



Proteome Sciences plc

Registered number: 02879724

Report and Financial Statements

for the year ended 31 December 2017

NOMINATED ADVISERS AND STOCKBROKERS

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|------------------------|---|
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CONTENTS

| | Page |
|--|-------------|
| BUSINESS REVIEW | |
| Chief Executive Officer's Statement | 2 |
| Strategic Report | 6 |
| GOVERNANCE | |
| Board of Directors | 12 |
| Directors' Report | 14 |
| Independent Auditor's Report | 20 |
| FINANCIAL STATEMENTS | |
| Consolidated Income Statement | 26 |
| Consolidated Statement of Comprehensive Income | 27 |
| Consolidated Balance Sheet | 28 |
| Company Balance Sheet | 29 |
| Consolidated Statement of Changes in Equity | 30 |
| Company Statement of Changes in Equity | 31 |
| Consolidated and Company Cash Flow Statements | 32 |
| Notes to the Consolidated Financial Statements | 33 |
| AGM INFORMATION – NOTICE OF MEETING | 64 |

CHIEF EXECUTIVE OFFICER'S STATEMENT

After a year of significant change inside the Company, and profound economic uncertainty outside, I am pleased to report a solid 12 months ending 31 December 2017. Revenue increased 23% to £3.38m, including a 79% increase in sales and royalties attributable to isobaric tandem mass tag (TMT[®]) reagents. Total costs reduced by 4.5% to £5.43m reflecting the early impact of consolidating our facilities and operations and restructuring, which itself generated one-off costs of £0.14m. Loss before tax was reduced to £2.05m but remained higher than planned. Cash reserves at the year-end were £0.91m owing to the payment of a material R&D tax credit being delayed into 2018.

In the first half of the year we implemented some important elements of the strategy which had underpinned our fundraise in late 2016, notably those affecting our physical footprint and internal capabilities. The decision to integrate all laboratory equipment and competencies at our existing facility in Frankfurt was difficult given our UK heritage, and unfortunately resulted in the redundancy of four staff members, but it has certainly enabled more efficient resource utilisation and clearer accountabilities. The associated relocation of the Company headquarters from Cobham to central London in June has afforded us much greater connectivity with the UK bioscience community and is a fundamental requirement for successful partnership and collaboration. I am pleased that the combination of these two transformational events was achieved with only minimal cost and business disruption.

Given the critical strategic importance of commercialising our proteomic services to the future success of the Company, I was delighted to appoint Richard Dennis as our first Chief Commercial Officer at the start of April. With a strong background in sales and marketing, and extensive technical experience gained at several competitor companies, Richard quickly transformed our commercial identity and ambition with his focus on face to face selling, account management, and an established client network across Europe. His arrival heralded a relaunch of

our services business and inspired a complete review of our commercial practices resulting in the adoption of an agent-based sales model in our principal operating territories.

With the continuing growth of our TMT[®] reagents business, through an exclusive licence with Thermo Fisher Scientific, the Company is now well placed to deliver a hybrid model of product and service provision which is increasingly favoured in the bioscience community by customers seeking relationships with organisations capable of broader engagement.

Like most other sectors in 2017, the life sciences were affected by uncertainty surrounding Brexit, the unexpected outcome of the US election and impending tax reforms. The combination of these events saw many companies adopt a more conservative approach than in previous years and this caution was particularly evident in decision making around outsourcing and collaboration. As a small company trying to establish a services business we were not immune from the consequences and had to work hard building new relationships that could generate future revenues. Significant volatility in foreign exchanges throughout the year affected non-sterling denominated revenues, as well as those costs associated with our primary facility in Frankfurt, but the overall effect on EBITDA was neutral.

Staff turnover was higher than in previous years, in part a consequence of the dynamic environment in which we operate but also of a strategic decision to reduce our operating costs through natural and forced attrition. As we begin 2018 our budgeted headcount of 29 will be approximately 30% lower than at the start of 2017. This turnover included the departure in August of our Finance Director, Geoff Ellis, who had made a significant contribution to fiscal management and reporting during his three-year tenure. We are fortunate to have had established employees, in both Stefan Fuhrmann and Victoria Birse, who were well qualified to assume the roles of Finance Director and Company Secretary respectively.

CHIEF EXECUTIVE OFFICER'S STATEMENT

After providing outstanding service and scientific insight over 20 years as a Director of the Company, Prof. William Dawson decided to stand down in the summer. We thank him for his unique contribution and are delighted to welcome Dr Ursula Ney to the Board in his place. Dr Ney's extensive experience of the bioscience industry in a range of senior positions within both large and small companies make her ideally suited to a role on the Board at this pivotal stage in the Company's evolution.

I would like to thank all the staff who worked for Proteome Sciences during the course of 2017, including those who have since left the Company, and trust that we can continue to realise the value of their collective contributions.

Services

The wholesale repositioning of our proteomic services business was a basic tenet of the revised corporate strategy, and much of the year was spent establishing and communicating this. Active participation in the Alzheimer's Association International Conference (AAIC), held in London during July, served as an effective launch platform for this revised sales initiative as well as demonstrating a more externally focused agenda.

A new commercial model was adopted from August in the critical US market using United BioChannels (UBC) as our sales agent. UBC provides us with introductions to prospective new customers and broad coverage on both US coasts, replacing direct sales staff in the region. With the prospect of working primarily on a commission basis, this model represents a more cost-effective approach to sales generation, and been replicated in Europe from the start of 2018 using Cenibra GmbH to access German speaking countries. We have also partnered with Science Exchange, a US company which facilitates rapid, no cost engagement of new customers using pre-negotiated legal agreements, and Scientist.com, a web-based sales portal. All market support activities have been moved outside the organisation and will now be purchased as required in London.

Central to our service provision is the creation of a quality culture which can reassure prospective customers and provide a distinctive selling feature. To that end, we were very pleased to receive Good Clinical Laboratory Practice (GCLP) accreditation in October, enabling us to compete effectively for clinical stage contracts which command routinely larger budgets. This, combined with our existing ISO 9001 recertification, makes our Frankfurt facility uniquely well qualified to provide mass spectrometric proteomic services to a broad range of clients; the advantages of this are becoming increasingly evident through unsolicited engagement via our website.

Of course, attracting and retaining new business will only succeed if project execution matches customer expectations of time and cost as well as quality. The introduction of a dedicated project management function was a deliberate action to ensure better cross-functional integration, management and communication of our contract service work; a series of project delivery metrics has been established to reinforce this.

Progress, in terms of explicit revenue generation, was slow in the first half of the year as might have been predicted while the new commercial model was being introduced, but we were encouraged by the increasing number of active commercial projects during the second half. Starting from a very low revenue base we saw quarterly growth from the second quarter onwards in terms of sales and orders received. The pipeline certainly looks stronger in Q1'18 both for new customers, interested in proof of concept experiments, and for existing customers wishing to extend current projects or requesting targeted assay development in support of forthcoming clinical trials. These enquiries must now be routinely and quickly converted into substantive work orders to that we can draw positive conclusions about the longer-term commercial potential of our services strategy.

Licences

Our exclusive licence to provide Thermo Scientific with isobaric tagging reagents (TMT®) continues to be mutually beneficial. Strong sales and associated

CHIEF EXECUTIVE OFFICER'S STATEMENT

royalty payments have been essential to our revenue growth and demand increased throughout the year as TMT[®] reinforced its market leadership position. Cumulative sales have now exceeded \$25m worldwide, a milestone which triggered a significant additional payment that we received from Thermo Scientific in the fourth quarter. Scope remains for considerable further growth as adoption by key opinion leaders spreads to the wider research community, and key to this will be the introduction of 'higher plexing' reagents which enable even more efficient sample analyses. Work to identify such new tags has been conducted in close association with our partners at Thermo Scientific and we hope that these improvements will start to become available during 2018.

