Proton Motor Power Systems plc

(formerly Proton Power Systems plc)

Annual report and financial statements

Registered number 05700614

31 December 2019

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PART I – Strategy and information

Chairman's statement

We are pleased to report our results for the year ended 31 December 2019.

Overview:

Proton Motor Power Systems plc (formerly Proton Power Systems plc) ("Proton Motor") has made further progress this year in proving its technology, building on its strategic co-operations and sales pipeline. Further investment in our manufacturing capability has put us in a stronger strategic position to capitalise in the marketplace and to deliver financial performance. We have strengthened our organisation to be able to deliver complete power supply solutions. A marked strengthening of industry and consumer demand for alternative sources of energy has been evident in the period under review. Proton Motor´s technology offer is maturing to be commensurate with this demand and is in line with the continuing commercialisation process of the group. This is further evidenced by the substantial order intake in Q1 2020, whilst the potential sales order pipeline is strong as at the date of this report, with Proton Motor submitting quotes for potential order values of a magnitude higher than that received in Q1 2020.

Highlights:

- The automated stack assembly machine from the respective EU funding project, running to November 2020, was delivered in Q2 2019. The machine was inaugurated in September 2019 by the Bavarian Minister for Economics. This will further reduce our product cost and will allow us to meet increasing demand and bring our technology quicker to the market. With a degree of further investment in the machine, annual stack production capacity can be increased to 30,000.
- Further strengthening our organisation capability within the areas of manufacturing and sales applications.
- In 2019 deliveries of fuel cell systems were made within the stationary and mobile market segments and also in the maritime segment, as demand continues to increase and become more concrete in all segments.
- In 2019 Proton Motor announced the conclusion of a Cooperation agreement with MTSA Technopower B.V. to design, manufacture and sell large power systems based on hydrogen fuel cell stacks, ranging between 0.5 MW and 10 MW.
- In 2019 Proton Motor entered into a joint venture agreement with Schäfer Elektronik GmbH whereby the two companies will integrate Proton's larger industrial fuel cells with Schäfer's power electronics, battery and hydrogen storage systems in one integrated plug and play power unit. This unit will provide in excess of 1 MW of power to supply electric vehicle charging stations
- Inspite of the sales decrease the loss before non-cash embedded derivative movements, was reduced by 19% from £9,608k to £7,804k, as the result of favourable exchange rate movements and cost discipline in line with budget monitoring.
- At the end of April 2020 Proton Motor had order backlog at sales value amounting to £6.2m relating to deliveries to customers partially in 2020 with the remainder in 2021.
- Following the year end, a further €7.2m loan facility has been agreed to ensure operational financing into 2020.

Board and Governance:

The Proton Motor group Board is functioning well and interacting effectively with executive management contributing a good balance of skills and experience. The corporate governance framework which the group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportionate to the size, risks, complexity and operations of the business and is reflective of the group's values. Of the two widely recognised formal codes, the Board decided in 2018 to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code ("QCA Code") for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26). Within the context of Corporate and social responsibility the Group has a continuing commitment to act ethically, to comply with all relevant regulations, and to 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. This is continuously monitored by the Executive Management and evaluated annually by the Chairman, as it is regarded that motivated and committed staff members will provide maximum value to the Group´s activities.

Finance:

- A 7% decrease in sales in 2019 to £769k compared to 2018 sales of £822k. Sales in 2019 were made to the stationary and mobile market segments and also include sales value of £107k in the maritime market segment.
- Inspite of the sales decrease the loss before non-cash embedded derivative movements, was reduced by 19% from £9,608k to £7,804k, as the result of favourable exchange rate movements and cost discipline in line with budget monitoring.
- At the end of April 2020 Proton Motor had order backlog at sales value amounting to £6.2m relating to deliveries to customers partially in 2020 with the remainder in 2021.
- Following the year end, a further €7.2m loan facility has been agreed to ensure operational financing into 2020.
- Cash burn from operating activities increased by 15% to a level of £6.4m in 2019, from £5.8m in 2018, including stocking up on material for the incoming order intake, partially to be delivered in 2020. Cash flow is our key financial performance target and our objective is to achieve a positive cash flow in the shortest time possible. Current contracts are quoted with up-front payments reducing reliance on working capital as we continue to invest in our manufacturing and development capability.

Outlook

In the year ahead we are focused on progressing the maturity of the group technology offer, ramping up production capacity and exploiting the current potential sales pipeline. The current outlook at the end of 2019 looking into 2020 is more optimistic than that as prevalent at the end of 2018.

I personally thank all our customers who believe in us, our team of committed employees and our shareholders who have the vision to invest in our mission.

Helmut Gierse 19 June 2020
Non-Executive Chairman

Strategic report

Business review

Proton Motor Power Systems plc and subsidiaries' ("the Group's") principal activity is the development of hydrogen fuel cells and fuel cell hybrid systems as well as UPS and solar battery storage products through its German subsidiary Proton Motor Fuel Cell GmbH ("PM").

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. It also emits heat which can be used for example to support heating of passenger buses. This increases the system efficiency significantly.

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, proton exchange membrane ("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.

The Group sees a strong movement in the market from pure battery-driven to hybrid systems (fuel cells and batteries). The Group has significant know-how regarding fuel cell stacks and hybridisation. Over the years, different applications such as the Deutsche Bahn back up power solutions, the containerised 75kw power solution for Orkney Surf and Turf project, the TriHyBus in Czech Republic, the SEV Newton truck and the Alsterwasser ship in Hamburg are good examples of Proton Motor's in depth know-how.

The Group has always recognised the commercial importance and value of protecting its intellectual property ("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.

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 ("KPIs"). Business performance is measured by KPIs which include monitoring of actual against budget and rolling forecasts, and R&D project status. These are reported to the Board on a monthly basis. It is difficult to disclose non-financial key performance indicators which are not commercially sensitive, such as the number of fuel cells produced and the fuel cell production cost per kW of output.

The Company began as Magnet Motor, opening its factory in 1980. The technology and application roadmap went from the world's first triple hybrid fork lift truck to a fuel cell ship. After that PM developed the triple hybrid Skoda bus in 2008. Containerised power solutions completed the application portfolio. All those applications are powered via our own fuel cell stacks, with a robust design for a long lifetime. The Company established operations close to Munich area and was one of the first German designers and manufacturers of fuel cells.

View to the future

The world is committed to protecting the environment. Cities and governments, pushed by the European Commission, must reduce inner-city pollution drastically. China fights against smog in its big cities. After Dieselgate in the US and Europe, electric vehicles with batteries are on the move. All this is generating a market for clean transport and energy. Based on that development, the world market for fuel cell products and solutions is more active than ever.

Beside pure battery solutions, hydrogen fuel cells are in focus. Corporations such as Toyota, Hyundai, and Daimler are pushing the technology forward. Fuel cells provide benefits such as fast refuelling and long range of operation. Hydrogen is reproducible and can make use of surplus energy from wind and solar power. Europe has put major funding programmes in place to set up a hydrogen infrastructure. The same is now happening in Japan, Korea and China. The Chinese government is fully committed to fuel cell technology with major regulatory and funding support.

Proton Motor has profound experience in applications in heavy duty vehicles such as buses and trucks, also in passenger vehicles, stationary power, ships and fork lifts. With less than 100 people it is relatively small but regarding IP and experience a powerful company. Proton Motor is developing its own fuel cell stacks. Systems are designed from first simulation, prototype up to final solution for volume manufacturing. Proton Motor is cooperating with German, European and China based companies in the field of fuel cell technology.

Market drivers

The Board believes the growth in the fuel cell market will be determined by the following factors:

- The ongoing depletion of fossil fuel reserves;

- United Nations Framework Convention on Climate Change ("UNFCCC") COP21 legalisation on climate change;
- Current and future air quality regulation;
- Growing industrial and consumer demand for alternative sources of energy;
- The potential long term competitiveness of the auto and transportation industries;
- Energy security concerns;
- Limitations of purely battery powered propulsion systems;
- Solar power storage for private residences;
- Discussions regarding hydrogen as an energy storage for green energy (power to gas);
- A growing global demand for transportation;
- Increasingly urgent demands for healthy breathable air in urban centres and for action to mitigate the adverse aspects of climate change; and
- The growing availability and the compelling economics of cleaner fuels.
- Increasing political commitment to hydrogen on an EU, national and regional level.

Identification of Target Market segments

The 2019 global fuel cells market size was valued at approximately USD 10.48 billion, according to a study conducted by the market research company Grand View Research. The upwards trend in fuel cell demand is foreseen to continue throughout 2020 and beyond. Expecting a CAGR of 15,5 % during the years 2020-2027, the total market size will exceed USD 33 billion in 2027 Source: www.grandviewresearch.com/industry-analysis/fuel-cell-market

PM has identified the following broad market segments

- Stationary applications
- Mobile applications including rail
- Maritime

More specifically these include:

- auxiliary power units ("APUs") for back-up power and smart grid applications:
- power supply systems for IT and Infrastructure;
- city buses;
- passenger ferry boats; and
- heavy and light duty vehicles.

For this reason the Group has structured its operational business units into the same three segments.

Proton Stationary

This market includes back up power for telecoms and data centre installations. Buildings are also becoming an interesting growing market as evidenced by the installation of the autonomous ecosystem in Switzerland.

Stationary fuel cell units can replace diesel generators in telecoms, data centres and ecological-houses. The benefits for the end user are that fuel cell units require less maintenance than the old polluting generators that are prone to algae build-up in the diesel tank, which causes high maintenance cost. It is also possible to monitor the Proton Motor system remotely, which again saves time and manpower.

Proton Mobility/Rail

This market includes city buses, airport vehicles, trucks, off-road vehicles and other such heavy duty vehicles to fork lift trucks. The mobility sector sees many future challenges with emission free to automated driving with the vehicle becoming a power source itself. Proton Motor is participating in the EU REVIVE project. REVIVE stands for 'Refuse Vehicle Innovation and Validation in Europe'. The project has been running for the 4 years from the beginning of 2018 until the end of 2021. The objective of REVIVE is to significantly advance the state of development of fuel cell refuse trucks, by integrating fuel cell powertrains into 15 vehicles and deploying them across 8 sites in Europe. It aims to deliver substantial technical progress by integrating fuel cell systems from three suppliers into a mainstream DAF chassis, and developing effective hardware and control strategies to meet highly demanding refuse truck duty cycles.

Proton is also participating in the EU JIVE project. The JIVE (Joint Initiative for hydrogen Vehicles across Europe) project seeks to deploy 139 new zero emission fuel cell buses and associated refuelling infrastructure across five countries. JIVE is running for the six years from January 2017 and is co-funded by a 32 million Euro grant from the FCH JU (Fuel Cells and Hydrogen Joint Undertaking) under the European Union Horizon 2020 framework programme for research and innovation. The project consortium comprises 22 partners from seven countries.

Further mobile applications of the Proton Motor technology will be seen in the public transport and logistics arena. Proton Motor was the first company to develop a hybrid range extender battery/fuel cell system. This technology permits the usage of both systems in an optimised way with long lifetime expectation. In the meantime, the range extender concept is adopted by the industry especially for heavy duty vehicle applications.

The ongoing “Dieselgate” situation and the COP21 targets present the industry as a whole but in particular the automotive, industry with a huge challenge.

Proton Maritime

Building on the success with our tourist ship in Hamburg, Proton Motor sells the know-how capability to partners to evolve this market. The Group delivered the first feasibility study for an underwater vessel. Proton Motor, again, clearly demonstrates capability within the technology. Proton Motor delivered one order in 2019 in the maritime segment. Further order intake has followed in 2020.

