



PROTON
POWER SYSTEMS PLC

Proton Power Systems plc

Interim Report 2010
Registered number 05700614

Contents

Chairman's and CEO's statement	1
Shareholder information	3
Independent review report by Grant Thornton UK LLP to Proton Power Systems plc	4
Consolidated income statement	5
Consolidated statement of comprehensive income	5
Consolidated balance sheet	6
Consolidate statement of changes in equity	7
Consolidated statement of cash flows	9
Notes to the interim report	10

Chairman's and CEO's statement

We are pleased to report our unaudited interim results for the half year ended 30 June 2010.

Business development

Proton Power has made solid progress with the development and industrialisation of its products and applications in the six months to 30 June 2010. In April, the Group presented a variety of hydrogen powered solutions at the premier trade event for the power industry, Hannover Industrial Fair, including the Smith Edison truck with batteries, a fuel cell range extender, and a 19-inch hydrogen fuel cell backup power unit for stationary power supply. On 2 February 2010, Proton announced the partnership between the Group and Smith Electric Vehicles ("Smith") to build and market a battery-powered commercial vehicle.

In May, Proton Power announced it had filed for grants worth €5.4 million for R&D and market introduction projects (of which 48% will be funded by the German Government). These projects are primarily related to the testing of and improvements to our own stack design, as well as testing for transport applications and the development of a new stack generation for high power applications.

We have also applied for support for a €3.8 million project in which 20 light duty vehicles will be developed jointly with Smith. We expect 48% of the project cost will be funded by German Government grants. At the request of Smith, it was decided to focus on its Newton series, a seven to 12 tonne transport vehicle. The market demand for electric powered vehicles in this range is encouraging. Smith intends to offer the Newton in a battery version with a fuel cell range extender and plans to market it across Europe and the USA.

The Newton is used specifically by logistics companies for transport services. The additional operational range based on the fuel cell range extender will allow Smith to address additional market segments, where more range than the current battery solution can provide is required. One example is operation in larger areas or to support an additional cooling device which absorbs a high amount of energy.

In April, our first triple hybrid passenger bus, developed in conjunction with Skoda Electric in the Czech Republic, was one of the top five nominees for the Hanover Fair's Hermes Award, one of the most important industrial awards in Germany. In addition, the triple hybrid drive train using our technology won the IDWI Award from the German Chamber of Industry and Commerce in Frankfurt. The bus will be modified with a new fuel cell system using our latest PM200 stack. This will help us to collect field data and to prove reliability of the new stack generation. In a long term ongoing test with one of our OEM partners, the PM200 stack achieved over 4,700 hours of operation with one stack.

During spring, the tourist ferry ZEMship Alsterwasser operated a reliable and regular service on the Alster River in Hamburg carrying over 14,000 passengers in total. This year, the operator, ATG, has signed a service contract with Proton Power to support the operation of the fuel cell powered ferry for two years until 2012.

We are also in contact with different industrial partners to review the use of our systems in:

- trains and electric locomotives
- stationary fuel cell power in mobile containers
- air traffic equipment.

Our modular concept as well as our integration experience and technical expertise help the Group to provide solutions for different industries and applications by using similar basic modules.

Financial overview

In the six months to 30 June 2010 revenue was £210,000 which was in line with Group expectations. The outcome for the half year was a loss of £1,709,000 which was also in line with group expectations and compares with a loss for the first half year in 2009 of £2,052,000.

For the first half year in 2010 the Group secured additional loans of €3.24 million from its major shareholder Roundstone Properties Limited. The loans are convertible at a price of 2 pence per share.

Outlook

The economic situation improved during 2010 and we are optimistic about the Group's outlook. Political pressure to reduce air and noise pollution in urban areas continues to increase and therefore interest in fuel cell based clean energy applications is high. Proton Power is recognized as a leading provider of fuel cells and fuel cell applications with in-depth system optimisation and integration know-how. The experience we have gained based on our bus, sweeper, passenger car and ferry projects, and the solutions we present have generated significant interest. We are now the first contact point for such applications for many European companies with an interest in environmentally friendly solutions. European Government regulations and initiatives support our development and we also participate in German and European Government programmes to support the market

introduction of Fuel Cell applications. During 2010 the German NOW organisation has initiated a number of specific initiatives, especially for stationary applications.

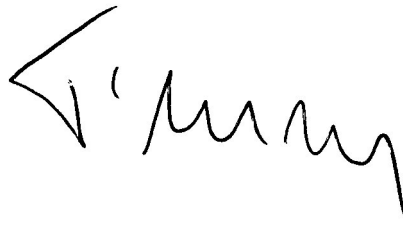
Looking to the future, rising energy prices and demand for environmentally friendly solutions for transportation as well as stationary power will support the growth of our business. Fuel cell solutions offer the best potential to reduce greenhouse gas emissions for power generation.

Though there are still challenges remaining in the cost of fuel cell systems, Proton Power is working on cost reduction through development and manufacturing. Economy of scale through volume manufacturing and service contracts pave the road to future profitability.