Data from a prospective trial using the Randox Rapid Stroke Array were presented at the EuroMedLab meeting in Athens in June. The array, which incorporated some of our biomarkers, showed excellent performance in identifying stroke from mimic conditions and healthy controls, and in differentiating between ischaemic and haemorrhagic strokes. These data were sufficient to trigger an important contractual milestone with Randox which was announced on 30 June and, more critically, to suggest the utility of a future diagnostic including stroke biomarkers covered by our intellectual property (IP). Given the global incidence of stroke, and the therapeutic liability associated with inaccurate clinical diagnosis, the market opportunity for such a diagnostic is considerable. However, a clinical validation study being supported by Randox, and necessary for their CE (Conformité Européene) marked application, will now take longer than originally communicated owing largely to the speed of patient recruitment; a timeline has yet to be set but is expected to extend into 2019.

Research

The focus on service provision has inevitably constrained our own primary research activities as we aggressively manage finite resources, but we remain indisputably a science-based company with a commitment to research through partnerships and collaboration. We have retained

a strong interest in neurodegeneration and oncology, continuing our investment in commercial assay development which is relevant to these therapeutic areas (e.g. Clusterin Glycoform; Tryptophan Metabolite) and reflects recent customer feedback for services which can be readily converted into standard GCLP tools for use in clinical trials.

Our IP portfolio remains central to the Company's valuation but continues to be the subject of review; deliberate rationalisation has been a goal over the last 18 months and the number of patent families and, importantly, the cost of their maintenance is now more in line with the expectations and resources of a company our size.

Outlook

With the benefits of a leaner organisation, a new model for commercial engagement now fully deployed in both our principal operating territories, and the reassurance of robust and growing demand for our TMT[®] reagents, we have the platform necessary to realise the full value of our proteomic capabilities. The recent extension of our exclusive licence agreement with Thermo Scientific, to include patents relating to a new class of higher-plex TMT reagents currently under development, affords us further optimism.

I am conscious, however, that much remains to be done and that sentiment towards the Company will depend on positive news from our services business in the first half of 2018. As we continue to expand our range of enabling technologies we are confident that our long-term commitment to proteomics, combined with a renewed focus on the speed, cost and quality of our service delivery, will enable us to remain competitive in a dynamic market which increasingly encourages companies with broader service platforms than our own.

Our goals are heavily focused on service revenue growth and establishing enduring partnerships and collaborations. Customer engagement showed genuine signs of improvement late in 2017, with an unprecedented number of unsolicited contacts and this has continued into 2018 with booked

CHIEF EXECUTIVE OFFICER'S STATEMENT

orders in the first quarter worth £0.33m, up 37% on the same period in 2017.

Quantitative proteomics is essential for translating knowledge about the genetic basis of disease into practical, targeted therapeutics. Its place in the rapidly evolving world of drug discovery and development is undeniable, and its relevance to future transformative technologies, such as those based on artificial intelligence, assured. We remain committed to that future.

I would like to thank our shareholders for their continued support and look forward to communicating further progress and significant revenue growth during 2018.

Jeremy Haigh
Chief Executive Officer

23 April 2018

STRATEGIC REPORT

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 licence 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, 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 mass spectrometry-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.

There were significant organisational developments in 2017 affecting what we do, where we do it and how we generate commercial contracts, all of which had positive impacts during the second half of the year. Closure of the UK research laboratory simplified project delivery and increased efficiency, leading to improved delivery times which are important for our customers. Equally, attainment of GCLP certification in October provides an additional source of business from targeted proteomics in the context of clinical trial support for our pharmaceutical clients; this has led to several new projects initiating in 2018.

The main research focus of the Group continues to be directed towards neurodegenerative and oncological diseases. While the increasing number of commercial projects inevitably affected the extent of our internal research, we have made progress in developing a Clusterin Glycoform Assay, for the assessment of Alzheimer's disease status, and a Tryptophan Metabolite Assay, which has utility in assessing tumour growth and may serve as an important tool for monitoring immuno-oncology drug treatment. We have also implemented a substantially improved method for blood sample analysis, providing unparalleled coverage of low abundant proteins which, when combined with TMTcalibrator™, allowed us to quantify over 8,000 blood proteins and identify key disease-related biomarkers for one of our customers.

The complexity of our commercial projects is generally increasing, and we are seeing growth in repeat business from several clients although more work is clearly required for us to become established as a preferred supplier. One of the key drivers for customers in 2017 was our strong technical competence and the ability to perform sophisticated, bespoke projects.

Details of the Group's performance during the year and expected future developments are contained in the Chief Executive Officer's Statement on pages 2 to 5.

Progress During 2017

Biomarker Services

Revenue from Biomarker Services decreased by £0.35m to £0.90m in 2017. However, the slow start to the year, inevitably affected by the reorganisation of our research and sales organisations, was followed by sustained quarterly growth which is continuing into 2018 with booked orders in the first quarter worth £0.33m. Progress in the sale of targeted assays was also slower than anticipated due to delays in development of the Clusterin Glycoform and Tryptophan Metabolite assays. While the development of these assays progresses well, we do not anticipate their availability within the certified GCLP laboratory until the second half of 2018.

STRATEGIC REPORT

We completed the Alzheimer's disease diagnostic assay validation project for Genting TauRx Diagnostics Centre with final results delivered in December. No further work relating to a companion diagnostic discovery project has yet been approved.

The majority of projects completed in 2017 utilised our core technologies of SysQuant®, TMTcalibrator™ and TMT®MS3. However, we also saw a growing demand for the development of targeted mass spectrometry assays for use in clinical trials. This was in part driven by our GCLP certification, the result of a considerable effort in 2017, and we are one of very few companies now able to offer this for protein mass spectrometry. This is a critical development for the Company and provides access to an additional client base which currently has few other options.

Building a New Commercial Process

As our market presence is becoming more widely recognised, we undertook a review of our sales and marketing processes and introduced a new commercial strategy in the middle of 2017 following the appointment of Richard Dennis as Chief Commercial Officer. The most significant change has been a switch from internal direct sales resources to the appointment of locally deployed, commission-based sales agents which we use as 'lead finders' for the Company. Currently we are using agents in the US and central Europe, territories which collectively represent around 80% of the global market for proteomic research services. Once leads have been identified by these agents, they are turned over to Proteome Sciences and we handle the face-to-face (or more often remote, e-based) meetings, presentations, webinars and technical discussions.

Our aim is to sell an analytical contract through which we first work with a client to establish their research needs, then develop a specific protocol, and finally perform proteomic studies on a fee for service basis using samples that they send us. Internal lines of communication that facilitate the transition from sales agent to company are now well established, alongside metrics to ensure this

strategy is working. During 2017 we have worked on our response times, both to incoming project enquiries and to the submission of an agreed work contract back to the client. Overall project delivery time is also monitored, and we routinely deliver results on time and within budget. This certainly makes us a more professional service provider in the eyes of the client, who is rightly focused on time, cost and quality, and enables us to support ongoing clinical trials. Such opportunities demand reliable project delivery but have the advantage of predictably higher budgets.

The interface between internal research and the sales function has also been strengthened to ensure we are able to respond to changes in market demand for specific technologies. This is well illustrated by the timely introduction of a Super Depletion TMTcalibrator™ workflow (described below) as the market for blood biomarker discovery projects is experiencing a renaissance.

In addition to improving our sales process we have also started to re-engineer our marketing efforts. Through our US and European sales agents we have greater opportunity for regular mailshots and press releases, with a wider distribution network. We have also revamped our strategy for attending exhibitions and scientific meetings with a streamlined stand design and flexible, tailored literature appropriate to each event. Initial feedback is positive and has already provided a number of new projects and requests for proposals.

