concern. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the 31 December 2013 statutory audited financial statements. No new accounting standards have been adopted by the group since preparing its last annual report.

The Group has chosen not to adopt IAS 34 (Interim Financial Statements) in preparing these financial statements therefore the interim financial information is not in full compliance with IFRS.

The financial information for the year ended 31 December 2013 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's audited statutory financial statements for the year ended 31 December 2013 have been filed with the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependant on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market.

In preparing the consolidated financial information, 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.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. 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. 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 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.

2. 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.

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.

3. Segmental information

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

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

All non-current assets are located in Germany.

4. Share based payments

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

	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	**Audited Year to 31 December 2013**
	£'000	£'000	**£'000**
Share options	**99**	108	**170**
Shares	**53**	20	**20**
	152	128	**190**

5. Taxation

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

6. 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 period.

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

	Unaudited 6 months to 30 June 2014		Unaudited 6 months to 30 June 2013		**Audited Year to 31 December 2013**	
	Basic	**Diluted**	Basic	Diluted	**Basic**	**Diluted**
	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Loss attributable to equity holders of the Company	**(6,433)**	**(6,433)**	(3,001)	(3,001)	**(9,267)**	**(9,267)**
Weighted average number of ordinary shares in issue (thousands)	**640,807**	**640,807**	639,919	639,919	**639,919**	**639,919**
Effect of dilutive potential ordinary shares from share options and convertible debt (thousands)	-	-	-	-	-	-
Adjusted weighted average number of ordinary shares	**640,807**	**640,807**	639,919	639,919	**639,919**	**639,919**
	Pence per share	**Pence per share**	Pence per share	Pence per share	**Pence per share**	**Pence per share**
Loss per share (pence per share)	**(1.0)**	**(1.0)**	(0.5)	(0.5)	**(1.5)**	**(1.5)**

The adjustment to the weighted average number of shares used in the calculation of diluted loss per share reflects share options in issue where the exercise price exceeds the average market price of shares in the period.

No interim dividend has been proposed or paid in relation to the current or prior interim period.

A copy of the Interim Results for the six months to 30 June 2014 is available from the Company's website at www.protonpowersystems.com

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