



PROTON
POWER SYSTEMS PLC

Annual Report 2006



PROTON
POWER SYSTEMS PLC



Proton Power Systems plc (formerly Future Power Systems plc)

OPERATIONAL HIGHLIGHTS

Operational highlights

- Instituted and successfully completed a fundamental financial restructuring
- Listed on the Alternative Investment Market on 31 October 2006 raising £4.9m
- Obtained an order for the first hydrogen fuel powered ship which will operate on Hamburg's Alster river
- Obtained an order for a fuel cell hybrid system for Czech city bus from Skoda
- Successfully adopted International Financial Reporting Standards (IFRS) for the accounting year ended 31 December 2006, the first part year as a public Company

Strategy

- The Group aims, through its wholly owned subsidiary, Proton Motor, to become the highest quality and lowest attainable cost, designer, developer and producer of high volume, environmentally friendly, zero CO₂ emission fuel cells and fuel cell hybrid systems to a wide range of customers in the niche "back to base" refuelling transportation and commercial and industrial stationary applications market sectors and to satisfy customer needs at a price/value relationship unmatched by competitors.
- The Group is investing in Proton Motor's facilities and people to bring about a significant reduction in unit costs, improve competitiveness, achieve cost leadership and scale the business from what is essentially a project (low volume/high cost) to a series (high volume/low cost/high value added) designer, developer and producer of fuel cells and fuel cell hybrid systems. Major investments include:
 - acquisition of a single site, integrating production, laboratory and office facilities capable of modular expansion up to 21,500 units of 10kW modules per annum by 2012
 - acquisition, installation and commissioning of flexible and automated production and test facilities and dedicated tooling for certain purchased parts necessary to drive down unit costs
 - acquisition and commissioning of forklift truck, bus and boat demonstrators to facilitate roll-out of the technology to the widest possible audience
 - development and retention of existing, and recruitment of new, key team members
 - acquisition and commissioning of research and development equipment and facilities to drive innovation and creativity and thereby generate increased intellectual property and patents and achieve increased product life and reduced cost of ownership
 - develop upstream and downstream strategic alliances, joint ventures and identify possible selective acquisition targets
- Obtain accreditation to ISO 9001 and ISO 14001 Quality and Environmental Standards.

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CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

Overview

We are pleased to report our results for the year ended 31 December 2006 which incorporate two months post listing on the Alternative Investment Market of the London Stock Exchange ("AIM") and hence, the first part-year of Proton Power Systems operating as a public company.

From a customer and supplier standpoint, the transition from private company to plc and subsequent listing on AIM and re-launch of the Company has given existing and potential customers and suppliers the comfort and confidence necessary for them to recognise the Company as a major and serious player in the niche "back to base" refuelling transportation and commercial and industrial stationary equipment fuel cell markets and to both place and receive further orders with/from the Company.

Post-listing major focus and priority has been given to the location of suitable premises within the Starnberg/Munich, Germany travel to work area in which to consolidate and integrate the five existing small workshops, research and development, test laboratories and offices and which is capable of future modular expansion with minimum disruption to ongoing production.

Significant focus and priority has also been given to researching the cost and availability of suitable research, development test and production facilities and equipment which will enable the company to drive down unit costs and improve competitiveness.

Finance

The out-turn for the year was a loss of £1.8m which was marginally better than anticipated and also reflects the write off of the fees associated with the AIM listing together with the repayment of debt and the commencement of investment in production and other facilities.

It is worth noting that the financial statements have been prepared using International Financial Reporting Standards ("IFRS"), which requires the combination of Proton Power Systems plc and Proton Motor Fuel Cell GmbH to be recognised as a "reverse acquisition". This has the effect of eliminating the goodwill which would otherwise arise on acquisition such that the net assets of the Group are £2.185m compared to £21.056m net assets of the Company. Whilst the accounting treatment is correct it does not, in the Board's view, reflect the commercial reality of the Group's market capitalisation of £25m on Admission to AIM as it does not reflect the value of the goodwill within the Group.

Outlook

The market for the Company's products is steadily but surely moving from "supply push" to "demand pull".

Post listing, the rate of order intake was some 30% higher than was forecast and this trend has continued.

The Company recently received its first order and letter of intent for the volume supply of fuel cell modules for Auxiliary Power Units (APUs) which is a major achievement for the Company and a major event in the fuel cell market, as the Company believes it is the first volume order scaling up to hundreds of units. Customer confidentiality prevents further disclosure at this stage.

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CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

Unit costs and hence price are absolutely key to the up-scaling of volume and the Company's strategy of upfront investment in research, development, production and test facilities and people are key to improving cost competitiveness and achieving cost leadership.

On behalf of the Board we would take this opportunity to thank the Proton Motor team and our advisors for their hard work and effort and our customers and suppliers for their confidence and support throughout the year.



Bernard Robinson OBE DL
Chairman



F.W.G.A.P. Heidelberg
Chief Executive

Proton Power Systems plc (formerly Future Power Systems plc)

BOARD OF DIRECTORS

Bernard Robinson OBE DL (aged 66), Non-Executive Chairman

Bernard worked for Thyssenkrupp Automotive Tallent Chassis Ltd for 42 years, working his way up from work / method study engineer through to his appointment to the Board in 1974 as a Director and works manager. He was appointed as Chief Executive in 1980 and, since then, has presided over a period of rapid expansion at the company including growth in employment from 180 to 1,600 employees and turnover increase from £1.5 million to £160 million per annum in the UK. The company also established manufacturing operations in Belgium, India and the United States. In 1997, the company won Barclay's Northern Business 'Company of the Year' award and at the beginning of 1988, Bernard led a successful £11 million management buyout of the company.

Bernard was a Fellow of the Chartered Management Institute and, in 1988, was awarded the OBE in the New Years' Honours List and also presented with the 1988 North East Businessman of the Year Award by the Prime Minister. In 1994, Bernard was appointed a Deputy Lieutenant of County Durham and was chairman of the County Durham TEC from 1990 to 1999. He was also chairman of CBI Northern Region from 1998 to 2000.

Felix Wieland Gotz Andreas Peter Heidelberg (aged 46), Chief Executive

Felix began his career with Proton Motor in 2000, initially working on the company's first fuel cell bus. He was appointed Chief Operating Officer in 2002 to guide product development and to manage the company's key relationships and strategic direction. Prior to joining Proton Motor, Felix had worked in the renewable energy industry since 1989. He began his career as a development engineer for super conducting energy storage systems and has also held sales positions within a wind turbine manufacturer and was involved in project management for the development of Stirling CHP engines. In 1994 Felix was recruited as managing Director of Regio-Tec, a €10 million annual turnover consulting firm for infrastructure and economics studies across the EU. Felix has a degree in applied physics from the University of Applied Science in Munich. He is an active member within the global fuel cell community, both through formal organisations, such as VDAM (a German engineering association) and Deutscher Fluessiggas Verband (a German natural gas association) and as a participant in regional and international consultations and events.

Benedikt Martin Gregor Eska (aged 39), Chief Operating Officer

Benedikt has a strong background in process management and has been with Proton Motor since 2001. He has primary responsibility for production processes including the planning, reporting, quality management and technical production lines necessary for both current production levels and to prepare for future production levels. From 1996 until 2001, Benedikt was a management consultant with Dr. Hans Golowski Portfoliomanagement and Fraunhofer Gesellschaft, working with large OEM clients, such as Siemens AG, on issues such as technology strategy and road maps, linking business strategy and patent strategy together and overall technology management. Benedikt has a degree in physics from the Technical University of Munich and is active as an industry expert in the fuel cell group of the German Engineering Federation where he works on strategic guidelines for hydrogen and fuel cells.

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BOARD OF DIRECTORS

John Wall (aged 53), Non-Executive Director

John is a recently retired corporate finance partner at PricewaterhouseCoopers who, during the course of his career, participated in over 100 major transactions with an aggregate value of approximately £1.5 billion. John qualified as an accountant in 1979 and worked in various areas within PricewaterhouseCoopers, including investment banking in Los Angeles and corporate finance in the Republic of Ireland, France and the United Kingdom. In 1998 he was appointed regional chairman of PricewaterhouseCoopers's UK corporate finance business with responsibility for all operations outside of London and he also sat on the UK corporate finance Board. In 2004 he became chairman of the Albany RTA Group, an insurance outsourcing business in the UK. John is also Chairman of Adderstone Group, a property development and management company and a senior consultant to Dickinson Dees Law Firm.

Per Erland Svantesson (aged 46), Non-Executive Director

Per has a strong track record in industrial manufacturing, industrial product development, logistics and quality service, with 22 years in the automotive manufacturing industry within Volvo AB, Valeo (a leading automotive component supplier), ESAB EU and Antiphon AB. Per has been with Volvo since 1999 and currently holds the position of president of Effpower AB, one of VTT's portfolio companies. Per's previous position within Volvo was as its senior vice president of product and industrial development within Volvo Bus Corporation, a 17 billion SEK annual turnover business which has produced over 11,000 buses in 19 factories worldwide. Per holds a degree of masters of science mechanical engineering and industrial organisation from the University of Technology, Gothenburg in Sweden.

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SHAREHOLDER INFORMATION

Company secretary

John Wall

Registered number

05700614

Registered office and head office

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Newcastle upon Tyne
NE99 1SB

Financial advisers and stockbrokers

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Solicitors

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OPERATING AND FINANCIAL REVIEW

Group activities

The Group has developed a standard hydrogen fuel cell module which is designed to enable it to provide customers with complete hydrogen fuel cells and fuel cell hybrid systems that can be integrated into their product range. The Group's fuel cell modules can be combined into stacks to meet the power needs of particular applications from 5kW to 150kW.