Such front-line changes have resulted in a significantly more efficient sales and marketing capability, better aligned with functional delivery, and demonstrating quarter by quarter revenue growth since the middle of 2017.

Taking Tissue to the Periphery

Proteomics research involves identifying blood biomarkers that reflect disease processes occurring in tissues and demonstrating how diseased tissue responds to drug treatment. Historically, these discovery efforts have studied blood protein expression independent of the relevant diseased tissue, thereby often failing in

STRATEGIC REPORT

their primary objective. More recently we have introduced TMTcalibrator™ where the use of TMT® 10plex reagents allows tissue and blood samples to be combined, enhancing the detection rate of disease-related biomarkers.

In 2017 we extended the utility of TMTcalibrator™ by introducing a more powerful method for removing high and medium abundant blood proteins prior to analysis. Working with one of our clients, we applied the combined Super Depletion TMTcalibrator™ workflow to identify putative blood biomarkers of disease response to treatment. This study demonstrated unparalleled coverage of the plasma proteome and identified several potential new biomarkers related to the client's area of therapeutic interest. Compared to standard methods, Super Depletion alone increased coverage from around 1,500 to over 4,000 plasma proteins. With the enhanced sensitivity of TMTcalibrator™ a further two-fold increase was achieved, with over 8,000 plasma proteins quantified, including many not previously reported in plasma proteomics studies. Data from this study are scheduled for presentation at an international conference in May 2018.

Intelligent Insights

In addition to substantial gains in protein coverage obtained through our internal development efforts, we have further refined our bioinformatics tools to deliver better biological insights for customers. During the process of GCLP accreditation we had to validate our computational methods, affording us the opportunity to improve the speed and efficiency of processing. As a result, our modular bioinformatics workflow can process mass spectrometry data and perform detailed analyses of underlying biological pathways with fewer user interactions; this provides fast-track access to new drug targets and biomarkers.

Previously communicated plans to establish a bioinformatics business unit remain part of our longer-term strategy but have not yet been realised in the face of implementing other more immediate initiatives.

Tandem Mass Tags®

Sales of TMT® continued to show strong growth with revenues increasing by £1.10m to £2.48m, although this included a one-time sales milestone of £0.58m. Growth continues to be driven both by established users and the adoption of TMT® by new research groups. There was also an increase in the licensing of commercial TMT® users and we anticipate this adding sales value in 2018. In order to meet this growing demand, we started making an additional batch of standard TMT® 10plex reagents and this effort will be completed in the second quarter of 2018. We retain sufficient stocks to meet Thermo Scientific's requirements until then.

Development of higher plexing-rate tags continued in 2017 with promising results obtained from a prototype set of four tags. We have started synthesis of the remaining 12 tags required to deliver the full set of 16plex reagents and expect these to be available later in 2018. Patents covering these new reagents have been filed in the key commercial jurisdictions and we continue to prosecute them to ensure their earliest issuance.

Internal Research Activities

With an increased focus on commercial projects, efforts to attain GCLP certification and closure of the UK research laboratory, we have reduced the scale of our internal disease biomarker research. Our programs in Alzheimer's disease and liver cancer have reached a level of maturity where external groups can develop the evidence for utility of our patented biomarkers.

Our research programs in amyotrophic lateral sclerosis (ALS) have also been concluded and results are being prepared for publication. Through these projects we have gained new insights into potential disease mechanisms and peripheral biomarkers that may aid the management of this disease in the future.

External evaluation of our CK1d inhibitors in a new therapeutic indication was concluded in 2017 but the compounds were not found to be suitable. We continue to explore partners for their use in Alzheimer's disease and other neurodegenerative conditions.

STRATEGIC REPORT

Patent Applications and Proprietary Rights

We continue to manage our portfolio of patents to maximise its short, medium and longer-term value. Sixteen patents were granted in 2017 relating to nine separate families. We also filed 11 new patents relating to four families covering new panels of Alzheimer's disease biomarkers and casein kinase inhibitors. A further 151 individual cases from 33 families have either expired or been allowed to lapse as they no longer offered economic value.

Board Changes

On 25 July 2017 the Company announced that Geoff Ellis had resigned as Finance Director.

On 1 August 2017 the Company announced that Dr Ursula Ney had been appointed as a non-executive director, replacing Prof. William Dawson who was standing down after providing 20 years of valuable service. Dr Ney has more than 30 years' experience of the biopharmaceutical industry in a range of senior positions within large and small companies.

Financial Review

Results and Dividends

The loss after tax for the year was £2.50m (2016: £2.28m). The directors do not recommend the payment of a dividend (2016: Nil). The Group results are stated in the Consolidated Income Statement on page 26 and are reviewed in the Chief Executive Officer's Statement on pages 2 to 5 and the Strategic Report on pages 6 to 11.

Key Performance Indicators (KPI's)

- (i) The directors consider that revenue and loss before tax are KPI's in measuring Group performance; the profile of the Group is changing as a result of the licensing agreements that have already been entered into and as other commercial agreements and contracts are concluded. The performance of the group is set out in the Chief Executive Officer's Statement on pages 2 to 5.
- (ii) In a small business with a high proportion of well-qualified and experienced staff, the rate of staff turnover is seen as an important KPI. In

FY2017 three members of staff resigned, including the Finance Director. The three resignees were not replaced as a cost containment measure and their responsibilities were redistributed within the organisation. In addition, four members of staff were made redundant as a consequence of the closure of the London laboratory, and two long-term contractors based in the US were not re-engaged in advance of changes to the commercialisation model.

- (iii) The directors believe that a further important KPI is the Group's rate of cash expenditure and its effect on Group cash resources. Net cash outflows from operating activities for FY2017 were £1.70m (2016: £1.99m). Further details of cash flows in 2017 are set out in the Group's Consolidated Cash Flow Statement on page 32.
- (iv) As a commercially oriented business, service-based contract revenues should increase in absolute terms as well as a proportion of total group revenues; however, this was not the case in 2017 (£0.90m; 26% vs £1.25m; 46% in 2016) while a new business model was being implemented. In these changing circumstances the average value of our service contracts is unlikely to provide a reliable measure of business performance as we had previously suggested. However, repeat business should indicate a level of customer satisfaction and in 2017, 50% of our new contracts (42% by value) were from existing clients compared with 42% (35% by value) in 2016.
- (v) As the company establishes a primary contract research business a reliance on service-based metrics will reflect our focus on the time, cost and predictability of delivery. Response times for client inquiries and contract submissions, as well as overall project delivery timelines, are relevant here. However, given the fundamental change in our commercialisation model during 2017 these KPI's have no adequate baseline or comparator from previous years and will therefore be a focus for the future.

STRATEGIC REPORT

Financial Performance

Compared to the previous year our revenues showed strong growth. Revenue for the 12 month period ended 31 December 2017 increased 23% to £3.38m (2016: £2.74m).

- Sales and Services revenue rose 28% to £3.38m (2016: £2.64m). This is comprised of two revenue streams, TMT® and Biomarker Services. TMT® revenues increased by 79% through a mix of increased sales of TMT® tags and a marked increase in the associated royalty and milestone payments due from our exclusive distribution partner Thermo Scientific. Biomarker Services revenue declined by 28%, due to the restructuring of the sales organisation.
- Grant services were £Nil (2016: £0.11m).

The loss before tax was £2.05m (2016: £2.94m).

As the recoverable assets of the company are significantly lower than the valuation of non-current assets due to the reduced market capitalisation, an impairment charge has been applied for a third consecutive year.

Owing to the changing nature of our services business, with a stronger focus on commercial activities, we have not recognised an R&D tax credit for 2017, referred to in note 11 (page 44) and note 15 (iii) (page 48), which marks a change in accounting practice from previous years.

