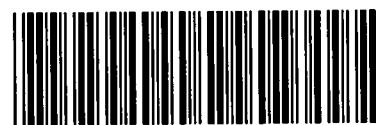


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Proteome Sciences plc

Registered number: 02879724

Report and Financial Statements
for the year ended 31 December 2018

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CHIEF EXECUTIVE OFFICER'S STATEMENT

for the year ended 31 December 2018

At the end of a year marked by political uncertainty and economic restraint, both of which adversely affected the biopharmaceutical sector in the second half, I can report a steady 12 months ending 31 December 2018. Revenues for the full year decreased by 9.8% to £3.05m. Year on year sales and royalties attributable to isobaric tandem mass tag (TMT®) reagents grew 10.2% to £2.10m, excluding contributions from a significant milestone payment late in 2017 and a research collaboration during 2018. Proteomics (biomarker) services decreased 5.5% to £0.75m and were below expectations as the result of a slow first half to the year. Total costs of £4.71m were 13.3% lower reflecting the ongoing impact of restructuring and cost containment performed in recent years, and losses after tax were significantly reduced to £1.31m. Cash reserves at the year-end were £0.96m, similar to the previous year, benefitting from the timely resolution of R&D tax credit payments for both 2016 and 2017, and from drawing down a share of the £1.00m loan facility made available by Vulpes Investment Management in July 2018.

Services

Our clear focus in 2018 was to build a sustainable proteomics (biomarker) services business. Conscious that much needed to be done to establish our place as a preferred provider, particularly in an environment favouring companies with broader technology platforms than our own, progress was slower than we had hoped. Revenues from a strengthening order book carried through from 2017 took longer to realise than anticipated, resulting in a weak first half performance and negatively affecting our full year results which were also materially reduced by the decision of Genting TauRx Diagnostic Centre to discontinue a potentially valuable biomarker assay development project in Alzheimer's disease (AD).

As predicted, the fourth quarter was the strongest for our proteomics services, during which we recognised about 40% of the annual service revenues and generated work orders to the value of £0.25m. Momentum is certainly developing and, although it could not make up for the

disappointingly slow adoption of our services platform at the start of the year, we remain encouraged by recent progress, by the number and diversity of more than 30 new projects which we won during 2018, and by the value of 14 work orders contributing to a positive start in 2019. Just as importantly, feedback from many of our customers has endorsed the inherent value that can be realised from our proprietary proteomics workflows. Our intention is to convert these projects into reliable, follow-on business at greater scale, and to improve our operational efficiency so that revenues can be generated more quickly from committed work orders; we continue to reshape and consolidate the business to achieve this.

A sales agent model was introduced in Europe at the start of 2018, akin to that initiated in the US during 2017. Cenibra GmbH signed a contract covering German speaking countries and quickly broadened our client base, allowing us to complete the transition from direct sales staff in our primary commercial territories and expand our sales activities without relinquishing cost control. Although our original US agent has since been withdrawn, this was not a reflection of the operating model which we continue to believe offers the most efficient approach to commercialising our services business.

As the proteomics market expands, and with it interest in using unbiased methods to measure large numbers of proteins in biological samples, our mass spectrometric (MS)-based techniques and workflows continue to attract attention as a logical precursor to the development of targeted assays. Extending our service offering, for example by introducing new workflows such as Super Depletion, will of course be fundamental to the future of this business. Good Clinical Laboratory Practice (GCLP) accreditation has been an important driver of increasing project interest, and re-accreditation (now valid for 2 years) was completed in November without major findings. Our annual ISO (International Organisation for Standardisation) 9001:2015 certificate was also reissued earlier in the year, confirming our commitment to quality standards.

CHIEF EXECUTIVE OFFICER'S STATEMENT

for the year ended 31 December 2018

Promotional activities have increased despite a limited budget, with attendance at many exhibitions in our primary markets of the US and Europe as well as high volumes of customer calls leading to requests for quotations. Currently, our customer base is predominantly small and medium sized enterprises (SMEs) but we have started engaging larger biopharmaceutical companies in discussion and expect that this will translate into more substantial work orders and preferred provider agreements of the sort recently established with e-therapeutics plc. Converting such interest into formal projects, and then efficiently into recognised revenues, remains our primary objective and we are employing standard metrics of service delivery to monitor and improve throughput. Importantly, we retain the capacity to increase our workload by increasing our existing MS utilisation rates without the need for significant additional capital investment in our Frankfurt laboratory.

Licences

An amendment to our exclusive License and Distribution Agreement with Pierce Biotechnology Inc. (a division of Thermo Fisher Scientific Inc.) announced in April extended the current licence to include intellectual property (IP) relating to a new class of higher-plex TMT® reagents currently in development and on schedule for launch in 2019. Such higher-plex technology represents the next phase in the evolution of isobaric tagging, which will enable further advances in the efficiency and utility of MS protein analyses and has been a long-standing objective for both companies in response to a clear customer need. Through this extension of our exclusive relationship we see the potential to expand further a market in which we are already dominant, with TMT® the established standard for multiplex, quantitative proteomic experiments. In addition to completing synthesis of these higher-plex tags early in 2019, significant resources were directed towards restocking our 10-plex supplies which should now provide for anticipated commercial needs until late 2020.

TMT® sales and royalties remained predictably strong during the year. There was continued growth of 20% in Thermo Scientific's core market; however

this only translated into approximately 10% growth in our underlying business, in part a consequence of unfavourable exchange rates. This was insufficient to replace fully the substantial milestone payment we received from Thermo Scientific late last year resulting in a 11% reduction in our overall TMT®-associated revenues. While a change in the ordering pattern for stock reagents to support more flexible TMT® kit manufacture may have led to somewhat slower growth in the early months of the year, there is also some suggestion that orders in the second half may have been delayed awaiting the availability of higher-plex tags in 2019.

The Company is pleased to report that during the fourth quarter Randox initiated the clinical validation study required for CE (Conformité Européenne) marked approval of its stroke diagnostic array (based in part on the Company's IP) and anticipates good progress in the coming months. Timelines for this trial have not been provided by Randox, as sponsor, although completion should not be expected until 2020. In addition, I am pleased that a further non-exclusive licence to the Company's GST-P stroke biomarker IP was concluded in January 2019 with Galaxy CCRO Inc. ("Galaxy"), a recently formed US clinical contract research organisation, which intends to develop a point of care test for the diagnosis and timing of stroke onset in order to guide the use of specialist thrombolytic treatment. Under the terms of the licence the Company will receive equity in Galaxy as an initial fee, with subsequent development milestones and a running royalty on any product sales. Although the ultimate value of this licence is wholly dependent on the performance of Galaxy, this deal demonstrates again the value that may reside in our IP portfolio as we continue to seek future collaborators and partners.

Research

Research investments were again limited to those directly relevant to our commercial services. We chose to focus on productivity improvements to our principal proteomics workflows, the development of the clusterin blood test for neurodegeneration and, particularly, the introduction of high-performance

CHIEF EXECUTIVE OFFICER'S STATEMENT

for the year ended 31 December 2018

plasma proteomics. The latter was in partnership with Pliant Therapeutics, Inc., one of our customers, with whom we presented data at the American Thoracic Society meeting in May. This was the first report of our new Super Depletion method for abundant plasma proteins combined with TMTcalibrator™ where we were able to quantify over 8,000 proteins and identify potential new biomarkers for idiopathic pulmonary fibrosis (IPF). Super Depletion has subsequently become an important and frequently requested element of our service offering, demonstrating again the continuing importance of basic research activities to ensure that we can refresh and update our range of services.

Characterisation of the Clusterin Glycoform Assay has been completed and provides early assessment of the level of brain damage in neurodegeneration. We have developed a new quantitative method to allow its use in assessing patients prior to their enrolment in, and during, clinical trials. We will be evaluating its final performance shortly and aim to launch it as our first clinical-grade test under the GCLP certification. A tryptophan metabolite assay is also scheduled for launch during 2019.

Among our publications in 2018 was the report of a collaboration with the University of Eastern Finland, combining our SysQuant® protein and phosphopeptide analysis with transcriptomics in order to stage AD pathology. This has the potential to be a landmark publication and we will maximise its value for commercial activities.

Operating Environment

The positive environment created by US tax cuts at the start of the year, encouraging sector-wide investment in several areas important to us such as immuno-oncology, precision medicine and digital health, quickly gave way to pre-Brexit speculation and general market weakness following a series of high-profile clinical stage failures. The resulting risk-averse environment significantly slowed collaborative activities which, although having little direct effect on our trading, forced many companies to focus internally and retain strong

cost containment measures. For our part we continued a policy of cost reduction established in the previous year by choosing not to replace staff who left the Company through retirement and resignation, and recently removing two further roles from the organisation. These reductions have:

- minimised internal resources deployed in maintaining our IP portfolio, which we continue to support but have narrowed in line with our budget;
- increased cross functional efficiencies by fundamentally changing our approach to project management and leadership; and
- enabled us to complete the transition to a sales agent model in central Europe which is our preferred route to commercialisation.

Costs were reduced as anticipated, with significant full year savings from Company restructuring being partially offset by investment in the development of our new, higher-plex TMT® tags. These containment efforts will continue into 2019 in the full expectation that we can further improve our organisational efficiency.

Uncertainties surrounding the eligibility of our commercial projects for R&D tax credits have been resolved after a prolonged period of discussion with HMRC and claims for years 2016-17 have now been settled. As such, and to ensure that prospective credit claims are positively received, the Company will take forward its 2018 claim during 2019. We are grateful to Vulpes Investment Management for showing confidence in our service proposition to provide a loan facility of £1.00m, giving us some additional working capital to start investing in a sustainable services business.

Volatility in foreign exchanges during the year affected non-sterling denominated revenues as well as costs associated with the Frankfurt laboratory, but the overall effect on EBITDA was neutral.

Like many other small organisations, implementation of the General Data Protection Regulation (GDPR) 2016/679 in May created a

CHIEF EXECUTIVE OFFICER'S STATEMENT

for the year ended 31 December 2018

disproportionate workload but, as a result, our data protection activities have been fully reviewed both internally and externally to ensure we remain compliant. Updated policies for Social Media, Data Protection and Anti-bribery, released throughout the organisation, address the minimum requirements for a listed company.

I was pleased to welcome Richard Dennis, our Chief Commercial Officer, to the Board in April, and Allenby Capital as our broker and nomad in December. I also want to thank our customers for their valuable business and all the staff who worked for Proteome Sciences during 2018, including those who have since left the Company; our continued development as an organisation is a direct consequence of their individual and collective efforts.

Outlook

The global proteomics market has been estimated at more than \$35 billion by 2021, driven by factors such as the increasing importance of companion diagnostics and precision medicine, advances in digital health and rising R&D expenditure. Although only a small proportion of this market is specifically directed towards MS-based protein analysis, an opportunity clearly exists in the post-genomic era to develop a successful services business if the growing needs of biopharmaceutical customers can be addressed predictably and efficiently. In particular, interest in adaptive artificial intelligence (AI)-driven healthcare solutions could become fundamental to the value of this proteomics market as the success of such disruptive approaches will increasingly rely on the provision and linkage of new data sets from novel technology platforms and services such as our own.

We continue to broaden our range of services and are optimistic that these, combined with a commitment to reliability, cost and quality, will allow us to develop our presence in this important and expanding market (particularly as the legitimate provision of TMT®-based services in association with GCLP accreditation is rare among our contract research competitors). Further investment is vital, however, if we are to compete successfully and win

business, not just for the development of new assays and workflows, but also for marketing campaigns, sales resources and website development. Financial strength remains an important feature of any vendor assessment process and will need to be carefully monitored if we want to grow our business with larger companies involved in clinical stage assets. The demand for our TMT® reagents remains strong, providing reliable revenues, and we are confident that the launch of higher-plex tags later in 2019 will further grow the overall market for MS-based quantitative proteomics and specifically for isobaric tags at the expense of label-free methods.

In a year with more recognised unknowns than previously, it is likely that volatility in the markets, political instability and weakness in the bioscience sector carried over from 2018 will continue to undermine investment. That being said, some high-profile acquisitions by large pharmaceutical companies at the start of this year suggested a strategic change at corporate level after a quiet 2018 with renewed interest in consolidating technologies and integrating services. The importance of new partnerships and operating models as a means of accessing external expertise and technology has never been greater in bioscience and remains an active area of interest for us as we look to broaden our service platform.

I would like to thank our shareholders for their continuing support and patience, and look forward to communicating further progress and meaningful revenue growth during 2019.



Jeremy Haigh
Chief Executive Officer

1 April 2019

STRATEGIC REPORT

for the year ended 31 December 2018

Review of the Business

The principal activities of the Group involve protein biomarker research and development. As a leader in applied proteomics we use high sensitivity proprietary techniques to detect and characterise differentially expressed proteins in biological samples for diagnostic, prognostic and therapeutic applications. In addition, we invented and developed the technology for TMT®, and manufacture these small, protein-reactive chemical reagents under exclusive license to Thermo Scientific for multiplex quantitative proteomics.

Proteome Sciences is a leading provider of contract research services for the identification, validation and application of protein biomarkers. Our clients are predominantly pharmaceutical companies, but we also perform services for other sectors including academic research. While we have several well-established workflows that meet the needs of many customers, we retain our science-led business focus wherever possible, developing new analytical methods and data analysis tools to provide greater flexibility in the types of studies we can deliver. Our contract service offering remains centred on MS-based proteomics, and this is becoming more widely implemented in drug development projects as the pharmaceutical industry seeks to expand biological knowledge beyond genomics. These services are fully aligned with the drug development process, can be used in support of clinical trials and in vitro diagnostics, and include proprietary bioinformatics capabilities.

Progress During 2018

Building a Competitive Services Business

The prevailing biopharmaceutical sector strategy to outsource analytical needs rather than purchase the technology and personnel to perform work in-house affords us a significant opportunity. In addition, many smaller, virtual organisations are being created from the site closures of larger companies and rely solely on outsourced research and analysis. As MS can identify many more proteins and post translational modifications (PTMs) than detected with other laboratory-based technologies (e.g. ELISA), the quest to find protein

biomarkers which are predictive for disease status or drug activity provides a clear focus for our sales and marketing effort.

The US and Europe account for up to 80% of the total available market in the field of proteomics and our current commercial activities have therefore been directed towards these territories. The use of the web, direct marketing programmes, attendance/presentations at scientific conferences and, most importantly, sales prospecting have all generated suitable leads for business follow up and increased the number of quotes we issued in 2018 to 57, more than a threefold increase on the previous year. Commission-based agents and direct sales activity provide valuable face-to-face connection with potential customers, and this personalised approach allows us to demonstrate our high level of technical competence which is essential in order to win contracts for larger proteomic studies in both pre-clinical and ongoing clinical trials.

Our ambition is to sell a high value analytical contract through which we work with a client to establish their research needs, develop a specific protocol to address them, and then process samples they send us on a fee for service basis. Collaborations usually start with a pre-clinical project to identify suitable protein biomarkers which, in the absence of a suitable antibody-based assay, drives an MS-based biomarker validation project leading to the development of a targeted assay for use in on-going clinical trials. More than half of our clients initiate a pilot study that leads into either a larger protein discovery project or a more valuable protein-based assay validation before adopting the assay as part of a clinical trial, potentially involving much larger sample numbers than in the initial protein discovery phase.

Many smaller service-based companies offer MS capabilities to this market, but very few retain the product licence required to support TMT®-based commercial services. Using our superior knowledge of TMT®, with a combination of Super Depletion and our proprietary TMTcalibrator™, has enabled our services to quantify sample protein numbers that are unachievable with other methods.

STRATEGIC REPORT

for the year ended 31 December 2018

For the customer, this increases the chances that a protein-based biomarker relevant to disease progression or drug treatment can be identified. Such biomarkers are increasingly important in a clinical programme, or for use as a companion diagnostic, and we plan to promote this approach heavily in the future.