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



John Wall FCA
Chairman



Thomas Melczer
Chief Executive

Shareholder information

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Independent review report by Grant Thornton UK LLP to Proton Power Systems plc

Introduction

We have been engaged by the Company to review the financial information in the half-yearly financial report for the six months ended 30 June 2010 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated statement of cashflows and notes 1 to 4. We have read the other information contained in the half yearly financial report which comprises only the Chairman's and CEO's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review has been undertaken so that we might state to the Company those matters we are required to state them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.



Grant Thornton UK LLP
Auditors
Leeds, England

29 September 2010

Consolidated income statement

	<i>Note</i>	Unaudited 6 months to 30 June 2010	Unaudited 6 months to 30 June 2009	Audited Year to 31 December 2009
		£'000	£'000	£'000
<i>Continuing operations</i>				
Revenue		210	289	193
Cost of sales		<u>(1,571)</u>	<u>(1,567)</u>	<u>(3,150)</u>
Gross loss		(1,361)	(1,278)	(2,957)
Other operating income		437	17	73
Administrative expenses	2	<u>(477)</u>	<u>(794)</u>	<u>(1,844)</u>
Operating loss		(1,401)	(2,055)	(4,728)
Finance income		2	3	5
Finance costs		<u>(310)</u>	<u>-</u>	<u>(165)</u>
Loss for the period attributable to equity holders of the parent		<u>(1,709)</u>	<u>(2,052)</u>	<u>(4,888)</u>
Loss per share (expressed as pence per share)				
Basic	4	<u>(1.3)</u>	<u>(2.5)</u>	<u>(5.3)</u>
Diluted	4	<u>(1.3)</u>	<u>(2.5)</u>	<u>(5.3)</u>

Consolidated statement of comprehensive income

	Unaudited 6 months to 30 June 2010	Unaudited 6 months to 30 June 2009	Audited Year to 31 December 2009
	£'000	£'000	£'000
Loss for the period	(1,709)	(2,052)	(4,888)
Other comprehensive income			
Exchange differences on translating foreign operations	<u>(106)</u>	<u>(109)</u>	<u>(487)</u>
Other comprehensive income	(106)	(109)	(487)
Total comprehensive income for the period	<u>(1,815)</u>	<u>(2,161)</u>	<u>(5,375)</u>
Attributable to equity holders of the parent	<u>(1,815)</u>	<u>(2,161)</u>	<u>(5,375)</u>

Consolidated balance sheet

	Unaudited At 30 June 2010 £'000	Unaudited At 30 June 2009 £'000	Audited At 31 December 2009 £'000
Assets			
Non-current assets			
Intangible assets	539	679	759
Property, plant and equipment	683	539	793
	<u>1,222</u>	<u>1,218</u>	<u>1,552</u>
Current assets			
Inventories	148	100	105
Trade and other receivables	200	252	266
Cash and cash equivalents	157	705	187
	<u>505</u>	<u>1,057</u>	<u>558</u>
Total assets	<u><u>1,727</u></u>	<u><u>2,275</u></u>	<u><u>2,110</u></u>
Liabilities			
Current liabilities			
Trade and other payables	834	2,410	1,429
Borrowings	4,113	-	2,832
Derivatives on convertible loans	451	-	477
	<u>5,398</u>	<u>2,410</u>	<u>4,738</u>
Total Liabilities	<u><u>5,398</u></u>	<u><u>2,410</u></u>	<u><u>4,738</u></u>
Net liabilities	<u><u>(3,671)</u></u>	<u><u>(135)</u></u>	<u><u>(2,628)</u></u>
Equity			
Equity attributable to equity holders of the parent company			
Share capital	4,850	4,100	4,350
Share premium account	7,552	6,803	7,052
Merger reserve	15,656	15,656	15,656
Reverse acquisition reserve	(13,862)	(13,862)	(13,862)
Share based payment reserve	332	338	328
Other equity reserve	-	-	232
Foreign translation reserve	3,367	419	(28)
Capital contributions	1,102	1,156	1,224
Retained earnings	(22,668)	(14,745)	(17,580)
Total equity	<u><u>(3,671)</u></u>	<u><u>(135)</u></u>	<u><u>(2,628)</u></u>