Costs and Available Cash

The Group maintained a positive cash balance in 2017 and continues to seek improved cash flows from commercial income streams. Despite the rise in revenues, our operating costs have largely been contained.

- Administrative expenses in 2017 were £4.01m (2016: £4.24m). This is a decrease of 5.4%, representing cost savings following the relocation of the UK Laboratory. The full benefit of this consolidation will take effect from 2018 onwards.

- Staff costs for the year stayed the same as 2016 due to redundancy payments resulting from the closure of the UK Laboratory; consequently, these costs are expected to reduce in 2018.
- Property costs of £0.3m 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 to the Non-Executive Chairman, Christopher Pearce, from his loan to the company. Costs of £0.25m are in line with the prior year.
- Loss after tax for 2017 was £2.50m (2016: £2.28m). The net cash outflow from operating activities was £1.70m (2016: £1.99m). Cash at the year-end was £0.91m (2016: £2.88m).

Principal Risks and Uncertainties

Commercialisation Activities

It is uncertain whether our range of contract proteomic services will be purchased in sufficient quantity for the Group ultimately to be successful in the commercial market. Progress in 2017 was initially slow after the complete revision of our service offering, but interest and orders were increasing by the end of the year.

Management of Risk: The Group has sought to manage this risk by recruiting a Chief Commercial Officer with extensive experience of sales and marketing in the sector, revising the overall commercialisation strategy in accordance with a niche contract services business, and utilising commission-based sales agents in the principal territories of the US and Europe.

Dependence on Key Personnel

The Group depends on its ability to attract and retain a limited number of highly qualified managerial and scientific personnel, the competition for whom is intense. While the Group has entered into conventional employment arrangements with key personnel aimed at

STRATEGIC REPORT

securing their services for minimum terms, their retention cannot be guaranteed as evidenced by three resignations during 2017.

Management of Risk: The Group has a policy of organising its work so that projects are not dependent on any one individual, and the appointment of a full time Project Manager is intended to align the availability of limited functional resources more directly with customer commitments. Staff retention is also sought through annual, role-based reviews of remuneration packages, performance related bonus payments, and the opportunity for share option grants.

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 distributing available resources.

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 with increasingly broad and 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.

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 has an experienced patent capability which has established controls to avoid the release of patentable material before it has filed patent applications. Moreover, maintenance of the existing patent portfolio is subject to biannual review in order to ensure that its ongoing cost is proportional to its perceived value.

By Order of the Board

Hamilton House
Mabledon Place
London WC1H 9BB

V Birse

Company Secretary

23 April 2018

BOARD OF DIRECTORS

for the year ended 31 December 2017

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.

Geoff Ellis (resigned 1 August 2017)

Finance Director

Geoff Ellis is a Chartered Accountant with over 30 years' experience in a range of senior financial, general management and sales and business development roles. He spent almost 15 years at Walt Disney where his roles included Chief Financial Officer of Disney Channels in Europe, the Middle East and Africa, a \$500m turnover business.

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.

Christopher Pearce

Non-executive Chairman (i) (ii) (iii)

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

Prof. William Dawson

(resigned 1 August 2017)

Non-executive Director (i) (ii) (iii)

William Dawson retired from Eli Lilly and Company in August 1996 after 27 years' service, 14 as Research Director in the UK and latterly as Director of Technology Acquisition, Europe. He is a Director of Bionet Limited and is a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Roger McDowell

Non-executive Director (i) (ii) (iii)

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, Servelec Group plc, Renovo plc, Alkane Energy plc, Swallowfield plc, IS Solutions plc and Augean 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 18.71% of Proteome Sciences' ordinary share capital.

BOARD OF DIRECTORS

for the year ended 31 December 2017

Dr. Ursula Ney

Non-executive Director

(appointed 1 August 2017) (i) (ii) (iii)

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
- (iii) Member of Nomination Committee

DIRECTOR'S REPORT

for the year ended 31 December 2017

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 on page 60.

DIRECTOR'S REPORT

for the year ended 31 December 2017

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 |
| G. Ellis (resigned 1 August 2017) | Finance Director |
| Dr I.H. Pike | Chief Scientific Officer |
| Prof. W. Dawson (resigned 1 August 2017) | Non-Executive |
| R. McDowell | Non-Executive |
| M. Diggle | Non-Executive |
| Dr U. Ney (appointed 1 August 2017) | Non-Executive |

In accordance with the Company's articles Christopher Pearce retires by rotation at the next Annual General Meeting and, being eligible, offers himself for re-election.

The Directors at 31 December 2017 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

| Name of Director | 31 December 2017 | 31 December 2016 |
|--------------------|--------------------------------------|--------------------------------------|
| | Number of Ordinary Shares of 1p each | Number of Ordinary Shares of 1p each |
| C.D.J. Pearce | 36,915,059 | 36,915,059 |
| Dr. J. R. M. Haigh | 400,000 | 400,000 |
| G. Ellis | – | – |
| Dr I.H. Pike | 165,583 | – |
| Prof. W. Dawson | 20,372 | 20,372 |
| R. McDowell | 2,500,000 | 2,500,000 |
| 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 18.71% of Proteome Sciences' ordinary share capital.

No changes took place in the beneficial interests of the Directors between 31 December 2017 and 23 April 2018.

DIRECTOR'S REPORT

for the year ended 31 December 2017

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 2017 | | Number at 31 December 2016 |
|------------------------|-----|-------------------------------|-----|-------------------------------|
| (i) C.D.J. Pearce | (a) | – | (b) | 277,704 |
| (ii) G. Ellis | (a) | – | (b) | 300,000 |
| (iii) Dr I.H. Pike | (a) | 3,750,000 | (b) | 165,583 |
| (iv) Dr J. R. M. Haigh | (a) | 9,000,000 | (b) | – |

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

The market price at the date of grant of the above awards numbered (i)(b) and (iii)(b) was 49.75p, (ii)(b) was 35.75p, (iii)(a) and (iv)(a) was 4.25p.

c) As set out in note 18(b) (i) to (iii) on page 51 of 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 10 day trading period since 29 June 2006 (the date on which details of the original loan agreement were disclosed).

d) The market price of the Ordinary Shares at 31 December 2017 was 3.1p and the range during the year was 5.5p to 3.1p.

Substantial Shareholdings

As at 23 April 2018, 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 |
|--------------------------------|------------------------------|--|
| Vulpes Life Science Fund | 55,217,431 | 18.71 |
| C.D.J. Pearce | 36,915,059 | 12.53 |
| Helium Special Situations Fund | 19,212,273 | 6.52 |

Corporate Governance

The Company has formalised the following matters by Board resolution:

- a formal schedule of Board responsibilities;
- the procedure for Directors to take independent professional advice if necessary, at the Company's expense;
- the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and
- establishment of and written terms of reference for audit, nominations and remuneration committees.

DIRECTOR'S REPORT

for the year ended 31 December 2017

Internal Control

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:

- 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.

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 pages 2 to 5 and Strategic Report on pages 6 to 11. 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 32 and in notes 18 (b) (Financial Liabilities) and 24 (Financial Instruments) on pages 51 and 60 respectively.

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

DIRECTOR'S REPORT

for the year ended 31 December 2017

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 on page 51. 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.

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 Strategic Report on pages 6 – 11 and Chief Executive Officer's Statement on pages 2 – 5.

Remuneration committee report

The Remuneration Committee is made up of three Non-executive Directors, Prof. W. Dawson (resigned on 1 August 2017), C. Pearce, R. McDowell and U Ney (appointed 1 August 2017). The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the Executive Directors. The remuneration of Non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance. Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 10 to the financial statements (page 43) and in the Directors' Report (pages 14 – 19)..

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.

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.