The Opportunity of Artificial Intelligence

There can be no doubt that advances in AI, or more specifically machine learning, have the potential to revolutionise healthcare provision and the efficiency of drug discovery and development. Fundamental to the creation and validation of predictive algorithms are the provision of high quality, well curated data, the establishment of durable collaborations between digital health companies and data generators, and the availability of data scientists and bioinformaticians who are equipped to aggregate disparate data sets and identify patterns which will generate biological insights. MS proteomics is ideally placed for this revolution, which therefore offers us a distinct opportunity to address a new customer segment with our service platform. Rather than being seen conventionally as just an extension of genomics, protein analytics can become part of a solution through which the growing ranks of AI companies can prove the utility of their approach. We believe that the next phase of disruptive technology in biopharmaceuticals is most likely to come from AI-driven analysis of high quality, 'big data' proteomics.

The Rebirth of Plasma Proteomics - TMTcalibrator™ and Super Depletion

Blood is one of the most commonly sampled body fluids, used widely in diagnosing and monitoring disease. Unfortunately, the presence of a few high-abundance proteins in large volumes of circulating fluid makes new biomarker discovery particularly challenging. We have been working to overcome these difficulties, and thereby transform plasma proteomics, by combining extensive protein depletion, TMT® labelling and tissue triggering.

At the American Thoracic Society in May, we presented results from a study performed for Pliant

Therapeutics Inc. that was the first to combine our TMTcalibrator™ workflow with Super Depletion – the removal of about 70 higher abundant proteins in plasma. Remarkably, we could quantify a total of over 8,000 proteins in each sample, with 5,600 being quantified in all 30 patient samples studied. Previously, we would have expected protein numbers in the region of 800 – 1,000. Such a significant increase was further enhanced by new computational approaches that allowed us to identify many PTM proteins which had direct relevance to lung disease. Based on these results, a panel of 36 proteins that differentiated diseased patients from healthy controls was identified which may offer clinicians a better tool for diagnosing lung disease and monitoring the effects of treatment.

The twin advantages of TMTcalibrator™ and Super Depletion in increasing the number of disease-associated proteins detected in body fluids are being recognised by our clients. We are actively engaged in a number of these projects, supporting a range of pre-clinical and clinical studies that should provide strong revenues in 2019.

Targeting Clusterin

One of our earliest biomarker discoveries was the changed level of plasma clusterin protein in patients with AD. While this has become a promising biomarker candidate, there have been widely conflicting reports describing clusterin level changes in AD patients. We set out to explain how plasma clusterin could be subject to such extreme differences and identified the extensive modification of the protein by glycosylation (i.e. adding complex sugar structures) as a likely reason. In particular, we identified one site on the protein where eight different sugar structures were being added, with levels that varied in patients with AD and, importantly, which could distinguish rapidly progressing AD cases from slower progressing disease or mild cognitive impairment (MCI).

However, the methods used in our discovery experiments could not be employed for screening thousands of individuals so we had to develop a simpler way to measure these eight different

STRATEGIC REPORT

for the year ended 31 December 2018

clusterin glycoforms. Using well-established Selection Reaction Monitoring (SRM) MS we have now developed the first test capable of routinely measuring the levels of all eight clusterin glycoforms and are setting up a validation study to replicate our initial discovery and support the launch of the Clusterin Glycoform SRM Assay later this year. In line with the development of other targeted therapeutics, screening patients for their clusterin glycoform levels prior to enrolment in clinical trials is likely to define a better population for demonstrating drug efficacy.

Expanding the TMT® Product Portfolio

TMT® is now widely recognised as delivering the best combination of quantitative accuracy and depth of proteome coverage required by modern proteomics researchers. In a recent publication from Harvard University, TMT® experiments were found to be substantially better than label-free quantification in detecting regulated proteins and this benefit was strongest for peptides showing small changes in expression between samples. This advantage was mostly explained by the ability to include many samples in a single TMT® experiment where overall sensitivity is boosted and there are fewer missing data points.

Other initiatives, such as our TMTcalibrator™ workflow and Super Depletion (see above), are transforming the level of sensitivity that can be achieved, and even being adopted with some success to analyse samples of just a few cells. However, the need to use several of the TMT® channels for the tissue trigger reduces the number of individual samples that can be studied.

In response to this challenge, we have been working to increase the number of tags in our TMT® reagent sets and have now completed the production of a second-generation product. These new TMT® reagents have 16 different channels providing a 60% increase in sample multiplexing over the current TMT® 10plex reagents (i.e. for standard workflows, analysis of 90 samples can be achieved in only six sets of experiments compared with 10 sets using standard TMT®). For TMTcalibrator™ studies, the opportunity to analyse 12 individual samples with a four-point calibration

curve or tissue trigger makes population-based studies of plasma biomarkers viable for the first time.

Patent Applications and Proprietary Rights

Given ongoing cost containment and the changing focus of the Company we continue to manage our portfolio of patents aggressively to maximise its short, medium and longer-term value. In the fourth quarter we undertook a strategic review of our patent portfolio and will focus our investment in 22 families that cover our key licensed technologies (TMT®, stroke biomarkers) and biomarkers under development (AD, oncology). Seven patents were granted in 2018 relating to five separate families. We filed 16 new patents relating to three families covering tryptophan metabolite assays and TMT® tags.

Board Changes

On 24 April 2018 the Company announced that Mr Richard Dennis, Chief Commercial Officer, had been appointed as an executive director. Mr Dennis has over 30 years' experience in the sector and prior to joining Proteome Sciences had held positions of increasing responsibility and diversity in companies such as Quanterix Corp. and Bioscale Inc.

Financial Review

Results and Dividends

The loss after tax for the year was £1.31m (2017: £2.50m). The directors do not recommend the payment of a dividend (2017: Nil). The Group results are stated in the Consolidated Income Statement and reviewed in the Chief Executive Officer's Statement.

Key Performance Indicators (KPI's)

- (i) The directors consider that revenue and loss before/after tax are important in measuring Group performance. The profile of the Group has changed as a result of ongoing licensing agreements and with the adoption/conclusion of other commercial agreements and service contracts. The performance of the Group is set out in the Chief Executive Officer's Statement.

STRATEGIC REPORT

for the year ended 31 December 2018

(ii) The directors believe that the Group's rate of cash expenditure and its effect on Group cash resources are important. Net cash outflows from operating activities for FY2018 were £0.50m (2017: £1.70m). Further details of cash flows in 2018 are set out in the Group's Consolidated Cash Flow Statement.

(iii) In a small business with a high proportion of well-qualified and experienced staff, the rate of staff turnover is vital. In FY2018 two members of staff resigned, and one retired. These individuals were not replaced as a cost containment measure and their responsibilities were redistributed within the organisation. In addition, strategic decisions were made to remove three unique roles from the business resulting in the redundancy of three members of staff, two of whom only left in January 2019.

(iv) As a commercially oriented service-based business, contract revenues from our proteomics (biomarker) services should increase in absolute terms and as a proportion of total Group revenues; this was not the case in 2018 (£0.75m; 25% vs £0.79m; 23% in 2017) as it took longer than anticipated to recognise revenues from new service orders, and total revenues were also down. Repeat business always provides an important measure of customer satisfaction, although in an expanding company it is arguable whether this metric should necessarily be increasing: in 2018, 44% of our contracts (56% by value) were from existing clients compared with 50% (42% by value) in 2017.

(v) As the Company transitions to a primary contract research business, conventional service-based metrics reflect our focus on the time, cost and predictability of data delivery. We measure and review customer response times from initial contact through to generation of a final report and invoice, comparing these times with our internal standards and to the delivery times provided in final client proposals. For example, in 2018 our ambition was for potential customers to receive formal statements of work

from us within 5 days of engagement, and our annual conversion rate into fully executed projects was 66%.

Financial Performance

For the twelve-month period ending 31 December 2018 revenue decreased 9.8% to £3.05m (2017: £3.38m).

- Licences, sales and services revenue declined 12.4% to £2.96m (2017: £3.38m). This is comprised of two revenue streams: TMT® related revenue and Proteomic (Biomarker) Services. Although core sales and royalties for TMT® tags increased by 10.2% to £2.10m, total TMT® related revenue actually decreased by 11.1% (2017: £2.48m) because a significant milestone payment in late 2017 from our exclusive distribution partner Thermo Scientific could not be fully replaced through market growth and research collaboration.
- Grant income was £0.09m (2017: Nil).

The loss after tax was £1.31m (2017: £2.50m).

Taxation

Owing to the changing nature of our services business, with a stronger focus on commercial activities, we have not fully assessed our available R&D tax credit for 2018, and such amounts are only recognised when reasonably assured.

Costs and Available Cash

The Group maintained a positive cash balance in 2018 and continues to seek improved cash flows from commercial income streams. Our operating costs have been significantly reduced.

- Administrative expenses in 2018 were £3.24m (2017: £4.01m). This is a decrease of 19.2%, representing full year cost savings following the relocation of the UK Laboratory in 2017, and further consolidation and restructuring during the year.
- Staff costs for the year were £2.25m (2017: £2.54m).

STRATEGIC REPORT

for the year ended 31 December 2018

- Property costs of £0.32m were in line with previous years.
- Other overheads decreased by £0.23m as a result of cost containment initiatives driven by a review of patent obligations.
- Finance costs arise as a result of interest due on loans from two major investors in the Company. Costs of £0.29m are marginally higher than the prior year.
- Loss after tax for 2018 was £1.31m (2017: £2.50m). The net cash outflow from operating activities was £0.50m (2017: £1.70m). Cash at the year-end was £0.96m (2017: £0.91m).

Principal Risks and Uncertainties

Commercialisation Activities

It is uncertain whether our range of contract proteomic services will generate sufficient revenues for the Group ultimately to be successful in an increasingly competitive commercial market which favours companies with a broader technology platform than our own. Progress in 2018, our first full year using the new service model, was significantly slower than expected reflecting delays in adoption and revenue recognition from booked work, but interest and orders increased quarter on quarter during the year with 14 contracts carried into 2019.

Management of Risk: The Group has sought to manage this risk by broadening its proteomic services offering (e.g. Super Depletion), utilising commission-based sales agents in our principal commercial territories and adopting conventional service-based metrics directed at speed, cost and quality.

Dependence on Key Personnel

The Group depends on its ability to retain a limited number of highly qualified scientific and managerial personnel, the competition for whom is strong. While the Group has entered into conventional employment arrangements with key personnel, aimed at securing their services for minimum terms, their retention cannot be

guaranteed as evidenced by two resignations during 2018.

Management of Risk: The Group has a policy of organising its work so that projects are not dependent on any one individual, and the creation of a Head of Operations in Frankfurt is intended to ensure stronger managerial oversight and support for our laboratory-based staff. Retention is also sought through annual, role-based reviews of remuneration packages, performance related bonus payments, and the opportunity for share option grants.

Cash Limitations

Despite remaining cash positive throughout 2018, the slow adoption of our services platform has placed undue reliance on the revenues we receive from TMT® sales and royalties, and limited the working capital available to invest in growing the business.

Management of Risk: In addition to previous cost reduction and ongoing containment measures which have significantly changed the cost profile of the business over the last two years, we have also received additional loan financing through a £1.00m facility provided on preferential terms by our principal shareholder, Vulpes Investment Management.

Competition and Technology

The international bioscience sector is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render the Group's service offerings and research activities obsolete or otherwise uncompetitive. Proteomics remains a growth area attracting new companies often with broader and more varied capabilities.

Management of Risk: The Group employs highly experienced research scientists and senior managerial staff who monitor developments in technology that might affect the viability of its service business or research capability. This is achieved through access to scientific publications, attendance at conferences and collaboration with other organisations.

STRATEGIC REPORT

for the year ended 31 December 2018

Licensing Arrangements

The Group intends to continue sub-licensing new discoveries and products to third parties, but there can be no assurance that such licensing arrangements will be successful.

Management of Risk: The Group manages this risk by a thorough assessment of the scientific and commercial feasibility of proposed research projects which is conducted by an experienced management team. Risk has also been reduced by decreasing the overall number of research projects and re-distributing available resources.

Patent Applications and Proprietary Rights

The Group seeks patent protection for identified protein biomarkers which may be of diagnostic, prognostic or therapeutic value, for its protein-reactive, chemical mass tags, and for its other proprietary technologies. The successful commercialisation of such biomarkers, chemical tags and proteomic workflows is likely to depend on the establishment of such patent protection. However, there is no assurance that the Group's pending applications will result in the grant of patents, that the scope of protection offered by any patents will be as intended, or whether any such patents will ultimately be upheld by a court of competent jurisdiction as valid in the event of a legal challenge. If the Group fails to obtain patents for its technology and is required to rely on unpatented proprietary technology, no assurance can be given that the Group can meaningfully protect its rights.

Management of Risk: The Group retains limited but experienced patent capability in house, supplemented by external advice, which has established controls to avoid the release of patentable material before it has filed patent applications. Maintenance of the existing patent portfolio is subject to rigorous biannual review ensuring that its ongoing cost is proportional to its perceived value.

Brexit

The ongoing debate concerning Britain's future membership of the European Union casts a long

shadow and, depending on the eventual outcome, has the well documented potential to be significantly disruptive for UK businesses in general, and for healthcare provision in particular. As a UK-listed company with an established and integral operating subsidiary in Frankfurt, Germany, the theoretical risks to us are evident but difficult to qualify and quantify in the absence of any clear decision.

Volatile exchange rates have the potential to affect foreign generated incomes and operating costs in Frankfurt.

Management of Risk: While it is hard to predict the consequences of Brexit, whatever the outcome, we have reviewed our operating procedures and initiated contingency planning. The direct shipment of biological samples to our Frankfurt laboratory is unlikely to be affected; nor is the export of TMT® tags to our exclusive licensee, Thermo Scientific, in the US, so the impact on revenue generation should be limited. Any required changes in corporate or fiscal governance will be monitored closely for relevance to the Company.

By Order of the Board

Hamilton House
Mabledon Place
London WC1H 9BB



V Birse
Company Secretary

1 April 2019

BOARD OF DIRECTORS

for the year ended 31 December 2018

Dr Jeremy Haigh

Chief Executive Officer

Jeremy Haigh has spent 30 years in the bioscience sector in a variety of clinical research, development, operational and leadership roles, experiencing both traditional pharmaceutical and biotechnology environments at Merck Research Laboratories and at Amgen where most recently he was the European Chief Operating Officer for Research & Development. He retains a particular interest in precision medicine and in neurological diseases reflecting his basic training in neuropharmacology. He has been a strong advocate for the biopharmaceutical industry over many years, with significant involvement in healthcare policy and government affairs in both the UK and Europe. He is currently Chairman of Cogent Skills Ltd.

Dr Ian Pike

Chief Scientific Officer

Ian Pike has over 20 years' experience working in the diagnostics and biotechnology sectors. Having gained a PhD in medical microbiology, he joined Wellcome Diagnostics as a research group leader and spent eight years working on new diagnostic assays, particularly for hepatitis. In December 1999, he joined the Technology Transfer Office of the UK Medical Research Council with responsibility for patents and commercialisation of a wide portfolio of technologies related to the biomedical sector. Most recently, Ian worked for Cancer Research Ventures managing intellectual property and performing business development activities in Europe and the US.

Richard Dennis

Chief Commercial Officer

Richard Dennis joined the Group in April 2017. He has a commercial background spanning over 30 years in the global life sciences research sector. Throughout his career he has held positions based in both the UK and US managing international sales teams. Prior to joining Proteome Sciences he had held positions of increasing responsibility and diversity in companies such as Quanterix Corp. and Bioscale Inc.

Christopher Pearce

Non-executive Chairman

Christopher Pearce has built the Group since inception and been responsible for the formulation and implementation of strategy, collaborative and licensing agreements, and IP. He was co-founder and Executive Chairman of Fitness First plc.