2006 overview

2006 saw the creation of the Company as the holding company of Proton Motor Fuel Cell GmbH ("Proton Motor") and its listing on the Alternative Investment Market of the London Stock Exchange. During that process the Company raised £4.9m of new finance.

In February 2006 Proton Motor entered into a licensing and joint development agreement with a US military applications developer in respect of a perpetual, world-wide license for the use of Proton Motor's fuel cell system in military applications.

Proton Motor has also entered into other key OEM relationships which are broadening the application of its fuel cell technology. Of particular note are the agreements for the supply of:

- the first fuel cell bus in the Czech Republic;
- a demonstration UPS electric fuel cell system; and
- the first fuel cell driven harbour ferry in Hamburg, Germany.

The Board has already identified that the future economic exploitation of Proton Motor's technology is dependent upon improving the process and increasing the scale of production of fuel cells and fuel cell hybrid systems and steps have already been taken to relocate the Company to premises with sufficient space to integrate its existing small workshops and R&D and offices under one roof on a single site capable of modular expansion with minimum/no disruption to production. Such a move is the cornerstone for future expansion and reducing the cost of Proton Motor's fuel cells and fuel cell hybrid systems and is imperative to gain competitive advantage.

Strategy

Sales strategy

Although Proton Motor has been historically reliant on a small number of key customers, it has established strong relationships with key OEMs in its target market. The Group anticipates expanding this customer base as volume manufacturing capability increases. The Directors believe that effective execution with their OEM partners should enable Proton to be recognised as a global fuel cell technology platform.

Attractive primary markets and applications for the Group's fuel cell system, identified by the Group, generally display the following characteristics:

- potential material volume sales;
- 'back-to-base' refuelling or stationary applications;

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OPERATING AND FINANCIAL REVIEW

- existing power generation technology applications with notable disadvantages, for example:
 - slow recharge time of battery technology as well as additional working capital infrastructure where continuous battery use is required;
 - combustion engines emit harmful emissions and noise pollution; and
 - external electric power is generally delivered by overhead cables, for example trolley buses, and has geographical and logistical limitations; and
- need to reduce industrial emissions;

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. However, Proton Motor's technology development has been undertaken with the key objective of designing and manufacturing fuel cells and fuel cell hybrid systems for volume production. In order to seek to achieve this, the Directors have:

- identified target markets and commercial applications;
- established 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;
- established quality control procedures;
- reviewed, risk assessed and secured supplier and component manufacturing relationships;
- 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;
- current and future air quality regulation;
- growing industry and consumer demand for alternative sources of energy;
- the potential long term competitiveness of the auto and transportation industries; and
- energy security concerns.

Two initial market segments (forklift trucks and buses) have been identified, which the Board believes, would benefit from the advantages of fuel cell hybrid systems.

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Forklift trucks

In 2003, batteries for use in battery powered mobile manufacturing, warehousing and other ground handling equipment, primarily electric industrial forklift trucks generated more than US\$1.5 billion in worldwide sales. In 2004, the global market for sales of material handling vehicles was in excess of approximately 700,000 units and it is anticipated that battery powered forklifts' share of the material handling market will steadily increase. The Directors believe that fuel cell conversion could be applicable to approximately 20 per cent of this market. The Directors also believe that this battery-powered segment offers an immediately addressable market for hybrid electric fuel cell systems.

Buses

Global bus production has reached approximately 240,000 units per annum. The Directors believe that one of the first markets where a fuel cell hybrid system could achieve significant penetration is the local bus sector – those buses operating in built up areas and moving relatively short distances from base. The Directors have estimated that approximately 25 per cent of this market could be addressed by a fuel cell solution with an average cost per application of approximately €25,000 and a total market value of approximately €1.5 billion per annum.

Competitive advantages

The Directors are confident that Proton's technology brings the following distinct combination of characteristics to the power systems market:

- zero harmful emissions;
- lower fuel consumption than comparable commercial alternatives;
- no recharge requirement, unlike batteries;
- silent operation;
- a standard fuel cell module for use in multiple applications; and
- a reliable, robust and durable technology.

Future prospects

The Group's principal objective is to establish a volume manufacturing facility based upon solid sales orders. This will enable the Group to achieve an economically viable unit cost for its fuel cells and fuel cell hybrid systems. Initially, the Group will invest in increased operational and sales infrastructure appropriate to its ongoing growth. The Directors believe that the advanced stage of commercialisation of the Group's technology, coupled with the Group's existing partnerships, will enable the business to firmly establish itself as a leading, global, fuel cell and fuel cell hybrid system provider as a result of:

- the standard design of the Group's modular technology, designed to be suitable for a variety of commercial/industrial applications;
- a focused strategy on niche industrial applications for market entry with flexibility to allow further access to secondary markets;
- over 160 man years of combined experience and application in fuel cell and fuel cell hybrid system technology presently in the Group;

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- production processes to be developed in parallel with the development of the Group's technology; and
- the Group's established quality control processes.

Principal risks and uncertainties

Limited operating revenues

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.

Early stage of commercialisation

The Group is at an early stage in the commercialisation and marketing of its technology. A number of the Group's relationships are also at an early stage and there is no assurance that any relationships will continue to result in revenue generating contracts with the Group. 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 anticipated or allowed for by the Directors.

Material contracts

The Group has been, and in the short to medium term will continue to be, dependent on a limited number of key customers. A concentrated client base places considerable dependence in meeting contracted operating performance levels. If a major client or a number of clients terminate their contracts or significantly reduce or modify their business relationships with the Group, the Group may not be able to replace the shortfall in revenues.

A number of the Group's material contracts are public sector contracts which may be dependent upon public grants and/or subsidies. The Group may not have control over payment of its costs under these contracts since it is reliant upon the lead partner(s) making claims for payment to the relevant public authority. Further, under the terms and conditions of public sector contracts, there may be a risk of claims for repayment from public authorities if the terms and conditions of such contracts are breached.

Technology risk

A core component within the Group's product offering is its fuel cell module. This has undergone testing in prototype form but has not been tested at volume production. As with any new technology, there are risks associated with the performance and the long-term operational life of the product.

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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.

Additionally, there are competitors working on development 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.

Within the industrial applications sector of the fuel cell products markets there are a relatively small number of direct competitors. However, around the world, corporations, national laboratories and universities are actively engaged in the development and manufacture of fuel cell products and components in a wide variety of applications ranging from personal mobile applications (mobile phone and laptops) to applications providing power for powering large commercial buildings. Emerging or entirely new technologies may obviate the need for both existing methods of energy storage and electrical power generation and those proposed for the hydrogen economy such as electrolysers and fuel cells.

Many of the Group's competitors have financial resources, customer bases, businesses or other resources, which give them significant competitive advantages over the Group. Competitors and potential competitors may develop technologies and products that are less costly and/or more effective than the technology or products of the Group, or which may make those of the Group obsolete or uncompetitive.

Governmental regulation

There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities.

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

The Group's success is largely dependent on the performance of its key management and technical personnel. The loss of one or more of these people could adversely affect its business. Much of the Group's technology has been originated by its key employees and management.

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In order to successfully implement the Group's anticipated growth, 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 personnel. There can be no assurance that the Group will be able to retain or hire necessary personnel.

Future funding

Whilst the Directors believe that, taking into account the net proceeds of the Placing and the Loan Facility, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of these accounts, there can be no assurance that the Company would have sufficient resources to fund further development beyond that period.

Currency exchange rate fluctuations and overseas activities

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.

Conducting business in most countries will require the Group to become familiar with and to comply with foreign laws, rules, regulations and customs. The Group has limited experience conducting foreign business, and the Group cannot assure investors that it will be successful. Moreover, the Group's failure to comply with foreign laws, rules and regulations of which the Group is not aware may harm the development of the Group's business. Further, risks are inherent in international operations, including the following:

- customers' agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign customers may have longer payment cycles;
- foreign countries may tax foreign income and tax rates in certain foreign countries may exceed those of the United Kingdom and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- intellectual property rights may be more difficult to enforce in foreign countries; and
- general economic conditions in the countries in which the Group seeks to trade could have an adverse effect on the Group earnings from operations in those countries.

Management of growth

The expansion of the Group's target markets will place additional demands upon the Group's technical, sales and marketing and administrative resources. Because the Group is at a comparatively early stage of its development, the ability of the Group to cope with these additional demands is uncertain. The failure to manage its growth appropriately may adversely affect the business, its financial condition and the future results of its operations.

By order of the Board



J Wall
Director

19 June 2007

Proton Power Systems plc (formerly Future Power Systems plc)

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006. The Company was incorporated on 7 February 2006 with the name Future Power Systems plc and on 2 May 2006 the name of the Company was changed to Proton Power Systems plc. On 31 October 2006 the Company acquired the entire share capital of Proton Motor Fuel Cell GmbH, a Company incorporated in Germany. The nature of this acquisition is described in Notes 2 and 21 to the financial statements.

Principal activities

The Group's principal activity is the development of hydrogen fuel cells and fuel cell hybrid systems through its subsidiary Proton Motor Fuel Cell GmbH which is registered and operates in Germany.

Business review

A commentary on the Group's activities and results for the period and future prospects is included in the Chairman and Chief Executive's report and the Operating and financial review on pages 3 to 4 and 8 to 13 respectively.

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 ('KPI's). Business performance, measured by KPI's which include monitoring of actual against budget and rolling forecasts, is reported to the Board on a monthly basis.

Non-financial key performance indicators

It is difficult to disclose non-financial key performance indicators which are not commercially sensitive, however, production output was four times higher during 2006 than that of 2005.