DIRECTOR'S REPORT

for the year ended 31 December 2017

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

23 April 2018

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

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 2017 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 2017 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 (pages 34 – 40) which indicates that the group remains reliant on achieving adequate level of sales in order to maintain sufficient working capital to

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

support its activities and is reliant on the unsecured loan facility provided by the Chairman not being called in.

Although the Chairman has confirmed to the directors that he has no intention of calling in the loan, this is not legally binding. If adequate levels of sales are not met, the group will need additional funding within the next 12 months. As at the date of approval of these financial statements there are no agreements in place relating to securing additional funds from existing shareholders or new investors and therefore there can be no certainty that additional funds will be forthcoming. 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. The financial statements do not include the adjustments that would result if the parent company and group were unable 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.

Our audit procedures included the following:

- Review of the group's cash flow forecast and other projections through to 30 June 2019, including assessing and challenging assumptions used and performing sensitivity analysis.
- Reviewing management's assessment of going concern and specifically their consideration as to whether there is the existence of any uncertainties related to going concern.
- Reviewing the terms of the group's financing, including loans from Mr. C.D.J. Pearce (Chairman and a related party).
- Reviewing post-balance sheet events, specifically cash flow.
- Reviewing the disclosures in the financial statements.

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.

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. This matter was 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 this matter.

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

Matter

Revenue Recognition

The group has a number of revenue streams for which the accounting must be individually considered. The details of the accounting policies applied during the period are given in note 3 to the financial statements.

Management make certain judgements around revenue recognition, including estimating the percentage completion of service contracts completed by the reporting date relative to total contract values. A cut-off risk arises around the correct apportionment of revenue to the correct accounting period.

How we addressed the matter in our audit

Our procedures included reviewing the group's adopted revenue recognition policy in accordance with the requirements of *IAS 18 – Revenue*. We have reviewed the policy, and confirmed that consistent application has been adhered to throughout the year.

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 reconciliation.
- Verifying sales of TMT kits and royalties received through to delivery order confirmation and ultimate cash receipt.
- Cut-off procedures for transactions recorded in December 2017 and January 2018.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, 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 £126,000 (2016: £147,000) which represents 5% of loss before tax (2016: 5% loss before tax).

Materiality for the parent company has been capped at 75% of group materiality, at £94,000 (2016: £110,000).

The individual component materiality was set at 75% group planning materiality, at £80,250 (2016: £116,000).

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 consistently referenced within the RNS announcements released by the group.

Performance materiality was set at 75% of materiality. 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.

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

Clearly trivial is defined as matters which will be a wholly different order of magnitude than the materiality thresholds used in the audit and will be matters that are clearly inconsequential, whether taken individually or in aggregate. We agreed with the Audit Committee that misstatements in excess of £6,300 (2016: £7,350), 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.

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.

To this extent:

- The group audit team performed full scope audits for Proteome Sciences Plc and its subsidiary Electrophoretics Limited;
- We instructed our network member firm in Germany, 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 German location to ensure we obtained a full understanding of the operational activities and appropriately scoped risk and agreed responses to those risks.
- The remaining four components not subject to full scope audit have been reviewed for group reporting purposes, 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 the 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.

Based on the above scope we were able to obtain sufficient and appropriate audit evidence about the group's financial information as a basis to form our opinion on the group financial statements as a whole.

Classification of components

We identified three individually significant components, which makes up 99.99% of Group expenditure.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

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.

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 (pages 14 – 19) 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 14, 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.

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2017

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.

Iain Henderson (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London

23 April 2018

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|-----------------------------|-------|----------------|---------------|
| Revenue | 5, 6 | | |
| Sales of goods and services | | 3,378 | 2,636 |
| Grant services | | 2 | 108 |
| Revenue – total | | 3,380 | 2,744 |
| Cost of sales | | (1,180) | (1,196) |
| Gross profit | | 2,200 | 1,548 |
| Administrative expenses | | (4,008) | (4,235) |
| Operating loss | | (1,808) | (2,687) |
| Finance income | 7(i) | 1 | 1 |
| Finance costs | 7(ii) | (246) | (257) |
| Loss before taxation | | (2,053) | (2,943) |
| Tax | 11 | (444) | 663 |
| Loss for the year | | (2,497) | (2,280) |
| Loss per share | | | |
| Basic and diluted | 12 | (0.85p) | (0.96p) |

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 2017

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Loss for the year | (2,497) | (2,280) |
| Other comprehensive income for the year | | |
| Exchange differences on translation of foreign operations | 37 | 84 |
| Loss and total comprehensive income for the year | (2,460) | (2,196) |
| Attributed to: | | |
| Owners of parent | (2,460) | (2,196) |
| Non-controlling interest | – | – |

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--------------------------------|-------|-----------------|----------------|
| Non-current assets | | | |
| Goodwill | 13 | 4,218 | 4,218 |
| Property, plant and equipment | 14 | 281 | 592 |
| | | 4,499 | 4,810 |
| Current assets | | | |
| Inventories | 16 | 946 | 600 |
| Trade and other receivables | 17(a) | 1,124 | 1,406 |
| Cash and cash equivalents | 17(b) | 908 | 2,884 |
| | | 2,978 | 4,890 |
| Total assets | | 7,477 | 9,700 |
| Current liabilities | | | |
| Trade and other payables | 18(a) | (726) | (662) |
| Borrowings | 18(b) | (8,946) | (8,700) |
| | | (9,672) | (9,362) |
| Net current liabilities | | (6,694) | (4,472) |
| Non-current liabilities | | | |
| Hire purchase payables | 18(a) | – | (166) |
| Provisions | 19 | (363) | (361) |
| | | (363) | (527) |
| Total liabilities | | (10,035) | (9,889) |
| Net liabilities | | (2,558) | (189) |
| Equity | | | |
| Share capital | 20 | 2,952 | 2,943 |
| Share premium account | | 51,466 | 51,451 |
| Share-based payment reserve | | 3,503 | 3,436 |
| Merger reserve | 22 | 10,755 | 10,755 |
| Translation reserve | | (67) | (104) |
| Retained loss | | (71,167) | (68,670) |
| Non-controlling interests | | – | – |
| Total (deficit) | | (2,558) | (189) |

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 23 April 2018. They were signed on its behalf by:

J.R.M. Haigh Director

I.H. Pike Director
23 April 2018

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

COMPANY BALANCE SHEET

as at 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|----------------------------------|-------|----------------|----------------|
| Non-current assets | | | |
| Investment in subsidiaries | 15 | 7,941 | 10,033 |
| | | 7,941 | 10,033 |
| Current assets | | | |
| Cash and cash equivalents | 17(b) | 58 | 2,152 |
| | | 58 | 2,152 |
| Total assets | | 7,999 | 12,185 |
| Current liabilities | | | |
| Payables from other group entity | 18(a) | (316) | (306) |
| Borrowings | 18(b) | (1,502) | (1,461) |
| | | (1,818) | (1,767) |
| Non-current liabilities | | | |
| Provisions | 19 | – | (5) |
| Total liabilities | | (1,818) | (1,772) |
| Net assets | | 6,181 | 10,413 |
| Equity | | | |
| Share capital | 20 | 2,952 | 2,943 |
| Share premium account | | 51,466 | 51,451 |
| Share-based payment reserve | | 3,503 | 3,436 |
| Retained loss | | (51,740) | (47,417) |
| Total equity | | 6,181 | 10,413 |

The company generated a loss for the year ended 31 December 2017 of £4.32m (2016: £20.52m), mostly resulting from an impairment charge of £4.18m.