Power Solutions are becoming tailor-made

CleanTech Power Solutions will become more diverse and more flexible. That is why at Proton Motor we are making our offering of products and services bespoke to customer requirements based on our standard suite of CleanTech products aimed at each market sector in a scalable modular approach. As power requirements increase our approach allows users to simply add additional modules all controlled from our unique software. This shift towards modular standardisation results in accelerated deployment in our target markets with simplification and cost reduction.

Group activities

Due to the successful product launch of the new fourth generation Stack Modules the group has been focusing on selling fuel cell systems with an electrical power output from 30 kW up to 150 kW for mobile, stationary, maritime and rail applications. In addition, quotes for complete emergency power supply systems up to 25 kW electrical power output are still being made.

With these fourth-generation fuel cell stacks and systems the Group has set up strategic partnerships with electrical drive train manufacturers and industrial partners. The systems can be used in combination with a battery to a hybrid drive train for electric driven light duty vehicles, inner city buses or industrial power supply solutions. We also expect growing demand in the near future from truck manufacturers for municipality maintenance vehicles.

As part of the EU funded project REVIVE, in which Proton Motor has been a member of the project consortium since 2019, a fuel cell system for integration into a garbage truck has been designed. A Stack Module 45.0 is being integrated into the HyRange® fuel cell system. The integration into the truck is being carried out together with the vehicle manufacturer ETrucks from Belgium. The first system was delivered at the beginning of January 2020. Due to the Corona crisis and the associated worldwide travel restrictions, the initial start-up of the system inside the truck has had to be shifted. Nevertheless ETrucks has ordered 5 more of these systems, also for the trucks as part of the REVIVE project. Delivery of these systems will be made in 2020.

For our partner APEX Energy Teterow GmbH (APEX), the Group has designed a fuel cell package, integrated into a container, with an electrical net power output of 100 kW. The system will be used inside a hydrogen power plant. The hydrogen will be produced on-site via renewable energy. The fuel cell package from Proton Motor will convert the hydrogen into electrical energy and feed this into the AC grid. Additionally the heat generated will be used to heat a nearby production hall. The complete container was shipped on-site at the beginning of May 2020. The fuel cell package consists of five parallel fuel cell systems which are controlled by a master controller. A Stack Module 37.5 is integrated into each fuel cell system. Following this initial order, Proton Motor signed a framework agreement with APEX to deliver 10 more of these fuel cell systems in the next 2 years.

Proton Motor has commenced with the development of the fifth, the next generation Stack Modules. The fifth generation Stacks are ready for production at higher quantities, to be ready for the anticipated world-wide increase in demand for fuel cells. Therefore the automated fuel cell manufacturing line was installed in May 2019, with the objective of increasing manufacturing capacity up to 5,000 fuel cells per year.

Furthermore the Group has designed a multi stack system for power demands beyond 100 kW for larger trucks, trains, ships and larger stationary applications. The first multi stack system, consisting of three Stack Modules 37.5, has been produced and is currently under testing. Two of these systems will be used inside a mobility related application and will be delivered at the beginning of 2021.

Operational Strategy

Sales and growth strategy
Proton Motor is seeking to ramp up capacity to achieve organic growth through its own sales and production capacity, and is also seeking to achieve growth by offering licensing partnerships which will allow manufacture of the complete system locally by a licensing partner. Furthermore Proton Motor is seeking mutually beneficial cooperations with suitable partners within joint ventures and other such undertakings.

Proton Motor is targeting mid-size technology companies as well as large multinationals as cooperation partners. The Group is specifically looking for partners with market access for its applications and solutions. These partners should already be active in the market for electric power supply solutions, or be planning to address those markets. Adding a fuel cell is often seen as the key to solving critical problems associated with pure battery or diesel powered products.

The Group will offer solutions for all three target markets: mobility/rail, maritime and stationary power. The Group will also continue its focus on further developing fuel cell stacks and systems.

The sales process always starts with consulting, simulation, packaging study, integration, testing and final roll out with service support. Proton Motor can act as turnkey supplier for a complete solution with all the necessary know-how under one roof. A one-stop CleanTech Power Solution provider. To have its own fuel cell stack gives a complete product offering from stack to final application which the Directors see as necessary to supply customers with a complete and optimised solution. The benefits for customers are obvious. Know-how and solutions are available for a fast integration process, saving time and money for our customers. The Group has signed cooperation agreements with companies, which provide the planning and integration part of a project.

The Group sees growing market demand for safe power world-wide. Data centre demand will be significant in the coming years. The combination of the fuel cell series with a UPS and the optimisation of both systems will help to boost sales in the near future. Solar power storage with small cost efficient systems by using batteries for private residences will also play an important role in the future. The newly designed product with capabilities to be integrated and controlled via a smart grid will also have great potential.

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. In order to meet our manufacturing goals and achieve the market demand, the Directors have:

- identified target markets and commercial applications;
- established further 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;
- switched over to a new and more cost effective stack generation which will lead to a decrease in production costs;
- established quality control procedures;
- installed professional commercial test benches to ensure high quality standards for the Group's fuel cells and fuel cell systems;
- built up a new electrical infrastructure for continuous testing;
- reviewed, risk assessed and secured supplier and component manufacturing relationships;
- identified second source suppliers and addressed new suppliers for critical components;
- 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.

Competitive advantages
The Directors are confident that the Group’s technology brings the following distinct combination of characteristics to the power systems market:

- zero harmful emissions;
- lower fuel consumption than comparable commercial alternatives;
- silent operation;
- standard fuel cell stack for use in multiple applications;
- modular fuel cell and UPS systems for easy customer adoptions;
- integrated system with UPS and/or electrolyser;
- a reliable, robust and durable technology; and
- successful integration of fuel cell technology into a hybrid and Triple-Hybrid© system.

Principal risks and uncertainties
The management of the business and the execution of the Group’s strategy are subject to a number of risks. The Board reviews these risks, as outlined in the Corporate Governance Statement, and puts in place policies to mitigate them.

Future prospects

The Group’s principal objective is to expand volume manufacturing with industrial partners based on licence agreements and mutually beneficial cooperations such as joint ventures. This will enable the Group to achieve an economically viable unit cost for its fuel cells and fuel cell hybrid systems. Also the Group will utilize the sales channels of its industrial partners to address various markets and ensure growth of sales volume. The Directors believe that the advanced stage of commercialisation of the Group’s technology, coupled with the Group’s preferred partnerships, will enable the business to establish itself firmly as a leading, global, fuel cell, fuel cell hybrid system, UPS and wind/solar power storage system provider. The current outlook at the end of 2019 looking into 2020 is more optimistic than that as prevalent at the end of 2018.

On behalf of the Board

Dr. Faiz Nahab 19 June 2020
Director

Directors' report

The Directors present their annual report and the audited financial statements of the Group and parent company ("the Company") for the year ended 31 December 2019. The Chairman's statement and the Strategic report form part of the Directors' report.

Proposed dividend

The Directors do not recommend the payment of a dividend *(2018: £nil)*.

Directors

The Directors who held office during the year and up to the date of approval of this report were as follows:

Dr. Faiz Nahab	Chief Executive[1,3]
Helmut Gierse	Chairman[2]
Sebastian Goldner	Chief Technical Officer and Chief Operations Officer
Roman Kotlarzewski	Chief Financial Officer and Company Secretary[4,6]
Manfred Limbrunner	Director Sales and Marketing[5]

1 Chairman of the Remuneration Committee.
2 Chairman of the Audit Committee.
3 Chairman of the Nominations Committee.
4 Member of the Remuneration Committee.
5 Member of the Audit Committee.
6 Member of the Nominations Committee.

Directors´ interests

According to the register of Directors' interests, rights to subscribe for shares in Group companies granted to any of the Directors and exercised by them are summarised in the table below. No rights to subscribe for debentures of Group companies were granted to any of the Directors or their immediate families during the financial year.

A summary of the existing share options held by the Directors is as follows:

		Number of options during the year					
	At start of year	Granted	Exercised/ Waived/ Expired	At end of year	Exercise Price	Date from which exercisable	Expiry Date
Helmut Gierse	6,050,000	-	-	6,050,000	£0.10, £0.03, £0.02 & £0.06	1 July 2012 2 July 2013 22 December 2013 28 November 2014 28 February 2016	30 June 2020 30 June 2021 21 December 2021 27 November 2022 27 February 2024
Faiz Nahab	10,000,000	-	-	10,000,000	£0.08	27 July 2017	26 July 2025
Roman Kotlarzewski	200,000	300,000	-	500,000	£0.08	1 July 2019 14 March 2021	30 June 2027 13 March 2029
Sebastian Goldner	1,029,250	-	30,000	999,250	£0.10 £0.10 £0.03 £0.04 £0.08	1 July 2012 1 July 2013 22 December 2013 12 February 2017 27 July 2017	30 June 2020 30 June 2021 21 December 2021 11 February 2025 26 July 2025
Manfred Limbrunner	7,845,000	-	1,500,000	6,345,000	£0.10 £0.10 £0.03 £0.06 £0.04 £0.08	1 July 2012 1 July 2013 22 December 2013 28 February 2016 12 February 2017 27 July 2017	30 June 2020 30 June 2021 21 December 2021 27 February 2024 11 February 2025 26 July 2025

Directors' attendance at various meetings was as follows:

	Board meetings attended (Out of 4)	**Audit Committee meetings attended (Out of 1)**	**Remuneration Committee meetings attended (Out of 3)**
Dr. Faiz Nahab	4	N/A	3
Helmut Gierse	4	1	N/A
Sebastian Goldner	4	N/A	N/A
Roman Kotlarzewski	4	N/A	3
Manfred Limbrunner	4	1	N/A

There were no meetings of the Nominations Committee.

Share capital

There have been movements in the share capital of the Company during the year. Full details of these movements are set out in note 24 to the financial statements.

Major shareholdings

As at 8 June 2020 the following shareholder held 3% or more of the Ordinary share capital of the Company:

	Ordinary Shares	
	Number	Percentage
SFN Cleantech Investment Limited	589,341,686	87.75

Capital structure

The Group is financed by a mixture of share capital and loans, some of which are classified as equity, details of which are contained elsewhere in the financial statements. The Group has an ongoing requirement for external capital to fund its product development and day-to-day requirements. This capital requirement has been met by accepting the further finance of an existing majority shareholder and Mr Falih Nahab on commercial terms.

Going Concern considerations

Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependent on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market. The Group has historically been dependent on the continuing financial support of its main investor to meet its day-to-day working capital requirements.

The Group had loans with SFN Cleantech Investment Limited, of €2.4m and €16.6m, which were due for repayment in December 2020. Subsequent to the 2019 year end it was agreed that one of these loan facilities would be increased by a further €3.6m to €20.2m.

The Group also has a loan facility with Mr. Falih Nahab of €41.1m, of which €37.7m were drawn down at the end of 2019. This facility was also due for repayment in December 2020. Subsequent to the 2019 year end it was agreed that this loan facility would be increased by a further €3.6m to €44.7m.

Additionally the due dates for repayment of all aforementioned loans were extended to December 2021.

The Group is dependent on the continuing financial support of Mr Falih Nahab, a brother of Dr Faiz Nahab, a Director of the Company, to meet its day-to-day working capital requirements. Mr Falih Nahab has indicated that he will continue to provide further support for at least the next 12 months.

After making these and other relevant 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.

Directors´ Duties

The Directors of Proton Motor must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006, which are summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

All directors are aware of the content of S. 172 Companies Act 2006 and commit themselves to fulfilling these requirements as they positively contribute to the ongoing development of Proton Motor.

Further details on how the Directors' duties are discharged and the oversight of these duties are included in the Governance section on pages XX to XX.

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and parent company 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 4 confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the parent company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and

- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors’ Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company’s auditors are aware of that information.

Directors’ indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Political donations

No political donations were made by the Group in 2019.