Consolidated statement of changes in equity

	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition Reserve	Share Based Payment Reserve	Other Equity Reserve	Translation Reserve	Capital Contribution Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2009	3,570	6,275	15,656	(13,862)	346	-	(304)	1,324	(12,029)	976
Share based payments credit	-	-	-	-	(8)	-	-	-	-	(8)
Proceeds from share issues	530	530	-	-	-	-	-	-	-	1,060
Share issue costs	-	(2)	-	-	-	-	-	-	-	(2)
Transactions with owners	530	528	-	-	(8)	-	-	-	-	1,050
Loss for the period	-	-	-	-	-	-	-	-	(2,052)	(2,052)
Other comprehensive income:										
Currency translation differences	-	-	-	-	-	-	723	(168)	(664)	(109)
Total comprehensive income for the period	-	-	-	-	-	-	723	(168)	(2,716)	(2,161)
Balance at 30 June 2009	4,100	6,803	15,656	(13,862)	338	-	419	1,156	(14,745)	(135)
Balance at 1 July 2009	4,100	6,803	15,656	(13,862)	338	-	419	1,156	(14,745)	(135)
Share based payments credit	-	-	-	-	(10)	-	-	-	-	(10)
Proceeds from share issues	250	250	-	-	-	(500)	-	-	-	-
Proceeds from issues of compound financial instruments	-	-	-	-	-	732	-	-	-	732
Share issue costs	-	(1)	-	-	-	-	-	-	-	(1)
Transactions with owners	250	249	-	-	(10)	232	-	-	-	721
Loss for the period	-	-	-	-	-	-	-	-	(2,836)	(2,836)
Other comprehensive income:										
Currency translation differences	-	-	-	-	-	-	(447)	68	1	(378)
Total comprehensive income for the period	-	-	-	-	-	-	(447)	68	(2,835)	(3,214)
Balance at 31 December 2009	4,350	7,052	15,656	(13,862)	328	232	(28)	1,224	(17,580)	(2,628)
Balance at 1 January 2010	4,350	7,052	15,656	(13,862)	328	232	(28)	1,224	(17,580)	(2,628)
Share based payments credit	-	-	-	-	4	-	-	-	-	4
Proceeds from share issues	500	500	-	-	-	(232)	-	-	-	768
Transactions with owners	500	500	-	-	4	-	(28)	1,224	(17,580)	772
Loss for the period	-	-	-	-	-	-	-	-	(1,709)	(1,709)
Other comprehensive income:										
Currency translation differences	-	-	-	-	-	-	3,395	(122)	(3,379)	(106)
Total comprehensive income for the period	-	-	-	-	-	-	3,395	(122)	(3,379)	(106)
Balance at 30 June 2010	4,850	7,552	15,656	(13,862)	332	-	3,367	1,102	(22,668)	(3,671)

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 arises 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 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 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

<i>Note</i>	Unaudited 6 months to 30 June 2010 £'000	Unaudited 6 months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
Cash flows from operating activities			
Loss for the period	(1,709)	(2,052)	(4,888)
<i>Adjustments for:</i>			
Depreciation and amortisation	451	321	434
Interest income including loan waivers	(2)	(3)	(5)
Interest expense	310	-	165
Share based payments	4	(8)	(18)
Movement in inventories	(42)	37	32
Movement in trade and other receivables	66	18	4
Movement in trade payables	(595)	(547)	(410)
Gain on conversion of debt	(80)	-	-
Exchange rate movements	(398)	-	-
Movement in fair value of derivatives	(431)	-	(53)
Net cash used in operations	(2,426)	(2,234)	(4,739)
Interest paid	-	-	(1)
Net cash used in operating activities	(2,426)	(2,234)	(4,740)
Cash flows from investing activities			
Purchase of intangible assets	(221)	(178)	(202)
Purchase of property, plant and equipment	(43)	(216)	(639)
Interest received	2	3	5
Net cash used in investing activities	(262)	(391)	(836)
Cash flows from financing activities			
Proceeds from issue of share capital	-	1,058	1,057
Loan repayments	-	-	3,934
Loan received	2,658	1,500	-
Net cash generated from financing activities	2,658	2,558	4,991
Net (decrease) / increase in cash and cash equivalents	(30)	(67)	(585)
Opening cash and cash equivalents	187	772	772
Closing cash and cash equivalents	157	705	187

Notes to the interim report

1. Basis of preparation

The 31 December 2009 consolidated financial statements of Proton Power Systems plc were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to those companies under IFRS under the historical cost convention as modified by the valuation of derivatives. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the 2009 statutory financial statements. The following accounting standards, none of which have an impact on the financial statements presented have been adopted by the Group since preparing its last annual report:

- IFRS 3 Business Combinations (revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008)
- Improvements to IFRS 2009

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 2009 set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2009 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 2006.

The consolidated financial information has been prepared under the historical cost convention 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 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.

2. 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 2010 £'000	Unaudited 6 months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
Share options	<u>4</u>	<u>(8)</u>	<u>3</u>

3. Taxation

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

Notes to the interim report (continued)

4. 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 2010		Unaudited 6 months to 30 June 2009		Audited Year to 31 December 2009	
	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000
Loss attributable to equity holders of the Company	(1,709)	(1,709)	(2,052)	(2,052)	(4,888)	(4,888)
Weighted average number of ordinary shares in issue (thousands)	129,505	129,505	81,991	81,991	92,521	92,521
Shares issuable (weighted) - share options (thousands)	-	3,985	-	2,815	-	3,178
Adjustment	-	(3,985)	-	(2,815)	-	(3,178)
Adjusted weighted average number of ordinary shares	129,505	129,505	81,991	81,991	92,521	95,699
	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Loss per share (pence per share)	(1.3)	(1.3)	(2.5)	(2.5)	(5.3)	(5.3)

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.