

Press Release

19 September 2007

Proton Power Systems plc
(“Proton Power” or “the Company”)

Interim Results

Proton Power Systems plc (AIM:PPS), a leading designer, developer and producer of fuel cells and fuel cell–electric hybrid systems for the “back to base” market, today announces its Interim Results for the six months to 30 June 2007.

Highlights

- Three new orders secured from:
 - Bucher/EMPA (street cleaning vehicles, Switzerland)
 - Skoda Electric (city bus project, Prague)
 - Alster-Touristik (passenger ferry, Hamburg)
- Appointment of Achim Loecher as Chief Financial Officer of Proton Power’s subsidiary Proton Motor Fuel Cell GmbH (“PMFC”)
- PMFC’s new facility at Puchheim, Munich was officially opened on 13 September 2007
- Turnover was £295,000 compared with 2006: £718,000
- Loss of £951,000 compared with 2006: (£477,000).

Commenting on the results, Felix Heidelberg, CEO of Proton Power, said: “The launch of our new facility in Puchheim has enabled us to move fully into the commercialisation stage and we are pleased to have secured three new orders in key areas for Proton Power: ferries, buses and utilities. With government initiatives continuously driving the market and supporting and endorsing Proton Power’s strategy, we look forward to the future and further orders with confidence.”

– Ends –

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Chairman's and CEO's statement

Financial overview

We are pleased to report our unaudited Interim Results for the half year ended 30 June 2007.

In the 6 months to 30 June 2007 turnover was £295,000 which was in line with expectations and which compares with 2006: £142,000 (excluding the £576,000 "one off" licence fee income from L3 Communications Corporation, USA). The out-turn for the half year was a loss of £951,000 which was also in line with expectations and compares on a like for like basis, with a loss in 2006 of £1,053,000 (adjusting for the "one off" £576,000 licence fee income from L3 Communications Corporation, USA).

Business development

Overall the rate of order intake was generally in line with expectations with new orders received for our hybrid drive systems for:

- passenger ferry which will operate on Hamburg's Alster river
- utility (street cleaning) vehicle for Bucher/EMPA, Switzerland
- city bus for Skoda Electric which will operate in Prague

The half year under review also saw the extension to a Purchase and Co-operation Agreement and commencement of initial deliveries of the first volume order for fuel cell modules for auxiliary power units (APUs) to an international technology leader.

Other milestones during the half year were the:

- appointment in June 2007 of Achim Loecher as Chief Financial Officer, Proton Motor Fuel Cell GmbH ("PMFC")
- move of the Company's subsidiary to Puchheim, Munich to single site premises in order to scale business and enter into volume automated production, as well as to provide an important platform for increased marketing of its fuel cell technology. The new headquarters also allows for additional expansion and so meet the constant increase in demand for our services

Outlook

PMFC's new facility at Puchheim, Munich was officially opened by a representative of the Bavarian Ministry of Economic Affairs, Infrastructure, Transport and Technology on 13 September 2007. The feedback from the many guests who attended was most complimentary.

This single site facility, with the capability for modular expansion with minimum disruption to ongoing production, forms the springboard for the up-scaling of volume and the transition and transformation of the Company from project (low volume/high cost) to series (high volume/low cost/high value added) designer, developer and manufacturer of fuel cell hybrid systems for the, "back to base" applications market.

This new facility will enable us to invest upfront in facilities and people in order to drive down unit costs and thereby deliver volume orders – a virtuous circle which represents our next major challenge and focus.

Enquiries and expressions of interest in the Company's products are being received from a wide variety of potential customers with varying application requirements and with the benefit of our new facilities it is hoped to convert some of these into firm orders during the course of the next few months.

Subsequent to the half year end, we appointed Noble & Company Limited as our new Nomad and Broker and Abchurch Communications Limited as our new Financial Public Relations Advisor.

Once again, on behalf of the Board we would take this opportunity to thank the PMFC team and our advisors for their hard work and effort and our shareholders, customers and suppliers for their continued confidence and support.