Share capital

There have been substantial 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 note 18 to the financial statements. Post year end the Company issued share options over 767,500 ordinary shares.

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.

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, 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.

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DIRECTORS' REPORT

The Group has always recognised the commercial importance and value of protecting its 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.

Proton Motor has 42 patents granted and has a further 32 patent applications pending covering certain areas of its fuel cell system:

- cell design;
- stack design;
- system design; and
- system operation.

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 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 fully considered, 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.

Policy and practice on payment of creditors

The Group does not follow any specific code on payment practice. It is the Group's policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, providing that the supplier has met their contractual obligations. At 31 December 2006 the number of days trade creditors for the Group was 45 (2005: 60) and for the Company was one day.

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DIRECTORS' REPORT

Directors and Directors' interests

The Directors who held office during the year were as follows:

B Robinson OBE DL	Non-Executive Chairman ^{1,2}	(appointed 18 August 2006)
F Heidelberg	Chief Executive	(appointed 18 August 2006)
B Eska	Chief Operating Officer	(appointed 18 August 2006)
J Wall FCA	Non-Executive Director ^{1,3}	(appointed 18 August 2006)
P Svantesson	Non-Executive Director ¹	(appointed 18 August 2006)
TK Quigley	Director	(appointed 8 February 2006; resigned 18 August 2006)
KL Hauck	Director	(appointed 8 February 2006; resigned 18 August 2006)
Pinsent Masons Director Limited	Director	(appointed 7 February 2006; resigned 8 February 2006)

1 Member of the Audit, Nomination and Remuneration Committees.

2 Chairman of the Remuneration and Nomination Committees.

3 Chairman of the Audit Committee.

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Interest at end of year	Interest at date of appointment
B Robinson	300,000	300,000
F Heidelberg	400,000	400,000
B Eska	200,000	200,000
J Wall	200,000	200,000

None of the other Directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	At start of year	Number of options during the year		At end of year	Exercise Price	Date from which exercisable	Expiry date
		Granted	Exercised				
F Heidelberg	–	150,000	–	150,000	£0.80	24 October 2008	23 October 2016
B Eska	–	110,000	–	110,000	£0.80	24 October 2008	23 October 2016
P Svantesson	–	200,000	–	200,000	£0.80	24 October 2008	23 October 2016

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DIRECTORS' REPORT

Major shareholdings

As at 11 June 2007 the following shareholdings of 3% or more of the ordinary share capital of the Company had been notified to the Company:

	Ordinary Shares	
	Number	Percentage
Dr. Gotz Heidelberg	4,644,265	14.82
Giltspur Nominees Limited	3,640,591	11.62
Alchemy Capital Limited	3,101,305	9.90
ABN Amro Bank NV	2,500,000	7.98
Bonhote Trust Corporation Limited	2,215,225	7.07
Mr. Thomas Quigley	2,138,989	6.83
Volvo Technology Transfer AB	2,007,478	6.41
Southern Blue 01 GmbH	1,831,946	5.85

Political and charitable donations

The Group has not made any political or charitable donations during the year (2005: *nil*).

Corporate governance

The Directors recognise the value of the corporate governance principles enshrined in the 'Combined Code' (as updated in June 2003). The Company seeks to comply with the Combined Code so far as is practicable and appropriate for a public company of its 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 Nomination Committee and a Remuneration Committee, each of which comprises the non executive Directors: B Robinson, J Wall and P Svantesson with formally delegated duties and responsibilities.

The Audit Committee receives and reviews reports from management and the Company's auditors 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 auditors.

The Nomination 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.

Going concern

After making 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.

Proton Power Systems plc (formerly Future Power Systems plc)

DIRECTORS' REPORT

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether the financial statements comply with IFRSs as adopted by the European Union.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group 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 corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Disclosure of information to auditors

At the date of making this report each of the Company's Directors, as set out on pages 5 and 6, confirm the following:

- so far as each Director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Proton Power Systems plc (formerly Future Power Systems plc)

DIRECTORS' REPORT

Auditors

The Directors appointed RSM Robson Rhodes LLP ("Robson Rhodes") as auditors in 2006. Robson Rhodes has announced its intention to merge its audit practice with that of Grant Thornton UK LLP with effect from 1 July 2007. Accordingly a resolution to confirm the appointment of either Robson Rhodes or (subject to such merger having completed) its successor firm, Grant Thornton UK LLP, as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board



J Wall
Director
19 June 2007

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Proton Power Systems plc (formerly Future Power Systems plc)

REMUNERATION REPORT

This report for the year ended 31 December 2006 has been prepared with regard to the Directors' Remuneration Report Regulations 2002 and the provisions of the Combined Code relating to Directors' remuneration. As an AIM listed company Proton Power Systems plc is not required to comply with the provisions of Schedule 7A to the Companies Act 1985 relating to Directors' Remuneration reports. At the Annual General Meeting on 25 July 2007 shareholders will be asked to approve the report.

The Remuneration Committee

The Remuneration Committee is comprised exclusively of independent non-executive Directors of the Company. It is chaired by Bernard Robinson and its other members are John Wall and Per Svantesson. The members of the committee have no personal financial interest, other than as shareholders, in the matters to be decided. 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. Pinsent Masons has been appointed as external adviser to the Remuneration Committee and has provided advice on Directors' remuneration and share plans. The committee has appropriate policies and procedures to monitor the size of potential remuneration awards and Pinsent Masons verify the methodology used to model potential outcomes.

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.

Proton Power Systems plc (formerly Future Power Systems plc)

REMUNERATION REPORT

Basic salary

The Committee will normally review the executive Directors' and other senior executives' remuneration annually against companies similar in size and sector. This year that review was carried out at the time of Admission to AIM. 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.

Annual bonus

Executive directors and other senior executives participate in a discretionary annual bonus plan that provides for payment of cash bonuses subject to achieving pre-determined annual performance targets. In normal circumstances, executive directors could potentially earn an annual bonus of up to 27% per cent of salary subject to the achievement of profit and cash flow targets, and specific strategic objectives.

In determining the bonus targets each year the committee takes into consideration the business strategy, the long-term business plan, prevailing trading and economic conditions, shareholder expectations and competitor forecasts.

The following sections relating to long-term share plans, Directors' emoluments, the share schemes, total shares/options outstanding and Directors' shareholdings have been audited.

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 current long-term incentive arrangements.

Proton Power System plc's current long-term incentive arrangements

The Company has gained approval for and adopted this year the Proton Power Systems plc Share Option Scheme. Awards were made prior to Admission to AIM under the Share Option Scheme.

The Remuneration Committee has discretion to grant awards under Proton Power Systems plc Share Option Scheme in any one year. 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 Her Majesty's Revenue & Customs.

Share options were granted over 570,000 shares on 23 October 2006 to three directors and a senior manager at an option price of 80 pence (being the planned listing price at the grant date). These 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 10 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.

Proton Power Systems plc (formerly Future Power Systems plc)

REMUNERATION REPORT

The exercise of options can take place at any time after the second anniversary of the date of grant. Options can not, in any event, be exercised after the tenth anniversary of the date of grant.

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 non-executive directors have each entered into a letter of appointment as set out below:

Name	Position	Annual fee	Date of joining the Group	Date of letter of appointment
B Robinson	Non-Executive Chairman	£40,000	18 August 2006	18 August 2006
J Wall	Non-Executive Director	£25,000	18 August 2006	18 August 2006
P Svantesson	Non-Executive Director	£25,000	18 August 2006	18 August 2006

The appointments 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 Company's two executive Directors entered into new service agreements with the Company on 22 and 29 September 2006. Each agreement is terminable by either party giving not less than 12 months' written notice. 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 for the notice period and the value of his contractual benefits for the notice period.

Directors' emoluments

Information on the remuneration of each Director for the full year is set out in the following table:

Name	Salary £'000	Shares (see note 7) £'000	Pension Contributions £'000	Total 2006 £'000	Total 2005 £'000
F Heidelberg*	76	78	–	154	48
B Eska*	61	38	1	100	48
B Robinson	30	–#	–	30	–
J Wall	24	–#	–	24	–
P Svantesson	24	–	–	24	–

* paid by Proton Motor Fuel Cell GmbH

shares were also issued to B Robinson and J Wall by existing shareholders in June 2006, prior to their appointment to the Board, in connection with the subsequent Admission of the Company's shares to AIM. These shares do not fall within the definition of share-based payments and hence are excluded from this analysis.

Proton Power Systems plc (formerly Future Power Systems plc)

REMUNERATION REPORT

In January 2007 it was agreed, in light of the exceptional demands made on the non-executive Directors during the year, to pay additional fees at £15,000 to each of the non-executive Directors.

The salary of P Svantesson had not been paid at the year end since the formalities relating to non-resident employees were not in place with HM Revenue & Customs.

Directors' shareholding

Details of the Directors' shareholdings and interest in the SOS are given in the Directors' Report.

Pension

The Group made discretionary contributions to the personal pension plan of B Eska during the year. This practice has been discontinued.

On behalf of the Board



B Robinson
*Chairman of the
Remuneration Committee*

19 June 2007

Proton Power Systems plc (formerly Future Power Systems plc)

NOMINATION COMMITTEE REPORT

The Company recognised, prior to the Admission of Proton Power Systems plc to the Alternative Investment Market of the London Stock Exchange in October 2006, the Board should be restructured to reflect the requirements for listed companies. In accordance with the Combined Code the recruitment process was carried out. Appointments were made on merit and against the objective criteria provided as part of the brief.