Roger McDowell

Non-executive Director (i) (ii)

Roger McDowell has a highly successful career as a businessman and entrepreneur. He was Managing Director of Oliver Ashworth for 18 years before its sale to St. Gobain. He is currently the Chairman or non-executive director of seven listed companies, namely Avingtrans plc, D4t4 Solutions plc, Swallowfield plc and Augean plc, Tribal Group plc, ThinkSmart plc, Hargreaves Services plc. He provides considerable commercial experience and is a keen exponent of growing shareholder value.

Martin Diggle

Non-executive Director

Martin Diggle has worked in finance for over 30 years. He was a director and partner of UBS/Brunswick in Russia until 2003, after which he joined Vulpes Investment Management, where he is currently a director and partner. He is an experienced specialist investor in life sciences and manages the Vulpes Life Sciences Fund, the registered holder of 22% of Proteome Sciences' ordinary share capital.

Dr Ursula Ney

Non-executive Director (i) (ii)

Ursula Ney has more than 30 years' experience in the pharmaceutical and biotech industry, with 20 years in leadership roles in the biotech sector. She was director of Development and on the Board of Celltech plc, and later COO and executive director of Antisoma plc. More recently she was CEO of the private company Genkyotex SA and is currently a non-executive director on the board of Discuva, a Cambridge, UK based start-up. She has broad experience of drug development across a range of therapeutic areas and products.

(i) Member of Audit Committee

(ii) Member of Remuneration Committee

CORPORATE GOVERNANCE

for the year ended 31 December 2018

The Chairman's Statement on Corporate Governance

The Company is committed to maintaining high standards of corporate governance. It is the responsibility of the Board and mine as Chairman to ensure that the Company has in place the structure, strategy and people to deliver value to shareholders in the medium to long term. The Board recognises that an effective corporate governance framework is important to help achieve this aim and is fundamental to the long term success of the Company.

As a result of changes to AIM Rule 26 during 2018, the Company has taken the decision to adopt the Quoted Companies Alliance Corporate Governance Code 2018 (QCA Code).

I welcome the adoption of the QCA code and the Company's approach in relation to complying with each of the ten principles of the QCA Code. The remainder of this statement sets out the Company's application of the Code. Further information on the Company's compliance is published on our website (www.proteomics.com/investors).

Compliance with the Quoted Companies Alliance Corporate Governance code

The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters (the "QCA Code"). The Directors of Proteome Sciences plc comply with the QCA Code. The QCA Code sets out ten principles which should be applied. These are listed below together with a short explanation of how the Company applies each of the principles. Where the Company does not fully comply with a principle an explanation as to why has also been provided.

1. Establish a strategy and business model which promote long-term value for shareholders

Proteome Sciences plc is a contract research organisation specializing in the analysis of proteins by mass spectrometry, providing both discovery

and targeted proteomics services and proprietary biomarker assays to biopharmaceutical and diagnostic companies engaged in the discovery and development of precision medicines.

Proteomics is an enabling biotechnology platform for an increasing number of companies invested in the identification of targeted therapeutics for the future provision of healthcare. Offering a service to such companies, in addition to the synthesis of specialty chemical tags for mass spectrometry, is an essential part of the strategy to deliver shareholder value in the medium to long-term.

2. Seek to understand and meet shareholder needs and expectations

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders on a regular basis.

All shareholders are encouraged to attend the Company's Annual General Meeting and any other General Meetings that are held throughout the year. Investors also have access to current information on the Company through its website, (<https://proteomics.com>). Requests from institutional and retail shareholders are addressed directly whenever possible by members of the executive team.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Company, its subsidiaries, contractors, suppliers and regulators, and upon relationships with customers and licensees. Feedback from all these stakeholders is shared with, and reviewed by, the executive team on a regular basis and, where appropriate, actions are documented. The executive team, led by the CEO, is also responsible for identifying the resources and relationships necessary for developing the business, and sharing these needs with the Board.

An agreed procedure exists for directors in the furtherance of their duties to take independent professional advice. With the prior approval of the

CORPORATE GOVERNANCE

for the year ended 31 December 2018

Chairman, all directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors. If the Chairman is unable or unwilling to give approval, Board approval will be sufficient. Newly appointed directors are made aware of their responsibilities through the Company Secretary.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

Risk management

The Board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and ongoing review of business risks that could affect the Company (see page 17). Duties in relation to risk management that are conducted by the directors include, but are not limited to:

- Initiate action to prevent or reduce the adverse effects of risk
- Control further treatment of risks until the level of risk becomes acceptable
- Identify and record any problems relating to the management of risk
- Initiate, recommend or provide solutions through designated channels
- Verify the implementation of solutions
- Communicate and consult internally and externally as appropriate
- Inform investors of material changes to the Company's risk profile.

Conflicts of interest

The Board has instituted a process for reporting and managing any conflicts of interest held by directors. Under the Company's Articles of Association, the Board has the authority to approve such conflicts.

Company materiality threshold

The Board acknowledges that assessment on materiality and subsequent appropriate thresholds are subjective and open to change. As well as the applicable laws and recommendations, the Board has considered quantitative, qualitative and cumulative factors when determining the materiality of specific relationships of directors.

5. Maintain the board as a well-functioning, balanced team led by the chair

The Board recognises that the Company needs to deliver growth in long-term shareholder value and that this requires an efficient, effective and dynamic management framework. This should be accompanied by good communication which helps to promote confidence and trust.

The Board currently comprises three Executive Directors:

Dr Jeremy Haigh (Chief Executive Officer) appointed to the Board on the 1 June 2016

Dr Ian Pike (Chief Scientific Officer) appointed to the Board on the 30 September 2010

Richard Dennis (Chief Commercial Officer) appointed to the Board on the 24 April 2018

and four Non-Executive Directors;

Christopher Pearce (Chairman) appointed to the Board on the 13 July 1994

Roger McDowell appointed to the Board on the 1 July 2014

Martin Diggle appointed to the Board on the 16 October 2014

Dr Ursula Ney appointed to the Board on the 1 August 2017

Details of the qualifications, background and responsibilities of each director are described on page 12 and provided on the Company's website (<https://proteomics.com/leadership>).

The board is supported by Audit and Remuneration Committees, details of which are summarised under Principle 9 below.

- The Board considers Roger McDowell and Dr Ursula Ney to be independent.

CORPORATE GOVERNANCE

for the year ended 31 December 2018

- Martin Diggle, a director of Vulpes (the largest shareholder in the Company) is not remunerated for his role on the Board and is not a member of any Board sub-committee.

Non-Executive Directors are expected to devote such time as is necessary for the proper performance of their duties but it is anticipated that they will spend approximately one day a month on work for the Company. This will include attendance of Board meetings (usually 8 per year), see page 18 for the attendance during the year, the AGM, committee meetings and sufficient time to consider relevant meeting papers.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

All members of the Board bring relevant experience. The Board believes that its blend of experience, skills, personal qualities and capabilities is suitable to ensure it successfully executes its strategy. Following the retirement of a non-executive director with a pharmaceutical background, Dr Ursula Ney was appointed in August 2017 bringing to the board considerable scientific and management experience in the biotechnology industry. The existing spectrum of differing entrepreneurial skills continues to be represented on the Board together with considerable knowledge and expertise from scientific research and the pharmaceutical industry. The Board will continue to ensure that Directors receive appropriate support and training as required to keep them up to date with current practices. The Board's biographies are set out on page 12.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board considers that it is appropriate to evaluate the performance of the Board and its Committees annually. The 2018 evaluation is detailed below. This is intended to make sure that the Board remains effective, well-informed and able to make high quality and timely decisions for the benefit of all stakeholders in the Company with regular meetings to discuss the strategic direction

and the terms of reference for the Committees. Areas covered include Board structure, arrangements, frequency and time, content of meetings, culture and succession planning. It is recognised that there continues to be more regulation about which Directors need to be informed and aware. The Board will continue to ensure that Directors receive appropriate support and training as required to keep them up to date with current practices.

The Chairman led an annual performance assessment of the Board and its Committees at the end of 2018. The performance effectiveness process included each Director completing a performance evaluation questionnaire, the results and feedback from which were collated into a summary and discussed by the Board.

The Chairman's summary of the Board Evaluation concluded that the Board is well balanced and performs an excellent function in overseeing corporate goals and activities. Management is free to operate within the Board-defined goals and receives appropriate support, oversight and challenge where required. The Board agreed that an appropriate framework should be established for succession planning.

8. Promote a corporate culture that is based on ethical values and behaviours

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- responsibilities to shareholders
- compliance with laws and regulations
- relations with customers and suppliers
- ethical responsibilities
- employment practices
- responsibility to the environment and the community.

CORPORATE GOVERNANCE

for the year ended 31 December 2018

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

Chairman

The current Chairman of the Company is Christopher Pearce who has been a director of the Company since July 1994. The responsibilities of the Chairman are to:

- Lead the Board, ensuring its effectiveness on all aspects of its role
- Ensure that the directors receive accurate, timely and clear information
- Ensure effective communication with shareholders
- Facilitate the effective contribution of non-executive directors
- Act on the results of board performance evaluation

Chief Executive Officer

The current Chief Executive of the Company is Dr Jeremy Haigh who has been a director of the Company since June 2016. The responsibilities of the Chief Executive Officer are to:

- Provide leadership and day to day management of the business within the authorities delegated by the Board.

Board meetings

The Board meets on average 8 times a year by way of both face to face and teleconference meetings. Decisions concerning the direction and control of the business are made by the Board, and a formal schedule of matters specifically reserved for the Board is in place. Matters reserved for the Board include:

- Approval of overall strategy and strategic objectives;
- Oversight of operations (including accounting, planning and internal control systems);

- Compliance with legal and regulatory requirements;
- Management/operational performance review;
- Changes in corporate or capital structure;
- Approval of the risk appetite of the Company;
- Approval of the half-year and annual report and accounts;
- Declaration of any interim dividend and recommendation of a final dividend;
- Approval of formal communications with shareholders;
- Approval of major contracts and investments; and
- Approval of policies on matters such as health and safety, corporate social responsibility (CSR) and the environment.

Generally, the powers and obligations of the Board are governed by the Companies Act 2006, and the other laws of the jurisdictions in which the Company operates. The Board is responsible, *inter alia*, for setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the shareholders.

Board Committees

There are two board committees:

- Audit Committee – members are Roger McDowell (Chair), and Dr Ursula Ney. This committee met three times during 2018.
- Remuneration Committee – members are Dr Ursula Ney (Chair) and Roger McDowell. This committee met twice in 2018.

Audit Committee

The Committee provides a forum for reporting by the Company's external auditors. Meetings are held on average three times a year and are attended, by invitation, by the Executive Directors.

CORPORATE GOVERNANCE

for the year ended 31 December 2018

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the Board and monitoring the controls which ensure the integrity of the financial information reported to the shareholders. Audit Committee Terms of Reference are provided on the Company's website.

Remuneration Committee

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Remuneration Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes, compensation payments and option schemes. The Board itself determines the remuneration of the Non-Executive Directors. Remuneration Committee Terms of Reference are provided on the Company's website.

Nominations Committee and internal audit

The Directors consider that the Company is not currently of a size to warrant a separate Nominations Committee or internal audit function although the Board has put in place internal financial control procedures as summarised below.

Internal financial control

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by their very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors are conscious of the need to keep effective internal financial control, particularly in view of the cash resources of the Group. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they remain appropriate to the nature and scale of the operations of the Company.

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Shareholders are regularly advised of any significant developments in the Company through announcements via the Regulated News Service and are encouraged to participate in the Annual General Meeting and any other General Meetings that may take place throughout the year.

Copies of the annual returns, general meeting notices and announcements made to the London Stock Exchange are published on the Company's website.

Risk management

The Board has ultimate responsibility for the Group's risk management controls. The risk and control management system framework includes:

- close management of the day-to-day activities of the Group by the Executive Directors and the executive team;
- a comprehensive annual budgeting process, which is approved by the Board;
- detailed monthly reporting of performance against budget; and
- central control over key areas such as capital expenditure authorisation and banking facilities.

Internal controls

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide its members with reasonable assurance regarding the reliability of financial information used within the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:

CORPORATE GOVERNANCE

for the year ended 31 December 2018

- Control environment: particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.
- Identification and evaluation of business risks and control objectives: particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.
- Main control procedures: which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal approval procedures and the definition of authorisation limits (both financial and otherwise).
- Monitoring: particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the financial statements.

Board operation

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The principal risks and uncertainties are detailed in the Strategic Report on page 10. The Board met at least eight times during the financial year. The Board has established two Committees; the Audit Committee and Remuneration Committee each having written terms of reference. The Board consider that the Company is not currently of a size to warrant the need for a separate Nominations Committee or internal audit function. Reports by the Chairpersons of the two Committees are reported separately on pages 20 for the Audit Committee and 22 for the Remuneration Committee.

Board effectiveness

The Board and Committee meetings are scheduled in advance for each calendar year. Additional meetings are arranged as necessary. Board and Committee meetings and attendance during the year ending 31 December 2018 were as follows:

Director	Board Meeting	Audit Committee	Remuneration Committee
C.D.J. Pearce	8/8	N/A	N/A
R. McDowell	8/8	3/3	2/2
M. Diggle	8/8	N/A	N/A
Dr U. Ney	8/8	3/3	2/2
Dr J.R.M. Haigh	8/8	N/A	N/A
Dr I. Pike	8/8	N/A	N/A
R. Dennis (appointed 24 April 2018)	4/8	N/A	N/A

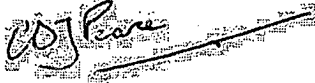
CORPORATE GOVERNANCE

for the year ended 31 December 2018

The Executive Directors were all employed full-time by the Company. The Non-Executive Directors have commitments outside the Company. These are summarised in the Board biographies on page 12. All the Non-Executive Directors give sufficient time to fulfil their responsibilities to the Company.

The Annual General Meeting (AGM)

The Annual General Meeting of the Group will take place on 30 April 2019. Full details are included in the Notice of Meeting on page 77 and will be published on our website (www.proteomics.com).



Christopher Pearce
Chairman

1 April 2019

AUDIT COMMITTEE REPORT

for the year ended 31 December 2018

I am pleased to present the report on behalf of the Audit Committee.

The Committee is responsible for challenging the quality of internal and external controls and for ensuring that the financial performance of the Group is properly reported and reviewed. The Board considers that the Company is not currently of the size to warrant the need for an internal audit function although the Board has put in place internal financial procedures to ensure close internal controls.

Committee Composition

The members of the Audit Committee are myself Roger McDowell, as Chair and Ursula Ney. We are both independent Non-Executive Directors. The Board is of the view that we have recent and relevant experience. Meetings are held on average three times a year. Jeremy Haigh the Chief Executive Officer, Stefan Fuhrmann the Finance Director and the Group's auditors attend by invitation. I report to the Board following an Audit Committee meeting and minutes are available to the Board.

Committee Duties

The main duties of the Committee are set out in its terms of reference, which are available on the Company's website. In this period the main items of business included:

- reviewing and recommending to the Board in relation to the appointment and removal of the external auditor;
- recommending the external auditor's remuneration and terms of engagement;
- reviewing the independence of the external auditors, objectivity and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements;
- reviewing and monitoring the extent of the non-audit work undertaken by the Group's external auditor;
- reviewing a wide range of financial matters including the annual and half year results,

financial statements and accompanying reports;

- monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

Financial Reporting

The Committee reviews reports provided by the external auditor on the annual results which highlight any observation from the work they have undertaken.

In the financial year commencing 1 January 2018 the Group applied two new accounting standards.

IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) has been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39.
- The Group has chosen not to restate comparatives on adoption of IFRS 9 and, therefore, any changes have been processed at the date of initial application (i.e. 1 January 2018).