Independent Auditors

A resolution to confirm the re-appointment of RMT Accountants and Business Advisors Ltd, as auditors of the Group and parent company will be proposed at the forthcoming Annual General Meeting.

Strategic Report

The Group has chosen in accordance with Companies Act 2006, s. 414C(ii) to set out in the Group´s Strategic Report information required by the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 otherwise to be contained in the Directors´ report. It has done so in respect of the future developments of the Group.

On behalf of the Board

Dr. Faiz Nahab 19 June 2020
Director

Shareholder information

Registered number

05700614

Registered office and head office

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112 Quayside
Newcastle upon Tyne
NE1 3DX

Financial advisers and stockbroker

Shore Capital Markets Limited
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57, St James Street
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SW1A 1LD

Solicitors

Womble Bond Dickinson UK LLP
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112 Quayside
Newcastle upon Tyne
NE1 3DX

Independent Auditors

RMT Accountants and Business Advisors Ltd
Gosforth Park Avenue
Newcastle upon Tyne
NE12 8EG

Registrars

Neville Registrars Limited
Steelpark Road
Halesowen
West Midlands
B62 8HD

PART II – Governance and Corporate and Social Responsibility

Board of Directors

Dr. Faiz Nahab (aged 77), Chief Executive Officer

Faiz has over 35 years of executive management experience in company restructuring and expansion. For more than 20 years he served as a consultant to major international companies on technical and high technology projects with focus on product sales, marketing and product development. He has a strong background in project management including project finance and control. As an entrepreneur Faiz successfully developed a medical infrastructure company and developed an expert team for installing and commissioning industrial equipment and machinery, covering areas such as clean and waste water projects, cement and urea factories. The main business of his companies is based in the Middle East with involvement in country infrastructure construction in partnership with major international partners such as MSD, Siemens AG, Carl Zeiss and others. He still holds various directorships at companies in the pharmaceutical, medical and technology sectors, some of them as CEO and Chairman. Faiz had academic undergraduate education in Electronics at Southampton, postgraduate PhD at Kent University in electronics and has full membership of MIEEE. (Time commitment: three to four days per month).

Helmut Gierse (aged 70), Independent Non-Executive Chairman

Helmut has over 30 years of international industry experience covering the fields of factory automation, process industry and power generation. His experience comes from his work in R&D, production, sales and marketing. His expertise has been gained from a range of industry positions at the management level, most recently as the CEO and President of the Siemens Group in the Automation and Drive division in Germany. Helmut is currently an independent industry consultant. Helmut studied Electronic Engineering at the University of Erlangen in Germany. He speaks German, English, French and Spanish. (Time commitment: one to two days per quarter).

Sebastian Goldner, (aged 39), Chief Technical Officer and Chief Operations Officer

Sebastian has more than 10 years of experience in the design and construction of mobile, marine and stationary fuel cell applications. His experience is based on various leadership positions in sales & marketing, project management and development. Currently, he exercises the dual role of Chief Technical Officer and Chief Operations Officer responsible for technical development, customer projects, customer service and production.
Sebastian studied engineering computer science with a focus on electrical engineering at the University of Paderborn. As part of his studies, he completed his diploma thesis at Infineon Technologies in Munich. (Time commitment: full time).

Roman Kotlarzewski, (aged 61) Group Finance Director

Roman is a member of the Institute of Chartered Accountants in England and Wales and has over 30 years of industry experience including significant private and public company experience also on an international level via financial leadership roles within the Boots Company PLC, Standex International Corporation and BASF AG. Roman occupied the position of CFO Europe at the private company goetzpartners Corporate Finance, was CFO with the startup Carfrogger GmbH and is Director at the Globe Business College Munich.
Roman studied Modern Languages and Economics at Northumbria University and speaks English, German and French. (Time commitment: full time).

Manfred Limbrunner, (aged 50) Director Sales and Marketing

Manfred joined Proton in November 2000 as a design engineer and project manager for various mobile and maritime projects. In his early years he was also in charge of the systems engineering and the homologation of the Fuel Cell Hybrid Systems. As Proton developed further he formed and led the design department, played a significant role in implementing the quality management system and rotated in October 2009 to the product management position, until he was appointed as CTO in March 2011. By November 2016 he took over the newly founded Mobility Business Unit and is now responsible for Sales and Marketing.
Prior to joining Proton, Manfred worked for 5 years in the pulp & paper plant engineering business. His main duties and responsibilities were in the design of complex plant sub assembly groups, supervising their mounting through external suppliers, plant engineering, customer support, supervising the mounting team as well as the project management.
Manfred studied mechanical engineering with a focus on design at the University of Applied Science in Kempten and started his career at Hoerbiger Fluidtechnik GmbH in 1995. (Time commitment: full time).

Corporate governance statement

Of the two widely recognised formal codes, the Board has chosen to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code ("QCA Code") for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The following statements are being made in compliance with the QCA code:

Board composition and effectiveness

As at the date of this report the Board is composed of the non-executive Chairman and four executive Directors. The Board regards the size and composition of the Board as commensurate with the size of the Group and to remain ahead of all the current challenges facing the group. The current blend of Directors ensures for profound experience in the areas of entrepreneurship, running large and small private and quoted business organisations, business development, management and coordination on an international level, technical development in the area of fuel cells, automation of production processes, sales, building up distribution networks, customer project management and finance on a corporate finance and operational finance level. All Directors have suitable and relevant professional and business experience, keep up to date on all relevant developments and attend seminars as is necessary.
Any issues, which may be adversely curtailing board effectiveness are addressed in Board Meetings. Additionally the non-executive Chairman takes an active role in monitoring the effectiveness of the executive board members, and visits the German subsidiary, at least once a year in addition to the quarterly board meetings, in order to evaluate management effectiveness and the match of the culture within the group to the corporate objectives and to the business model. Quarterly staff meetings are held by executive management, subsequent to each quarterly board meeting, in order to communicate the decisions and direction of the Board.

Independence of NED

The current non-executive Chairman was appointed as NED in January 2009 and to Chairman in December 2017. The Board regards that it is essential that the Group retains, in the current critical phase of the development of the group, the deep and relevant level of expertise and professional experience, of which the Chairman avails, inspite of the ten year service duration as NED. The Board therefore recommends that the non-executive Chairman is re-elected to this position at the Annual General Meeting to be held in July 2020.

Directors´ duties S.172 Companies Act

The Board concluded that its key stakeholders are as follows:

- Our customers, who buy the Company's product.
- Our employees.
- Our partners in the supply chain, who are suppliers and subcontractors to the Company's business operations.
- Our shareholders, who invest in the Company.
- The communities in which the Company operates.

In addition, the Board also specifically took into account the potential impact of the Company's operations on:

- The health and safety of its employees, customers and visitors to its sites and offices.
- The environment.

Within this context it is necessary to take into account that Proton Motor has one operational site in Puchheim, Germany and employs less than 100 staff.

How the Directors engage:

Customers

We engage directly with customers as the Proton Motor product is generally customised directly to customer requirements. The customer may have an influence on the Proton Motor´s development programme.

Employees

The Directors engage with the employees, as they contribute to the development programme, reach the customers, produce the product for delivery to the customer and support the company structure. Information meetings are held quarterly for the employees subsequent to the quarterly Board Meetings. Annual appraisals are conducted with each employee, during which training requirements are also evaluated. The health and safety of our employees, and equally of any external visitors to the company location, remain paramount at all times.

Supply chain

As the company has many suppliers for key components, the company actively seeks to build up long term and fair relationships with its suppliers.

Shareholders and potential investors

The company engages with these parties in providing official communications via RNS statements. The company website contains a dedicated E-mail account for investor relations in order to provide quick and appropriate responses to their enquiries.

Risk management

Operational and financial risks are identified primarily by executive management. Executive management members sitting on the board will communicate major identified risks with the Board. The Board convenes once per quarter at the German subsidiary location in Puchheim. Board meetings held to date in 2020 have been conducted virtually due to the travel restrictions associated with COVID-19. Measures to manage and mitigate identified risks will be determined by the board, conveyed and implemented by executive management. Evaluation of implemented risk management measures will be reviewed at the subsequent Board meeting. Additionally the Non-Executive Chairman visits the German subsidiary at least once a year to review operations and to address any management issues.

Principal risks and uncertainties

Operating revenues and future funding
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, and/or license fee and cooperation related income. The Directors constantly monitor operational cash flows and prepare projections to identify cash flow shortages. Loans to cover operating cash flow shortages have been provided by the Group's principal shareholder and Falih Nahab and it is expected that these loan agreements will be extended or renewed as required for the foreseeable future. Whilst support has been committed from the shareholders for at least the next 12 months, the Board recognises that the Group must show improved financial performance to warrant further financial support.

Further development activities
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. A core component within the Group's product offering is its fuel cell module. This is now fully validated according to its product specifications and has gone through all necessary legislative certification processes, so that it is now commercially available. Systems have also gone through a number of internal validation processes and meet their specifications. However, as with any new technology, there are risks associated with the long-term operational life of the product above the proven 10,000 hours.

The Group's current activities are focused on transferring from a purely project based company into a manufacturing company. In order to achieve this, a production planning process is currently in place with the focus on reducing manufacturing time and costs. Future decisions regarding what will be transferred to an external manufacturer, or licensed and when, will be based purely on costs.

Other business risks

In addition to the current principal risks identified above and general business risks, the Group's business is subject to risks inherent in the energy sector, development and production activities. There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. The Company has identified certain risks pertinent to its business including:

Category	**Risk**
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. The Directors believe this risk has reduced during 2018 and will continue to reduce during 2019. Additionally, there are competitors working on development of 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. The Directors believe this risk has reduced during 2018 and will continue to reduce during 2019.
Governmental regulation	There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities. The Directors see government activities improving for hydrogen technology.
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	In order to implement the Group's anticipated growth successfully, 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, and marketing. There can be no assurance that the Group will be able to retain or hire necessary personnel.
Currency exchange rate fluctuations	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.
Brexit	The UK's decision to leave the European Union continues to generate a significant level of uncertainty in the economy. The Directors regularly assess the likely effects on the Group in an attempt to mitigate the risk as far as possible.
COVID-19	The outbreak of the pandemic can engender any of the following risk areas for the Group: supply chain disruption, liquidity shortages, compliance with health and safety and other regulations. The management of Proton Motor has implemented all protective measures as required, and is in full compliance with all current issued regulatory statements.

The Group's exposure to credit risk, liquidity and cash flow risk and foreign exchange risk are disclosed in notes 27 to 30. The processes relating to the evaluation of risk and to the implementation of risk management measures are detailed in the Corporate Governance Statement, which is a part of this annual report.

Scope of committees

The Board has established an Audit Committee, a Nominations Committee and a Remuneration Committee with formally delegated duties and responsibilities.

The Audit Committee receives and reviews reports from management 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 auditor.

The Nominations 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, and the Employees Share Purchase Scheme.

Corporate and Social Responsibility

Product and the environment

Proton Motor´s product, the fuel cell system is 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.

Our approach therefore considers environmental, social and governance (ESG) factors and their impact. An area of major focus has been "cleantech" where we focus on developing and building outstanding, science-based products that mitigate the impacts of climate change and other environmental challenges.

Corporate and social responsibility

The Group has a continuing commitment to act ethically and to 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.

The Group´s operational business location situated within Germany is in strict compliance with all applicable labour relations laws. The company has no presence in any areas which present a known material risk of the exploitation of men, women or children in the workplace.

The Group seeks to fulfil the career aspirations and potential of all colleagues. The Board seeks to create an environment in which every colleague enjoys coming to work, feels motivated in everything that they do and takes pride in their contribution to the Group. The enthusiasm and dedication of colleagues is a vital factor in the Group's success.