Three new non-executive Directors were appointed to the Board of Proton Power Systems plc in August 2006: Bernard Robinson, John Wall and Per Svantesson. Their skills and experience are broad and diverse, and include running market leading companies, the establishment and expansion of new businesses, change management, human resources including changing working practices, corporate finance, treasury and accounting. A full induction programme was arranged, including meetings with external advisers (including the Company's solicitors and financial advisers). All of the new non-executive Directors are independent; none has a material business relationship with the Company, has close ties with any of the Company's advisers, Directors or senior employees, holds cross-directorships or has significant links with other Directors, or represents a significant shareholder. They receive a fee as set out in the Remuneration report but no other remuneration from the Company and participate in the Company share option scheme. The Nomination Committee is chaired by Bernard Robinson and its other members are John Wall and Per Svantesson. The Committee was established in October 2006.

In view of the evaluation that was carried out prior to the Admission of Proton Power Systems it is not yet appropriate for the recently appointed Nomination Committee to report on its wider remit of considering the Board structure and evaluating the balance of skills, knowledge and experience on the Board. A fuller report on these areas will be made in next year's annual report.



B Robinson
*Chairman of the
Nomination Committee*

19 June 2007

Proton Power Systems plc (formerly Future Power Systems plc)

AUDIT AND INTERNAL CONTROL

Non-audit services

The fees paid to RSM Robson Rhodes LLP for audit and non-audit services are set out in note 6 on page 42. There were substantial non-audit services during the year due to the financial information requirements of the listing of Proton Power Systems plc's shares on the Alternative Investment Market of the London Stock Exchange, which involved, inter alia, RSM Robson Rhodes LLP:

- carrying out an assessment of the Group's financial controls, procedures and systems;
- reviewing the financial information prepared for Proton Motor in accordance with German GAAP for the 2003, 2004 and 2005 financial years; and
- reporting its opinion on financial information for the 6 months ended 30 June 2006 and the 2003, 2004 and 2005 financial years prepared in accordance with IFRSs.

It was cost effective for the Company to acquire services from RSM Robson Rhodes LLP and its German affiliate in such areas (and in areas such as taxation advice) because of their knowledge of transactions of this type. Their appointment as auditors to the Group occurred after the provision of the above services.

The Audit Committee has developed a policy on the provision by the external auditors of non-audit services. The objective of the Audit Committee's policy is to ensure that the provision of such service does not impair the external auditor's 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 (eg 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 auditors provide (such as interim and full-year reporting); prohibited services, which the Company's auditors may never provide; and potential services, which the Company's auditors may in certain circumstances provide, subject to the policy (such as tax advisory services or services where the auditors are acting as the Company's reporting accountants). Prohibited services are those which would result in:

Proton Power Systems plc (formerly Future Power Systems plc)

AUDIT AND INTERNAL CONTROL

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



J Wall
Chairman of the Audit Committee

19 June 2007

Proton Power Systems plc (formerly Future Power Systems plc)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PROTON POWER SYSTEMS PLC (FORMERLY FUTURE POWER SYSTEMS PLC)

We have audited the Group and parent Company financial statements ("the financial statements") on pages 29 to 53. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's 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 and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Operating and Financial Review and Chairman and Chief Executive's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman and Chief Executive's Report, the Operating and Financial Review, the Remuneration Report, the Nomination Committee Report, the Audit and Internal Control report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by

Proton Power Systems plc (formerly Future Power Systems plc)

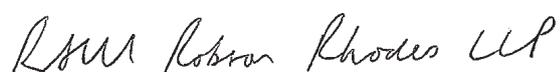
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PROTON POWER SYSTEMS PLC (FORMERLY FUTURE POWER SYSTEMS PLC)

fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group as at 31 December 2006 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the parent Company as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.



RSM Robson Rhodes LLP
*Chartered Accountants and
Registered Auditors*
Leeds, England

19 June 2007

Proton Power Systems plc (formerly Future Power Systems plc)

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<i>Continuing operations</i>			
Revenue	2,3,4	1,057	264
Cost of sales		(1,030)	(842)
Gross profit/(loss)		27	(578)
Other operating income		12	195
Administrative expenses		(1,836)	(436)
Operating loss		(1,797)	(819)
Finance income		8	1
Finance costs		(11)	(15)
Loss for the year attributable to equity holders of the Company	5	(1,800)	(833)
Loss per share (expressed as pence per share)			
Basic	9	(6.8)	(3.3)
Diluted	9	(6.8)	(3.3)

Proton Power Systems plc (formerly Future Power Systems plc)

BALANCE SHEETS

as at 31 December 2006

	Note	2006 £'000	Group 2005 £'000	Company 2006 £'000
Non-current assets				
Intangible assets	10	99	7	–
Property, plant and equipment	11	55	87	–
Investment in subsidiary	12	–	–	17,886
		<u>154</u>	<u>94</u>	<u>17,886</u>
Current assets				
Inventories		21	–	–
Trade and other receivables	13	956	30	1,607
Cash and cash equivalents	14	1,886	17	1,657
		<u>2,863</u>	<u>47</u>	<u>3,264</u>
Total assets		<u>3,017</u>	<u>141</u>	<u>21,150</u>
Capital and reserves				
Ordinary shares	18	1,570	93	1,570
Share premium		4,735	3,153	4,735
Merger reserve		15,656	–	15,656
Reverse acquisition reserve		(13,862)	–	–
Share based payments reserve		147	–	147
Foreign translation reserve		30	–	–
Capital contributions		916	936	–
Retained earnings		(7,007)	(5,269)	(1,052)
Total equity		<u>2,185</u>	<u>(1,087)</u>	<u>21,056</u>
Current liabilities				
Trade and other payables	15	832	1,228	94
Total liabilities		<u>832</u>	<u>1,228</u>	<u>94</u>
Total equity and liabilities		<u>3,017</u>	<u>141</u>	<u>21,150</u>

These financial statements were approved by the Board of Directors on 19 June 2007 and were signed on its behalf by:



B Robison OBE DL
Director

Proton Power Systems plc (formerly Future Power Systems plc)

STATEMENTS OF CHANGES IN EQUITY

Group	Attributable to equity holders of the Company								
	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Reverse Acquisition Reserve £'000	Share Based Payments Reserve £'000	Translation Reserve £'000	Capital Contribution Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2005	57	2,692	–	–	–	–	963	(4,563)	(851)
Loss for the year	–	–	–	–	–	–	–	(833)	(833)
Currency translation differences	(1)	(71)	–	–	–	23	(27)	99	23
Proceeds from share issues	37	537	–	–	–	–	–	–	574
Balance at 31 December 2005	<u>93</u>	<u>3,158</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>23</u>	<u>936</u>	<u>(5,297)</u>	<u>(1,087)</u>
Balance at 1 January 2006	93	3,158	–	–	–	23	936	(5,297)	(1,087)
Loss for the year	–	–	–	–	–	–	–	(1,800)	(1,800)
Currency translation differences	(2)	(68)	–	–	–	7	(20)	90	7
Share based payments credit	–	–	–	–	147	–	–	–	147
Proceeds from share issues	329	4,924	–	–	–	–	–	–	5,253
Share issue costs	–	(335)	–	–	–	–	–	–	(335)
Reverse acquisition (see page 32)	1,150	(2,944)	15,656	(13,862)	–	–	–	–	–
Balance at 31 December 2006	<u>1,570</u>	<u>4,735</u>	<u>15,656</u>	<u>(13,862)</u>	<u>147</u>	<u>30</u>	<u>916</u>	<u>(7,007)</u>	<u>2,185</u>

Proton Power Systems plc (formerly Future Power Systems plc)

STATEMENTS OF CHANGES IN EQUITY

Company	Attributable to equity holders of the Company					
	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Share Based Payments Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 7 February 2006						
Loss for the year	–	–	–	–	(1,052)	(1,052)
Reverse acquisition (see below)	1,313	713	15,656	–	–	17,682
Equity raised on listing	309	4,644	–	–	–	4,953
Redemption/conversion of shares	(52)	(287)	–	–	–	(339)
Share issue costs	–	(335)	–	–	–	(335)
Share based payments credit	–	–	–	147	–	147
Balance at 31 December 2006	1,570	4,735	15,656	147	(1,052)	21,056

Share premium account

On Admission to the Alternative Investment Market of the London Stock Exchange the Company issued 6,190,863 shares at 80p, generating £4,952,690. Costs directly associated with the issue of the new shares totalled £335,000 and 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 the year. 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 IFRSs the acquisition has been accounted for as a reverse acquisition.

Proton Power Systems plc (formerly Future Power Systems plc)

CASH FLOW STATEMENTS

for the year ended 31 December 2006

		Group		Company
		Year ended		Period from
	Note	31 December	2005	incorporation
		2006	2005	to 31 December
		£'000	£'000	2006
				£'000
Cash flows from operating activities				
Net cash used in operations	22	(2,299)	(844)	(2,194)
Interest received		6	–	6
Interest paid		(60)	(13)	–
		<u> </u>	<u> </u>	<u> </u>
Net cash used in operating activities		(2,353)	(857)	(2,188)
		<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities				
Capital contribution to subsidiary		–	–	(1,049)
Costs of acquisition of subsidiary		(138)	–	(138)
Purchase of intangible assets		(98)	–	–
Purchase of tangible assets		(9)	(55)	–
		<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		(245)	(55)	(1,187)
		<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities				
Proceeds from issue of share capital		3,644	574	3,987
Increase in loan balances	22	1,195	249	1,195
Loan repayments		(372)	–	(150)
Reduction in other financial assets		–	75	–
		<u> </u>	<u> </u>	<u> </u>
Net cash generated from financing activities		4,467	898	5,032
		<u> </u>	<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents		1,869	(14)	1,657
Opening cash and cash equivalents		17	31	–
		<u> </u>	<u> </u>	<u> </u>
Closing cash and cash equivalents		1,886	17	1,657
		<u> </u>	<u> </u>	<u> </u>

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

Proton Power Systems plc ("the Company") and its subsidiary (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 in England & Wales. The address of its registered office is: St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE99 1SB. The Company's initial public offering took place at the Alternative Investment Market of the London Stock Exchange on 31 October 2006.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 19 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied.