IFRS 15 *Revenue from Contract with Customers*

- IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various interpretations previously issued by the IFRS Interpretations Committee.

(a) *Sale of goods*

Contracts with customers in respect of the sale of TMT® goods (£2.10m) continue to be recognised when goods are delivered to the customer and, as such, control of the asset is transferred to the customer. IFRS 15 has therefore had no impact on this revenue stream.

AUDIT COMMITTEE REPORT

for the year ended 31 December 2018

(b) Biomarker services

Contracts with customers in which biomarker services (£0.75m) create an asset that does not have an alternative use and the Group has an enforceable right to be paid for the performance completed to date including an appropriate profit margin. This revenue is therefore recognised over time as the biomarker services are performed.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

IFRS 16 Leases (effective for 2019 financial report) Adoption of IFRS 16 Leases will result in the Group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. IFRS 16 will require the Group to recognise the lease on its London (UK) and Frankfurt (Germany) premises as both an asset and a rental commitment in its consolidated statement of financial position.

It is not anticipated that the implementation of IFRS 16 in the next financial year will have a material impact on the Group.

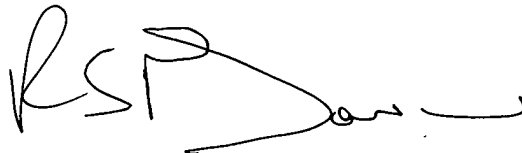
The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

External Auditor

BDO was re-appointed as the Group's auditor at the Annual General Meeting held on the 30 May 2018. The Committee considers that its relationship with the auditor is working well and is satisfied with their effectiveness.

The Committee is responsible for a suitable policy ensuring that non-audit work undertaken by the auditor is reviewed to ensure it will not impact their independence and objectivity. The breakdown of fees between audit and non-audit services is provided in note 8 on page 52 of the Group's financial statements. The non-audit fees primarily relate to Group taxation compliance.

As necessary the Committee held private meetings with the auditor to review key items in its responsibilities. Taking into account the auditor's knowledge of the Group and experience, the Committee has recommended to the Board that the auditor is re-appointed for the period ending 31 December 2019.



Roger McDowell
Chair of the Audit Committee

1 April 2019

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2018

I am pleased to present the report on behalf of the Remuneration Committee.

The Committee is responsible for setting the remuneration policy of the Executive Directors and other senior staff, including terms of employment, salaries, any performance bonuses and share option awards.

Committee Composition

The members of the Remuneration Committee are myself Ursula Ney as Chair and Roger McDowell. We are both independent Non-Executive Directors.

Committee Duties

The Company has established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director is involved in deciding their own remuneration.

Remuneration Policy

The key principles of the Remuneration Policy include:

- the need to attract, retain and motivate executives who have capability to ensure the Company achieve its strategic objectives;
- the need to ensure that short term benefits and long term incentive plans are aligned with the interests of shareholders;
- the need to take into account the competitive landscape in the UK biotechnology industry and current best practice in setting appropriate levels of compensation.
- the Committee to meet at least once per year.

Director's Remuneration

The following table summarises the total gross remuneration for the qualifying services of the directors who served during the year to 31 December 2018.

Directors' remuneration and transactions

The directors' emoluments in the year ended 31 December 2018 were:

	Basic salary 2018 £'000	Benefits in kind 2018 £'000	Pension Costs 2018 £'000	Total 2018 £'000	Total 2017 £'000
Executive Directors					
Dr J.R.M. Haigh	247	3	–	250	250
G. Ellis (resigned 1 August 2017)					92
Dr I. Pike	150	3	15	168	168
R. Dennis (appointed 24 April 2018)	146	–	13	159	–
Non-Executive Directors					
C.D.J. Pearce	120	4	–	124	126
Prof. W.Dawson (resigned 1 August 2017)					16
R. McDowell	25	–	–	25	25
M. Diggle	–	–	–	–	–
Dr U. Ney	23	–	–	23	5
	711	10	28	749	682

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2018

Directors and their interests

The Directors who served during the year are as shown below:

C.D.J. Pearce	Non-Executive Chairman
Dr J. R. M. Haigh	Chief Executive Officer
Dr I.H. Pike	Chief Scientific Officer
R. Dennis (appointed 24 April 2018)	Chief Commercial Officer
R. McDowell	Non-Executive
M. Diggle	Non-Executive
Dr U. Ney	Non-Executive

In accordance with the Company's articles M. Diggle and Dr I. Pike retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. The directors at 31 December 2018 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	31 December 2018 Number of Ordinary Shares of 1p each	% shareholding
C.D.J. Pearce	36,915,059	12.53
Dr J. R. M. Haigh	400,000	0.14
Dr I.H. Pike	165,583	0.05
R. Dennis (appointed 24 April 2018)	—	—
R. McDowell	2,500,000	0.85
M. Diggle	—	—
Dr U. Ney	—	—

Note

M. Diggle is a Director and partner in Vulpes Investment Management and manages the Vulpes Life Sciences Fund which is the registered holder of 22% of Proteome Sciences' ordinary share capital.

No changes took place in the beneficial interests of the directors between 31 December 2018 and 1 April 2019.

b) Directors' interests in the Long-Term Incentive Plan ("LTIP"):

The maximum number of shares to be allocated to the Directors under the 2004 and 2011 LTIP schemes, in each case for an aggregate consideration of £1 are as follows:

		Number at 31 December 2018		Number at 31 December 2017
(i) Dr I.H. Pike	(a)	3,750,000	(b)	3,750,000
(ii) Dr J. R. M. Haigh	(a)	9,000,000	(b)	9,000,000
(iii) R. Dennis	(a)	3,250,000	(b)	3,250,000

The numbers shown in (i)(a), (ii)(a) and (iii)(a) at 31 December 2018 relate to awards that were made during 2017.

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2018

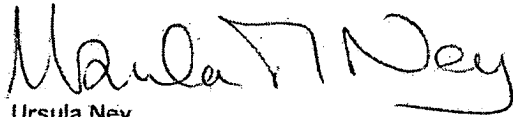
Executive Directors' Service Contracts

The Executive Directors signed service contracts on their appointment. These contracts are not of fixed duration. The Chief Executive Officer's contract is terminable by either party giving six months' written notice. All other Executive Directors' contracts are terminable by either party giving three months' written notice.

Non-Executive Directors

The Non-Executive Directors signed letters of appointment with the Group for the provision of Non-Executive Directors' services, which may be terminated by either party giving one months' written notice. The remuneration of the Non-Executive Directors is determined by the Board as a whole.

The Committee has met twice during the financial year to 31 December 2018.



Ursula Ney
Chair of the Remuneration Committee

1 April 2019

DIRECTORS' REPORT

for the year ended 31 December 2018

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. 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 Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the

Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained herein.

Financial instruments and liquidity risks

Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies are given in note 24 of the financial statements (page 70).

- a) As set out in note 18(b) (i) to (iii) in these financial statements, C.D.J. Pearce has made a loan facility available to the Company which can be converted, at Mr. Pearce's option, into Ordinary Shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29 June 2006 (the date on which details of the original loan agreement were disclosed). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc.
- b) On 2 July 2018, Proteome Sciences plc secured a loan facility of £1.0m from Vulpes Investment Management. Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan on 31 December 2019. This loan is deemed a related party transaction by nature of a common director being on both the boards of Proteome Sciences plc and Vulpes Investment Management.

DIRECTORS' REPORT

for the year ended 31 December 2018

- c) The market price of the Ordinary Shares at 31 December 2018 was 2.44p and the range during the year was 4.2p to 2.25p.

Substantial shareholdings

As at 1 April 2019, the Company had received notification of the following significant interests in the ordinary share capital of the Company:

Name of holder	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
C.D.J. Pearce	36,915,059	12.53
Vulpes Life Science Fund	64,946,734	22.00
Helium Special Situations Fund	19,212,273	6.51

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Statement on page 2 and Strategic Report on page 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements, in particular in the consolidated cash flow statement on page 40 and in notes 18(b) (Financial liabilities) and 24 (Financial instruments).

The Group's financial statements have been prepared on the going concern basis which remains reliant on the Group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities. The directors have reviewed the Group's going concern position, taking account of current business activities, budgeted performance and the factors likely to affect its future development, as set out in the Annual Report, and including the Group's objectives, policies and processes for managing its working capital, its financial risk management objectives and its exposure to credit and liquidity risks.

The directors have prepared cash-flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresees that the Group will be able to operate within its existing working capital facilities. However the timeline required to close sales contracts and the order value of individual sales continues to vary considerably, which constrain the ability to accurately predict revenue performance. Furthermore, the Group's services are still in the development phase and as such the directors consider that costs could exceed income in the short term. The directors intend that the Group will continue to pursue its sales strategy and focus its operational plans on the importance of achieving sustained positive cash-flow generation.

The Group is also dependent on the unsecured loan facility provided by the Chairman of the Group which, under the terms of the facility, is repayable on demand. Further details of this facility are set out in note 18(b) to the financial statements. The directors have received confirmation from the Chairman that he has no intention of seeking its repayment, with the facility continuing to be made available to the Group, on the existing terms, for at least 12 months from the date of approval of these financial statements.

On 2 July 2018, the Company secured a loan facility of £1.0m from Vulpes Investment Management. Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is

DIRECTOR'S REPORT

for the year ended 31 December 2018

repayable alongside the principal loan. The directors have received confirmation from Vulpes Investment Management they have no intention of seeking its repayment before May 2020.

Events after the balance sheet date

There have been no significant events which have occurred subsequent to the reporting date.

Research and development

Details of the Group's activities on research and development during the year are set out in the Chief Executive Officer's Statement (page 2) and Strategic Report (page 6).

Auditor

Each of the persons who are directors of the Company at the date when this report was approved confirms that:

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The directors will place a resolution before the Annual General Meeting to appoint BDO LLP as auditor for the following year.

Liability insurance for Company officers

As permitted by section 233 of the Companies Act 2006, the Company has purchased insurance cover for the directors against liabilities that might arise in relation to the Group.

By order of the Board

Hamilton House
Mabledon Place
London
WC1H 9BB



V. Birse
Company Secretary

1 April 2019

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

Independent auditor's report to the members of Proteome Sciences Plc

Opinion

We have audited the financial statements of Proteome Sciences Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated and company cash flow statements, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Group and the parent 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.

Material uncertainty related to going concern

We draw attention to note 3 in the financial statements (page 42) which indicates that the Group remains reliant on achieving adequate level of sales in order to maintain sufficient working capital to support its activities and is reliant on the unsecured loan facility provided by the Chairman and a related party not being called in to enable it to continue as a going concern.

These events or conditions, along with the other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the parent company and group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The calculations supporting the going concern assessment require management to make highly subjective judgements. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this has been identified as a Key Audit Matter.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

Our audit procedures included the following:

- Reviewing management's assessment of going concern through analysis of the Group's cash flow forecast and other projections through to 30 June 2020, including assessing and challenging assumptions used through discussions with management and comparison against post year-end results to date and performing sensitivity analysis to consider cash flow changes if the level of revenue and costs were to remain static.
- Reviewing the terms of the Group's financing, including loans from Mr C.D.J. Pearce (Chairman and a related party) and a related party including recalculation of amounts due and interest payable and obtaining confirmation that the loans will not be recalled within a 12 month period following sign-off of the Annual Report.
- Reviewing post-balance sheet events, specifically cash flow position against budgeted performance.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards.

Key audit matters

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, 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 audit 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.

Matter	How we addressed the matter in our audit
Revenue Recognition and adoption of IFRS 15: Revenue from Contracts with Customers The Group has adopted the new revenue accounting standard from 1 January 2018. This standard brings a new and detailed approach to accounting for revenue, with a more prescriptive framework and as such, significant emphasis has been placed on this transition throughout the audit, resulting in the recognition of this key audit matter. The Group has a discrete number of revenue streams for which the accounting must be individually considered. Due to the fact that there more than one revenue stream exists, and the fact that revenue is recognised both point in time and over a period of time, there is a key risk of material misstatement arising from both the recognition of revenue around the year end (cut-off) and the revenue recognition policy itself, as detailed in note 3 to these financial statements.	We assessed whether the revenue recognition policies adopted by the Group comply with IFRS as adopted by the European Union and Industry Standard. The relevant IFRS is International Financial Reporting Standard 15 Revenue from Contracts with Customers. Furthermore, we have performed specific substantive testing over each revenue stream including the following: • Verifying a sample of contract revenue recognised in the year, reconciling to underlying agreements, cash receipt and appropriate trigger events for revenue recognition in accordance with IFRS 15. • Agreeing sales of TMT kits and royalties received through to delivery order confirmation and ultimate cash receipt.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

<i>Matter</i>	<i>How we addressed the matter in our audit</i>
	• Cut-off procedures including testing invoices raised in December 2018 and January 2019 to check revenue has been recorded within the correct period. • Assessment as to whether any material deferred contract cost asset are required to be capitalised in respect of costs incurred to fulfil contracts. We have further reviewed the requirements of the IFRS 15 transition and reviewed the assessment of expected impacts. There has been no impact to adopting the new standard to the brought forward balances. We have reviewed the enhanced financial statement disclosures to check that they are in accordance with the requirements of the standard.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Level of materiality applied and rationale

We determined materiality for the Group financial statements as a whole to be £84,000 (2017: £126,000) which represents 5% of loss before tax (2017: 5% loss before tax).

Materiality for the parent company has been capped at 75% of group materiality, at £63,000 (2017: £94,500).

The individual component materiality was set at 75% group materiality, at £63,000 (2017: £80,250).

We used loss before tax as a benchmark as this is the primary KPI used to address the performance of the business by the Board, and is referenced within the RNS announcements released by the Group.

Performance materiality was set at 75% of materiality (£63,000, 2017: £80,250). In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £4,200 (2017: £6,300), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each component in the group by reference to both its individual financial significance to the Group or other specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the Group financial statements. We identified three individually significant components, which makes up 100% of Group expenditure.

To this extent:

- The Group audit team performed full scope audits for Proteome Sciences Plc and its subsidiary Electrophoretics Limited;
- We instructed our German member firm as component auditors for Proteome Sciences R&D GmbH & Co. KG to perform a full scope audit. Detailed instructions were issued and discussed with the component auditor, and these covered the significant risks (including the Group risks of material misstatement described in the above key audit matters) that should be addressed by the audit team. The Group audit team was actively involved in directing the audit strategy of the German audit, reviewed in detail the audit work and findings and considered the impact of these upon the Group audit opinion. We visited the component auditors in Germany to carry out a detailed review of their file and hold a clearance meeting with local management.
- The remaining four components not subject to full scope audit have been reviewed for group reporting purposes, by the Group auditor, using analytic procedures to corroborate the conclusions reached that there are no significant risks of material misstatement of the aggregated financial information of these components.

We ensured that audit teams both at group and at component level have the appropriate skills and competences which are needed to perform the audit of a biotechnology research and development company. Furthermore, we included specialists in the area of Research & Development tax credits in our team.

The Group audit team centrally performed the audit of 100% of the Group revenue and 100% of the intangible assets using the materiality levels set out above.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Report and Financial Statements, 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 our 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 this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 directors' responsibilities statement set out on page 25, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

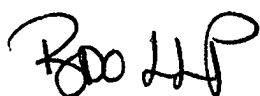
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2018

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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Iain Henderson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

1 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	5, 6		
Licences, sales and services		2,958	3,378
Grant services		91	2
Revenue – total		3,049	3,380
Cost of sales		(1,180)	(1,180)
Gross profit		1,869	2,200
Administrative expenses		(3,239)	(4,008)
Operating loss		(1,370)	(1,808)
Finance income	7(i)	–	1
Finance costs	7(ii)	(289)	(246)
Loss before taxation		(1,659)	(2,053)
Tax	11	346	(444)
Loss for the year		(1,313)	(2,497)
Loss per share			
Basic and diluted	12	(0.44p)	(0.85p)

The accompanying notes 1 to 26 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Loss for the year	(1,313)	(2,497)
Other comprehensive income for the year		
<i>Items that will or may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	24	37
Loss and total comprehensive income for the year	(1,289)	(2,460)
Owners of parent	(1,289)	(2,460)

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The accompanying notes 1 to 26 are an integral part of the financial statements.