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 23 April 2018. They were signed on its behalf by:

J.R.M. Haigh Director

I.H. Pike Director
23 April 2018

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 2017

| | Share capital £'000 | Share premium account £'000 | Share- based payment reserve £'000 | Translation reserve £'000 | Merger reserve £'000 | Retained loss £'000 | Equity attributable to owner of the parent £'000 | Non- controlling interest £'000 | Total (deficit) £'000 |
|---|---------------------------|--------------------------------------|--|---------------------------------|----------------------------|---------------------------|---|--|-----------------------------|
| At 1 January 2016 | 2,280 | 48,986 | 3,402 | (188) | 10,755 | (66,390) | (1,155) | – | (1,155) |
| Loss for the year | – | – | – | – | – | (2,280) | (2,280) | – | (2,280) |
| Exchange differences on translation of foreign operations | – | – | – | 84 | – | – | 84 | – | 84 |
| Loss and total comprehensive income for the year | – | – | – | 84 | – | (2,280) | (2,196) | – | (2,196) |
| Issue of share capital | 663 | 2,650 | – | – | – | – | 3,313 | – | 3,313 |
| Share issue expenses | – | (185) | – | – | – | – | (185) | – | (185) |
| Credit to equity for share-based payment | – | – | 34 | – | – | – | 34 | – | 34 |
| At 31 December 2016 | 2,943 | 51,451 | 3,436 | (104) | 10,755 | (68,670) | (189) | – | (189) |
| 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) |

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 2017

| 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 2016 | 2,280 | 48,986 | 1,082 | 3,402 | (27,979) | 27,771 |
| Loss and total comprehensive income for the year | – | – | – | – | (20,520) | (20,520) |
| Credit to equity for share-based payment | – | – | – | 34 | – | 34 |
| Transfer during year | – | – | (1,082) | – | 1,082 | – |
| Issue of share capital | 663 | 2,650 | – | – | – | 3,313 |
| Share issue expenses | – | (185) | – | – | – | (185) |
| At 31 December 2016 | 2,943 | 51,451 | – | 3,436 | (47,417) | 10,413 |
| 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 |

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 2017

| | Note | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|--|------|------------------------|--------------------------|------------------------|--------------------------|
| Loss before tax | | (2,053) | (4,323) | (2,943) | (20,520) |
| Adjustments for: | | | | | |
| Net finance costs | 7 | 245 | 42 | 257 | 44 |
| Depreciation of property, plant and equipment | 14 | 332 | – | 553 | – |
| Impairment of investments in subsidiaries | | – | 4,182 | – | 20,340 |
| Share-based payment expense | 21 | 67 | – | 34 | – |
| Operating cash flows before movements in Working capital | | (1,409) | (99) | (2,099) | (136) |
| (Increase)/Decrease in inventories | | (346) | – | (309) | – |
| (Increase)/Decrease in receivables | | (63) | – | (183) | – |
| Increase/(Decrease) in payables | | 118 | – | (144) | – |
| Increase/(Decrease) in provisions | | 2 | (5) | 85 | (11) |
| Cash used in operations | | (1,698) | (104) | (2,650) | (147) |
| Tax refunded | | – | – | 656 | – |
| Net cash outflow from operating activities | | (1,698) | (104) | (1,994) | (147) |
| Cash flows from investing activities | | | | | |
| Purchases of property, plant and equipment | 14 | (23) | – | (33) | – |
| Loans advanced to subsidiary undertakings | | – | (2,013) | – | (1,894) |
| Interest received | 7 | 1 | – | 1 | 1 |
| Net cash outflow from investing activities | | (22) | (2,013) | (32) | (1,893) |
| Financing activities | | | | | |
| Proceeds on issue of shares | | 23 | 23 | 3,313 | 3,313 |
| Share issue costs | | – | – | (185) | (185) |
| Repayment of HP creditors | 18 | (220) | – | (220) | – |
| Net cash inflow from financing activities | | (197) | 23 | 2,908 | 3,128 |
| Net increase in cash and cash equivalents | | (1,917) | (2,094) | 882 | 1,088 |
| Cash and cash equivalents at beginning of year | | 2,884 | 2,152 | 1,808 | 1,064 |
| Effect of foreign exchange rate changes | | (59) | – | 194 | – |
| Cash and cash equivalents at end of year | 17b | 908 | 58 | 2,884 | 2,152 |

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 2017

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 ADOPTION OF NEW AND REVISED STANDARDS

New standards and amendments to existing standards that have been published and are mandatory for the first time for the financial year beginning 1 January 2016 have been adopted but had no significant impact on the Group and Company. New standards, amendments to standards and interpretations which have been issued but are not yet effective for the financial year beginning 1 January 2018 have not been early adopted in preparing these financial statements. The main accounting standards which may be relevant to the Group are set out below:

IFRS 9 “Financial Instruments” – (effective for 2018 financial report)

Key changes to accounting requirements under IFRS 9 which may be relevant to Proteome Sciences plc include the requirement to apply a new impairment model based on expected loss in recognising impairment of financial assets including current receivables and loans to related parties. The application of this model is effective from the date of initial application on 1 January 2018. This may result in the recognition of additional impairment losses against the carrying values of these financial assets, at a point in time which is earlier than under the current accounting policies.

The implications of the accounting standard on Proteome Sciences are currently being evaluated and will be reported in the interim results 2018. The value of the provision has not yet been calculated but historically there have been very low levels of bad debts and therefore the increase in provision is not expected to be material.

IFRS 15 “Revenue from Contracts with Customers” – (effective for 2018 financial report)

In applying IFRS 15, the company’s initial views on the key changes to accounting requirements under IFRS 15 which may be relevant to Proteome Sciences plc include:

(a) Sale of goods

Contracts with customers in which sale of TMT® goods (£2.48m) are the only performance obligation are not expected to result in changes for the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Biomarker services

Contracts with customers in which biomarker services (£0.90m) are provided over a period of time may result in revenue being recognised later than the treatment under the current accounting policy. This is because revenue recognition changes to a point in time, often at the end of a project, at which the customer has received final deliverables and an enforceable right to payment has been established.

The implications of the accounting standard on Proteome Sciences are currently being evaluated and will be reported in the interim results 2018. As the majority of service contracts will be completed within 2017 even when applying IFRS 15 retrospectively to 2017 no material difference to an earlier application of the standard is expected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

2 ADOPTION OF NEW AND REVISED STANDARDS continued

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 UK and Frankfurt (Germany) premises as both an asset and a rental commitment in its consolidated statement of financial position. Adoption of IFRS 16 is not expected to have a material effect on the Group’s results.

The implications of the accounting standard on Proteome Sciences are expected to be evaluated in more detail during the financial year 2018.

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

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).

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group’s accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

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 2017, the Group had cash resources of £0.91m (2016: £2.88m), realised a loss for the year of £2.50m (2016: a loss of £2.28m), had net cash outflows from operating activities of £1.70m (2016: net cash outflow of £1.99m) and had net current liabilities of £6.69m (2016: £4.47m).

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 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.

Non-controlling interests

For business combinations, the Group initially recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured. 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.

Sales and services

Sales of goods including TMT kits are recognised when goods are delivered and title has passed to the customer. Licence income is recognised when the benefit has been transferred to the licensee and the group has satisfied performance requirements under the terms of the relevant agreement.

Grants services revenues and biomarker services revenues are recognised based on an estimate of percentage completion of contracts completed by the reporting date relative to total contract values for individual projects. The estimate is derived by the application of judgement and tracked progress of work performed on each project at the reporting date relative to the total value of each project. Grants released to the income statement are recognised within revenue, taking account of each grant's specific performance terms and conditions.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 2017 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 and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective rate computed at initial recognition.

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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest-bearing loans are recorded initially at fair value, net of direct issue 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.

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.'

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

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 2017 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

5 REVENUE

An analysis of the Group's revenue is as follows:

| | 2017 £'000 | 2016 £'000 |
|-----------------------------|---------------|---------------|
| Revenue | | |
| Sales of goods and services | 3,378 | 2,636 |
| Grant services | 2 | 108 |
| | 3,380 | 2,744 |

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 licence 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.