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 Group is therefore a continuation of the financial information of Proton Motor Fuel Cell GmbH. The comparative figures for 2005 represent the accounts of the legal subsidiary and are included in the financial statements on a proforma basis.

As permitted by Section 230 of the Companies Act 1985, no separate income statement is presented in respect of the parent Company. The loss for the financial period dealt with in the accounts of the parent Company was £1,052,000.

Basis of preparation

The consolidated financial statements of Proton Power Systems plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to those companies under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that 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

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liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 minority 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.

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.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. 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; either a Black-Scholes, Monte Carlo or Binomial pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The value of shares issued to settle fees and finance costs has been measured by reference to the fair value of services provided.

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 consolidated financial statements are presented in 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 more 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 and liabilities 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 a separate component of equity.

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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, plus any costs directly attributable to the acquisition.

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 equipment, furniture & equipment 10% – 33%
- Technical equipment & machinery 20%
- Leasehold property improvements over the life of the lease

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 the estimated economic life of the assets of 3 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;
- 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 recognised in accordance with IAS 38, the development costs are expensed in the period in which they are incurred.

Amortisation starts at the first-time usage of the asset. The capitalised costs include all directly attributable costs, as well as reasonable parts of the overheads relating to production. If applicable, received government grants are deducted from the capitalised development costs in accordance with IAS 20.24.

Insofar as there are indications of an impairment, the planned amortisable intangible assets shall be subjected to an impairment test and, if necessary, the carrying amount reduced to the recoverable amount within the meaning of IAS 36.

Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other

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assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an identifiable life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

Customer-specific contracts

Accounting for customer-specific contracts is carried out in accordance with IAS 11.

If the result of a construction contract can be reliably estimated, the revenue and expenses are reported in accordance with the percentage of completion as per the reporting date. This is usually determined from the ratio of the costs of the contract incurred up to the reporting date in comparison with the estimated overall costs of the contract, unless this would lead to a distortion in the presentation of the percentage of completion. Insofar as the result of a contract cannot be reliably estimated, the proceeds of the contract are to be recorded only in the amount of the costs of the contract incurred which are likely to be collectible.

Where it is probable that the total cost of the construction contract will exceed the total contract revenue the expected loss is recognised immediately as an expense in the income statement.

Trade receivables

Trade and other receivables are recorded at the time of their initial recognition at fair value less any impairment in value that may be necessary, and subsequently at amortised cost. An impairment in value in the case of trade and other receivables is recognised if there are objective indications that the amount of the debt due cannot be collected in full. The impairment in value is recognised in the income statement. Insofar as the reasons for value adjustments made in previous periods no longer exist, corresponding write-ups shall be made.

Deposits with financial institutions

Deposits with financial institutions are measured at the nominal amount.

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Share capital

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 valued at the repayment amounts.

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.

Taxes on income and revenue

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 recognised 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, except for goodwill and differences arising through business combinations.

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 utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred taxes are recognised in the income statement, except to the extent that it relates to items previously charged or credited to equity.

Employee benefits

The Group makes discretionary contributions to the personal pension plans of one Director and two further employees. The contributions are expensed on an accruals basis.

Other provisions

Other provisions are made insofar as there is a constructive obligation arising from past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The valuation of the provisions is reviewed at each reporting date. Provisions for guarantees are made in relation to individual cases.

Recognition of revenue and expenses

Sales revenues are included in compliance with IAS 11 and IAS 18. Recognition of revenues from interest and interest expenses is made on an accrual 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 in accordance with IAS 38.54. Expenses for development costs that fulfil the criteria of IAS 38.57 are capitalised (see Intangible assets above). Amortisation over the assumed economic life begins, when the asset is available for use in accordance with IAS 38.97.

Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

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Government grants

Government grants for expenses already incurred are recognised as income pursuant to IAS 20.22 in the period in which the corresponding claim is created. Insofar as grants are awarded without the subsidised expenses already having been incurred, a statement of the grant shall be recognised under other liabilities.

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.

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- funding and liquidity risk;
- credit risk;
- foreign exchange risk; and
- cash flow interest rate risk.

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.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Credit risk

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, the Directors assess 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.

Foreign exchange risk

The Group's functional currency is Euros. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Sterling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of Euro business.

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Cash flow and fair value interest rate risk

As the Group has interest-bearing assets, the Group's income and operating cash flows are effected by changes in market interest rates.

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19, 'Employee Benefits' (Amendment);
- IAS 21, 'The Effects of Changes in Foreign Exchange Rates' (Amendment);
- IAS 39 (Amendment), 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions'; IAS 39 (Amendment), 'The Fair Value Option';
- IAS 39 and IFRS 4 (Amendment), 'Financial Guarantee Contracts';
- IFRS 1 (Amendment), 'First-time Adoption of International Financial Reporting Standards';
- IFRS 6 (Amendment), 'Exploration for and Evaluation of Mineral Resources';
- IFRIC 4, 'Determining whether an Arrangement contains a Lease';
- IFRIC 5, 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'; and
- IFRIC 6, 'Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment'.

Standards and Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- IFRS 7, 'Financial Instruments: Disclosures' and the related amendment to IAS on capital disclosures;
- IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors';
- IAS 23, 'Borrowing Costs' (revised);
- IFRIC 8, 'Scope of IFRS 2';
- IFRIC 10, 'Interim Financial Reporting and Impairment';
- IFRIC 11, 'IFRS 2 - Group and Treasury Share Transactions'; and
- IFRIC 12, 'Service Concession Arrangements'.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'. As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations; and
- IFRIC 9, 'Reassessment of Embedded Derivatives'. As none of the Group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

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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.

Estimated useful life of property, plant and equipment and impairment

The Group estimates the useful life of property, plant and equipment and reviews this estimate at each financial period end. The Group also tests for impairment whenever a trigger event occurs.

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.

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver project services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

4 SEGMENTAL INFORMATION

A business 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 business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable business segment, green energy, and one geographical segment as the geographical location of its customers is incidental to the Group's operations.

Geographical analysis of turnover

	2006 £'000	2005 £'000
Europe	422	264
USA	635	-
	<hr/>	<hr/>
	1,057	264
	<hr/>	<hr/>

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5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 £'000	2005 £'000
Loss on ordinary activities before taxation is stated		
<i>after charging</i>		
Depreciation and other amounts written off property, plant and equipment and intangible fixed assets:		
Owned	40	114
Hire of plant and machinery – rentals payable under operating leases	2	2
Hire of other assets – operating leases	119	92
Exceptional costs associated with the Company's listing	310	–
Pension contributions	7	4
<i>after crediting</i>		
Waiver of shareholders' loans	–	(275)
Foreign exchange gains	(1)	–
Grants from public bodies	(50)	(94)
Release of negative goodwill on acquisition	(198)	–

Exceptional costs

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

Admission to the London Stock Exchange

Costs relating to the Company's Admission to the Alternative Investment Market of the London Stock Exchange amounted to £645,000 and included taxation and restructuring advice, legal and professional fees and other advisory services relating to printing costs, marketing and public relations all of which related to the Admission. £335,000 of these fees has been set off against the share premium account and the remainder has been charged as an administrative expense.

6 AUDITORS' REMUNERATION

	2006 £'000	2005 £'000
Audit services		
Fees payable to the Company auditor for the audit of the parent company and consolidated accounts	13	–
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiary pursuant to legislation	26	*15
Other services pursuant to legislation	1	–
Tax services	6	–
Services relating to corporate finance transactions (see below)	144	–
	190	15

* paid to ALR-Treuhand, the former auditors of Proton Motor Fuel Cell GmbH.

Fees paid to the auditors, RSM Robson Rhodes LLP, for both advisory and compliance work relating to the Company's Admission to the Alternative Investment Market of the London Stock Exchange amounted to £144,750. £26,943 of these fees has been set off against the share premium account and the remainder has been charged as an exceptional administrative expense (see note 5).

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For the year ended 31 December 2006

7 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees		Company 2006
	2006	2005	
Development and construction	20	17	–
Administration	7	7	5
	<u>27</u>	<u>24</u>	<u>5</u>

The aggregate payroll costs of these persons were as follows:

	Group		Company 2006 £'000
	2006 £'000	2005 £'000	
Wages and salaries	703	632	79
Share based payments	147	–	142
Social security costs	128	123	2
Other pension costs	7	4	–
	<u>985</u>	<u>759</u>	<u>223</u>

Share based payments

The Group has incurred an expense in respect of 570,000 share options and 600,000 shares issued to employees during the year as follows:

	Group		Company 2006 £'000
	2006 £'000	2005 £'000	
Share options	31	–	26
Shares	116	–	116
	<u>147</u>	<u>–</u>	<u>142</u>

Details of share options granted during 2006 are disclosed in the Directors' report on page 16. The cost of these options to the Group is being written off over a two year period from the date of grant at which point they become exercisable.

F Heidelberg and B Eska respectively received 400,000 and 200,000 shares in the Company from a shareholder as part of the pre listing re-organisation of its share capital in June 2006. The Directors have valued these shares by discounting the share price on listing of 80 pence per share to reflect the premium attracted by shares in a listed company and the probability of the successful listing of the Company measured at the time of their receipt in June 2006. The value of the shares issued has been charged against income in full in 2006.