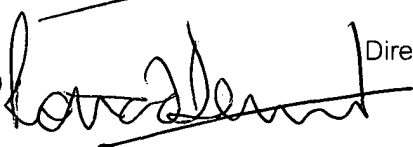
CONSOLIDATED BALANCE SHEET

as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Goodwill	13	4,218	4,218
Property, plant and equipment	14	56	281
		4,274	4,499
Current assets			
Inventories	16	1,147	946
Trade and other receivables	17(a)	320	1,124
Contract assets	5	328	–
Cash and cash equivalents	17(b)	958	908
		2,753	2,978
Total assets		7,027	7,477
Current liabilities			
Trade and other payables	18(a)	(541)	(726)
Contract liabilities	5	(25)	–
Borrowings	18(b)	(9,936)	(8,946)
		(10,502)	(9,672)
Net current liabilities		(7,749)	(6,694)
Non-current liabilities			
Provisions	19	(343)	(363)
		(343)	(363)
Total liabilities		(10,845)	(10,035)
Net liabilities		(3,818)	(2,558)
Equity			
Share capital	20	2,952	2,952
Share premium		51,466	51,466
Share-based payment reserve		3,532	3,503
Merger reserve	22	10,755	10,755
Translation reserve		(43)	(67)
Retained loss		(72,480)	(71,167)
Total (deficit)		(3,818)	(2,558)

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 1 April 2019. They were signed on its behalf by:

J.R.M. Haigh  Director

R. Dennis  Director
1 April 2019

The accompanying notes 1 to 26 are an integral part of the financial statements.

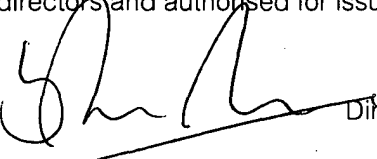
COMPANY BALANCE SHEET

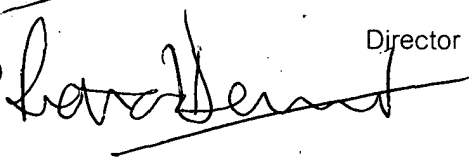
as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investment in subsidiaries	15	8,154	7,941
		8,154	7,941
Current assets			
Cash and cash equivalents	17(b)	496	58
		496	58
Total assets		8,650	7,999
Current liabilities			
Payables from other group entity	18(a)	(321)	(316)
Borrowings	18(b)	(2,257)	(1,502)
		(2,578)	(1,818)
Non-current liabilities			
Provisions	19	-	-
Total liabilities		(2,578)	(1,818)
Net assets		6,072	6,181
Equity			
Share capital	20	2,952	2,952
Share premium account		51,466	51,466
Share-based payment reserve		3,532	3,503
Retained loss		(51,878)	(51,740)
Total equity		6,072	6,181

The Company generated a loss for the year ended 31 December 2018 of £0.14m (2017: £4.32m).

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 1 April 2019. They were signed on its behalf by:

J.R.M. Haigh  Director

R. Dennis  Director
1 April 2019

The accompanying notes 1 to 26 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Share- based payment reserve £'000	Translation reserve £'000	Merger reserve £'000	Retained loss £'000	Equity attributable to owners of the parent £'000	Total (deficit) £'000
At 1 January 2017	2,943	51,451	3,436	(104)	10,755	(68,670)	(189)	(189)
Loss for the year	-	-	-	-	-	(2,497)	(2,497)	(2,497)
Exchange differences on translation of foreign operations	-	-	-	37	-	-	37	37
Loss and total comprehensive income for the year	-	-	-	37	-	(2,497)	(2,460)	(2,460)
Issue of share capital	9	15	-	-	-	-	24	24
Share issue expenses	-	-	-	-	-	-	-	-
Credit to equity for share-based payment	-	-	67	-	-	-	67	67
At 31 December 2017	2,952	51,466	3,503	(67)	10,755	(71,167)	(2,558)	(2,558)
At 1 January 2018	2,952	51,466	3,503	(67)	10,755	(71,167)	(2,558)	(2,558)
Loss for the year	-	-	-	-	-	(1,313)	(1,313)	(1,313)
Exchange differences on translation of foreign operations	-	-	-	24	-	-	24	24
Loss and total comprehensive income for the year	-	-	-	24	-	(1,313)	(1,289)	(1,289)
Issue of share capital	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-	-
Credit to equity for share-based payment	-	-	29	-	-	-	29	29
At 31 December 2018	2,952	51,466	3,532	(43)	10,755	(72,480)	(3,818)	(3,818)

The accompanying notes 1 to 26 are an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Company	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Retained loss £'000	Total equity £'000
At 1 January 2017	2,943	51,451	–	3,436	(47,417)	10,413
Loss and total comprehensive income for the year	–	–	–	–	(4,323)	(4,323)
Credit to equity for share-based payment	–	–	–	67	–	67
Transfer during year	–	–	–	–	–	–
Issue of share capital	9	15	–	–	–	24
Share issue expenses	–	–	–	–	–	–
At 31 December 2017	2,952	51,466	–	3,503	(51,740)	6,181
At 1 January 2018	2,952	51,466	–	3,503	(51,740)	6,181
Loss and total comprehensive income for the year	–	–	–	–	(138)	(138)
Credit to equity for share-based payment	–	–	–	29	–	29
Transfer during year	–	–	–	–	–	–
Issue of share capital	–	–	–	–	–	–
Share issue expenses	–	–	–	–	–	–
At 31 December 2018	2,952	51,466	–	3,532	(51,878)	6,072

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The accompanying notes 1 to 26 are an integral part of the financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

for the year ended 31 December 2018

	Note	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Loss before tax		(1,659)	(2,053)	(138)	(4,323)
Adjustments for:					
Net finance costs	7	289	245	55	42
Depreciation of property, plant and equipment	14	229	332	–	–
Impairment of investments in subsidiaries		–	–	–	4,182
Share-based payment expense	21	29	67	–	–
Operating cash flows before movements in Working capital		(1,112)	(1,409)	(83)	(99)
(Increase) in inventories		(201)	(346)	–	–
Increase in receivables		77	(63)	–	–
Increase in payables		6	118	–	–
(Decrease)/Increase in provisions		(20)	2	–	(5)
Cash used in operations		(1,250)	(1,698)	(83)	(104)
Tax refunded		746	–	–	–
Net cash outflow from operating activities		(504)	(1,698)	(83)	(104)
Cash flows from investing activities					
Purchases of property, plant and equipment	14	(4)	(23)	–	–
Loans advanced to subsidiary undertakings		–	–	(182)	(2,013)
Interest received	7	–	1	–	–
Net cash outflow from investing activities		(4)	(22)	(182)	(2,013)
Financing activities					
Proceeds on issue of borrowings		700	–	700	–
Proceeds on issue of shares		–	23	–	23
Share issue costs		–	–	–	–
Repayment of HP creditors	18	(166)	(220)	–	–
Net cash inflow from financing activities		534	(197)	700	23
Net increase in cash and cash equivalents		26	(1,917)	435	(2,094)
Cash and cash equivalents at beginning of year		908	2,884	58	2,152
Effect of foreign exchange rate changes		24	(59)	3	–
Cash and cash equivalents at end of year	17b	958	908	496	58

The accompanying notes 1 to 26 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 GENERAL INFORMATION

Proteome Sciences plc is a company incorporated in the United Kingdom. These financial statements are the consolidated financial statements of Proteome Sciences plc and its subsidiaries ("the Group") and the Company financial statements for Proteome Sciences plc ("the Company"). The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2 CHANGES IN ACCOUNTING POLICIES

Adoption of new and revised standards effective from 1 January 2018

Proteome Sciences Plc has applied the same accounting policies and methods of computation in its financial statements as in its 2017 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018, which have been adopted in the current year's financial statements. New standards that have impacted the Group for the year ended 31 December 2018 are:

- IFRS 9 *Financial Instruments*; and
- IFRS 15 *Revenue from Contracts with Customers*

IFRS 9 "Financial Instruments"

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement*, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) has been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has resulted in £8,486 provision for expected losses.
- Loans to subsidiaries measured at amortised cost have been calculated in accordance with IFRS 9's expected credit loss model. These loans were considered to be credit-impaired at the date of initial adoption of the new standard. The directors have considered cash flows that may be generated from the orderly sale of the underlying business in order to establish the assessment of lifetime expected credit losses at initial adoption and at year end.

The impact of the standard on opening balances is not material and as such, the Group has chosen not to restate comparatives on adoption of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 has replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts* as well as various Interpretations previously issued by the IFRS Interpretations Committee. The Group adopted IFRS 15 using the cumulative effect method applied to those contracts which were not completed as of 1 January 2018. The impact of the new standard on opening balances was immaterial. It has impacted the Group in the following ways:

(a) Sale of goods

Contracts with customers in respect of the sale of TMT® goods (£2.10m) continue to be recognised when goods are delivered to the customer, and as such control of the asset is transferred to the customer. IFRS 15 has therefore had no impact on this revenue stream.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

2 CHANGES IN ACCOUNTING POLICIES continued

(b) Biomarker services

Contracts with customers in which biomarker services (£0.75m) are provided over a period of time are reviewed on an individual basis. The nature of the Group's work is that our biomarker contracts create an asset with no alternative use and contracts are worded in such a way that the Group has an enforceable right to be paid for the performance completed to date including an appropriate profit margin. Revenue is recognised over time as the biomarker services are performed.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendment to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

IFRS 16 "Leases" – (effective for 2019 financial report)

Adoption of IFRS 16 Leases will result in the Group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Group will only recognize such leases on its balance sheet as at 1 January 2019. In addition, it will measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2018 operating lease commitments amounted to £1.42m. Instead of recognizing an operating expense for its operating lease payments, the Group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets. This will increase reported EBITDA by the amount of its current operating lease expense.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), which are adopted by the EU.

Going concern

These financial statements have been prepared on the going concern basis. The directors have reviewed the Company's and the Group's going concern position taking account its current business activities, budgeted performance and the factors likely to affect its future development, set out in the Annual report, and including the Group's objectives, policies and processes for managing its working capital, its financial risk management objectives and its exposure to credit and liquidity risks.

As at 31 December 2018, the Group had cash resources of £0.96m (2017: £0.91m), realised a loss for the year of £1.31m (2017: a loss of £2.50m), had net cash outflows from operating activities of £0.50m (2017: net cash outflow of £1.70m) and had net current liabilities of £7.75m (2017: £6.69m).

The financial statements have been prepared on a going concern basis, which remains reliant on the Group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities. If sales are not in line with cash flow forecasts then additional funding will be required. The directors have prepared cash-flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresee that the Group will be able to operate within its existing facilities. However the timeline required to close sales contracts and the order value of individual sales continues to vary considerably, which constrain the ability to accurately predict revenue performance. Furthermore, the Group's services are still in the development phase and as such, the directors consider that costs could exceed income in the short term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

As such, there is a risk that the Group's working capital may prove insufficient to cover both operating activities and the repayment of its debt facilities. In such circumstances, the Group would be obliged to seek additional funding through a placement of shares or source other funding.

The Group is also dependent on the unsecured loan facility provided by the Chairman of the Group, which, under the terms of the facility, is repayable on demand. Further details of this facility are set out in note 18(b). The directors have received confirmation from the Chairman that he has no intention of seeking its repayment, with the facility continuing to be made available to the Group, on the existing terms, for at least 12 months from the date of approval of these financial statements.

On 2 July 2018, The Company secured a loan facility of £1.0m, of which £0.7m was drawn at 31 December 2018, from Vulpes Investment Management ('VIM'). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan on 31 December 2019. The Company has received confirmation from VIM that they will not seek repayment before May 2020.

The directors have concluded that the circumstances set forth above represent a material uncertainty, which may cast significant doubt about the Company and Group's ability to continue as going concerns. However, they believe that taken, as a whole, the factors described above enable the Company and Group to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the Company and the Group were unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. The Company controls an investee if, and only if the Company has the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure of rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The majority of the Group's revenue is derived from selling TMT products, end customer sales based royalties, which are paid on a quarterly retrospective basis and milestone payments for development work.

TMT® product sales

TMT® revenues are recognised at a point in time when goods are handed over to the hauler company as with this, the customer gains the right of control over the goods. The standard payment terms for TMT® product invoices are 45 days from receipt.

TMT® royalties

Royalty revenues are recognised on a quarterly basis at the end of each quarter retrospectively as soon as the calculation of the royalty amount is available. Royalties are earned when other parties generate sales that use the Group's TMT® IP. This variable revenue is subject to the sales/usage restriction in IFRS 15 and, as such, it is only recognised when that underlying sale of the third party product is made. The price is a fixed percentage of the underlying sale and payment is due on a quarterly basis, based on the sales made in that quarter. Royalty payments are received the month following the quarter end.

Biomarker services

Proteomics (biomarker) services represent a third revenue stream for the Group, with revenue recognised typically on an over time basis. Performance obligations are described for larger service orders in form of work packages, which identify individual deliverable services, and each represent each a value on its own to the customer. The nature of the Group's work is that our biomarker contracts create an asset with no alternative use and contracts are worded in such a way that the Group has an enforceable right to be paid for the performance completed to date including an appropriate profit margin. Revenue is recognised over time as the biomarker services are performed. On partially complete biomarker projects, the Group recognises revenue based on stage of completion of the project which is estimated by reviewing the individual deliverable services stipulated in the work package. This is considered a faithful depiction of the transfer of services as the contracts are initially priced on the basis of individual work packages and therefore represent the amount to which the Group would be entitled based on its performance to date. Smaller service orders are normally recognised as revenues when completed in total. This policy is consistent with the policy followed in previous reporting periods. The standard payment terms for Biomarker services invoices are 30 days from receipt.

Determining the transaction prices and allocation of amounts to performance obligations

Most of the Group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices.

For TMT® products sold there is a fixed unit price, which is applied. For the royalties a percentage charge per product unit sold is fixed and used as the transaction price. Transactions prices for biomarker services and grant services are determined on the basis of contractual agreements within the purchase order / contract with fixed prices stipulated in advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

For biomarker services revenues the Company does not use any discount or bonus schemes so revenue is allocated at the transaction price specified for the individual work order. Similarly there are no guarantees given to the customer, so prices do not need to be split up to allocate a portion to any guarantee services.

The Group does not operate a returns or refunds policy due to the bespoke nature of its products and services.

Research grants

Research grant income is received following the Group reporting the number of working hours carried out on a research project at the allowable rate. Where retention of a grant is dependent on the group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated income statement.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the same term.

Foreign Currencies

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG during financial year 2002, the Group makes contributions in Germany to a funded defined contribution plan and to a funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG (Hoeschst Group), an independent German mutual insurance company which is required to comply with German insurance company regulations.

The schemes' assets are held in multi-employer funds, and the other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly it has also been accounted for as a defined contribution scheme. The Group's contributions to the schemes are included within the amount charged to the income statement in respect of pension contributions. Funding contributions paid by the Group are based on annual contributions determined by Hoechst Group, the administrator for the pension plans. The Group does not have any information about any deficit or surplus in the defined benefit plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any for the entity.

The Group also has a direct pension obligation (defined benefit obligation) for its German subsidiary for which it provides in full at the balance sheet date. This scheme has no separable assets. The Company uses the projected unit credit method to determine the present value of its unfunded defined benefit obligation.

