



PROTON
POWER SYSTEMS PLC

Proton Power Systems plc

Interim Report 2011
Registered number 05700614

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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 2011.

Business development

The Group has made good progress with its project for the fuel cell range extender for light duty vehicles, the stationary power system as well as the development of the new PM400 stack generation.

Co-operation with OEM partners has also developed well.

The Hamburg based fuel cell passenger ship went back into operation in May 2011 with more than 500 hours of operation since then. The world's first triple hybrid bus, a co-operation with Skoda Electric, also went back into operation in the Czech Republic after modification to the current PM200 stack generation as well as modifications to the electric power train.

A large number of project requests, specifically in the stationary, maritime and transport vehicle area support our confidence that fuel cells are seen as a serious alternative to conventional fuel powered systems.

We are also in discussion with a variety of OEM partners to co-operate in different market segments.

Our long term experience for different fuel cell applications, as well as our own stack development and production, give us a unique market position and a competitive advantage in comparison to our competitors in Europe, which are mainly integrators using stacks produced in North America.

Our own stack design allows us to optimize our systems for customer's requirements. We also see an independent European stack development as vital for our industry.

Continuous discussions with the German Hydrogen Organisation (NOW) have taken place for additional funding opportunities.

The Group's product strategy includes:

- Stationary power from 5kW to 100kW for small information technology and industrial applications including backup power.
- A range extender for light duty vehicles from 8kW to 20kW.
- Mobile fuel cell based solutions for ships and buses.

The Group's strategy is to work closely with OEM partners for each of these product areas and the management is currently in discussions with SPower, Smith Electric Vehicles (SEV) and Skoda Electric. In anticipation of the growth in the market for mobile applications Proton Motor has awarded an engineering contract to Magna Steyr Fahrzeugtechnik, based in Graz.

The Group will continue to focus on stack and system development and integration and will cooperate with international OEM partners to further develop, licence and sell our products.

The Group has also continued to work on new development projects, funded by NOW. These are mainly in the stationary power supply area with systems from 50kW to 100kW with other German based integrators and will address the data centre market. The Range Extender project with SEV is well under way. Proton Motor has successfully equipped and tested the first Edison truck and is now working on the Newton truck which will be the main platform vehicle for a fuel cell range extender solution. SEV sees the range extender as an excellent addition to its battery powered electric vehicle where an operational range above 120 Km is required or when there is a need for additional power for cooling or on board maintenance work.

Together with French and German partners, Proton Motor will, in addition, submit applications for funding for marine as well as transportable power supply systems.

Development on the new PM400 stack for power up to 20kW is also progressing well. The new stack will be an excellent addition to the Group's portfolio and will allow it to bring down costs because of the increased efficiency and power. The first sample stack will be available for testing before the end of 2011.

Finance

The turnover of £384,814 (€443,460) results mainly of funded projects started in April 2010. The loss for the half year was £3,898,000.

The Group secured new funding in the first half of 2011 from convertible loans with a total value of €1,620,000 from the major shareholder, Roundstone Properties Limited. This convertible loan facility stands at €9.18 million of which €8.58 million had been draw down at the end of June.

Outlook

The Group's current discussions with major OEM partners have highlighted that there is now a realistic opportunity for the breakthrough of fuel cell technology into the commercial domain. The range extender project with SEV is an excellent opportunity to enter a volume market. Stationary applications will also develop.

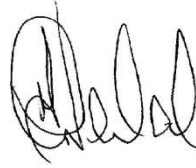
The group is also investing €120,000 in modifications to the testing facility in Puchheim near Munich.

Given the Group's modular concept, each success story will help the other products because the main components used are similar and cost reductions will be achieved as the Group cooperates with our suppliers and contract manufacturers.

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 as well as our customers and suppliers for their confidence and support throughout the year.



John Wall FCA
Chairman



Dr Faiz Nahab
CEO

Shareholder information

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Consolidated income statement

	<i>Note</i>	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
<i>Continuing operations</i>				
Revenue		385	210	718
Cost of sales		<u>(1,651)</u>	<u>(1,571)</u>	<u>(3,188)</u>
Gross loss		(1,266)	(1,361)	(2,470)
Fair value (loss) / gain on embedded derivatives		(1,059)	-	1,818
Other operating income		111	437	409
Administrative expenses	2	<u>(1,008)</u>	<u>(477)</u>	<u>(1,974)</u>
Operating loss		(3,222)	(1,401)	(2,217)
Finance income		-	2	2
Finance costs		<u>(676)</u>	<u>(310)</u>	<u>(803)</u>
Loss for the period attributable to equity holders of the parent		<u>(3,898)</u>	<u>(1,709)</u>	<u>(3,018)</u>
Loss per share (expressed as pence per share)				
Basic	4	<u>(2.1)</u>	<u>(1.3)</u>	<u>(1.8)</u>
Diluted	4	<u>(2.1)</u>	<u>(1.3)</u>	<u>(1.8)</u>

Consolidated statement of comprehensive income

	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
Loss for the period	(3,898)	(1,709)	(3,018)
Other comprehensive income			
Exchange differences on translating foreign operations	<u>75</u>	<u>(106)</u>	<u>(51)</u>
Other comprehensive income	<u>75</u>	<u>(106)</u>	<u>(51)</u>
Total comprehensive income for the period	<u>(3,823)</u>	<u>(1,815)</u>	<u>(3,069)</u>
Attributable to equity holders of the parent	<u>(3,823)</u>	<u>(1,815)</u>	<u>(3,069)</u>