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Directors' remuneration

Details of Directors' remuneration are given in the Remuneration report on pages 22 to 23.

The remuneration of key management was as follows:

	Group	
	2006 £'000	2005 £'000
Wages and salaries including social security contributions	149	148
Pension contributions	1	1
	<u>150</u>	<u>149</u>

The Company has no key management other than Directors.

8 TAXATION

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

	2006 £'000	2005 £'000
Tax reconciliation		
Loss before tax	(1,800)	(833)
Tax credit at 30%	(540)	(250)
Expenses not deductible for tax purposes	93	–
Tax losses carried forward	447	250
	<u>–</u>	<u>–</u>
Tax charge	–	–

9 LOSS PER SHARE

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 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.

	2006		2005	
	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000
Loss attributable to equity shareholders of the Company	(1,800)	(1,800)	(833)	(833)
Weighted average number of ordinary shares in issue (thousands)	26,370	26,370	25,200	25,200
Shares issuable (weighted) – share options (thousands)	–	121	–	–
	<u>26,370</u>	<u>26,491</u>	<u>25,200</u>	<u>25,200</u>
Adjusted weighted average number of ordinary shares				
	<u>26,370</u>	<u>26,491</u>	<u>25,200</u>	<u>25,200</u>
	Pence per share	Pence per share	Pence per share	Pence per share
Loss per share (pence per share)	<u>(6.8)</u>	<u>(6.8)</u>	<u>(3.3)</u>	<u>(3.3)</u>

Post year end the Company issued share options over 767,500 ordinary shares.

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10 INTANGIBLE ASSETS – GROUP

	Copyrights, Trademarks and other Industrial Property Rights £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2005	27	–	27
Additions	1	–	1
	<hr/>	<hr/>	<hr/>
At 31 December 2005	28	–	28
	<hr/>	<hr/>	<hr/>
At 1 January 2006	28	–	28
Exchange differences	(1)	–	(1)
Additions	7	90	97
	<hr/>	<hr/>	<hr/>
At 31 December 2006	34	90	124
	<hr/>	<hr/>	<hr/>
Amortisation			
At 1 January 2005	16	–	16
Charged in year	5	–	5
	<hr/>	<hr/>	<hr/>
At 31 December 2005	21	–	21
	<hr/>	<hr/>	<hr/>
At 1 January 2006	21	–	21
Exchange differences	(1)	–	(1)
Charged in year	5	–	5
	<hr/>	<hr/>	<hr/>
At 31 December 2006	25	–	25
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2006	9	90	99
	<hr/>	<hr/>	<hr/>
At 31 December 2005	7	–	7
	<hr/>	<hr/>	<hr/>
At 1 January 2005	11	–	11
	<hr/>	<hr/>	<hr/>

Self-developed intangible assets in the amount of £90,000 have been capitalised in the year, because the prerequisites of IAS 38 have been fulfilled.

The useful life of self-developed intangible assets is 3 years from completion of the asset.

No indications of impairment in value that would trigger an impairment test arose in the year.

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11 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold property £'000	Technical equipment & machinery £'000	Office & other equipment £'000	Plant & machinery in the process of construction £'000	Total £'000
Cost					
At 1 January 2005	21	141	441	–	603
Additions	–	23	3	27	53
Disposals	–	–	(1)	–	(1)
At 31 December 2005	21	164	443	27	655
At 1 January 2006	21	164	443	27	655
Exchange differences	(1)	(3)	(9)	(1)	(14)
Additions	–	3	5	1	9
At 31 December 2006	20	164	439	27	650
Depreciation					
At 1 January 2005	19	112	327	–	458
Additions	1	25	85	–	111
Disposals	–	–	(1)	–	(1)
At 31 December 2005	20	137	411	–	568
At 1 January 2006	20	137	411	–	568
Exchange differences	(1)	(3)	(9)	–	(13)
Charge for year	1	16	23	–	40
At 31 December 2006	20	150	425	–	595
Net book value					
At 31 December 2006	–	14	14	27	55
At 31 December 2005	1	27	32	27	87
At 1 January 2005	2	29	114	–	145

In 2005 test stands constructed by the Company which cost £27,000 were recorded as construction in progress and have yet to be completed.

12 INVESTMENT IN SUBSIDIARY UNDERTAKING

Company	2006 £'000
Shares in Group undertaking	
Additions and at end of year (See note 21)	17,886

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.

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13 TRADE AND OTHER RECEIVABLES

	Group		Company
	2006	2005	2006
	£'000	£'000	£'000
Trade receivables	560	22	–
Loan to related party	200	–	200
Amounts owed by subsidiary undertaking	–	–	1,195
Other debtors	97	4	79
Prepayments and accrued income	99	4	133
	<u>956</u>	<u>30</u>	<u>1,607</u>

The loan to related party relates to an amount loaned to Mr. Karl Watkins. The loan was disclosed in the Placing and Admission to AIM prospectus and was to be repaid within 30 days of the Admission of the Company's shares to the Alternative Investment Market of the London Stock Exchange. The loan was not repaid within the 30 day period, however, since the year end £120,000 has been repaid. The fair value of this loan at 31 December 2006 was £183,000 based on estimated market cost of similar debt of 7.5% per annum and expected repayment of the loan within one year.

The amounts owed by the subsidiary represents two loans, the benefit of which were assigned to the Company largely in exchange for shares in the Company issued at 80p per share to the original lenders (see note 22). Each loan is repayable by giving not less than 90 days notice by either party. Interest is charged at 1% per month.

On 24 April 2007 the Company waived repayment of the loans on the condition that Proton Motor Fuel Cell GmbH treated the waiver as a contribution to its capital.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values.

14 CASH AND CASH EQUIVALENTS

	Group		Company
	2006	2005	2006
	£'000	£'000	£'000
Cash at bank and on hand	233	4	17
Short term bank deposits	1,653	13	1,640
	<u>1,886</u>	<u>17</u>	<u>1,657</u>

15 TRADE AND OTHER PAYABLES

	Group		Company
	2006	2005	2006
	£'000	£'000	£'000
Trade payables	440	506	6
Payments on account on contracts	166	249	–
Social security and other taxes	2	–	2
Other creditors	17	348	1
Accruals and deferred income	207	125	85
	<u>832</u>	<u>1,228</u>	<u>94</u>

The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

16 BORROWINGS

	2006 £'000	Group	2005 £'000	Company 2006 £'000
Total borrowings	—		—	—

The Group and Company have the following committed fixed rate borrowing facilities:

	2006 £'000	Group	2005 £'000	Company 2006 £'000
Total facilities	2,000		—	2,000

On 17 October 2006, the Company entered into a loan and asset finance facility agreement to borrow up to £2 million for working capital and asset finance facilities (the "Loan Facility"). The Loan Facility is available for draw down for a period of 36 months from the date of the agreement. If it is determined that some or all of the amount so drawn down is to be utilised for the purchase of fixed plant or equipment outside the UK then the lender may require that such amounts are advanced to the Company as a hire purchase or finance lease facility. Interest on the Loan Facility is payable at a rate of 12.01% per annum. The Company will repay the Loan Facility by 36 fixed monthly capital and interest instalments. The agreement also contains event of default provisions. All these facilities incur commitment fees at market rates.

17 DEFERRED INCOME TAX – GROUP

	2006
Accelerated capital allowances	34
Losses carried forward	(34)
	—

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 did not recognise deferred income tax assets of £2,690,000 (2005: £2,185,000) in respect of losses amounting to £542,000 (2005: £nil) and €9,302,000 (2005: €7,765,000).

The Company did not recognise deferred income tax assets of £163,000 in respect of losses amounting to £542,000.

18 CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised		
Equity: 65,000,000 Ordinary shares of 5p each (2005: 6 Ordinary shares totalling €135,000)	3,250	93
Allotted, called up and fully paid		
Equity: 31,390,863 Ordinary shares of 5p each (2005: 6 Ordinary shares totalling €135,000)	1,570	93

At the date of its incorporation, the Company had an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two ordinary shares of £1 each were in issue nil paid.

On 8 February 2006, each ordinary share of £1 was subdivided into 20,000 ordinary shares of 0.005p each. The share capital of the Company was increased by £100,000 to £150,000 by the creation of 1,000,000,000 ordinary shares of 0.005p each and 50,000 Redeemable Preference Shares of £1 each.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

On 10 February 2006, 50,000 Redeemable Preference Shares were issued fully paid for cash at par.

On 14 February 2006, pursuant to resolutions passed by the shareholders of the Company:-

- the Company's authorised share capital was increased by £1,853,000 from £150,000 to £2,003,000 by the creation of 37,000,000 ordinary shares of 0.005p each and 300,000 "A" Redeemable Preference Shares of 1p each; and
- in substitution for all existing authorities, the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,952,998 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement.

On 14 February 2006, the Company issued 66,960,000 ordinary shares of 0.005p each at par and 290,000 "A" Redeemable Preference Shares at a premium of 99p per share.

On 15 March 2006, the Company made a bonus issue of 49 ordinary shares for every ordinary share of 0.005p in issue. On the same date, the Company consolidated every 100 ordinary shares of 0.005p each into one ordinary share of 0.5p each.

On 21 March 2006, the Company consolidated every 10 ordinary shares of 0.5p each into one Ordinary Share.

On 21 March 2006, pursuant to resolutions passed by the shareholders of the Company:-

- the Company's authorised share capital was increased by £1,300,000 from £2,003,000 to £3,303,000 by the creation of 26,000,000 Ordinary Shares; and
- in substitution for all existing authorities, the Directors were generally and unconditionally authorised to allot relevant securities up to an aggregate nominal amount of £3,082,598 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement.