Taxation

Any tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Research and development tax credit

Companies within the Group may be entitled to claim special tax allowances in relation to qualifying research and development expenditure (e.g. R&D tax credits). The Group accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the Group and that benefit can be reliably measured. R&D tax credits are measured on a cash basis due to the uncertainty over the amount and timing of receipt. R&D tax credits reduce current tax expense and, to the extent the amounts due in respect of them are not settled by the balance sheet date, reduce current tax payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Laboratory equipment, fixtures and fittings	20%
Mass spectrometers	33%

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure, where it meets certain criteria (given below), is capitalised and amortised on a straight-line basis over its useful life. Asset lives are subject to regular review and an impairment exercise carried out at least once a year.

Where no internally-generated intangible asset can be recognised, development expenditure is written-off in the period in which it is incurred.

An asset is recognised only if all of the following conditions are met:

- the product is technically feasible and marketable;
- the Company has adequate resources to complete the development of the product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

The directors do not consider that any Research and Development intangible assets have been created in 2018 or the prior year on the basis that it is uncertain whether the intangible assets will generate future revenue cash flows.

Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense through profit or loss.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Any impairment is reflected through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES *continued*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

The Group classifies its financial assets into one of three measurement categories (fair value through profit or loss, fair value through other comprehensive income or amortised cost) depending on the purpose for which the asset was acquired and the nature of the contractual cash flows. As all of the Group's financial assets are held in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest, all financial assets are measured at amortised cost.

Amortised cost

Financial assets classified under the amortised cost model are Trade and other receivables, Cash and cash equivalents, Trade and other payables and Loans to subsidiaries.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit loss. During this process the probability the non-payment of the trade receivable is assessed and multiplied by expected amount of credit loss resulting from credit default. The Company has set up a matrix using the time a debtor is overdue as a criteria to determine the default probability using 5 categories ranging from 0% to 90% probability. Provisions are recorded in a separate provision account and the movements in the ECL provision are recognised in profit or loss. On notice of a realised default the gross carrying amount of the asset is written off against the provision.

The Company's loans to its subsidiaries are interest free and under terms which would technically provide the Company to demand immediate repayment. The current financial situation of the subsidiaries is such that they would be unable to repay the amounts due if demanded and, in consequence, they are considered to be credit-impaired and lifetime expected credit losses are recognised. As part of the assessment of the lifetime expected credit losses of these intercompany loan receivables, the directors have considered the cash flows that may be generated from a number of different scenarios, including through an orderly sale of the underlying business.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with an original maturity date of fewer than three months that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings

Interest-bearing loans are recorded initially at fair value, net of direct issue costs and subsequently at amortised costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES continued

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Further details of the pension provision policy are set out in the paragraph above headed Retirement benefit costs.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest based on the effect of non-market vesting conditions. Share based payments are recognised as an additional cost of investment in subsidiary undertakings in the Company where the Company issues share options to executives employed by its subsidiaries.

Fair value is measured by use of the Black Scholes model and for the LTIP awards the Monte Carlo model has been used. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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 year are discussed below.

Internally-generated intangible assets – research and development expenditure

The directors do not consider that any Research and Development intangible assets have been created in 2018 or the prior year on the basis that it is uncertain whether the intangible assets will generate future revenue cash flows due to economic feasibility not being established until late in the process.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value less costs to sell of the cash-generating units to which goodwill has been allocated. The fair value less costs to sell calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit. The carrying amount of goodwill at the balance sheet date was £4.2m. Details of the estimates used in the calculation are set out in note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

continued

Investments in subsidiary companies

The carrying cost of the Company's investments in subsidiary companies is reviewed at each balance sheet date by reference to the income that is projected to arise therefrom. From a review of these projections the directors have made a provision against their carrying values as shown in note 15 to the financial statements and the directors therefore believe that the investments concerned will generate sufficient economic benefits to justify their revised carrying values, despite the inevitable uncertainties over timing of the receipt of income and the size of the markets from which income is anticipated.

5 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

Year to 31 December 2018	Biomarker services £'000	Other licence income £'000	TMT Sales £'000	TMT Royalties £'000	Grant income £'000
Primary Geographic Markets					
US	277	–	1,259	948	–
UK	103	–	–	–	–
EU	371	–	–	–	91
	751	–	1,259	948	91
Revenue recognised at a point in time	–	–	1,259	948	91
Revenue recognised over a period	751	–	–	–	–
	751	–	1,259	948	91
Year to 31 December 2017					
Primary Geographic Markets					
US	306	–	1,770	713	–
UK	39	100	–	–	–
EU	91	–	–	–	2
Other	359	–	–	–	–
	795	100	1,770	713	2
Revenue recognised at a point in time	–	100	1,770	713	2
Revenue recognised over a period	795	–	–	–	–
	795	100	1,770	713	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

5 REVENUE FROM CONTRACTS WITH CUSTOMERS continued Contract Balances

	Contract Assets 2018 £'000	Contract Liabilities 2018 £'000
At 1 January/accrued in the period	237	(35)
Transfer in the period from contract assets to trade receivables	(237)	–
Amounts included in contract liabilities that were recognised as revenue during the period	35	–
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	328	–
Cash received in advance of performance and not recognised as revenue during the period	–	(25)
	328	(25)

Contract assets and liabilities were included in other debtors and other payables in the prior year.

Contract assets and contract liabilities arise from the Group's biomarker services where contracts may not be completed at the year end and because payments received from customers at each balance sheet date do not necessarily equal the amount of revenue recognised on the contracts. The Group expects to recognise this revenue in 2019.

Remaining performance obligations

The vast majority of the Group's contracts are for the delivery of goods within the next 12 months for which the practical expedient of IFRS 15 applies.

In the current and previous year there are no contracts that remained open over the balance sheet date, so revenue for all contracts started in the year has also been recognised in the year. As such, there was no impact on the consolidated income statement or balance sheet as a result of the transition to the new revenue standard.

6 SEGMENT INFORMATION

For executive management purposes, the Group has one reportable segment which is the sale of goods and biomarker services. All revenue from its operations is reported to this one segment and the two income streams form the two categories reported in a manner consistent with the internal reporting provided to the chief operating decision maker. These two categories are TMT® revenues and Biomarker services and other license income. In identifying the operating segments, management has considered internal reports about components of the Group that are used by the Chief Executive, who is the Chief Operating Decision Maker, to determine allocation of resources and to assess their performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

6 SEGMENT INFORMATION continued

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	2018 £'000	2017 £'000
TMT® revenues	2,207	2,483
Biomarker services and other licence income	751	895
Grant income	91	2
Total	3,049	3,380

Revenues from one customer totalled £2,207k (2017: £2,483k) representing all revenues from the TMT® segment.

7 (i) FINANCE INCOME

	2018 £'000	2017 £'000
Income arising from bank deposits	–	1

(ii) FINANCE COSTS

	2018 £'000	2017 £'000
Interest on loans (note 18)	289	246

8 OPERATING LOSS

	2018 £'000	2017 £'000
Operating loss is stated after charging/(crediting):		
Depreciation charge		
– owned	229	332
Research and development costs	441	441
Operating lease rentals		
– other	322	364
Auditor's remuneration for the Audit 2018 (see below)	72	84
Foreign exchange losses	3	12
Net increase in inventories	201	346

The analysis of auditor's remuneration is as follows:

Fees payable to the Company's auditor for the audit of the Company's annual accounts

Fees payable to the Company's auditor for other services to the Group

– The audit of the Company's subsidiaries pursuant to legislation	–	1
Total audit fees	57	57
Tax compliance services	15	27
Other tax compliance services – VAT, grants, share schemes, income tax advice	–	–
Total non-audit fees	15	27
Total fees	72	84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

9 Staff costs

The Group average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Research and development	21	25
Administration	8	9
	29	34

Their aggregate remuneration (including that of executive directors) comprised:

	£'000	£'000
Wages and salaries	1,838	2,055
Social security costs	317	358
Other pension costs	92	126
	2,247	2,539

No staff costs are incurred in the parent company, Proteome Sciences Plc.

Social security costs shown above include a credit of £Nil (2017: £4,664) from the provision for notional National Insurance contributions payable upon the exercise of vested LTIP options.

10 DIRECTORS' REMUNERATION AND TRANSACTIONS

The directors' emoluments in the year ended 31 December 2018, were:

	Basic salary 2018 £'000	Benefits in kind 2018 £'000	Pension Costs 2018 £'000	Total 2018 £'000	Total 2017 £'000
Executive Directors					
Dr J.R.M. Haigh	247	3	–	250	250
G. Ellis (resigned 1 August 2017)	–	–	–	–	92
Dr I. Pike	150	3	15	168	168
R. Dennis (appointed 24 April 2018)	146	–	13	159	–
Non-Executive Directors					
C.D.J. Pearce	120	4	–	124	126
Prof. W. Dawson (resigned 1 August 2017)	–	–	–	–	16
R. McDowell	25	–	–	25	25
M. Diggle	–	–	–	–	–
Dr U. Ney	23	–	–	23	5
	711	10	28	749	682

- The remuneration of the executive directors is decided by the Remuneration Committee.
- Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the directors.
- Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

10 DIRECTORS' REMUNERATION AND TRANSACTIONS continued

(iv) The number of directors in pension schemes is as follows:

	2018	2017
Defined contribution pension schemes	2	1

Pension costs in the year ended 31 December 2018 were as follows:

	2018 £'000	2017 £'000
G. Ellis (resigned 1 August 2017)	–	–
Dr I. Pike	15	15
R. Dennis	13	–
	28	15

Directors' transactions

- (a) Other than as disclosed note 18(b) no director had a material interest in any contract of significance with the Company in either year.
- (b) C.D.J. Pearce has a consultancy agreement with the Company at a rate of £70,000 per annum; this amount is included in the salary of £120,000 noted above.

11 TAX

Credit on loss before taxation on ordinary activities

The Group is entitled to make claims for UK tax credit income on qualifying R&D expenditure each year under the Corporation and Taxes Act 2009. As an SME qualifying entity, tax credits can be claimed in respect of the tax effect of tax losses generated from qualifying R&D expenditure. From 2017 the Group recognised R&D tax claims on a receipt basis.

	2018 £'000	2017 £'000
UK Corporation tax – R&D tax credit	–	–
Overseas tax charge	(53)	(99)
Group tax charge for the year	(53)	(99)
Adjustments re previous years	–	(345)
R&D tax credit received	399	–
Group tax credit/(charge) for the year	346	(444)

The UK Corporation tax credit relates to research and development tax credits claimed under the Corporation Taxes Act 2009.

At 31 December 2018 there were tax losses available for carry forward of approximately £46.6m (2017: £41.4m).

The tax credit and trading losses to be carried forward for the year are subject to the agreement of HM Revenue & Customs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

11 TAX continued

Factors affecting the tax credit for the year

R&D tax credit entitlements are significantly smaller than in the previous year, due to the stronger commercial focus of the Company's research activities. As such the Company has not recognised any tax credit in respect of 2018. The differences are explained below:

	2018 £'000	2017 £'000
Loss before tax	(1,686)	(2,053)
Income tax credit calculated at 19.00% (2017: 19.38%)	320	395
Effects of:	-	-
Expenses that are not deductible in determining taxable profit	(1)	(3)
Fixed asset timing differences	(11)	(68)
Unrecognised tax losses carried forward	(308)	(324)
Effect of overseas tax	(53)	(99)
R&D tax credit claimed	-	-
Other taxable income	-	-
Group tax credit for the year	(53)	(99)
R&D tax received/(recovered)	399	(345)
	346	(444)

	2018 £'000	2017 £'000
Unrecognised deferred tax		
The following deferred tax assets and liability have not been recognised at the balance sheet date:		
Tax losses	7,919	7,669
Depreciation in excess of capital allowances	41	(35)
Provisions	31	5
Total	7,991	7,639

The deferred tax assets have not been recognised as the directors are uncertain of their recovery. The assets will be recovered if the Group makes sufficient taxable profits in the future against which losses can be utilised.

Changes to tax legislation

The main rate of UK corporation tax was 20% from 1 April 2015. This rate fell to 19% for the year beginning 1 April 2018, and will fall to 17% for the year beginning 1 April 2020.

12 LOSS PER ORDINARY SHARE

The calculations of basic and diluted loss per ordinary share are based on the following losses and numbers of shares.

	Basic and Diluted	
	2018 £'000	2017 £'000
Loss for the financial year	(1,313)	(2,497)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

12 LOSS PER ORDINARY SHARE continued

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share:	295,182,056	295,182,056

In 2018 and 2017 the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options that are out of the money would have the effect of reducing the loss per ordinary share and is therefore not dilutive.

13 GOODWILL

	Goodwill £'000
Cost and carrying amount 1 January 2018 and 31 December 2018	4,218

The Group comprises a single CGU, which comprises the business carried out by Electrophoretics Limited and Proteome Sciences R&D GmbH & Co KG. For the purpose of testing goodwill, the recoverable value of the CGU is determined from fair value less estimated costs of disposal. In assessing the fair value of the CGU, management and the directors have considered and assessed the following evidence:

As at 31 December 2018, the market capitalisation for the Group was £7.2m based on the quoted share price of the Company of 2.44p per ordinary share.

The directors have concluded that based on the above, recoverable value (on a fair value less cost to sell basis) of the goodwill exceeds the carrying value of the goodwill at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

14 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise laboratory equipment, fixtures and fittings and motor vehicles held by and equipment on loan to the Group. The movement in the year was as follows:

	Equipment on loan £'000	Laboratory equipment, fixtures and fittings £'000
Cost		
1 January 2017	710	4,685
Exchange adjustments	–	114
Additions during the year	–	23
Disposals during the year	–	(1,544)
31 December 2017	710	3,278
1st January 2018	710	3,278
Exchange adjustments	–	20
Additions during the year	–	4
Disposals during the year	–	(932)
31 December 2018	710	2,370
Depreciation		
1 January 2017	710	4,093
Exchange adjustments	–	109
Charge for the year	–	332
Depreciation relating to disposals	–	(1,537)
At 31 December 2017	710	2,997
At 1 January 2018	710	2,997
Exchange adjustments	–	19
Charge for the year	–	229
Depreciation relating to disposals	–	(931)
At 31 December 2018	710	2,314
Net book value		
At 1 January 2018	–	281
31 December 2018	–	56

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

15 INVESTMENT IN SUBSIDIARIES

Company	Cost of shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2017	2,484	7,549	10,033
Additional investment in the year	67	2,023	2,090
Provisions for impairment during the year	(2,551)	(1,631)	(4,182)
At 31 December 2017	–	7,941	7,941
At 1 January 2018	–	7,941	7,941
Additional investment in the year	29	184	213
Provisions for impairment during the year	–	–	–
At 31 December 2018	29	8,125	8,154

- (i) The increase in the cost of shares in subsidiary undertakings of £28,626 (2017: £67,104) represents a capital contribution between the Company and certain of its subsidiaries, reflecting the provision of equity instruments in the Company to subsidiary company employees.
- (ii) The increase in loans to subsidiary companies in 2018 arose from the provision of further funds to the company's trading subsidiary and German subsidiary company.
- (iii) The Company's loans to its subsidiaries are interest free and under terms which would technically provide the Company to demand immediate repayment. The current financial situation of the subsidiaries is such that they would be unable to repay the amounts due if demanded and, in consequence, they are considered to be credit-impaired and lifetime expected credit losses are recognised. As part of the assessment of the lifetime expected credit losses of these intercompany loan receivables, the directors have considered the cash flows that may be generated from a number of different scenarios, including through an orderly sale of the underlying business.

The Company's loans to subsidiaries were assessed as credit impaired at the date of initial application of IFS 9, 1 January 2018, and again at the current year-end. Paragraphs (i) and (ii) above provide a reconciliation of movements in relation to the carrying value of the investments at year-end.