The Group's aim is to attract and retain the best people in the automotive retail sector while observing best practice in employment policies and procedures through a commitment to:

- Offering equal opportunities in recruitment and promotion;
- The continuous development of all colleagues;
- Encouraging internal promotion;
- Using progressive, consistent and fair selection methods;
- Ensuring colleagues are treated with respect and dignity in an environment where no form of intimidation or harassment is tolerated. All appointments are made solely based on a person's suitability for a particular post, without reference to gender, sexual orientation, age, ethnic origin, religion or disability (except when there is a genuine occupational requirement). The principle of equality also applies to career development opportunities and training.

Disabled employees

Applications for employment by disabled persons are always considered fully, 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

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.

COVID-19

Proton Motor implemented from the onset of the pandemic all recommended protective measures at its factory in Puchheim. It has not been affected by COVID-19 and there has not been a single case of COVID-19 amongst the Company staff as at the date of this report. Whilst our staff have had to maintain social distancing and other recommended measures to protect themselves against the virus, our factory in Puchheim, Germany has remained fully open and production capacity has been unaffected.

Helmut Gierse 19 June 2020
Non-Executive Chairman

Nominations committee report

The Company recognised that the Board should be structured to reflect the requirements for listed companies in accordance with the QCA Corporate Governance Code.

On 5 November 2008 the Company's Articles of Association were amended to permit any person who is solely and beneficially interested in at least 15% of the issued share capital of the Company to nominate a person to act as a Director. Such a shareholder may appoint a separate Director for each complete multiple of 15% interest in the Company. Dr. Faiz Nahab is the nominee appointee of the current majority shareholder SFN Cleantech Investment Ltd.

The Nominations Committee is chaired by Dr. Faiz Nahab. Its other member is Roman Kotlarzewski.

Dr. Faiz Nahab 19 June 2020
Chairman of the Nominations Committee

Remuneration Committee report

The Remuneration Committee

The Remuneration Committee is chaired by Dr. Faiz Nahab and its other member is Roman Kotlarzewski. 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. Womble Bond Dickinson UK LLP has been appointed as external adviser to the Remuneration Committee, and in this capacity advises on appropriate remuneration levels and on the Stock Option Scheme Womble Bond Dickinson UK LLP also provides legal services in connection with relevant legal matters. The Committee has appropriate policies and procedures to monitor the size of potential remuneration awards.

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 the non-executive Chairman is determined by the Board and is made up of an annual fee for acting as non-executive Chairman of the Company and fees for chairing and for membership of a Board committee. The non-executive Chairman does not take part in discussions on his own remuneration. The fees are set to reflect the time which he is required to commit to their duties, his experience and the amounts paid to non-executive Chairmen 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.

Basic salary

The Committee will normally review the executive Directors' and other senior executives' remuneration annually against companies similar in size and sector. 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.

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 Motor Power Systems plc's Share Option Scheme.

The Remuneration Committee has discretion to grant awards under the Proton Motor Power Systems plc Share Option Scheme. When exercising their discretion to grant awards, the Remuneration Committee will take into consideration the overall quantum and structure of the compensation package.

Proton Motor 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 HM Revenue & Customs.

Share 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 15 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. The exercise of options can take place at any time after the second anniversary of the date of grant. Options cannot, in any event, be exercised after the tenth anniversary of the date of grant.

Performance conditions attach to some option awards covering technological and product development milestones, finance raising and financial performance of the Group. Conditions are employee specific.

Proton Motor Employee Share Purchase Scheme

In 2019 Proton Motor introduced an Employee Share Purchase Scheme, under which, subject to predetermined thresholds, employees can acquire shares whereby one share for every three acquired is gifted.

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 appointments of non-executive Directors 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 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 and the value of his contractual benefits for the notice period.

Directors' emoluments (audited information)

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

Name	**Salary**	**Total 2019**	**Total 2018**
	£'000	**£'000**	**£'000**
Dr Faiz Nahab	-	-	-
Helmut Gierse	-	-	-
Sebastian Goldner	87	87	70
Roman Kotlarzewski	87	87	78
Manfred Limbrunner	87	87	78
Total	261	261	226

The share based payment charge expensed in operating expenses in respect of the directors was £19,000 (2018: £1,000).

During the year Helmut Gierse submitted an invoice to the Company for £27k for professional consultancy fees provided for the year ended 31 January 2019. The invoice was settled by the issue of 336,060 Ordinary shares of 1p each at a price of 7.95p.

Details of the Directors' interests in the SOS are given in the Directors' Report.

On behalf of the Board

Dr. Faiz Nahab 19 June 2020
Chairman of the Remuneration Committee

Audit and internal control

Internal audit
In the opinion of the Board the Group is not of a size where an internal audit function can be justified and operated in any meaningful way. The Directors consider their involvement in the day-to-day operation of the Group mitigates any risks associated with not having an internal control function, but will continue to assess this regularly.

Non-audit services
The fees payable to RMT Accountants and Business Advisors Ltd ("RMT") for audit and non-audit services are set out in note 6 to the financial statements.

The Audit Committee has developed a policy on the provision by the external auditor of non-audit services. The objective of the Audit Committee's policy is to ensure that the provision of such services does not impair the external auditors' 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 (e.g. 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 auditor provide (such as interim and full-year reporting); prohibited services, which the Company's auditor may never provide; and potential services, which the Company's auditor may in certain circumstances provide, subject to the policy (such as tax advisory services or services where the auditor is acting as the Company's reporting accountants). Prohibited services are those which would result in:
    - the external auditor auditing their own firm's work;
    - the external auditor making management decisions for the Company;
    - a mutuality of interest being created; or
    - the external auditor 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 auditor.

The Audit Committee convened once in 2019, attended by The Chairman of the Audit Committee and the Audit Engagement Partner of RMT. All findings of the auditors in relation to the audit of the 2018 financial statements were addressed and it was determined that there were no major adverse issues, which required the attention of the Board.

Helmut Gierse 19 June 2020
Chairman of the Audit Committee

PART III – Financial Statements

Independent auditors' report to the members of Proton Motor Power Systems plc

Opinion

We have audited the financial statements of Proton Motor Power Systems plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Group and Company statements of financial position, Group and Company statements of changes in equity, Group and Company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

Brexit is one of the most significant economic events for the UK in recent history, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible consequences unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Material uncertainty related to going concern

In forming our opinions on the Group and parent company financial statements, which are not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and the parent company's ability to continue as a going concern. The Group and the parent company are dependent on the continuing support of Mr Falih Nahab, in order to meet their day to day working capital commitments. Due to the lack of available financial information, the Directors are unable to confirm that Falih Nahab has the ability to provide such support. This condition, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the parent company's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the Group and the parent company were unable to continue as a going concern.

Independent auditors' report to the members of Proton Motor Power Systems plc (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Group revenue is recognised at the point that the goods or services have been provided to the customer, which exposes the Group to the risk of incomplete and incorrect cut-off of revenue recognised in the period. The Group's revenue recognition policy is shown in note 2 to the financial statements.

How the matter was addressed in the audit

To address the risk of improper revenue recognition, our audit work included, but was not restricted to:

- performed substantive testing to determine whether the accounting policy had been correctly applied, taking into account the timing of goods or services being provided to the customer, primarily through the review of delivery notes;
- reviewed a sample of sales transactions around the year end to ensure cut-off was correct and sales had been recognised in the correct period;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the disclosures in the financial statements regarding revenue.

Key observations

The results of our testing were satisfactory and no significant issues were identified from our work over revenue recognition.

Management override

In preparing the financial statements management are required to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not available from other sources.

How the matter was addressed in the audit

During the course of our audit we performed the following procedures to address the risk of management override:

- assessed the appropriateness of accounting policy choices made by management and the basis of key judgements, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity; and
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias.

Key observations

The results of our testing were satisfactory and we consider the disclosure surrounding accounting policy choices and key accounting judgements to be appropriate.

Independent auditors' report to the members of Proton Motor Power Systems plc (continued)

Going concern
The Group has historically been dependent on the continuing financial support of its main investors to meet its day-to-day working capital requirements. We therefore identified the going concern of the Group as a significant risk. See the material uncertainty relating to going concern paragraph above.

Related party transactions
Due to the high level of potential related parties and transactions there is a significant risk that not all balances and transactions are disclosed within the financial statements or are incorrectly disclosed.

How the matter was addressed in the audit
To address the risk surrounding related party transactions, our audit work included, but was not restricted to:

- reviewed the disclosures in the financial statements regarding related party transactions, reconciling balances to underlying accounting records; and
- we paid particular attention to non-routine transactions and any with unusual characteristics that might indicate unrecorded related parties.

Key observations
The results of our testing were satisfactory and we consider the disclosure in note 26 to the financial statements regarding related party transactions to be adequate.

IFRS 16 transition
Given the new accounting standard, *IFRS 16 - Leases*, taking effect from 1 January 2019, and its likely material impact on the Group financial statements, IFRS 16 transition was highlighted as a significant risk. Given the estimates involved, this exposes the Group to the risk of material misstatement in the transitional adjustments.

How the matter was addressed in the audit
To address the risk of potential misstatement on transition, our audit work included, but was not restricted to:

- reviewed the accounting policy application in the accounts to ensure policy and any transitional adjustments had been correctly applied;
- reviewed transition calculations to ensure values used appeared reasonable, including assumptions and estimates used such as discount rate; and
- reviewed disclosures in the accounts regarding the transition to ensure adequate.

Key observations
The results of our testing were satisfactory and we consider the application of IFRS 16 in the financial statements to be free from material misstatement.

Embedded derivatives valuation
Given there are significant accounting estimates involved in the valuation of the embedded derivatives, this exposes the Group to the risk of material misstatements in the fair value of financial instruments. As such, the embedded derivative valuation was highlighted as a significant risk.

How the matter was addressed in the audit
To address the risk of potential misstatement of the fair value of the embedded derivative, our audit work included, but was not restricted to:

- evaluated the competence and capabilities of the third party expert engaged to perform the valuation;
- assessed the key assumptions used in the valuation for reasonableness; and
- verified key base information used in the valuation to supporting documentation.

Key observations
The results of our testing were satisfactory and we consider the valuation of embedded derivatives in the financial statements to be free from material misstatement.

Independent auditors' report to the members of Proton Motor Power Systems plc (continued)

Our application of materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement we determined materiality for the Group financial statements as a whole to be £708,700, based on the Group's results before tax. Performance materiality of £354,300 was applied for testing which is 50% of Group materiality.

The Group's significant component was also audited by the Group's audit team, with a component materiality of £76,500 used.

We agreed with the Audit Committee to report to it all identified errors considered to be above a trivial level, being 5% of Group materiality at £34,400, in addition to other identified misstatements that warranted reporting on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls and the industry in which they operate.

The Group operates through a significant component trading subsidiary, based in Germany. This comprises the Group's operating business and centralised functions. The head office in Germany maintains all accounting records and controls for all entities.