Bernard Robinson OBE DL

Chairman

Felix Heidelberg

Chief Executive

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

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the income statement, balance sheet, cash flow statement, statement of changes in equity and the related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4: Review of Interim Financial Information. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4: Review of Interim Financial Information issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Leeds, England

18 September 2007

Consolidated income statement

	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited Year to 31 December 2006 £'000
<i>Continuing operations</i>			
Revenue	295	718	1,057
Cost of sales	(423)	(680)	(1,030)
Gross profit/(loss)	(128)	38	27
Other operating income	25	-	12
Administrative expenses	(882)	(501)	(1,836)
Operating loss	(985)	(463)	(1,797)
Finance income	50	-	8
Finance costs	(16)	(14)	(11)
Loss for the year attributable to equity holders of the Company	(951)	(477)	(1,800)
Loss per share (expressed as pence per share)			
Basic	(3.0)	(1.9)	(6.8)
Diluted	(3.0)	(1.9)	(6.8)

Consolidated balance sheet

	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited Year to 31 December 2006 £'000
Non-current assets			
Intangible assets	244	5	99
Property, plant and equipment	54	69	55
	<u>298</u>	<u>74</u>	<u>154</u>
Current assets			
Inventories	15	-	21
Trade and other receivables	747	446	956
Cash and cash equivalents	2,025	1	1,886
	<u>2,787</u>	<u>447</u>	<u>2,863</u>
Total assets	<u><u>3,085</u></u>	<u><u>521</u></u>	<u><u>3,017</u></u>
Capital and reserves			
Ordinary shares	1,570	93	1,570
Share premium	4,735	3,171	4,735
Merger reserve	15,656	-	15,656
Reverse acquisition reserve	(13,862)	-	(13,862)
Share based payment reserve	295	-	147
Foreign translation reserve	26	(3)	30
Capital contributions	916	940	916
Retained earnings	(7,958)	(5,772)	(7,007)
Total equity	<u><u>1,378</u></u>	<u><u>(1,571)</u></u>	<u><u>2,185</u></u>
Non-current liabilities			
Borrowings	677	-	-
Current liabilities			
Borrowings	299	666	-
Trade and other payables	731	1,426	832
	<u>1,030</u>	<u>2,092</u>	<u>832</u>
Total liabilities	<u><u>1,707</u></u>	<u><u>2,092</u></u>	<u><u>832</u></u>
Total equity and liabilities	<u><u>3,085</u></u>	<u><u>521</u></u>	<u><u>3,017</u></u>

The total equity of the group at 30 June 2006 differs from that shown on the Placing and Admission to AIM document by £213,000; this is due to provisions recognised at 30 June 2006, no longer required when the annual accounts to 31 December 2006 were prepared.

Statement of changes in equity

Group	Attributable to equity holders of the Company								
	Share Capital	Share Premium	Merger Reserves	Reverse Acquisition Reserves	Share Based Payment Reserve	Translation reserve	Capital contribution Reserves	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2006	93	3,158	-	-	-	23	936	(5,297)	(1,087)
Loss for the period	-	-	-	-	-	-	-	(477)	(477)
Currency translation differences	-	12	-	-	-	-	3	(1)	14
Total recognised income and expenses for the period	-	12	-	-	-	-	3	(478)	(463)
Balance at 30 June 2006	93	3,170	-	-	-	23	939	(5,775)	(1,550)
Balance at 1 July 2006	93	3,170	-	-	-	23	939	(5,775)	(1,550)
Loss for the period	-	-	-	-	-	-	-	(1,323)	(1,323)
Currency translation differences	(2)	(80)	-	-	-	7	(23)	91	(7)
Total recognised income and expenses for the period	(2)	(80)	-	-	-	7	(23)	(1,232)	(1,330)
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
Balance at 1 January 2007	1,570	4,735	15,656	(13,862)	147	30	916	(7,007)	2,185
Loss for the period	-	-	-	-	-	-	-	(951)	(951)
Currency translation differences	-	-	-	-	-	(4)	-	-	(4)
Total recognised income and expenses for the period	-	-	-	-	-	(4)	-	(951)	(955)
Share based payments credit	-	-	-	-	148	-	-	-	148
Balance at 30 June 2007	1,570	4,735	15,656	(13,862)	295	26	916	(7,958)	1,378

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 2006. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and their fair value at 31 October 2006, the date of the acquisition.