The carrying amount of the Company's loans to subsidiaries was £8,125k (1 January 2018: £7,941k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENT IN SUBSIDIARIES continued

Group investments

The Company has investments in the following subsidiary undertakings, which contribute to the net assets of the Group:

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the	
			Company	Group
Proteome Sciences R&D Verwaltungs GmbH	Germany	Administrative Company	100% Share Capital	100% Share Capital
Proteome Sciences R&D GmbH & Co. KG	Germany	Research Company	100% Partnership Interest	100% Partnership Interest
Proteome Sciences, Inc.	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Veri-Q Inc.	U.S.A.	Research Company	76.9% Common Stock	76.9% Common Stock
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

- (i) The investments in Proteome Sciences, Inc., Electrophoretics Limited and Phenomics Limited comprise the entire issued share capital of each subsidiary undertaking and carry 100% of the voting rights.

The registered offices of the companies above are:

Proteome Sciences R&D Verwaltungs GmbH, Proteome Sciences R&D GmbH & Co. KG, - Althenhöferallee 3, 60438 Frankfurt am Main, Germany

Proteome Sciences plc, Electrophoretics Limited and Phenomics Limited, Hamilton House, Mabledon Place, London WC1H 9BB, UK

Proteome Sciences Inc PO Box 2767 Humble, Texas, 77347

USA Veri-Q Inc 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808-1645, USA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

16 INVENTORIES

	2018 £'000	2017 £'000
Work-in-progress	287	498
Finished goods	860	448
	1,147	946

17 OTHER CURRENT ASSETS

a) Trade and other receivables

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Trade receivables	186	–	333	–
Less: provision for impairment of trade receivables	(8)	–	–	–
Trade receivables – net	179	–	333	–
Other Debtors	83	–	329	–
Total financial assets other than cash and cash equivalents classified as loans and receivables				
Prepayments	58	–	62	–
Contract assets (Note 5)	328	–	–	–
R&D tax credit recoverable previous year	–	–	400	–
Total	648	–	1,124	–

At 31 December 2018 the lifetime expected loss provision for trade receivables and contract assets is as follows:

	Current	More than 30 days past due	More than 90 days past due	More than 270 days past due	More than 364 days past due	Total £'000
Expected loss rate %	0%	10 %	15%	60%	90%	–
Gross carrying amount	457	–	57	–	–	514
Loss provision	–	–	(8)	–	–	(8)

As at 31 December 2018 trade receivables of £8,486 (2017:NIL) were past due and fully impaired. No allowance was recognised in 2017.

The main factors considered by the finance function in determining that the amounts due are impaired are the length of time outstanding and additionally background information provided by the sales and production department.

There were no trade debts outstanding by the end of the period 2017, which were ultimately not recovered; the maturity profile of any due debt is presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

17 OTHER CURRENT ASSETS continued

	2018 £'000	2017 £'000
3 to 9 months	57	–
9 to 12 months	–	–
> 12 month	–	–

b) Cash and cash equivalents

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Cash and cash equivalents	958	496	908	58

The directors consider that the carrying amount of trade receivables and cash and cash equivalents approximates to their fair value.

18 FINANCIAL LIABILITIES

a) Trade and other payables

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
<i>Due within one year</i>				
Other payables	372	–	413	–
Accruals	169	–	147	–
Contract liabilities	25	–	–	–
Hire purchase payables	–	–	166	–
Payables due from group entities	–	321	–	316
	566	321	726	316
<i>Due after one year</i>				
Hire purchase payables	–	–	–	–

Hire purchase payables have the following maturity profile at 31 December 2018.

	2018 £'000	2017 £'000
Due within one year	–	166
Due in more than one year but not more than 2 years	–	–
Due in more than two years but not more than 3 years	–	–
	–	166

Trade creditors and other payables principally comprise amounts outstanding for trade purchases and continuing costs. The average credit period taken for trade purchases is between 30 and 45 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

18 FINANCIAL LIABILITIES continued

(b) Short term borrowings

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Loans from related parties	9,936	2,257	8,946	1,502

The directors consider that the carrying amount of borrowings approximates to their fair value.

Note:

- (i) The loan from related party represents a loan from Mr C D J Pearce, Non-Executive Chairman and the former Chief Executive of the Company. The loan is secured by a fixed charge over the Company's patent portfolio and a floating charge over the Company's stock in trade. The loan bears interest at 2.5% above the base rate of Barclays Bank plc. Loan amounts representing £5m may be converted into ordinary share capital at the option of Mr Pearce at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29 June 2006. The conversion option is immaterial to the financial statements. The balance owed was £9,227k (FY17: £8,946k).

The loan is repayable on seven days notice, or immediately in the event of:

- (a) A general offer to the shareholders of the Company being announced to acquire its issued share capital, or
- (b) The occurrence of any of the usual events of default attaching to this sort of agreement.
- (ii) On 2 July 2018, Proteome Sciences plc secured a loan facility of £1.0m from Vulpes Investment Management. Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan. The Company has received confirmation from VIM that they will not seek repayment before May 2020. This loan is deemed a related party transaction by nature of a common director being on both the boards of Proteome Sciences plc and Vulpes Investment Management. At 31 December 2018 amounts drawn down were £700k, and interest of £8k was accrued.
- (iii) The amounts shown above as outstanding under short term borrowings include accrued interest.

(c) Changes in liabilities arising from financing activities

Group

Note supporting the cash flow statement

	1 January 2018 £,000	Cash Flow £,000	Interest accruing in the period £,000	Foreign exchange £,000	Fair value change £,000	31 December 2018 £,000
Long term borrowings	—	—	—	—	—	—
Short term borrowings	8,947	700	289	—	—	9,936
Lease Liabilities*	166	(166)	—	—	—	—
Total	9,113	534	289	—	—	9,936

*£166,000 lease liabilities included in 'Trade and other payables' 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

18 FINANCIAL LIABILITIES continued

Company

Note supporting the cash flow statement

	1 January 2018 £,000	Cash Flow £,000	Interest accruing in the period £,000	Foreign exchange £,000	Fair value change £,000	31 December 2018 £,000
Long term borrowings	–	–	–	–	–	–
Short term borrowings	1,502	700	55	–	–	2,257
Total	1,502	700	55	–	–	2,257

19 PROVISIONS

Group

	Pensions provisions £'000	2018 Total £'000	2017 Total £'000
At 1 January	363	363	361
Additional provision in the year	–	–	7
Reduction of provision	(20)	(20)	(5)
At 31 December	343	343	363

Company – long term provision

	2018 £'000	2017 £'000
At 1 January	–	5
Reduction in provision in the year	–	(5)
At 31 December	–	–

(i) The pension provision relates to pension costs which may become payable in connection with the Group's Frankfurt employees, under the pension scheme arrangements set out in note 19 (iii). This provision will be utilised as members of the scheme reach retirement age and draw down their pensions.

(ii) Long term provisions include £Nil (2017: £Nil) for National Insurance contributions payable upon the exercise of vested LTIP options.

(iii) Pension arrangements

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG from Aventis Research & Technologies GmbH & Co KG, the Group makes contributions in Germany to a funded defined contribution plan and to a funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG (Hoechst Group), an independent German mutual insurance company, which is required to comply with German insurance company regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

19 PROVISIONS continued

The schemes assets are held in multi-employer funds and the other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly it has also been accounted for as defined contribution scheme. The Group's contributions to the scheme are included within the amount charged to the income statement in respect of pension contributions.

Funding contributions paid by the Group are based on annual contributions determined by Hoechst Group, the administrator for the pension plans. For the year ending 31 December 2018, funding contributions payable by the Group are based on employee contributions at the rate of 1.5%- 2.5% (2017: 1.5%-2.5%) of wages and salaries and employer contributions at the rate of 5 times (2017: 5 times) employee contributions. The Company expects pension costs for 2019 in relation to the defined benefit scheme of £18,852.

The amount charged to the income statement in respect of the contributions to the scheme in 2018 was £36,679 (2017: £54,402).

As at 31 December 2018, an actuarial deficit did not exist for the multi-employer scheme. The Group's contributions to the scheme during 2018 represented 0.01% of total contributions to the scheme by employers and employees (2017: 0.01%). Under the terms of the multi-employer plan, the Group's obligations are limited to the original promise/commitment that it has given to its own employees. The Group does not have an exposure to liability in relation to other third party employers' obligations. The Group does not have any information about how the actuarial status of the plan may affect the amounts of future contributions to the plan.

The Group also has a direct pension obligation for which it provides in full at the balance sheet date. This scheme has no separable assets. The Company uses the projected unit credit method to determine the present value of its unfunded defined benefit obligation. Demographic assumptions are based on Prof. Klaus Heubeck's mortality table "Richttafeln 2005 G", the standard German actuarial table, with full recognition for fluctuations in mortality rates on account of gender and current age. Pensionable age has been set at 60.

The Company has applied a discount rate for the year of 2.0 % (2017: 1.75%). The Company has assumed an income increase of 2.5% (2017: 2.5%) and German inflation of 1.75 % (2017: 2%).

Provisions for future unfunded pension liabilities at 31st December 2018 amounted to £343,190 (2017: £363,034). Amounts recognised through the consolidated income statement for the year to 31st December 2018 included service costs of £21,698 (2017: £19,961), interest costs of £6,381 (2017: £5,541) and an actuarial loss of £41,945 (2017: actuarial loss of £39,085).

Other pension costs in relation to defined contribution schemes for United Kingdom employees amounted to £54,875 (2017: £71,526).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

20 SHARE CAPITAL

	2018 £'000	2017 £'000
(i) <i>Authorised</i>		
(2018: 330,000,200) Ordinary Shares of 1p each	3,300	3,300
	3,300	3,300
(ii) <i>Allotted and called-up</i>		
Ordinary Shares of 1p each	2,952	2,952

The increase in the number of shares in issue in 2018 arose as follows:

	2018 Number	2017 Number
As at 1 January 2018	295,182,056	294,324,832
Issued on exercise of LTIP award in April 2017	–	323,891
Issued in previous share placing	–	–
Issue of equity	–	533,333
At 31 December 2018	295,182,056	295,182,056

21 SHARE OPTIONS AND SHARE BASED PAYMENTS

(i) *Options*

Options under the schemes noted below may be exercised from the date on which any shares in the Company are first admitted to the AIM market of the London Stock Exchange.

(ii) *2004 and 2011 Long-Term Incentive Plan ("LTIP")*

At 31 December 2018, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated or issued under the LTIP was as follows:

Number at 31 December 2017	Awarded in the year	Exercised in the year	Lapsed in the year	Number at 31 December 2018	Vesting Date	Latest Exercise Date
4,000,000	–	–	–	4,000,000	1 June 2019	3 April 2027
5,000,000	–	–	–	5,000,000	1 June 2019	3 April 2027
7,000,000	–	–	–	7,000,000	3 April 2020	3 April 2027
16,000,000	–	–	–	16,000,000		

At 31 December 2017, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated or issued under the LTIP was as follows:

Number at 31 December 2016	Awarded in the year	Exercised in the year	Lapsed in the year	Number at 31 December 2017	Vesting Date	Latest Exercise Date
600,965	–	(323,891)	(277,074)	–	–	2 July, 2017
300,000	–	–	(300,000)	–	–	2 October, 2017
– 6,160,000	–	–	(2,160,000)	4,000,000	1 June 2019	3 April 2027
– 5,000,000	–	–	–	5,000,000	1 June 2019	3 April 2027
– 7,000,000	–	–	–	7,000,000	3 April 2020	3 April 2027
900,965	18,160,000	(323,891)	(2,737,074)	16,000,000		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

(iii) 2004 Share Option Plan

At 31 December 2018 all options of the Company's 2004 Share Option Plan had lapsed during the year.

At 31 December 2017 options had been granted, had fully vested in prior reporting periods and were still outstanding (exercisable) in respect of the Company's Ordinary Shares of 1p each under the Company's 2004 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Dates Exercisable
4,059	40.59	27.72	10.04.11 – 10.04.18
52,767	527.67	27.72	10.04.11 – 10.04.18
<u>56,826</u>	<u>568.26</u>		

(iv) 2011 Share Option Plan

At 31 December 2018 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p each under the Company's 2011 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Vesting Date	Dates Exercisable
103,000	1,030.00	36.50	17.2.15	17.2.15 – 17.2.22
48,000	480.00	49.87	25.6.16	25.6.16 – 25.6.23
50,000	500.00	33.75	9.6.17	9.6.17 – 9.6.24
25,000	250.00	36.25	25.6.17	25.6.17 – 25.6.24
75,000	750.00	15.50	29.2.19	29.2.19 – 25.6.26
63,000	630.00	16.75	18.3.19	18.3.19 – 18.3.26
<u>364,000</u>	<u>3,640.00</u>			

At 31 December 2017 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p each under the Company's 2011 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Vesting Date	Dates Exercisable
103,000	1,030.00	36.50	17.2.15	17.2.15 – 17.2.22
50,000	480.00	49.87	25.6.16	25.6.16 – 25.6.23
50,000	500.00	33.75	9.6.17	9.6.17 – 9.6.24
25,000	250.00	36.25	25.6.17	25.6.17 – 25.6.24
125,000	750.00	15.50	29.2.19	29.2.19 – 25.6.26
63,000	630.00	16.75	18.3.19	18.3.19 – 18.3.26
<u>416,000</u>	<u>4,160.00</u>			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

The Company issues equity-settled share based payments under the 2011 Share Option Plans. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are usually forfeited if the employee leaves the Group before the options vest.

In addition, in 2004 the Company entered into a Long Term Incentive Plan for its directors and some of its staff. The plan was accounted for as equity settled scheme and had potential vesting dates from 2 July 2010 to 31 July 2011 with any award being linked to share performance related targets.

At the 31 December 2018, awards over Nil shares (2017: 284,826) had vested and were capable of exercise.

The 2004 LTIP closed during 2009 and no further awards can be made under this scheme. Details of all the remaining awards that have not yet vested are set out in note 21 (iii) above. Awards are usually forfeited if the employee leaves the Group before the vesting date.

A new Long Term Incentive Plan was introduced in 2011. A charge to the income statement of £28,626 (2017: £67,041) was recognised during the year in respect of all schemes.

The release of shares in respect of the awards still outstanding to participants will depend upon the growth of Proteome Sciences' total shareholder return ("TSR") over a three year performance period relative to the AIM Healthcare Index. No shares will be released unless the Company's TSR performance exceeds that of the Index, in which case 30% of the award will vest. The full award will vest only if the Company's TSR performance exceeds that of the Index by 10%, with a pro-rata award between 30% to 100% for each percentage point of out-performance up to 10%.

Before awards vest the Remuneration Committee will satisfy itself that the TSR performance is a genuine reflection of the Company's underlying performance over the three-year performance period.