The Group audit team performed all of the statutory audit work at the head office, including the audit of the Group's significant component.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Proton Motor Power Systems plc (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Maxine Pott (Senior Statutory Auditor)
for and on behalf of RMT Accountants & Business Advisors Ltd
Statutory Auditors
Newcastle upon Tyne
23 June 2020

Consolidated income statement
for the year ended 31 December 2019

	Note	**2019**	2018
		£'000	£'000
Revenue	*4*	769	822
Cost of sales		(1,185)	(906)
Gross loss		(416)	(84)
Other operating income		267	198
Administrative expenses		(7,001)	(5,129)
Operating loss		(7,150)	(5,015)
Finance income	*9*	3	3
Finance costs	*10*	(657)	(4,596)
(Loss) for the year before embedded derivatives		(7,804)	(9,608)
Fair value loss on embedded derivatives	*22*	(183,899)	(19,891)
Loss for the year before tax	*5*	(191,703)	(29,499)
Tax	*8*	-	-
Loss for the year after tax		(191,703)	(29,499)
Loss per share (expressed as pence per share)			
Basic	*11*	(29.5)	(4.6)
Diluted	*11*	(29.5)	(4.6)
Loss per share excluding embedded derivative (expressed as pence per share)			
Basic	*11*	(1.2)	(1.5)
Diluted	*11*	(1.2)	(1.5)

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	2019	2018
	£'000	£'000
Loss for the year	**(191,703)**	(29,499)
Other comprehensive income / (expense)		
Items that may not be reclassified to profit and loss		
Exchange differences on translating foreign operations	**(2)**	1
Total other comprehensive income / (expense)	**(2)**	1
Total comprehensive expense for the year	**(191,705)**	(29,498)
Attributable to owners of the parent	**(191,705)**	(29,498)

Consolidated Statement of Financial Position as at 31 December 2019

	Note	Group 2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	*12*	**31**	72
Property, plant and equipment	*13*	**1,406**	1,203
Right-of-use assets	*14*	**478**	-
Fixed asset investments	*15*	**11**	7
		1,926	1,282
Current assets			
Inventories	*16*	**2,408**	1,437
Trade and other receivables	*17*	**240**	408
Cash and cash equivalents	*18*	**1,028**	841
		3,676	2,686
Total assets		**5,602**	3,968
Liabilities			
Current liabilities			
Trade and other payables	*19*	**3,049**	1,768
Lease debt	*20*	**188**	-
Borrowings	*21*	**837**	177
		4,074	1,945
Non-current liabilities			
Lease debt	*20*	**299**	-
Borrowings	*21*	**64,869**	58,098
Embedded derivatives on convertible interest	*22*	**222,331**	38,432
		287,499	96,530
Total liabilities		**291,573**	98,475
Net liabilities		**(285,971)**	(94,507)
Equity			
Equity attributable to equity holders of the parent Company			
Share capital	*24*	**9,970**	9,728
Share premium		**18,704**	18,382
Merger reserve		**15,656**	15,656
Reverse acquisition reserve		**(13,861)**	(13,861)
Share option reserve		**968**	1,262
Foreign translation reserve		**10,437**	9,891
Capital contributions reserves		**1,151**	1,226
Accumulated losses			
At 1 January of respective year		**(136,791)**	(106,728)
Loss for the year attributable to the owners		**(191,705)**	(29,498)
Other changes in retained earnings		**(500)**	(565)
Total equity		**(285,971)**	(94,507)

These financial statements on pages 21 to 44 were approved and authorised for issue by the Board of Directors on 19 June 2020 and were signed on its behalf by:

Roman Kotlarzewski ACA
Director

Statement of Financial Position – Company
as at 31 December 2019

		Company	
	Note	**2019**	2018
		£'000	£'000
Assets			
Current assets			
Inventories		**-**	-
Trade and other receivables	*17*	**100**	138
Cash and cash equivalents	*18*	**2**	1
		102	139
Total assets		**102**	139
Liabilities			
Current liabilities			
Trade and other payables	*19*	**164**	202
Lease debt		**-**	-
Borrowings		**-**	-
		164	202
Non-current liabilities			
Lease debt		**-**	-
Borrowings	*21*	**64,869**	58,098
Embedded derivatives on convertible interest	*22*	**222,331**	38,432
		287,200	96,530
Total liabilities		**287,364**	96,732
Net liabilities		**(287,262)**	(96,593)
Equity			
Equity attributable to equity holders of the parent Company			
Share capital	*24*	**9,970**	9,728
Share premium		**18,704**	18,382
Merger reserve		**15,656**	15,656
Reverse acquisition reserve		-	-
Share option reserve		**968**	1,262
Foreign translation reserve		**-**	-
Capital contributions reserves		**-**	-
Accumulated losses			
At 1 January of respective year		**(141,621)**	(111,141)
Loss for the year attributable to the owners		**(190,939)**	(30,480)
Other changes in retained earnings		**-**	-
Total equity		**(287,262)**	(96,593)

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

Group	**Share Capital**	**Share Premium**	**Merger Reserve**	**Reverse Acquisition Reserve**	**Share Option Reserve**	**Foreign Translation Reserve**	**Capital Contribution Reserves**	**Accumulated Losses**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2018	**9,722**	**18,362**	**15,656**	**(13,862)**	**1,635**	**9,345**	**1,208**	**(106,728)**	**(64,662)**
Share based payments	-	-	-	-	(373)	-	-	-	(373)
Proceeds from share issues	6	20	-	-	-	-	-	-	26
Currency translation differences	-	-	-	1	-	546	18	(565)	-
Transactions with owners	**6**	**20**	**-**	**1**	**(373)**	**546**	**18**	**(565)**	**(347)**
Loss for the year	-	-	-	-	-	-	-	(29,499)	(29,499)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	-	-	1	1
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(29,498)**	**(29,498)**
Balance at 31 December 2019	**9,728**	**18,382**	**15,656**	**(13,861)**	**1,262**	**9,891**	**1,226**	**(136,791)**	**(94,507)**
Balance at 1 January 2019	**9,728**	**18,382**	**15,656**	**(13,861)**	**1,262**	**9,891**	**1,226**	**(136,791)**	**(94,507)**
Share based payments	-	-	-	-	(294)	-	-	-	(294)
Proceeds from share issues	242	322	-	-	-	-	-	-	564
Currency translation differences	-	-	-		-	546	(75)	(500)	(29)
Transactions with owners	**242**	**322**	**-**	**-**	**(294)**	**546**	**(75)**	**(500)**	**241**
Loss for the year	-	-	-	-	-	-	-	(191,703)	(191,703)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	-	-	(2)	(2)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(191,705)**	**(191,705)**
Balance at 31 December 2019	**9,970**	**18,704**	**15,656**	**(13,861)**	**968**	**10,437**	**1,151**	**(328,996)**	**(285,971)**

Statements of Changes in Equity - Company

Company	Share Capital	Share Premium	Merger Reserve	Share Option Reserve	Accumulated Losses	Total Equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2018	**9,722**	**18,362**	**15,656**	**1,635**	**(111,141)**	**(65,766)**
Share based payments	-	-	-	(373)	-	117
Proceeds from share issues	6	20	-	-	-	26
Transactions with owners	**6**	**20**	**-**	**(373)**	**-**	**(347)**
Loss for the year	-	-	-	-	(30,480)	(30,480)
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(30,480)**	**(30,480)**
Balance at 31 December 2018	**9,728**	**18,382**	**15,656**	**1,262**	**(141,621)**	**(96,593)**
Balance at 1 January 2019	**9,728**	**18,382**	**15,656**	**1,262**	**(141,621)**	**(96,593)**
Share based payments	-	-	-	(294)	-	(294)
Proceeds from share issues	242	322	-	-	-	564
Transactions with owners	**242**	**322**	**-**	**(294)**	**-**	**270**
Loss for the year	-	-	-	-	(190,939)	(190,939)
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(190,939)**	**(190,939)**
Balance at 31 December 2019	**9,970**	**18,704**	**15,656**	**968**	**(332,560)**	**(287,262)**

Share premium
Costs directly associated with the issue of the new shares have been set off against the premium generated on issue of new shares.

Merger reserve
The merger reserve of £15,656,000 arises as a result of the acquisition of Proton Motor Fuel Cell GmbH and represents the difference between the nominal value of the share capital issued by the Company and its fair value at 31 October 2006, the date of the acquisition.

Reverse acquisition reserve
The reverse acquisition reserve (Group only) arises as a result of the method of accounting for the acquisition of Proton Motor Fuel Cell GmbH by the Company. In accordance with IFRS 3 the acquisition has been accounted for as a reverse acquisition.

Share option reserve
The Group operates an equity settled share-based compensation scheme. The fair value of the employee services received for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date the Company revises its estimate of the number of options that are expected to vest. The original expense and revisions of the original estimates are reflected in the income statement with a corresponding adjustment to equity. The share option reserve represents the balance of that equity.

Consolidated Statement of cash flows
for the year ended 31 December 2019

	Group	
	Year ended 31 December	
	2019	2018
	£'000	£'000
Cash flows from operating activities		
Loss for the year	**(191,703)**	(29,499)
Adjustments for:		
Depreciation and amortisation	**462**	249
Loss on disposal of property, plant and equipment	**59**	-
Impairment of investment	**7**	-
Interest income	**(3)**	(3)
Interest expense	**4,500**	3,883
Share based payments	**(294)**	(373)
Movement in inventories	**(971)**	(523)
Movement in trade and other receivables	**168**	6
Movement in trade and other payables	**1,281**	(145)
Movement in fair value of embedded derivatives	**183,899**	19,891
Effect of foreign exchange rates	**(3,843)**	713
Net cash (used in) / generated from operations	**(6,438)**	(5,801)
Interest paid	**-**	-
Net cash (used in) / generated from operating activities	**(6,438)**	(5,801)
Cash flows from investing activities		
Purchase of intangible assets	**(4)**	(29)
Purchase of property, plant and equipment	**(579)**	(343)
Investment in associate company	**(11)**	(7)
Interest received	**3**	3
Net cash used in investing activities	**(591)**	(376)
Cash flows from financing activities		
Proceeds from issue of loan instruments	**6158**	6,257
Proceeds from issue of new shares	**564**	26
New obligations of lease debt	**594**	-
Repayment of obligations under lease debt	**(107)**	
Repayment of short-term borrowings	**-**	(49)
Net cash generated from financing activities	**7,209**	6,234
Net increase/(decrease) in cash and cash equivalents	**180**	57
Effect of foreign exchange rates	**7**	(11)
Opening cash and cash equivalents	**841**	795
Closing cash and cash equivalents	**1,028**	841

Statement of cash flows - Company
for the year ended 31 December 2019

	Company Year ended 31 December	
	2019	2018
	£'000	£'000
Cash flows from operating activities		
Loss for the year	**(190,939)**	(30,480)
Adjustments for:		
Depreciation and amortisation	**-**	-
Impairment of investment	**6,622**	6,257
Interest income	**(39)**	(36)
Interest expense	**4,455**	3,875
Share based payments	**(294)**	(373)
Movement in inventories	**-**	-
Movement in trade and other receivables	**38**	(60)
Movement in trade and other payables	**(38)**	137
Movement in fair value of embedded derivatives	**183,899**	19,891
Effect of foreign exchange rates	**(3,843)**	713
Net cash (used in) / generated from operations	**(138)**	(76)
Interest paid	**-**	-
Net cash (used in) / generated from operating activities	**(138)**	(76)
Cash flows from investing activities		
Capital contribution to subsidiaries	**(6,622)**	(6,257)
Purchase of intangible assets	**-**	-
Purchase of property, plant and equipment	**-**	-
Investment in associate company	**-**	-
Interest received	**39**	36
Net cash used in investing activities	**(6,583)**	(6,221)
Cash flows from financing activities		
Proceeds from issue of loan instruments	**6,158**	6,257
Proceeds from issue of new shares	**564**	26
Repayment of short term borrowings	**-**	-
Net cash generated from financing activities	**6,722**	6,283
Net increase/(decrease) in cash and cash equivalents	**1**	(14)
Effect of foreign exchange rates	**-**	11
Opening cash and cash equivalents	**1**	4
Closing cash and cash equivalents	**2**	1

Notes to the consolidated financial statements

1. General information

Proton Motor Power Systems plc ("the Company") and its subsidiaries (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 and Wales, and domiciled in the UK. The address of its registered office is: St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE1 3DX. The Company's initial public offering took place at the Alternative Investment Market of the London Stock Exchange on 31 October 2006 and its shares are listed on this exchange.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently, other than where new standards have been adopted during the year.