On 28 April 2006, the Company issued 960,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value €16,150 and €3,300 in the capital of Proton Motor.

On 28 April 2006, the Company issued 876,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value €13,700 and €4,050 in the capital of Proton Motor.

On 28 April 2006, the Company issued 2,162,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value of €43,800 capital in Proton Motor.

On 15 May 2006, the Company issued 2,650,000 Ordinary Shares as initial consideration for the purchase of shares having nominal value of €54,000 in the capital of Proton Motor.

On 9 June 2006, pursuant to a special resolution passed by shareholders, 140,000 "A" Redeemable Preference Shares were converted into 200,000 Ordinary Shares.

On 26 July 2006, pursuant to special resolutions passed by shareholders, 50,000 Redeemable Preference Shares and 150,000 "A" Redeemable Preference Shares were converted into 100,000 and 300,000 Ordinary Shares respectively.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

On 27 July 2006, pursuant to a resolution passed by shareholders, 50,000 Redeemable Preference Shares and 300,000 "A" Redeemable Preference Shares in the authorised and un-issued share capital of the Company were cancelled and the authorised share capital of the Company was reduced to £3,250,000 divided into 65,000,000 Ordinary Shares.

On 31 October 2006, the Company issued 1,046,811 Ordinary Shares as deferred consideration for the purchase of shares having nominal value €16,150 and €3,300 in the capital of Proton Motor.

On 31 October 2006, the Company issued 955,279 Ordinary Shares as deferred consideration for the purchase of shares having nominal value €13,700 and €4,050 in the capital of Proton Motor.

On 31 October 2006, the Company issued 2,356,598 Ordinary Shares as deferred consideration for the purchase of shares having nominal value of €43,800 capital in Proton Motor.

On 31 October 2006, the Company issued 9,866,306 Ordinary Shares as deferred consideration for the purchase of shares having nominal value of €54,000 in the capital of Proton Motor.

On 31 October 2006 the Company issued 375,000 Ordinary Shares at 80p per share as consideration for "success fees" resulting from the Company's Admission to the Alternative Investment Market of the London Stock Exchange.

On 31 October 2006 following the Company's Admission to the Alternative Investment Market of the London Stock Exchange, 6,190,863 new Ordinary Shares were issued at 80p per share.

19 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. Annual commitments under non-cancellable operating leases are as follows:

Group	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	118	–	93	5
In the second to fifth years inclusive	–	2	–	2
	<u>118</u>	<u>2</u>	<u>93</u>	<u>7</u>

20 CONTINGENT LIABILITIES/ASSETS

A loan due to Volvo Technology Transfer AB in the amount of £135,000 will become repayable if Proton Motor Fuel Cell GmbH reports sustained equity at 31 December 2007 of £2.69 million. Sustainability is applicable if four successive quarterly financial statements report the stated level of equity. Currently, the Directors do not expect the criteria to be fulfilled.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

21 BUSINESS COMBINATION

On 31 October 2006, the Company, acquired the entire share capital of Proton Motor Fuel Cell GmbH by means of a share-for-share exchange whereby 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 acquiree.

In accordance with IFRS 3 "Business Combinations", this transaction has been accounted as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statement is a continuation of the financial statement of Proton Motor Fuel Cell GmbH and the retained earnings recognised are a continuation of those of Proton Motor Fuel Cell GmbH immediately before the business combination.
- The consolidated income statement for the year ended 31 December 2006 includes the results of Proton Motor Fuel Cell GmbH for the year ended 31 December 2006 and of Proton Power Systems plc from 31 October 2006, the date of the reverse acquisition.
- The assets and liabilities of Proton Motor Fuel Cell GmbH are measured based on their pre-combination carrying amounts.
- The equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, Proton Power Systems plc. However, the total issued equity instruments reflects that of the legal subsidiary, Proton Motor Fuel Cell GmbH. To achieve this a reverse acquisition reserve of £13.862 million has been created, being the difference between the required Group equity instruments and the reported equity of the parent.
- Proton Power Systems plc has been consolidated from the date of the reverse acquisition using the fair value of its assets and liabilities at that date. The cost of the acquisition was £nil and negative goodwill of £198,000 arose on the acquisition.

The net assets of Proton Power Systems plc were:

	Net book and fair value £'000
Receivables	1,490
Payables	(1,292)
	<hr/>
Net assets	198
Cost of combination	–
	<hr/>
Negative goodwill	198
	<hr/>

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

22 CASH GENERATED FROM OPERATING ACTIVITIES

	Group		Company
	Year ended 31 December		Period from
	2006	2005	incorporation to
	£'000	£'000	31 December
			2006
			£'000
Loss for the period	(1,800)	(833)	(1,052)
<i>Adjustments for:</i>			
Depreciation and amortisation	44	115	–
Negative goodwill credit	(198)	–	–
Interest income including loan waivers	(57)	(189)	(57)
Interest expenses	60	13	–
Share based payments	147	–	147
	<hr/>	<hr/>	<hr/>
Operating loss before changes in net working capital	(1,804)	(894)	(962)
Inventories	(21)	–	–
Receivables	(454)	88	(1,379)
Payables	(20)	(38)	147
	<hr/>	<hr/>	<hr/>
Net cash used in operations	(2,299)	(844)	(2,194)

Loans were received during the year of £1.195 million. On 31 October 2006, £1.045 million of the loans outstanding was converted into ordinary shares at 80p per share and the balance was repaid.

23 RELATED PARTY TRANSACTIONS

During the year ended 31 December 2006 the Group and Company entered into the following related party transactions:

	Group		Company
	Year ended 31 December		Period from
	2006	2005	incorporation to
	£'000	£'000	31 December
			2006
			£'000
Income/(expense)			
Dr. G Heidelberg loan waivers	–	17	–
Volvo Group loan waivers	–	17	–
KF Kalmund interest charges and loan waivers	17	(15)	–
Magnet Motor GmbH administrative services	2	5	–
Turquoise International Limited corporate finance fee	(235)	–	–
Green Atlantic Partners Limited management and consultancy fees	(170)	–	–
Proton Motor Fuel Cell GmbH loan interest	–	–	44

Proton Power Systems plc (formerly Future Power Systems plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

At 31 December 2006 the Group and Company had the following balances with related parties:

	Group		Company
	2006	2005	2006
	£'000	£'000	£'000
Amounts owing from/(due to)			
Proton Motor Fuel Cell GmbH	-	-	1,195
Volvo Group loan interest amount	(236)	(251)	-
KF Kalmund loan amount	-	(172)	-
Magnet Motor GmbH administrative services	-	(5)	-
Muller Heidelberg & Partner	-	(1)	-

Dr G Heidelberg and Volvo Group provided the Group with short term loan funding. The loans did not attract any interest. Dr G Heidelberg and Volvo Group are related parties by virtue of their shareholdings in the Group.

KF Kalmund provided the Group with short term loan funding. The loan attracted interest at 8% per annum. KF Kalmund is a related party by virtue of his share interest in Top Equity GmbH, which had a shareholding in the Group.

Muller Heidelberg & Partner provide legal services to Proton Motor and is a related party by virtue of a relationship with Dr G Heidelberg.

Magnet Motor GmbH provided Proton Motor with administrative services and is a related party by virtue of Dr G Heidelberg's relationship with that company.

Proton Power Systems plc provided Proton Motor with short term loan funding. Proton Power Systems plc is a related party as it acquired the entire share capital of Proton Motor during the period ended 31 December 2006.

During the year Athena Technology Limited provided the Group with short term funding of £695,000. On 14 August 2006 this loan was assigned to Proton Power Systems plc and is included in the amount due to the Company of £1,195,000. Athena Technology Limited is a related party by virtue of its shareholding in the Group.

During the year Proton Power Systems plc loaned £500,000 to Turquoise Capital LLP. Turquoise Capital LLP also loaned £500,000 to Proton Motor Fuel Cell GmbH. On 15 May 2006 the loan by Turquoise Capital LLP to Proton Motor Fuel Cell GmbH was assigned to Proton Power Systems plc and set against the original loan between these two parties. Turquoise Capital LLP is a related party by virtue of its shareholdings in the Group.

During the year Green Atlantic Partners Limited provided management and general consultancy services to Proton Motor Fuel Cell GmbH. Green Atlantic Partners Limited is a related party by virtue of its shareholdings in the Group.

Proton Power Systems plc (formerly Future Power Systems plc)
NOTICE OF ANNUAL GENERAL MEETING

PROTON POWER SYSTEMS PLC
NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Proton Power Systems plc (the "Company") will be held at St Ann's Wharf, 112 Quayside, Newcastle Upon Tyne, NE99 1SB at 10.00 am on 25 July 2007 to consider and, if thought fit, pass the following resolutions as ordinary resolutions other than resolutions 13 and 14 which will be proposed as special resolutions:-

Ordinary Business

1. To receive and adopt the Annual report and financial statements for the financial year ended 31 December 2006 including the Directors' report and the Auditors' report on those financial statements.
2. To re-elect Benedikt Eska who retires in accordance with the Company's articles of association as a Director of the Company.
3. To re-elect Felix Heidelberg who retires in accordance with the Company's articles of association as a Director of the Company.
4. To approve and ratify the appointment of Bernard Robinson as a Director of the Company on 18 August 2006.
5. To re-elect Bernard Robinson who retires in accordance with the Company's articles of association as a Director of the Company.
6. To approve and ratify the appointment of Per Svantesson as a Director of the Company on 18 August 2006.
7. To re-elect Per Svantesson who retires in accordance with the Company's articles of association as a Director of the Company.
8. To approve and ratify the appointment of John Wall as a Director of the Company on 18 August 2006.
9. To re-elect John Wall who retires in accordance with the Company's articles of association as a Director of the Company.
10. To confirm the appointment of RSM Robson Rhodes LLP or (subject to its proposed merger having completed) its successor firm, Grant Thornton UK LLP, as the auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
11. To authorise the Directors to agree the remuneration of the auditors of the Company.
12. To approve the Directors' Remuneration report for the financial year ended 31 December 2006.