Consolidated balance sheet

	Unaudited At 30 June 2011 £'000	Unaudited At 30 June 2010 £'000	Audited At 31 December 2010 £'000
Assets			
Non-current assets			
Intangible assets	205	539	247
Property, plant and equipment	646	683	647
	<u>851</u>	<u>1,222</u>	<u>894</u>
Current assets			
Inventories	203	148	131
Trade and other receivables	535	200	594
Cash and cash equivalents	362	157	268
	<u>1,100</u>	<u>505</u>	<u>993</u>
Total assets	<u>1,951</u>	<u>1,727</u>	<u>1,887</u>
Liabilities			
Current liabilities			
Trade and other payables	611	834	437
Borrowings	8,880	4,113	6,380
Embedded derivatives on convertible loans	8,350	451	5,669
	<u>17,841</u>	<u>5,398</u>	<u>12,486</u>
Total Liabilities	<u>17,841</u>	<u>5,398</u>	<u>12,486</u>
Net liabilities	<u>(15,890)</u>	<u>(3,671)</u>	<u>(10,599)</u>
Equity			
Equity attributable to equity holders of the parent company			
Share capital	5,100	4,850	5,100
Share premium account	8,474	7,552	8,474
Merger reserve	15,656	15,656	15,656
Reverse acquisition reserve	(13,862)	(13,862)	(13,862)
Share based payment reserve	399	332	385
Foreign translation reserve	4,245	3,367	3,359
Capital contributions	1,222	1,102	1,165
Retained earnings	(37,124)	(22,668)	(30,876)
Total equity	<u>(15,890)</u>	<u>(3,671)</u>	<u>(10,599)</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 2010	4,350	7,052	15,656	(13,862)	328	232	(28)	1,224	(17,580)	(2,628)
Share based payments debit	-	-	-	-	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)
Balance at 1 July 2010	4,850	7,552	15,656	(13,862)	332	-	3,367	1,102	(22,668)	(3,671)
Share based payments debit	-	-	-	-	53	-	-	-	-	53
Proceeds from share issues	250	922	-	-	-	-	-	-	-	1,172
Deemed distribution	-	-	-	-	-	-	-	-	(6,899)	(6,899)
Transactions with owners	250	922	-	-	53	-	-	-	(6,899)	(5,674)
Loss for the period	-	-	-	-	-	-	-	-	(1,309)	(1,309)
Other comprehensive income:										
Currency translation differences	-	-	-	-	-	-	(8)	63	-	55
Total comprehensive income for the period	-	-	-	-	-	-	(8)	63	(1,309)	(1,254)
Balance at 31 December 2010	5,100	8,474	15,656	(13,862)	385	-	3,359	1,165	(30,876)	(10,599)
Balance at 1 January 2011	5,100	8,474	15,656	(13,862)	385	-	3,359	1,165	(30,876)	(10,599)
Share based payments credit	-	-	-	-	14	-	-	-	-	14
Deemed distribution	-	-	-	-	-	-	-	-	(1,482)	(1,482)
Transactions with owners	-	-	-	-	14	-	-	-	(1,482)	(1,468)
Loss for the period	-	-	-	-	-	-	-	-	(3,898)	(3,898)
Other comprehensive income:										
Currency translation differences	-	-	-	-	-	-	886	57	(868)	75
Total comprehensive income for the period	-	-	-	-	-	-	886	57	(4,766)	(3,823)
Balance at 30 June 2011	5,100	8,474	15,656	(13,862)	399	-	4,245	1,222	(37,124)	(15,890)

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 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
Cash flows from operating activities			
Loss for the period	(3,898)	(1,709)	(3,018)
<i>Adjustments for:</i>			
Depreciation and amortisation	143	451	955
Interest income including loan waivers	-	(2)	(2)
Interest expense	676	310	803
Share based payments	14	4	57
Movement in inventories	(72)	(42)	(26)
Movement in trade and other receivables	58	66	(327)
Movement in trade payables	175	(595)	(892)
Gain on conversion of debt	-	(80)	(80)
Exchange rate movements	431	(398)	(70)
Movement in fair value of derivatives	1,059	(431)	(1,818)
Net cash used in operations	(1,414)	(2,426)	(4,418)
Interest paid	-	-	(1)
Net cash used in operating activities	(1,414)	(2,426)	(4,419)
Cash flows from investing activities			
Purchase of intangible assets	(9)	(221)	(313)
Purchase of property, plant and equipment	(51)	(43)	(83)
Interest received	-	2	2
Net cash used in investing activities	(60)	(262)	(394)
Cash flows from financing activities			
Loan received	1,568	2,658	4,894
Net cash generated from financing activities	1,568	2,658	4,894
Net (decrease) / increase in cash and cash equivalents	94	(30)	81
Opening cash and cash equivalents	268	187	187
Closing cash and cash equivalents	362	157	268

Notes to the interim report

1. Basis of preparation

The 31 December 2010 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 2010 statutory 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 2010 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 2010 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 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
Share options	14	4	57

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 2011		Unaudited 6 months to 30 June 2010		Audited Year to 31 December 2010	
	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000
Loss attributable to equity holders of the Company	(3,898)	(3,898)	(1,709)	(1,709)	(3,018)	(3,018)
Weighted average number of ordinary shares in issue (thousands)	181,991	181,991	129,505	129,505	159,868	159,868
Shares issuable (weighted) - share options (thousands)	-	7,875	-	3,985	-	6,041
Adjustment	-	(7,875)	-	(3,985)	-	(6,041)
Adjusted weighted average number of ordinary shares	181,991	181,991	129,505	129,505	159,868	165,909
	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Loss per share (pence per share)	(2.1)	(2.1)	(1.3)	(1.3)	(1.8)	(1.8)

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.