Development of the Group
Proton Motor 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.

On 7 February 2013 Group acquired 100% of the share capital of SPower Holding GmbH with its subsidiary SPower GmbH .On 1 January 2015 the trade and assets of SPower GmbH were transferred to Proton Motor Fuel Cell GmbH, whilst SPower Holding GmbH was merged into SPower GmbH at the same date.

Subsidiary	Registered Office
Proton Motor Fuel Cell GmbH	Benzstraße 7, 82178 Puchheim, Germany
SPower GmbH	Benzstraße 7, 82178 Puchheim, Germany

Although the parent Company has produced its own income statement for approval by the Board, as permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent Company. The loss for the financial year dealt within the financial statements of the parent Company was £ 191,939,000 (2018: £ 30,480,000).

Basis of preparation
The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to those companies under IFRS.

The consolidated financial statements and the financial statements of the Company have been prepared under the historical cost convention and in accordance with IFRS interpretations (IFRS IC) except for embedded derivatives which are carried at fair value through the income statement and on the basis that the Group continues to be a going concern.

Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependent on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market. The Group has historically been dependent on the continuing financial support of its main investor, SFN Cleantech Investment Ltd to meet its day-to-day working capital requirements. The Group has

2. Summary of significant accounting policies (continued)

loans with SFN Cleantech Investment Ltd of €2.3m and €16.6m and also a loan facility with Mr. Falih Nahab of €41.1m. Subsequent to the 2019 year end the following changes to the existing loan facilities were made:

Lender:	Facility at 31 December 2019	*Drawn down as at 31 December 2019*	Increase of facility	Facility at the date of this report
SFN Cleantech Investment Ltd	€16.6m	*€16.6m*	€3.6m	€20.2m
SFN Cleantech Investment Ltd	€2.3m	*€2.4m*	€ nil	€2.3m
Mr. Falih Nahab	€41.1m	*€37.7m*	€3.6m	€44.7m
Total	€60.0m	*€56.7m*	€7.2m	€67.2m

The repayment date for all loans has been extended to 31 December 2021. As such the loans are held as non-current borrowings in the financial statements.

Cash flow forecasts demonstrate that the committed facilities from Mr Falih Nahab enable the Company and the group to meet its cash requirements for the period up to at least June 2021. The Company and Group are also able to defer discretionary spend during this period to provide further cash flow headroom, should this be required.

At this point in time there has been no indication of circumstances which would lead to Mr Falih Nahab withdrawing this support. Mr Falih Nahab, is a private individual based in Jordan and as such is unable to produce financial information to support his ability to fund the debt facility. Mr Falih Nahab is a related party.

Due to the lack of available financial information, the Directors are unable to confirm that Falih Nahab has the ability to provide such support. This condition indicates the existence of a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. However, the Directors firmly believe that the Group and Company remain a going concern on the grounds that Falih Nahab has supported the Group and the Company in recent years and that funding has been agreed by Falih Nahab for at least the next 12 months.

The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 over which the Group has control. The Group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the 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 liabilities incurred or assumed at the date of exchange. 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 non-controlling 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. Acquisition costs are expensed as incurred. 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.

2. Summary of significant accounting policies (continued)

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Share-based payments

The Company issues equity-settled share-based payments to certain employees of the Group as consideration for equity instruments (options) of the Group. 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 being a Black-Scholes pricing model. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

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 functional currency is the Euro. The consolidated financial statements are presented in the British Pound (“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 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, liabilities and equity 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 other comprehensive income.

2. Summary of significant accounting policies (continued)

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. At each balance sheet date, the Company reviews the carrying amount of the investment to determine whether there is any indication that the investment has suffered an impairment loss. Any impairment loss is recognised as an expense immediately.

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 & other equipment — 10% - 33%
- Technical equipment & machinery — 10% - 20%
- Leasehold property improvements — over the life of the lease, or useful economic life where shorter
- Self constructed plant and machinery — transferred when complete and depreciated according to the above
- Right-of-use assets — 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 their estimated economic life of the assets of three 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;
- the technical feasibility of completing the self-developed asset so that it will be available for use or sale;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell;
- 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 recognized in accordance with IAS 38, the development costs are expensed in the period in which they are incurred.

Amortisation starts when the asset is available for use. The capitalised costs include all directly attributable costs, as well as reasonable parts of the overheads relating to production.

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.

2. Summary of significant accounting policies (continued)

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

Cash and cash equivalents
Deposits with financial institutions are initially measured at their fair value. There are no cash equivalents.

Share capital
Share capital represents the nominal value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits. 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 initially valued at fair value and subsequently at amortised cost.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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.

Where it is deemed that a host debt instrument contains an embedded derivative, the embedded derivative is recognised separately, initially at fair value, and subsequently fair valued through the income statement.

Current and deferred income taxes
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 recognized 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.

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

Employee benefits
The Company makes discretionary contributions to the personal pension plans of employees. The contributions are expensed on an accruals basis. The Group has no further payment obligations once the contributions have been paid.

Recognition of revenue and expenses
Revenue comprises the sales value of goods and the rendering of services. Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT, rebates and trade discounts. Revenue is recognised at the point that the goods or services have been provided to the customer. Recognition of revenues from interest and interest expenses is made on an accruals 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. Expenses for development costs that fulfil the intangible assets policy are capitalised in the year incurred (see Intangible assets above).

2. Summary of significant accounting policies (continued)

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants for expenses already incurred are recognized as income in the period in which the corresponding claim is created. If applicable, received government grants are deducted from the capitalised development costs in accordance with IAS 20.24. Amortisation is charged to administrative expenses.

Leases
All leases are accounted for by recognising a right-of-use asset and a lease liability in line with IFRS 16 except for:
• Leases of low value assets; and
• Leases with a duration of 12 months or less.
The full accounting policy for leases is shown below in the section titled "Implementation of new accounting standards".

Derivative financial instruments
All derivative financial instruments are accounted for at fair value through the income statement.

Conversion of debt instruments
On conversion of debt instruments the total consideration is deemed to be the fair value of the liabilities extinguished in accordance with the Companies Act.

Implementation of new accounting standards
During the year ended 31 December 2019, the Company applied IFRS 16 "Leases" which replaced IAS 17 "lease accounting". IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

The Group has decided the most appropriate initial recognition method to be the cumulative catch up approach whereby the comparative amounts are not restated and at the initial recognition date of 1 January 2019 a right-of-use asset and lease debt liability are recognised. Subsequently charges for interest and depreciation charge are generated from the initial recognition date to 31 December 2019.

The impact of IFRS 16 on the financial statements is shown below and reflects the full changes from IAS 17 to IFRS 16.

Consolidated income statement 2019	**2019** **£'000**
Revenue	-
Cost of sales	-
Gross loss	**-**
Other operating income	-
Administrative expenses	**19**
Operating gain	**19**
Finance income	-
Finance costs	**(29)**
Fair value loss on embedded derivatives	-
Loss for the year before tax	**(10)**

2. Summary of significant accounting policies (continued)

Group balance sheet (extract) 2019

	1 Jan 2019 £'000	31 Dec 2019 £'000
Assets		
Right-of-use assets	**594**	**478**
Liabilities		
Lease debt (current and non-current)	**594**	**487**

In effect IFRS16 reverses out the balance which would previously have been accounted for as operating lease charges, £199k, and creates a right-of-use asset and corresponding lease debt on the balance sheet which incurs depreciation, £108k, and interest, £29k, respectively.

The effect of IFRS 16 on the 2019 figures is to improve EBITDA by £199k but reduce net profit by £10k.

Impact of standards issued but not yet applied

The company currently adopts all relevant accounting standards that have been endorsed by the EU. There are various standards that are expected to be endorsed in 2020. The company believes these standards will have no material impact on the financial statements.

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.

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. See Note 12.

Classification and fair value of financial instruments

The Group uses judgement to determine the classification of certain financial instruments, in particular convertible loans advanced during the year. Judgement is applied to determine whether the instrument is a debt, equity or compound instrument and whether any embedded derivatives exist within the contracts.
Judgements have been made regarding whether the conversion feature meets the "fixed for fixed" test in each instrument. In the case of each instrument it is deemed it is not met on the basis that the loan is in Euros and shares are in Sterling.

The Group uses valuation techniques to measure the fair value of these financial instruments. In applying these valuation techniques, management use estimates and assumptions that are, as far as possible, consistent with observable market data. Where applicable market data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Determining residual values and useful economic lives of intangible fixed assets and property, plant & equipment
The Group depreciates property, plant & equipment and amortises intangible fixed assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management.
Judgement is applied by management when determining the residual values of property, plant & equipment and intangible fixed assets. When determining the residual value management aim to assess the amount that the Group would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life.
The carrying amount of group intangible fixed assets at the reporting date was £31k (2018: £72k) and the carrying amount of group property, plant & equipment at the reporting date was £1,046k (2018: £1,203k).

Inventory provisions
In accordance with IAS 2 the Group regularly reviews its inventory to ensure it is carried at the lower of cost or net realisable value. The management constantly reviews slow moving and obsolete items arising from changes in the product mix demanded by customers, reductions in overall volumes, supplier failures and strategic resourcing decisions. Obsolescence provisions are calculated based on current market values and future sales of inventories. If this review identifies significant levels of obsolete

inventory, this obsolescence is charged to the income statement as an impairment. The total inventory provision included in the balance sheet at the reporting date was £266k (2018: £167k).

Share-based payments
Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

4. Segmental information

The Group has adopted the requirements of IFRS8 'Operating segments'. The standard requires operating segments to be identified on the basis of internal financial information about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ('CODM') to allocate resources to the segments and to assess their performance. The CODM has been identified as the Board of Directors. The Board considers the business from a product/services perspective.

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable operating segment: green energy. All property, plant and equipment is located in Germany.

Revenue from external customers

	2019	2018
	£'000	£'000
Germany	**389**	365
Rest of Europe	**142**	387
Rest of the World	**238**	70
	769	822

Sales to Alitkan and Danmedics represented 46.1% of the Group's revenue in 2019 (2018: Deutsche Bahn Baugruppe and Devinn s.r.o 40.0%).

The results as reviewed by the CODM for the only identified segment are as presented in the financial statements with the exception of the revaluation loss (2018: loss) on the fair value of the embedded derivative of £183,898,909 (2018: £19,891,207) and the associated impact on the balance sheet.

5. Loss for the year before tax

	2019	2018
	£'000	£'000
Loss on ordinary activities before taxation is stated		
after charging		
Depreciation and amortisation	**462**	249
Hire of other assets - operating leases	**176**	379
Pension contributions	**66**	65
Change in fair value of embedded derivatives	**183,899**	19,891
Foreign exchange losses	**-**	713
after crediting		
Amortisation of grants from public bodies	**(155)**	(19)
Foreign exchange gains	**(3,843)**	-

6. Auditors' remuneration

	2019	2018
	£'000	£'000
Audit services		
Fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	35	35
Fees payable to the Company's auditor and its associates for other services:		
Other services	7	4
	42	39

7. Staff numbers and costs

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

	2019	2018
Development and construction	53	48
Administration and sales	26	22
	79	70

The aggregate payroll costs of these persons were as follows:

	Group	
	2019	2018
	£'000	£'000
Wages and salaries	3,385	2,979
Share based payments	(294)	(373)
Social security costs	658	603
Other pension costs	66	65
	3,815	3,274

There are no staff, or direct wages specific to the Company. Share based payments charge to the non-executive Directors of the Company is £27,000 (2018: £26,000)

Share based payments

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

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Share options	(294)	(373)	(294)	(373)
Shares	27	26	27	26
	(267)	(347)	(267)	(347)

At 31 December 2019 the Group operated a single share option scheme ("SOS"). The SOS allows the Company to grant options to acquire shares to eligible employees. Options granted under the SOS are unapproved by HM Revenue & Customs. The maximum number of shares over which options may be granted under the SOS may not be greater than 15 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. The exercise of options can take place at any time after the second anniversary of the date of grant. Options cannot, in any event, be exercised after the tenth anniversary of the date of grant.