Special Business

13. That in substitution for the authority granted to the Directors pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 21 March 2006, the Directors be authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £500,000 provided that:-

Proton Power Systems plc (formerly Future Power Systems plc)

NOTICE OF ANNUAL GENERAL MEETING

13.1 (except as provided in paragraph 13.2 below) this authority shall expire on the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is the earliest), but may be previously revoked or varied by an ordinary resolution of the Company; and

13.2 the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

All previous authorities under section 80 of the Act be revoked, but such revocation shall not have retrospective effect.

14. That subject to the passing of and pursuant to the general authority conferred by the resolution numbered 13 in the notice convening this meeting insofar as it relates to securities that are not treasury shares within the meaning of section 162A(3) of the Act and in substitution for the authority granted to the directors pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 21 March 2006, the directors be given power pursuant to section 95 of the Act to allot equity securities (within section 94 of the Act) for cash pursuant to the authority so conferred or where the equity securities are held by the Company as qualifying shares (to which sections 162A to 162G of the Act apply), in each case as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:-

14.1 the allotment of equity securities in connection with any rights issue, open offer or other pre-emptive offer to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

14.2 otherwise than pursuant to paragraph 14.1 above, the allotment of equity securities up to an aggregate nominal amount of £156,641.80.

and shall expire on the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is earlier) except that 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 in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

All previous authorities under section 95 of the Act are revoked, but such revocation shall not have retrospective effect.

25 June 2007

By order of the board

John Wall

Secretary

Registered office:-

St Ann's Wharf

112 Quayside

Newcastle Upon Tyne

NE99 1SB

Registered in England and Wales No. 05700614

Proton Power Systems plc (formerly Future Power Systems plc)

NOTICE OF ANNUAL GENERAL MEETING

Notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf.

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting.
2. A form of appointment of proxy is enclosed. If you return more than one proxy appointment, that received last by the registrar before the latest time for the receipt of proxies will take precedence. 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.
3. 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 the Company's registrar at the address shown on the proxy form not later than 48 hours 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.
4. 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 to be held on 25 July 2007 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.
5. 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 CRESTCo's 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 RA10) 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.
6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo 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.
7. 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.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTICE OF ANNUAL GENERAL MEETING

8. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day and they may also be inspected at the registered office from 9.00 am on the day of the meeting until the conclusion of the meeting:-
 - (a) copies of Directors' service contracts with the Company, copies of the Non-Executive Directors' letters of appointment and indemnities between the Company and the Directors;
 - (b) the register of interests of the Directors and their families and civil partners in the share capital of the Company;
 - (c) a copy of the Company's Memorandum and Articles of Association;
9. In accordance with the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 10.00 am on 23 July 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the 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.

Explanatory Notes on the Resolutions to be sent to Shareholders

(i) 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.

(ii) Resolution 2 – 9: Directors

The Company's Articles of Association require Directors to retire and submit themselves for election at the first AGM following their appointment and for re-election at least every three years thereafter. The Directors who retire at each AGM are those who would otherwise have served for over three years without re-election by the date of the following AGM.

Resolution 10: Appointment of Auditors

An ordinary resolution will be proposed to re-appoint RSM Robson Rhodes LLP or (subject to its proposed merger having completed) its successor firm, Grant Thornton UK LLP, as the Company's auditors to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 11: Remuneration of the Auditors

An ordinary resolution will be proposed to authorise the Directors to determine the remuneration payable to the auditors.

Resolution 12: to approve the Directors' Remuneration Report

At the annual general meeting, shareholders will be asked to separately approve the Directors' Remuneration Report as set out on pages 20 to 23 of the Company's annual report and accounts.

Resolution 13: Directors' Authority to Allot Shares

Under section 80 of the Companies Act 1985, the Directors of the Company may only allot relevant securities if authorised to do so. The Articles of Association of the Company give a general authority to the Directors to allot relevant securities but that authority is subject to renewal by the shareholders each year.

Proton Power Systems plc (formerly Future Power Systems plc)

NOTICE OF ANNUAL GENERAL MEETING

This resolution proposes to renew the authority granted to the Directors to allot shares in the Company. Resolution 13 will, if passed, give the Directors additional authority to allot shares up to a maximum nominal value of £500,000 (representing 31.856% of the issued share capital of the Company at 25 June 2007).

The Directors have no present intention of exercising the allotment authority proposed by this resolution. To ensure compliance with recently published institutional guidelines and market practice, it is proposed that the authority will expire at the conclusion of the next AGM or, if earlier, 15 months from the date this resolution is passed except insofar as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 14: Directors' Power to Disapply Pre-emption Rights

This resolution, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company proposed by resolution 13.

Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash (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 14 is passed, the requirement imposed by section 89 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 89 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 £156,641.80 (representing 9.98% of the Company's issued share capital at 25 June 2007). This gives the Directors flexibility to take advantage of business opportunities as they arise, and is in accordance with the statements made by the Company in its Admission document dated 24 October 2006.

To comply with recent guidelines, this authority will expire at the conclusion of the next AGM or, if earlier, on the date which is 15 months from the passing of the resolution except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Recommendation

The Directors unanimously recommend that you vote in favour of these resolutions as they intend to do in respect of their own beneficial shareholdings.

FORM OF PROXY

PROTON POWER SYSTEMS PLC – ANNUAL GENERAL MEETING

To be held at: 10.00 a.m. Wednesday, 25 July 2007 at St Ann's Wharf, 112 Quayside, Newcastle Upon Tyne, NE99 15B

I/We, the undersigned
of

being a holder(s) of ordinary shares of 5p each in Proton Power Systems plc (the "Company") hereby appoint the Chairman of the meeting or (see note 1)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 10.00 a.m. Wednesday, 25 July 2007 at St Ann's Wharf, 112 Quayside, Newcastle Upon Tyne, NE99 15B and at any adjournment thereof.

I/We instruct my/our said proxy to vote as follows:

Please indicate with an 'X' in the appropriate box how you wish your vote to be cast. If no indication is given, your proxy will be deemed to have the authority to vote or to abstain at his/her discretion on the resolutions below and on any other business transacted at the meeting.

Resolutions	For	Against	Abstain
1. To receive and adopt the accounts for the financial year ended 31 st December 2006 together with the directors' report, and the auditors' report on those accounts.			
2. To re-elect Benedikt Eska.			
3. To re-elect Felix Heidelberg.			
4. To approve and ratify the appointment of Bernard Robinson as a Director of the Company on 18 August 2006.			
5. To re-elect Bernard Robinson who retires in accordance with the Company's articles of association as a director of the Company.			
6. To approve and ratify the appointment of Per Svantesson as a director of the Company on 18 August 2006.			
7. To re-elect Per Svantesson who retires in accordance with the Company's articles of association as a director of the Company.			
8. To approve and ratify the appointment of John Wall as a director of the Company on 18 August 2006.			
9. To re-elect John Wall who retires in accordance with the Company's articles of association as a director of the Company.			
10. To re-appoint RSM Robson Rhodes LLP as the auditors of the Company.			
11. To authorise the directors to agree the remuneration of the auditors of the Company.			
12. To approve the directors' remuneration report for the financial year ended 31 December 2006.			
13. To authorise the directors in accordance with section 80 of the Companies Act 1985 to allot relevant securities.			
14. To disapply the statutory pre-emption rights contained in section 89(1) of the Companies Act 1985 in respect of the equity securities to be allotted pursuant to the authority given to the directors in accordance with section 80 of the Companies Act 1985.			

Signature(s)

Date 2007

Notes:

1. A member may appoint one or more proxies of his/her own choice. Delete the words "the Chairman of the meeting or", insert your own choice in the space provided and initial the amendment.
2. When two or more valid but differing forms of proxy are delivered for the same share, the one which is last validly delivered (regardless of its date) shall be treated as replacing and revoking the other or others as regards that share. Deposit of a form of proxy does not prevent a member attending and voting in person at the meeting or an adjournment of the meeting or on a poll. A proxy need not be a member of the Company.
3. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown and the vote of the person whose name stands first in the register who tenders a vote whether in person or by proxy shall be accepted to the exclusion of all votes of the other joint holders.
4. In the case of a corporation, this form of proxy shall be executed under its seal or under the hand of its duly authorised attorney or officer or other person authorised to sign.
5. To be effective this form of proxy, and unless previously registered with the Company, the authority or power of attorney (if any) under which it is signed or a notarially certified copy thereof must be lodged with the Company's registrar at Proxy Processing Centre, Telford Road, Bicester OX26 4LD, not later than 48 hours before the time appointed for the holding of the meeting or (as the case may be) the adjourned meeting.
6. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members entered on the register of members at 10.00 a.m. on Monday, 23 July 2007 shall be entitled to attend or vote at the meeting or, if the meeting is adjourned, close of business on such date being not more than two days prior to the date fixed for the adjourned meeting. Changes to entries on the register after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.



Second Fold

BUSINESS REPLY SERVICE
Licence No. RRHB-RSXJ-GKCY



Capita Registrars
Proxy Processing Centre
Telford Road
Bicester
OX26 4LD

First Fold

Third Fold (Tuck in)





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