Reverse acquisition reserve

The reverse acquisition reserve arises as a result of the method of accounting for the acquisition of Proton Motor Fuel Cell GmbH by the Company. In accordance with IFRSs the acquisition has been accounted for as a reverse acquisition.

Consolidated cash flow statement

	Note	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited Year to 31 December 2006 £'000
Cash flows from operating activities				
Net cash used in operations	6	(705)	(397)	(2,299)
Interest received		50	1	6
Interest paid		(10)	(15)	(60)
Net cash used in operating activities		<u>(665)</u>	<u>(411)</u>	<u>(2,353)</u>
Cash flows from investing activities				
Investment in subsidiary		-	-	(138)
Purchase of intangible assets		(149)	-	(98)
Purchase of tangible assets		(23)	(5)	(9)
Net cash used in investing activities		<u>(172)</u>	<u>(5)</u>	<u>(245)</u>
Cash flows from financing activities				
Proceeds from issue of share capital		-	-	3,644
Increase in loan balances		1,000	591	1,195
Loan repayments		(24)	(172)	(372)
Net cash generated from financing activities		<u>976</u>	<u>419</u>	<u>4,467</u>
Net increase/ (decrease) in cash and cash equivalents		139	(3)	1,869
Opening cash and cash equivalents		<u>1,886</u>	<u>17</u>	<u>17</u>
Closing cash and cash equivalents		<u>2,025</u>	<u>14</u>	<u>1,886</u>

Notes to the interim report

1. Basis of preparation

The 31 December 2006 consolidated financial statements of Proton Power Systems plc were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to those companies under IFRS under the historical cost convention. There have been no changes to the accounting policies set out in the 2006 statutory accounts and these have been applied in preparing the interim financial statements

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 Company is therefore a continuation of the financial information of Proton Motor Fuel Cell GmbH.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2006 has been derived from the published statutory accounts. A copy of the full accounts for that period, on which the auditors issued an unqualified report that did not contain statements under Section 237 (2) or (3) of the Companies Act 1985, has been delivered to the Registrar of Companies.

2. Share based payments

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

	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited Year to 31 December 2006 £'000
Share options	109	-	31
Shares	39	-	116
	148	-	147

3. Taxation

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

4. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the 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.

	Unaudited 6 months to 30 June 2007		Unaudited 6 months to 30 June 2006		Audited Year to 31 December 2006	
	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000	Basic £'000	Diluted £'000
Loss attributable to equity holders of the	(951)	(951)	(477)	(477)	(1,800)	(1,800)
Weighted average number of ordinary shares in issue (thousands)	31,391	31,391	25,200	25,200	26,370	26,370
Shares issuable (weighted) - share options	-	1,184	-	-	-	121
Adjustment	-	(1,184)	-	-	-	-
Adjusted weighted average number of ordinary	31,391	31,391	25,200	25,200	26,370	26,491
	Pence per (3.0)	Pence per (3.0)	Pence per (1.9)	Pence per (1.9)	Pence per (6.8)	Pence per (6.8)
Loss per share (pence per share)						

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

5. 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 this consolidated financial statement 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.

6. Cash generated from operating activities

	Unaudited 6 months to 30 June 2007 2006 £'000	Unaudited 6 months to 30 June 2006 2005 £'000	Audited Year to 31 December 2006 2006 £'000
Loss for the period	(951)	(477)	(1,800)
<i>Adjustments for:</i>			
Depreciation and amortisation	24	25	44
Negative goodwill credit	-	-	(198)
Interest income including loan waivers	(50)	(1)	(57)
Interest expense	16	15	60
Share based payments	148	-	147
	<hr/>	<hr/>	<hr/>
Operating loss before changes in net working capital	(813)	(438)	(1,804)
Inventories	6	-	(21)
Receivables	209	(402)	(454)
Payables	(107)	443	(20)
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Net cash used in operations	(705)	(397)	(2,299)

-Ends-