All share-based employee remuneration will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle options. Share options and weighted average exercise price are as follows for the reporting periods presented:

	2019		2018	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	000´s	**£**	000´s	£
Opening balance	**69,862**	**0.342**	76,375	0.324
Granted	**300**	**0.080**	-	-
Exercised	**(2,750)**	**(0.036)**	-	-
Forfeited	**(17,677)**	**(0.685)**	(6,513)	(0.128)
Closing balance	**49,735**	**0.228**	69,862	0.342

The fair values of options granted were determined using the Black-Scholes valuation model. Significant inputs into the calculation include a weighted average share price and exercise prices. Furthermore, the calculation takes into account future dividends of nil and volatility rates of between 50% and 98%, based on expected share price. Risk-free interest rate was determined between 0.640% and 5.125% for the various grants of options. It is assumed that options granted under the SOS have an average remaining life of 5 months *(2018:5 months)*.

The underlying expected volatility was determined by reference to the historical data, of the Company. No special features inherent to the options granted were incorporated into measurement of fair value.

Directors' remuneration

Details of Directors' remuneration are given in the audited section of the Remuneration report.

The remuneration of key management of the Group was as follows:

	2019	2018
	£'000	£'000
Short-term employee benefit	**261**	226
Share-based payment charge	**27**	26
	288	252

The Group has no key management other than the Directors.

8. Tax

The tax on the Group's loss before tax differs from the theoretical amounts that would arise using the weighted average tax rate applicable to losses of the Companies as follows:

	2019	2018
	£'000	£'000
Tax reconciliation		
Loss before tax	**(191,703)**	(29,499)
Expected tax credit at 19% (2018: 19%)	**(36,424)**	(5,605)
Effects of different tax rates on foreign subsidiaries	**(443)**	(317)
Expenses not deductible for tax purposes	**736**	590
Tax losses carried forward	**36,131**	5,332
Tax charge	**-**	-

9. Finance income

	Group	
	2019	2018
	£'000	£'000
Interest	**3**	3
	3	3

10. Finance costs

	Group	
	2019	2018
	£'000	£'000
Interest	**4,500**	3,883
Exchange (gain)/loss on shareholder loans	**(3,843)**	713
	657	4,596

11. 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 two categories of dilutive potential ordinary shares, share options and convertible debt; however, these have not been included in the calculation of loss per share because they are anti-dilutive for these periods.

	2019		2018	
	Basic	**Diluted**	Basic	Diluted
	£'000	**£'000**	£'000	£'000
Loss before embedded derivative	**(7,804)**	**(7,804)**	(9,608)	(9,608)
Fair value loss on embedded derivatives	**(183,899)**	**(183,899)**	(19,891)	(19,891)
Loss attributable to equity holders of the Company	**(191,703)**	**(191,703)**	(29,499)	(29,499)
Weighted average number of Ordinary shares in issue (thousands)	**649,802**	**649,802**	641,214	641,214
Effect of dilutive potential Ordinary shares from share options and convertible debt (thousands)	**-**	**-**	-	-
Adjusted weighted average number of Ordinary shares	**649,802**	**649,802**	641,214	641,214
	Pence per share	**Pence per share**	Pence per share	Pence per share
Loss per share (pence per share)	**(29.5)**	**(29.5)**	(4.6)	(4.6)
Loss per share before embedded derivatives (pence per share)	**(1.2)**	**(1.2)**	(1.5)	(1.5)

12. Intangible assets - Group

	Goodwill	Copyrights, trademarks and other intellectual property rights	Development costs	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January 2018	2,126	207	-	2,333
Exchange differences	-	4	-	4
Additions	-	29	-	29
Transfers	-	-	-	-
Disposals	-	-	-	-
At 31 December 2018	**2,126**	**240**	**-**	**2,366**
At 1 January 2019	2,126	240	-	2,366
Exchange differences	-	(15)		(15)
Additions	-	4		4
Transfers	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	**2,126**	**229**	**-**	**2,355**
Accumulated Amortisation				
At 1 January 2018	2,126	118	-	2,244
Exchange differences	-	3	-	3
Charged in year	-	47	-	47
Disposals	-	-	-	-
At 31 December 2018	**2,126**	**168**	**-**	**2,294**
At 1 January 2019	2,126	168	-	2,294
Exchange differences	-	(10)	-	(10)
Charged in year	-	40	-	40
Disposals	-	-	-	-
At 31 December 2019	**2,126**	**198**	**-**	**2,324**
Net book value				
At 31 December 2019	**-**	**31**	**-**	**31**
At 31 December 2018	-	72	-	72
At 1 January 2018	-	89	-	89

Self-developed intangible assets in the amount of £4,000 (2018: £29,000) are recognised in the reporting year, because the prerequisites of IAS 38 have been fulfilled.

Amortisation and impairment charges are recognised within administrative expenses.

As self-developed intangible assets are not material to the Group financial statements no impairment test has been performed.

There are no individually significant intangible assets.

The company does not hold any intangible assets.

13. Property, plant and equipment - Group

	Leasehold property improvements	Technical equipment & machinery	Office & other equipment	Self-constructed plant & machinery	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2018	542	779	326	311	1,958
Exchange differences	8	12	6	5	31
Additions	14	22	53	254	343
Transfers	-	113	-	(113)	-
Disposals	-	-	-	-	-
At 31 December 2018	**564**	**926**	**385**	**457**	**2,332**
At 1 January 2019	564	926	385	457	2,332
Exchange differences	(34)	(57)	(23)	(29)	(143)
Additions	27	27	340	185	579
Transfers	87	283	-	(370)	-
Disposals	-	-	-	(59)	(59)
At 31 December 2019	**644**	**1,179**	**702**	**184**	**2,709**
Accumulated Depreciation					
At 1 January 2018	260	497	153	-	910
Exchange differences	5	9	3	-	17
Charge for year	56	94	52	-	202
Disposals	-	-	-	-	-
At 31 December 2018	**321**	**600**	**208**	**-**	**1,129**
At 1 January 2019	321	600	208	-	1,129
Exchange differences	(18)	(37)	(13)	-	(68)
Charge for year	62	101	79	-	242
Disposals	-	-	-	-	-
At 31 December 2019	**362**	**664**	**274**	**-**	**1,303**
Net book value					
At 31 December 2019	**279**	**515**	**428**	**184**	**1,406**
At 31 December 2018	243	326	177	457	1,203
At 1 January 2018	282	282	173	311	1,048

The company does not hold any property, plant and equipment.

14. Right-of-use assets - Group

	Land and buildings	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 January 2019	-	-	-
Initial recognition of IFRS 16 – on transition	584	10	594
Initial recognition of IFRS 16 – in the year	-	64	64
At 31 December 2019	**584**	**74**	**658**
Accumulated Depreciation			
At 1 January 2019	-	-	-
Charge for year	167	13	180
At 31 December 2019	**167**	**13**	**180**
Net book value			
At 31 December 2019	**417**	**61**	**478**
At 1 January 2019	-	-	-

The company does not hold any right-of-use assets.

15. Fixed asset investments

	2019	2018
Group	**£'000**	£'000
Shares in associate undertaking		
Cost		
At beginning of year	**7**	-
Additions	**11**	7
At end of year	**18**	7
Impairment		
At beginning of year	**-**	-
Charge for the year	**7**	-
At end of year	**7**	-
Net book value		
At end of year	**11**	7

In Q3 2019 Proton signed a joint venture agreement to establish Nexus-e GmbH, a company registered in Achern, Germany. Proton owns 50.00% of the share capital of Nexus-e GmbH.

15. Fixed asset investments (continued)

	2019	2018
Company	**£’000**	£’000
Shares in Group undertaking		
Cost		
At beginning of year	**75,990**	69,733
Additions	**6,622**	6,257
At end of year	**82,612**	75,990
Impairment		
At beginning of year	**75,990**	69,733
Charge for the year	**6,622**	6,257
At end of year	**82,612**	75,990
Net book value		
At end of year	**-**	-

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.

Following a review of the Company's assets the Board has concluded that there are sufficient grounds for its investment in the subsidiary undertakings to be subject to an impairment review under IAS 36. In arriving at the charge in the year of £6,622,000 (2018: £6,257,000) the Board has determined the recoverable amount on a value in use basis using a discounted cash flow model.

16. Inventories

	Group		Company	
	2019	2018	**2019**	2018
	£’000	£’000	**£’000**	£’000
Finished goods	**97**	48	**-**	-
Work in progress	**452**	48	**-**	-
Consumable stores	**-**	-	**-**	-
Raw materials	**1,859**	1,341	**-**	-
	2,408	1,437	**-**	-

The cost of goods sold during 2019 is £1,185,000 (2018: £906,000). It includes £266,000 impairment loss for slow moving finished goods and goods anticipated to be sold at a loss (2018: £167,000).

17. Trade and other receivables

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Trade receivables	**32**	143	**-**	-
Other receivables	**182**	212	**1**	11
Amounts due from Group companies	**-**	-	**88**	117
Prepayments and accrued income	**26**	53	**11**	10
	240	408	**100**	138

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

In addition some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	Group	
	2019	2018
	£'000	£'000
Not more than three months (all denominated in Euros)	**-**	2

The Directors consider that trade and other receivables which are not past due or impaired show no risk of requiring impairment.

18. Cash and cash equivalents

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**1,028**	841	**2**	1
	1,028	841	**2**	1

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair values.

19. Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Trade payables	**472**	235	**-**	-
Other payables	**1,937**	1,140	**1**	6
Amounts due to Group companies	**-**	-	**94**	126
Accruals and deferred income	**640**	393	**69**	70
	3,049	1,768	**164**	202

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

20. Lease debt

The company implemented IFRS 16 'Leases' as of 1 January 2019 (see Note 2). Whilst the Company implemented the accounting standard using the Cumulative retrospective approach which does not require comparatives to be restated the below fully details the effect of IFRS 16 on the Company's lease debt.

A summary of the lease debt maturity is shown below:

Group

	Principal	**Interest**	**Total 2019**	2018
	£'000	**£'000**	**£'000**	£'000
Less than 1 year	213	25	188	-
Between 2 and 5 years	323	24	299	-
Over 5 years	-	-	-	-
	536	**49**	**487**	**-**

The carrying value of assets held under lease within right-of-use assets is £478k (2018: Nil due to IFRS 16 not being applied until 1 Jan 19). The balances relate to the Benzstrasse 7, Puchheim, Germany property lease and a number of vehicle leases held in Proton Motor Fuel Cell GmbH.

21. Borrowings

	Group		**Company**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Bank overdraft	**837**	177	**-**	-
Loans				
Current	**-**	-	**-**	-
Non-current	**64,869**	58,098	**64,869**	58,098
Current and total borrowings	**65,706**	58,275	**64,869**	58,098

Included within non-current borrowings as at year end are amounts of £23,079k (2018: £23,013k) due to SFN Cleantech Investment Limited which includes a principal loan of €16.6m (2018: €16.6m) and accrued interest thereon. The principal loan attracts interest of 10% per annum and is unsecured. SFN Cleantech Investment Limited has the option to convert the accrued interest at any time into Ordinary shares in the parent company at varying rates per share. Subsequent to the year end it was agreed to extend this loan facility by a further €3.6m, from €16.6m to €20.2m.