Revenues from major products and services

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

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| TMT® revenues | 2,483 | 1,387 |
| Biomarker services and other licence income | 895 | 1,249 |
| Revenues from sale of goods and services | 3,378 | 2,636 |

Geographical Information

The Group's revenue from external customers by their geographical location is derived as follows:

| | 2017 £'000 | 2016 £'000 |
|-------|---------------|---------------|
| US | 2,789 | 2,123 |
| EU | 231 | 257 |
| Other | 358 | 256 |
| | 3,378 | 2,636 |

Grant services income

| | | |
|--|--------------|--------------|
| EU | 2 | 108 |
| Revenues and other income from major products and services | 3,380 | 2,744 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

7 (i) FINANCE INCOME

| | 2017 £'000 | 2016 £'000 |
|-----------------------------------|---------------|---------------|
| Income arising from bank deposits | 1 | 1 |

(ii) FINANCE COSTS

| | 2017 £'000 | 2016 £'000 |
|-----------------------------|---------------|---------------|
| Interest on loans (note 18) | 246 | 257 |

8 OPERATING LOSS

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Operating loss is stated after charging/(crediting): | | |
| Depreciation charge | | |
| – owned | 332 | 316 |
| – on loan | – | 237 |
| Research and development costs | 441 | 1,075 |
| Operating lease rentals | | |
| – other | 364 | 319 |
| Auditor's remuneration (see below) | 84 | 80 |
| Foreign exchange losses | 12 | 12 |
| (Increase)/decrease in cost of inventories credited as an expense | (346) | (309) |

The analysis of auditor's remuneration is as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 56 | 44 |
| Fees payable to the Company's auditor for other services to the Group | | |
| – The audit of the Company's subsidiaries pursuant to legislation | 1 | 11 |
| Total audit fees | 57 | 55 |
| Tax compliance services | 27 | 26 |
| Other tax compliance services – VAT, grants, share schemes, income tax advice | – | (1) |
| Total non-audit fees | 27 | 25 |
| Total fees | 84 | 80 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

9 STAFF COSTS

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

| | 2017 Number | 2016 Number |
|--------------------------|----------------|----------------|
| Research and development | 25 | 28 |
| Administration | 9 | 8 |
| | 34 | 36 |

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

| | 2017 £'000 | 2016 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 2,055 | 2,188 |
| Social security costs | 358 | 320 |
| Other pension costs | 126 | 211 |
| | 2,635 | 2,719 |

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

Social security costs shown above include a credit of £4,664 (2016: £10,000) 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 2017, were:

| | Basic salary 2017 £'000 | Benefits in kind 2017 £'000 | Pension Costs 2017 £'000 | Total 2017 £'000 | Total 2016 £'000 |
|--|----------------------------------|--------------------------------------|-----------------------------------|------------------------|------------------------|
| Executive Directors | | | | | |
| Dr J.R.M. Haigh | 247 | 3 | – | 250 | 146 |
| G. Ellis (resigned 1 August 2017) | 90 | 2 | – | 92 | 168 |
| Dr I. Pike | 150 | 3 | 15 | 168 | 168 |
| Non-Executive Directors | | | | | |
| C.D.J. Pearce | 120 | 6 | – | 126 | 149 |
| Prof. W. Dawson (resigned 1 August 2017) | 16 | – | – | 16 | 28 |
| R. McDowell | 25 | – | – | 25 | 25 |
| M. Diggle | – | – | – | – | – |
| Dr U Ney (appointed 1 August 2017) | 5 | – | – | 5 | – |
| | 653 | 14 | 15 | 682 | 684 |

- (i) The remuneration of the executive directors is decided by the Remuneration Committee.
- (ii) 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.
- (iii) Dr I Pike exercised 165,583 options during the year, thereby Dr Pike made a taxable gain of £4,963.11 (2016: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

10 DIRECTORS' REMUNERATION AND TRANSACTIONS continued

(iv) Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in note 20.

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

| | 2017 | 2016 |
|--------------------------------------|------|------|
| Defined contribution pension schemes | 1 | 2 |

Pension costs in the year ended 31 December 2017 were as follows:

| | 2017 £'000 | 2016 £'000 |
|------------|---------------|---------------|
| G. Ellis | – | 4 |
| Dr I. Pike | 15 | 15 |
| | 15 | 19 |

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 are claimed at the rate of 230% of the tax effect of tax losses generated from qualifying R&D expenditure. Tax credits income is recognised on an accruals basis through profit or loss within taxation benefit/expense when there is reasonable assurance that the tax credits will be received from the UK Tax Authorities. Management expects that the submitted R&D tax credit for 2016 will result in a substantially lower payment than the claim; management feels a lack of reasonable assurance to recognise an R&D claim for 2017 and any R&D tax credit claim will therefore be recognised on receipt.

| | 2017 £'000 | 2016 £'000 |
|-------------------------------------|---------------|---------------|
| UK Corporation tax – R&D tax credit | – | 745 |
| Overseas tax charge | (99) | (62) |
| Group tax credit for the year | (99) | 683 |
| Adjustments re previous years | (345) | (20) |
| | (444) | 663 |

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

At 31 December 2017 there were tax losses available for carry forward of approximately £41.4m (2016: £42.0m).

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 2017

11 TAX CREDIT ON LOSS BEFORE TAXATION ON ORDINARY ACTIVITIES 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 2017. The differences are explained below:

| | 2017 £'000 | 2016 £'000 |
|---|----------------|---------------|
| Loss before tax | (2,053) | (2,943) |
| Income tax credit calculated at 19.38% (2016: 20%) | 395 | 589 |
| Effects of: | | |
| Expenses that are not deductible in determining taxable profit | (3) | (27) |
| Fixed asset timing differences | (68) | (111) |
| Effect of concessions (Research and Development) | – | 782 |
| Losses surrendered for R&D tax credit | – | (1,157) |
| Unrecognised tax losses carried forward | (324) | (27) |
| Effect of overseas tax | (99) | (62) |
| R&D tax credit claimed | – | 746 |
| Other taxable income | – | (50) |
| Group tax credit for the year | (99) | 683 |
| Adjustment re prior year | (345) | (20) |
| | (444) | 663 |
| | 2017 | 2016 |
| | £'000 | £'000 |
| Unrecognised deferred tax | | |
| The following deferred tax assets and liability have not been recognised at the balance sheet date: | | |
| Tax losses – revenue | 8,148 | 7,141 |
| Depreciation in excess of capital allowances | (35) | (85) |
| Provisions | 5 | 6 |
| Total | 8,118 | 7,062 |

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 2017, and will fall to 17% for the year beginning 1 April 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 | |
|--|--------------------------|-------------|
| | 2017 | 2016 |
| | £'000 | £'000 |
| Loss for the financial year | (2,497) | (2,280) |
| | 2017 | 2016 |
| | Number of | Number of |
| | shares | shares |
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share: | 295,182,056 | 236,451,654 |

In 2017 and 2016 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 2017 and 31 December 2017 | 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 2017, the market capitalisation for the group was £9.2m based on the quoted share price of the company of 3.1p 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 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 2016 | 710 | 4,278 |
| Exchange adjustments | – | 374 |
| Additions during the year | – | 33 |
| 31 December 2016 | 710 | 4,685 |
| 1st 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 |
| Depreciation | | |
| 1 January 2016 | 473 | 3,421 |
| Exchange adjustments | – | 356 |
| Charge for the year | 237 | 316 |
| At 31 December 2016 | 710 | 4,093 |
| At 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 |
| Carrying amount | | |
| 31 December 2016 | – | 592 |
| 31 December 2017 | – | 281 |

Included in the Property, Plant and Equipment is mass spectrometry equipment with a net book value of £Nil (2016: £Nil) which was provided to the Group for a period of at least three years, pursuant to the licence and research collaboration agreement made with Thermo Fisher Scientific in 2013.