	2004 Share Option Plan		2004 LTIP	
	Options	Weighted average exercise price (p)	Maximum Number of Shares	Weighted average fair value per share (p)
Outstanding at 1 January, 2017	202,950	30.51	600,956	31.70
Exercised in the year	–	–	(323,892)	31.70
Forfeited in the year	(146,124)	–	(277,074)	31.70
Outstanding at 31 December 2017	56,826	27.72	–	–
Forfeited in 2018	(56,826)	(27.72)	–	–
Exercised in the year	–	–	–	–
Outstanding and exercisable at 31 December 2018	–	–	–	–
Exercisable at 31 December 2018	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

	2011 Share Option Plan	
	Options	Weighted average exercise price (p)
Outstanding at 1 January 2017	444,000	29.6
Granted in the year	–	–
Forfeited during the year	(28,000)	35.0
Outstanding at 31 December 2017	416,000	28.46
Granted in the year	–	–
Forfeited during the year	(52,000)	–
Outstanding at 31 December 2018	364,000	–
Exercisable at 31 December 2018	138,000	–
Exercisable at 31 December 2017	153,000	–

	2011 LTIP	
	Maximum Number of Shares	Weighted average fair value per share (p)
Outstanding at 1 January 2017	–	–
Granted in the year	18,160,000	4.25
Lapsing in the year	(2,160,000)	4.25
Outstanding at 31 December, 2017	16,000,000	4.25
Granted in the year	–	4.25
Lapsing in the year	–	6.38
Outstanding at 31 December, 2018	16,000,000	4.25
Exercisable at 31 December, 2018	–	–
Exercisable at 31 December, 2017	–	–

The options outstanding at 31st December 2018 had a weighted average remaining contractual life as follows:

	2018 No. of Months	2017 No. of Months
2004 Share Option Plan	–	3.3
2011 Share Option Plan	64.2	78.7
LTIP	99.0	114.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

The inputs into the Black-Scholes model were:

	2018	2017
Weighted average share price	4.9p	4.9p
Weighted average exercise price	4.9p	4.9p
Expected volatility	63.56% - 56.05%	63.56% - 56.05%
Expected life	4 years	4 years
Risk free rate	1.13% - 0.15%	1.13% - 0.15%
Expected dividends	None	None

Notes

- (i) Expected volatility is a measure of the tendency of a security price to fluctuate in a random, unpredictable manner and is determined by calculating the historical volatility of the Company's share price over the previous years.
- (ii) The expected life has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.
- (iii) The Company has used the Monte Carlo model to value the LTIP awards, which simulates a wide range of possible future share price scenarios and calculates the average net present value of the option across those scenarios and which captures the effect of the market-based performance conditions applying to such awards.

22 RESERVES DESCRIPTION AND PURPOSE

Share premium

Amount subscribed for share capital in excess of nominal value.

Foreign exchange translation reserve

Gains/losses arising on retranslating the net assets of overseas operations into Sterling.

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Translation Reserves

The translation reserve arose in the year ended 31 December 2002 and represented the premium on the allotment of shares issued for the acquisition of Xzillion Verwaltungs GmbH (now Proteome Sciences R&D Verwaltungs GmbH) and Xzillion Proteomics GmbH & Co KG (now Proteome Sciences R&D GmbH & CO KG).

Share based payment Reserve

The amounts transferred to the Equity Reserve are for charges recognised in respect of the requirements of IFRS 2 "Share-based payments".

Merger Reserve

The merger reserve arose in the period to the 11 November 1994 and represented the premium on the allotment of new ordinary shares issued in a share exchange agreement entered into by the shareholders of Monoclonetics International Inc, (now Proteome Sciences Inc.). As the carrying value of the investment was fully impaired at 31 December 2018, a transfer has been recognised during the year to the Company's Retained loss reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Operating lease arrangements

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties. At 31 December 2018, the Company did not have any operating lease obligations.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Within 1 year	299	55	282	45
Within 2-5 years	978	–	138	–
> 5 years	143	–	–	–
	1,420	55	420	45

Operating lease payments represent rentals payable by the Group for its laboratory and office properties.

24 FINANCIAL INSTRUMENTS

Capital risk management

The Group monitors “adjusted capital” which comprises all components of equity (i.e. share capital, share premium, non-controlling interest, retained earnings, and revaluation reserve).

The Group’s objectives when maintaining capital are:

- to safeguard the entity’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- Provide an adequate return to shareholders by pricing products and services commensurately with the level of risk

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group does not pay dividends to shareholders.

Due to recent market uncertainty the Group’s strategy is to preserve a strong cash base to maintain a positive cash flow for at least 15 months in advance.

The Board has overall responsibility for the determination of the Group’s risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group’s finance function. The Board receives monthly management reports from the Group’s finance function and bi-monthly cash flow calculations through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 FINANCIAL INSTRUMENTS continued

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

The capital structure of the Group consists of the financial instruments listed below which determine the financial risk and an according risk management.

Financial instruments for the Group comprise:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Borrowing from major investors of the Company at floating rate

For the Company:

- Cash and cash equivalents
- Investment in quoted and unquoted securities
- Borrowing from major investors of the Company at floating rate

Categories of financial instruments

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Financial assets				
Cash and cash equivalents*	958	496	908	58
Trade and other receivables*	262	–	333	–
Investment in subsidiaries	–	8,154	–	7,941
Total financial assets	1,220	8,650	1,241	7,999
Financial liabilities				
Trade and other payables and accruals*	(541)	–	(560)	–
Short-term borrowings*	(9,936)	(2,257)	(8,946)	(1,501)
Hire purchase payables*	–	–	(166)	–
Total financial liabilities	(10,477)	(2,257)	(9,672)	(1,501)

The described financial instruments are measured applying the following methodologies:

* measured at amortised costs through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 FINANCIAL INSTRUMENTS continued

The Group is exposed to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk

Credit risk

Group

Electrophoretics Limited, the main trading company in the Group, has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as deemed necessary based on the nature of the prospective customer and size of order.

To minimize any credit risk upfront payment for service orders are requested when orders require larger pre-financing of consumables needed for order fulfilment. Further for any larger service orders interim payments are requested based on work order related performance obligations. The overall structure with only B2B and institutional customers like universities or state funded research institutions minimizes credit risk as well.

For trade receivables and other receivables further explanation and calculation of ECL (Expected credit loss) provisions relating to credit risk are presented in note 17.

At the reporting date, the largest exposure was represented by the carrying value of trade receivables and contract assets of £514,490 (2017: trade receivables and contract assets £333,701). A minor provision for impairment was recognised for FY 2018 / (FY 2017: NIL) on the basis that the Company's customers are typically large companies and there is a long standing relationship and history of payment by customers so there is no history of credit defaults. The Group does have significant concentrations of credit risk on its trade receivables, with the largest debtor/ contracted asset amounting to £287,158.

Credit risk arising from cash and cash equivalents held with banking institutions is controlled by using only good rated Institutions as presented in the table.

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Barclays plc	857	496	820	58
Commerzbank AG	84	–	73	–
Other	17	–	15	–
	958	496	908	58

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 FINANCIAL INSTRUMENTS continued

Company

The Company is exposed to credit risk on loans provided to related parties. At the reporting date, the largest exposure was represented by the carrying value of loans to Proteome Sciences R&D GmbH & Co. KG of £8m. At 31 December 2018, the carrying value of loans owed by Electrophoretics Limited to the Company was £Nil (2017: £0.4m), of loans owed by Proteome Sciences R&D GmbH & Co. KG to the Company was £8.15m (2017: £7.94m). Refer to Note 15 for further detail.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below).

Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from long term borrowings. The level of borrowings is determined by the capital requirements of the Group as it is operational in a net cash outflow position. As such usual gearing ratios to assess debt risk levels are not applicable.

Borrowings are managed centrally under direct involvement and supervision of the Board. All borrowings are in the functional currency of the Group.

Interest rate risk management

The Group is exposed to interest rate risk arising from its short-term borrowings, details of which are set out in note 18(b).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The Group analyses interest sensitivity on a yearly basis. The sensitivity analysis below has been determined based on the exposure to floating rate liabilities. The analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would have increased by £49,670 (2017: £44,825), for a decrease of 0.5% in interest rate the loss would have reduced by the same amount.

The Group's sensitivity to interest rates has increased slightly during the current year due to the rise in the amount of its short term borrowings over the year.

Foreign exchange risk

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group's principal exposure is to movement in the Euro exchange rate, but it anticipates that a significant proportion of its future income will be received in this currency, thus helping to reduce its exposure in this area.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 FINANCIAL INSTRUMENTS continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of Germany (the Euro) and to the US dollar currency.

The Group's companies hold asset and liabilities denominated in different than their functional currency. As the nature of these assets is in their majority short term and usually any assets held in a foreign currency are used to match liabilities denominated in this currency the overall effect of any currency fluctuations does not result in a material exposure to foreign exchange risk. Therefore a foreign currency sensitivity analysis would not be appropriate.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group and Company's remaining contractual maturity for its non-derivative financial liabilities including both interest and principal cash flows and the interest rates applied. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

As at December 2018	Up to 3 Months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	566	–	–	–	–
Loans and borrowings	9,936	–	–	–	–
Total	10,502	–	–	–	–

Liquidity risk management

As at December 2017	Up to 3 Months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	726	–	–	–	–
Loans and borrowings	8,946	–	–	–	–
Total	9,672	–	–	–	–

There are pension provisions existing for the German entity of the Group, which amounted at 31 December 2018 to £0.34m (2017: £0.36m), which do not result in future Cash outflows from the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 FINANCIAL INSTRUMENTS continued

	Weighted average effective interest Rate %	Less than 1 month Group £'000	Company £'000	Within one year Group £'000	Within 1-2 years Group £'000	Within 2-3 years Group £'000
2018	3.11	9,936	2,257	-	-	-
Variable interest rate instruments - Borrowings	-	-	-	-	-	-
Fixed rate instruments - Hire purchase	-	-	-	-	-	-
2017						
Variable interest rate instruments - Borrowings	2.79	8,946	1,502	-	-	-
Fixed rate instruments - Hire purchase	10.8	-	-	166	-	-

25 RELATED PARTY TRANSACTIONS

a) Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and were as follows:

1) Loans advanced to subsidiary undertakings:

	Proteome Sciences R&D £'000	Electrophoretics Ltd £'000	Total £'000
At 1 January 2017	7,549	-	7,549
Additional investment in the year	-	2,023	2,023
Provision for impairment	-	(1,631)	(1,631)
At 31 December, 2017	7,549	392	7,941
At 1 January 2018	7,549	392	7,941
Additional investment in the year	-	184	184
At 31 December, 2018	7,549	576	8,125

2) Loan from subsidiary undertaking:-

At 1 January, 2017	306
Exchange adjustment	12
At 31 December, 2017	318
At 1 January, 2018	318
Exchange adjustment	3
At 31 December, 2018	321

Further details of the Company's shares in and loans to its subsidiary undertakings are set out in note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

25 RELATED PARTY TRANSACTIONS continued

- b) C.D.J. Pearce, a Director of the Company and therefore a related party, has made a loan facility available to the Company full details of which are set out in note 18 on page 62.
- c) M Diggle, a Director of the Company, a Director of Vulpes Investment Management (VIM) and is therefore a related party. VIM has made a loan facility available to the Company full details of which are set out in note 18 on page 62.
- d) Details of the remuneration of the directors is set out in note 10, including details of pension contributions made by the Company and information in connection with their long-term benefits is shown in the Directors' Report under the heading 'Directors and their interests'.

e) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel for the year-ended 31 December 2018 and the comparative period were as follows:

Jeremy Haigh (Chief Executive Officer)

Ian Pike (Chief Scientific Officer)

Richard Dennis (Chief Commercial Officer)

Stefan Fuhrmann (Finance Director)

Christopher Pearce Chairman (Non-Executive Director)

Roger McDowell (Non-Executive Director)

Martin Diggle (Non-Executive Director)

Ursula Ney (Non-Executive Director)

Key management personnel remuneration was as follows:

	2018 £'000	2017 £'000
Salary	634	525
Other long-term benefits	28	15
Defined benefit scheme costs	–	–
Share based payment expense	–	58
Consultancy fee	70	70
	732	668

The amounts charged to the income statement relating to Directors in respect of the share-based payment charge were as follows:

	2018 £'000	2017 £'000
	–	58

26 Events after the balance sheet date

There have been no significant events which have occurred subsequent to the reporting date.

NOTICE OF MEETING

(Registered in England No: 02879724)

Notice is hereby given that the 25th Annual General Meeting of Proteome Sciences plc will be held at Allenby Capital Limited, 5 St Helen's Place, London, EC3A 6SB on Tuesday 30 April 2019 at 2.30 pm for the purpose of considering and, if thought fit, passing the following Resolutions of which numbers 1 to 4 will be proposed as Ordinary Resolutions and number 5 and 6 will be proposed as Special Resolutions.

ORDINARY BUSINESS

- 1 To receive the financial statements and the reports of the directors and of the auditors for the year ended 31 December 2018.
- 2 To re-appoint Dr Ian Pike as a Director.
- 3 To re-appoint Martin Diggle as a Director.
- 4 To re-appoint BDO LLP as auditors of the Company in accordance with section 489 of the Companies Act 2006 until the conclusion of the next general meeting of the Company at which audited accounts are laid before the members and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

ORDINARY RESOLUTION

- 5 THAT the directors of the Company be and are hereby authorised generally and unconditionally pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £983,940.19 until the conclusion of the next Annual General Meeting of the Company or 30 June 2020, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after such expiry.

SPECIAL RESOLUTION

- 6 THAT subject to, and upon Resolution 5 above, having been passed and becoming effective, the directors be and are hereby authorised and empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities, as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with an offer by way of a rights issue, or any other pre-emptive offer, to the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares on a record date fixed by the directors and to the holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the law of any territory or the requirements of any regulatory body or stock exchange; and
 - (b) the allotment (otherwise than pursuant to sub- paragraph (a)) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £590,364.11.

NOTICE OF MEETING

(Registered in England No: 02879724)

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or on 30th June 2020, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after the expiry of this authority and the directors may then allot equity securities in pursuant of such an offer or agreement as if the authority and power hereby conferred had not expired.

By order of the Board

Hamilton House
Mabledon Place
London WC1H 9BB

V. Birse

Company Secretary

1 April 2019

NOTICE OF MEETING

(Registered in England No: 02879724)

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy, to exercise all or any of his rights to attend, speak and vote in his place on a show of hands or on a poll provided that each proxy is appointed to a different share or shares. Such proxy need not be a member of the Company. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars not less than forty-eight hours before the time for holding by 2.30 p.m. on 26 April 2019 or any adjourned meeting. A proxy need not also be a member of the Company. A form of proxy and return envelope are enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.
2. Copies of executive directors' service agreements, and copies of the terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the close of the Annual General Meeting (Saturday, Sundays and public holidays excepted) and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company by no later than the close of business two days before the date of the meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Explanatory notes on the resolutions:

Resolution 1

The directors must present to members the accounts and the reports of the directors and auditors in respect of each financial year.

Resolutions 2

Under the provision of Article 109(b) of the Articles of Association of the Company directors are required to retire at the third Annual General Meeting after they were last elected or re-elected. Accordingly Dr Ian Pike is due to retire at this Annual General Meeting and offers himself for re-appointment.

Resolution 3

Under the provision of Article 109(b) of the Articles of Association of the Company directors are required to retire at the third Annual General Meeting after they were last elected or re-elected. Accordingly Mr Martin Diggle is due to retire at this Annual General Meeting and offers himself for re-appointment.

Resolution 4

BDO LLP are being proposed as the auditors of the Company until the conclusion the next general meeting at which accounts are presented. The directors are to be given authority to fix their remuneration.

Resolution 5

The Company's power to issue additional securities is exercised by the directors. The directors must be authorised by ordinary resolution of the shareholders to exercise that power. The resolution will give the directors a general authority to allot shares up to an aggregate nominal value of £983,940.18 being the equivalent of one-third of the Company's issued ordinary share capital at the date of this notice.

The directors are seeking the annual renewal of this authority in accordance with best practice and to ensure the Company has maximum flexibility in managing its capital resources.

NOTICE OF MEETING

(Registered in England No: 02879724)

Resolution 6

When shares are to be allotted for cash, Section 561 of the Companies Act 2006 provides that existing shareholders have pre-emption rights and that any new shares are offered first to such shareholders in proportion to their existing shareholdings. This resolution is seeking to authorise the directors to allot shares of up to an aggregate nominal amount of £590,364.11 otherwise than on a pro-rata basis. This represents 20% of the Company's issued share capital at the date of this notice.

The directors are seeking the annual renewal of this authority in line with the authorities granted to dis-apply the pre-emption provisions in previous years and to ensure the Company has maximum flexibility in managing its capital resources.