Also included within non-current borrowings as at year end are amounts of £2,183k (2018: £2,279k) due to SFN Cleantech Investment Limited which includes a principal loan of €2.3m (2018: €2.3m) and accrued interest thereon. The principal loan attracts interest of LIBOR+2% per annum and is unsecured. Interest is to be rolled up and repaid at the termination of the loan agreement.

Further included within non-current borrowings as at year end are amounts of £40,006k (2018: £32,806k) due to Mr Falih Nahab, a brother of Dr Faiz Nahab, a director of the Company. This balance includes principal loan advances of €41.1m (2018: €30.3m) and accrued interest thereon. The principal loan attracts interest of 10% per annum and is unsecured. Mr Falih Nahab has the option to convert the accrued interest at any time into Ordinary shares in the parent company at varying rates per share. Subsequent to the year end it was agreed to extend this loan facility by a further €3.6m, from €41.1m to €44.7m.

All loans were repayable on 31 December 2020, however subsequent to the year end the redemption dates of all loans were extended to 31 December 2021. As such the loans are held as non-current borrowings. The loans are also now secured on the assets of the Group.

These instruments were classified as a debt host instrument with an embedded derivative being the conversion feature. The embedded derivative has been fair valued and the residual value of the instrument had been recognised as debt. The debt has subsequently been measured at amortised cost.

22. Embedded derivatives on convertible interest

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Embedded derivatives on convertible interest	**222,331**	38,432	**222,331**	38,432

The embedded derivatives relate to the conversion features attached to convertible interest as disclosed under note 21. The derivatives are initially recognised at fair value and fair valued at each subsequent accounting reference date. The annual movement on the embedded derivatives is a non-cash expense or income, without any requirement to settle a liability, in order to comply with relevant accounting regulations.
The fair values of the embedded derivatives were determined using the Black-Scholes valuation model. The valuation was performed by an independent expert and significant inputs into the calculation include the share price of the Company at valuation date and the estimate of total accrued interest as at the exercise date. The underlying expected volatility of share price and risk-free rate of interest were determined by reference to the historical data of the Company.

23. Deferred income tax - Group

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 has not recognised deferred income tax assets of £19,507,000 (2018: £17,728,000) in respect of losses amounting to £6,805,000 (2018: £6,961,000) and €78,729,000 (2018: €70,370,000).

24. Share capital

The share capital of Proton Motor Power Systems plc consists of fully paid Ordinary shares with a par value of £0.01 (2018: £0.01) and Deferred Ordinary shares with a par value of £0.01 (2018: £0.01). All Ordinary shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Proton Motor Power Systems plc. Deferred Ordinary shares have no rights other than the repayment of capital in the event of a winding up. None of the parent's shares are held by any company in the Group.

On 4 February 2019 336,060 Ordinary shares of 1p each were issued each at a price of 8.00p per share in settlement of a Director´s annual fee for the period ended 31 January 2019.

The number of shares in issue at the balance sheet date is 669,008,288 (2018: 644,882,228) Ordinary shares of 1p each (2018: 1p each) and 327,963,452 (2018: 327,963,452) Deferred Ordinary shares of 1p each (2018: 1p each).

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less registration and other regulatory fees and net of related tax benefits.

	2019				2018			
	Ordinary shares		**Deferred ordinary shares**		Ordinary shares		Deferred ordinary shares	
	No. ´000	**£'000**	**No. '000**	**£'000**	No. '000	£'000	No. '000	£'000
Shares authorised, issued and fully paid								
At the beginning of the year	**644,882**	**6,448**	**327,963**	**3,280**	644,268	6,442	327,963	3,280
Share issue	**24,126**	**242**	**-**	**-**	614	6	-	-
	669,008	**6,690**	**327,963**	**3,280**	644,882	6,448	327,963	3,280

25. 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. In addition to the lease debt which is recorded on the Group's balance sheet as per Note 20, there are also various short term and low value leases which are accounted for as operating leases. Total future lease payments under non-cancellable operating leases are as follows:

	2019		2018	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£'000**	**£'000**	£'000	£'000
Operating leases payable:				
Within one year	**22**	**95**	294	113
In the second to fifth years inclusive	**-**	**11**	518	26
After more than five years	**-**	**-**	-	-
	22	**106**	812	139

26. Related party transactions

During the year ended 31 December 2019 the Group and Company entered into the following related party transactions:

	Group		**Company**	
	Year ended 31 December		**Year ended 31 December**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
(Expenses) / Income				
SFN Cleantech Investment Limited effective loan interest	**(1,446)**	(1,467)	(1,446)	(1,467)
Falih Nahab effective loan interest	**(2,972)**	(2,370)	(2,972)	(2,370)
SFN Cleantech Investment Limited other loan interest	**(37)**	(38)	(37)	(38)

At 31 December 2019 the Group and Company had the following balances with related parties:

	Group		**Company**	
	Year ended 31 December		**Year ended 31 December**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Amounts due (to) / from				
SFN Cleantech Investment Limited borrowings and embedded derivatives (see Notes 21 and 22)	**(131,629)**	(43,188)	(131,629)	(43,188)
SFN Cleantech Investment Limited bank guarantee	**(270)**	(288)	-	-
Dr Faiz Nahab bank guarantee	**(846)**	(451)	-	-
SFN Cleantech Investment Limited loans to SPower GmbH	**(2,294)**	(2,279)	-	-
Falih Nahab borrowings and embedded derivatives (See Notes 21 & 22)	**(153,388)**	(51,063)	(153,388)	(51,063)

During the year the Company made capital contributions to Proton Motor Fuel Cells GmbH of £6,622,000 (2018: £6,257,000) and to SPower GmbH of £nil (2018: £nil).

27. Risk management objectives and policies

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

- foreign exchange risk (note 28);
- credit risk (note 29); and
- liquidity risk (note 30).

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.

The Group's risk management is co-ordinated at Proton Motor Fuel Cell GmbH in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

28. Foreign currency sensitivity

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Sterling.

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

Euro denominated financial assets and liabilities, translated into Sterling at the closing rate, are as follows:

	Year ended 31 December 2019		Year ended 31 December 2018	
	€'000	**£'000**	€'000	£'000
Financial assets	**1,748**	**1,479**	1,650	1,488
Financial liabilities	**(324,763)**	**(274,873)**	(112,381)	(101,335)
Short-term exposure	**(323,015)**	**(273,394)**	(110,731)	(99,847)

The following table illustrates the sensitivity of the net result for the year and equity with regard to the parent Company's financial assets and financial liabilities and the Sterling/Euro exchange rate. It assumes a +/- 13.20% change of the Sterling/Euro exchange rate for the year ended at 31 December 2019 (2018: 6.87%). This percentage has been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the parent Company's foreign currency financial instruments held at each balance sheet date.

If the Euro had strengthened against Sterling by 13.20% (2018: 6.87%) then this would have had the following impact:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Net result for the year	**(36,088)**	(6,860)
Equity	**(36,088)**	(6,860)

If the Euro had weakened against Sterling by 13.20% (2018: 6.87%) then this would have had the following impact:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Net result for the year	**36,088**	6,860
Equity	**36,008**	6,860

Exposures to foreign exchange rates vary during the year depending on the value of Euro denominated loans. Nonetheless, the analysis above is considered to be representative of Group's exposure to currency risk.

29. Credit risk analysis

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, risk control assesses 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.

The Group’s maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	Group		**Company**	
	2019	2018	**2019**	2018
	£’000	£’000	**£’000**	£’000
Cash and cash equivalents	**1,028**	841	**2**	1
Trade and other receivables	**240**	408	**12**	21
Short-term exposure	**1,268**	1,249	**14**	22

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

30. Liquidity risk analysis

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The Group maintains cash to meet its liquidity requirements.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

As at 31 December 2019, the Group's liabilities have contractual maturities which are summarised below:

	Within 6 months	6 to 12 months	1 to 5 years
	£’000	£’000	£’000
Trade payables	472	-	-
Other short term financial liabilities	2,577	-	-
Lease debt	-	188	299
Borrowings and embedded derivatives on convertible loans	837	-	64,869

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

	Within 6 months	6 to 12 months	1 to 5 years
	£’000	£’000	£’000
Trade payables	235	-	-
Other short term financial liabilities	1,533	-	-

Borrowings and embedded derivatives on convertible loans	177	-	58,098

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date. Borrowings and embedded derivatives on convertible loans have been combined as they relate to the same instruments. Contractual maturities have been assumed based on the assumption that the lender does not convert the loans into equity before the repayment date.

31. Financial instruments

The assets of the Group and Company are categorised as follows:

As at 31 December 2019		**Group**			**Company**	
	Loans and receivables	**Non-financial assets / financial assets not in scope of IAS 39**	**Total**	**Loans and receivables**	**Non-financial assets / financial assets not in scope of IAS 39**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Intangible assets	-	31	31	-	-	-
Property, plant and equipment	-	1,406	1,406	-	-	-
Right-of-use assets	-	478	478	-	-	-
Fixed asset investments	-	11	11	-	-	-
Inventories	-	2,408	2,408	-	-	-
Trade and other receivables	240	-	240	100	-	102
Cash and cash equivalents	1,028	-	1,028	2	-	2
	1,268	**4,334**	**5,602**	**102**	**-**	**102**

As at 31 December 2018		Group			Company	
	Loans and receivables	Non-financial assets / financial assets not in scope of IAS 39	Total	Loans and receivables	Non-financial assets / financial assets not in scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	-	72	72	-	-	-
Property, plant and equipment	-	1,203	1,203	-	-	-
Investment in subsidiary	-	7	7	-	-	-
Inventories	-	1,437	1,437	-	-	-
Trade and other receivables	408	-	408	138	-	138
Cash and cash equivalents	841	-	841	1	-	1
	1,249	**2,719**	**3,968**	**139**	**-**	**139**

The liabilities of the Group and Company are categorised as follows:

As at 31 December 2019	Group				Company			
	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	3,049	-	-	3,049	165	-	-	165
Borrowings	65,706	-	-	65,706	65,706	-	-	65,706
Embedded derivatives on convertible loans	-	222,331	-	222,331	-	222,331	-	222,331
	68,755	**222,331**	**-**	**291,085**	**65,871**	**222,331**	**-**	**288,202**

As at 31 December 2018	Group				Company			
	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total	Financial liabilities at amortised cost	Financial liabilities valued at fair value through the income statement	Liabilities not within the scope of IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	1,768	-	-	1,768	202	-	-	202
Borrowings	58,275	-	-	58,275	58,098	-	-	58,098
Embedded derivatives on convertible loans		38,432	-	38,432	-	38,432	-	38,432
	60,043	**38,432**	**-**	**98,475**	**58,300**	**38,432**	**-**	**96,732**

Fair values

Management believe that the fair value of trade and other payables and borrowings is approximately equal to book value.

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

The embedded derivatives fall within the fair value hierarchy level 2.

32. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, provide returns for shareholders and benefits to other stakeholders and to maintain a structure to optimise the cost of capital. The Group defines capital as debt and equity. In order to maintain or adjust the capital structure, the Group may consider: the issue or sale of shares or the sale of assets to reduce debt.

The Group routinely monitors its capital and liquidity requirements through leverage ratios consistent with industry-wide borrowing standards. There are no externally imposed capital requirements during the period covered by the financial statements.

	Group		**Company**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Total liabilities	**291,573**	98,475	**287,364**	96,732
Less: cash and cash equivalents	**(1,028)**	(841)	**(2)**	(1)
Adjusted net debt	**290,545**	97,634	**287,362**	96,731

33. Ultimate controlling party

The Directors consider SFN Cleantech Investment Ltd to be the Ultimate Controlling Party at the date of approval of the financial statements. Dr. Faiz Nahab, Chief Executive, is connected to SFN Cleantech Investment Ltd.