

PROTON POWER SYSTEMS ANNOUNCES ITS RESULTS FOR YEAR ENDED 31 DECEMBER 2006

The board of Proton Power Systems (PPS) are pleased to announce the preliminary results for the year ended 31 December 2006. The Company floated on AIM on 31st October 2006 and was formerly known as Future Power Systems plc.

Highlights for year ended 31 December 2006:

- Successful listing on AIM on 31 October 2006 raising £4.9m
- Loss £1.8 million, as the company disbursed the new funding in the commercialisation of the business and after paying the costs of the listing (2005: loss of £833k)
- Entered into key OEM relationships, broadening the application of its fuel cell technology. Of note are the agreements for the supply of:
 - joint development Agreement with US military applications developer
 - a demonstration UPS electric fuel cell system

Highlights Post Listing

- Post listing order intake 30% higher than forecast
 - first contract under a €2.5 million purchase and procurement agreement with L-3 Communications
 - development of a street cleaning vehicle in Switzerland
 - first fuel cell bus in the Czech Republic
 - the first fuel cell driven harbour ferry in Hamburg, Germany
 - extension to a purchase and cooperation agreement to provide fuel cell stacks to a leading international energy systems manufacturer
- Relocating the Company to an integrated single site facility which will achieve significant scale of production

Commenting on the results, Bernard Robinson, Chairman said,

“The Group has made good progress over the last year and is ahead of where we anticipated. We have established a number of strategic OEM partnerships that will broaden the application of our hybrid system and fuel the Group’s growth. The forthcoming strengthening of our operational infrastructure with the move to new premises will provide the structure we need to move towards significant scale production.”

“Our progress is highlighted by the recent order for the volume supply of fuel cell modules for Auxiliary Power Units (APUs). This is a major achievement for the Group and a major event in the fuel cell market, as we believe it is the first volume order scaling up to hundreds of units.”

Notes to Editors

PPS, through its subsidiary Proton Motor Fuel Cell GmbH (“PM”) has developed and produced a standard fuel cell module, fuelled by hydrogen integrated with an energy storage system to create a hybrid electric fuel cell system capable of providing power during peak demand situations. The market focus is on industrial applications where ‘back-to-base’ refueling occurs, on site, at the end of each shift or work period.

The Group has identified opportunities to replace lead-acid batteries with their PEM fuel cell systems and has identified niche markets in the materials handling and mass-transportation sectors where hybrid electric fuel cell systems offer considerable advantages over conventional engine technology and fuel cell only drive systems. The Group has identified two initial market segments in which the Directors believe the advantages of hybrid electric fuel cell systems will lead to economic benefits for the end user – forklift trucks and buses. In most cases, vehicles operate within a defined radius or return to central points of operation.

The many advantages over current commercial alternatives include lower fuel consumption, longer periods between refueling, shorter refueling, consistent levels of power delivery and zero harmful emissions.

PM’s technology development has been undertaken with the key objectives of multiple applications and volume production.

PPS was admitted to trading on AIM on October 31,

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Chairman and Chief Executive's report

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

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.

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 ProtonMotor team and our advisors for their hard work and effort and our customers and suppliers for their confidence and support throughout the year.

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;
- 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.

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

Consolidated income statement
for the year ended 31 December 2006

	2006	2005
	£'000	£'000
<i>Continuing operations</i>		
Revenue	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	(1,800)	(833)
Loss per share (expressed as pence per share)		
Basic	(6.8)	(3.3)
Diluted	(6.8)	(3.3)

Consolidated balance sheet
as at 31 December 2006

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

Statement of changes in equity

	Attributable to equity holders of the Company								
	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition Reserve	Share Based Payments Reserve	Translation Reserve	Capital Contribution Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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	93	3,158	-	-	-	23	936	(5,297)	(1,087)
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 below)	1,150	(2,944)	15,656	(13,862)	-	-	-	-	-
Balance at 31 December 2006	1,570	4,735	15,656	(13,862)	147	30	916	(7,007)	2,185

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.

Cash flow statement
for the year ended 31 December 2006

	2006	2005
	£'000	£'000
Cash flows from operating activities		
Net cash used in operations	(2,299)	(844)
Interest received	6	-
Interest paid	(60)	(13)
Net cash used in operating activities	<u>(2,353)</u>	<u>(857)</u>
Cash flows from investing activities		
Capital contribution to subsidiary	-	-
Cost of acquisition of subsidiary	(138)	-
Purchase of intangible assets	(98)	-
Purchase of tangible assets	(9)	(55)
Net cash used in investing activities	<u>(245)</u>	<u>(55)</u>
Cash flows from financing activities		
Proceeds from issue of share capital	3,644	574
Increase in loan balances	1,195	249
Loan repayments	(372)	-
Reduction in other financial assets	-	75
Net cash generated from financing activities	<u>4,467</u>	<u>898</u>
Net increase/ (decrease) in cash and cash equivalents	1,869	(14)
Opening cash and cash equivalents	<u>17</u>	<u>31</u>
Closing cash and cash equivalents	<u>1,886</u>	<u>17</u>

Cash generated from operating activities

	2006	2005
	£'000	£'000
Loss for the period	(1,800)	(833)
<i>Adjustments for:</i>		
Depreciation and amortisation	44	115
Negative goodwill credit	(198)	-
Interest income including loan waivers	(57)	(189)
Interest expenses	60	13
Share based payment	17	-
Operating loss before changes in net working capital	<u>(1,804)</u>	<u>(894)</u>
Inventories	(21)	-
Receivables	(454)	88
Payables	(20)	(38)
Net cash used in operations	<u>(2,299)</u>	<u>(844)</u>

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.

Notes to the financial statements

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The accounting policies are set out in the full annual financial statements and are consistent with those included in the Admission Document.

The financial information included in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The financial information is derived from the consolidated financial statements for the year ended 31 December 2006. Proton Power Systems Plc has not previously prepared statutory financial statements. The financial statements for 2006 on which the auditors issued an unqualified report which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985 were approved by the Board of Directors on 19 June 2007, subject to clarification of one accounting issue resolved on 22 June 2007, and will be delivered to the Registrar of Companies in due course. The comparative figures for 2005 represent the accounts of the legal subsidiary and have been included in these financial statements on a proforma basis.

The Board of Proton Power Systems plc approved the release of this preliminary announcement on 22 June 2007.