The equipment is being depreciated over the three year period of the loan agreement. The Company owned no fixed assets during either the current or preceding financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

15 INVESTMENT IN SUBSIDIARIES

| Company | Cost of shares in subsidiary undertakings £'000 | Loans to subsidiary undertakings £'000 | Total £'000 |
|---|--|---|----------------|
| At 1 January 2016 | 4,411 | 23,993 | 28,404 |
| Additional investment in the year | 34 | 1,935 | 1,969 |
| Provisions for impairment during the year | (1,961) | (18,379) | (20,340) |
| At 31 December 2016 | 2,484 | 7,549 | 10,033 |
| 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 |

- (i) The increase in the cost of shares in subsidiary undertakings of £67,104 (2016: £34,000) 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 2017 arose from the provision of further funds to the company's trading subsidiary and German subsidiary company.
- (iii) The directors considered the reduced market capitalisation of the business as an indicator of both the fair value less cost to sell of the company's equity investments in its subsidiaries and the value of the recognised and unrecognised assets held by the underlying subsidiaries, which are counterparties to the underlying loans. As a result of the fall in market capitalisation of the company in the year, a further provision of £2.6m has been recognised against the carrying value of the company's equity investments in its subsidiaries and £1.6m in the carrying value of its debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

15 INVESTMENT IN SUBSIDIARIES continued

Principal Group investments

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

| Principal 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 |
| Xzillion GmbH & Co. KG (30 September 2017 accretion to Proteome Sciences R&D GmbH & Co. KG) | Germany | Administrative 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 |

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, Xzillion GmbH & Co. KG - Althenhöferallee 3, 60438 Frankfurt am Main, Germany

Electrophoretics Limited and Proteome Sciences plc 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 2017

16 INVENTORIES

| | 2017 | 2016 |
|------------------|--------------|-------|
| | £'000 | £'000 |
| Work-in-progress | 498 | 140 |
| Finished goods | 448 | 460 |
| | 946 | 600 |

17 OTHER CURRENT ASSETS

a) Trade and other receivables

| | Group | Company | Group | Company |
|--|--------------|----------------|--------------|----------------|
| | 2017 | 2017 | 2016 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 333 | – | 54 | – |
| R&D tax credit recoverable previous year | 400 | – | 745 | – |
| Other debtors | 329 | – | 537 | – |
| Prepayments | 62 | – | 70 | – |
| | 1,124 | – | 1,406 | – |

No allowance for doubtful debts was recognised in 2017 or 2016.

b) Cash and cash equivalents

| | Group | Company | Group | Company |
|---------------------------|--------------|----------------|--------------|----------------|
| | 2017 | 2017 | 2016 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 908 | 58 | 2,884 | 2,152 |

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 | Company | Group | Company |
|----------------------------------|--------------|----------------|--------------|----------------|
| | 2017 | 2017 | 2016 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| <i>Due within one year</i> | | | | |
| Trade creditors | – | – | 28 | – |
| Other payables and accruals | 560 | – | 414 | – |
| Hire purchase payables | 166 | – | 220 | – |
| Payables due from group entities | – | 316 | – | 306 |
| | 726 | 316 | 662 | 306 |
| <i>Due after one year</i> | | | | |
| Hire purchase payables | – | – | 166 | – |

Hire purchase payables have the following maturity profile at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

18 FINANCIAL LIABILITIES continued

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Due within one year | 166 | 220 |
| Due in more than one year but not more than 2 years | – | 166 |
| Due in more than two years but not more than 3 years | – | – |
| | 166 | 386 |

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.

(b) Short term borrowings

| | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Loan from related party (Director) | 8,946 | 1,502 | 8,700 | 1,461 |

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 the 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.
- (ii) 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.
 - (b) The occurrence of any of the usual events of default attaching to this sort of agreement.
- (iii) The amounts shown above as outstanding under short term borrowings include accrued interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

18 FINANCIAL LIABILITIES continued

(c) Changes in liabilities arising from financing activities

Group

Note supporting the cash flow statement

| | 1 January 2017 £,000 | Cash Flow £,000 | Interest accruing in the period £,000 | Foreign exchange £,000 | Fair value change £,000 | 31 December 2017 £,000 |
|-----------------------|----------------------------|-----------------------|---|------------------------------|----------------------------------|------------------------------|
| Long term borrowings | – | – | – | – | – | – |
| Short term borrowings | 8,700 | – | 247 | – | – | 8,947 |
| Lease Liabilities* | 386 | (220) | – | – | – | 166 |
| Assets held to hedge | – | – | – | – | – | – |
| Long term liabilities | – | – | – | – | – | – |
| Total | 9,086 | (220) | 247 | – | – | 9,113 |

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

Company

Note supporting the cash flow statement

| | 1 January 2017 £,000 | Cash Flow £,000 | Interest accruing in the period £,000 | Foreign exchange £,000 | Fair value change £,000 | 31 December 2017 £,000 |
|-----------------------|----------------------------|-----------------------|---|------------------------------|----------------------------------|------------------------------|
| Long term borrowings | – | – | – | – | – | – |
| Short term borrowings | 1,461 | – | 41 | – | – | 1,502 |
| Lease Liabilities* | – | – | – | – | – | – |
| Assets held to hedge | – | – | – | – | – | – |
| Long term liabilities | – | – | – | – | – | – |
| Total | 1,461 | – | 41 | – | – | 1,502 |

19 PROVISIONS

Group

| | Pensions provisions £'000 | Other provisions £'000 | 2017 Total £'000 | 2016 Total £'000 |
|----------------------------------|---------------------------------|------------------------------|------------------------|------------------------|
| At 1 January | 356 | 5 | 361 | 276 |
| Additional provision in the year | 7 | – | 7 | 95 |
| Reduction of provision | – | (5) | (5) | (10) |
| At 31 December | 363 | – | 363 | 361 |

Company – long term provision

| | 2017 £'000 | 2016 £'000 |
|------------------------------------|---------------|---------------|
| At 1 January | 5 | 15 |
| Reduction in provision in the year | (5) | (10) |
| At 31 December | – | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

19 PROVISIONS continued

- (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 (2016: £5,000) 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.

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 2018 in relation to the defined benefit scheme of £27,435.

The amount charged to the income statement in respect of the contributions to the scheme in 2017 was £54,402 (2016: £115,796).

As at 31 December 2017, an actuarial deficit did not exist for the multi-employer scheme. The Group's contributions to the scheme during 2017 represented 0.01% of total contributions to the scheme by employers and employees (2016: 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 1.75% (2016: 1.5%). The company has assumed an income increase of 2.5% (2016: 2.75%) and German inflation of 2% (2016: 2%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

19 PROVISIONS continued

Provisions for future unfunded pension liabilities at 31st December 2017 amounted to £363,034 (2016: £356,575). Amounts recognised through the consolidated income statement for the year to 31st December 2017 included service costs of £19,961 (2016: £94,987), interest costs of £5,541 (2016: £6,506) and an actuarial loss of £39,085 (2016: actuarial loss of £33,400).

Other pension costs in relation to defined contribution schemes for United Kingdom employees amounted to £71,526 (2016: £95,652)

20 SHARE CAPITAL

| | 2017 | 2016 |
|---|--------------|-------|
| | £'000 | £'000 |
| <i>i) Authorised</i> | | |
| (2017: 330,000,200) Ordinary Shares of 1p each | 3,300 | 3,300 |
| 49,998 Redeemable Ordinary Shares of £1 each | – | 50 |
| 1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting) | – | 1,064 |
| 786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting) | – | 786 |
| | 3,300 | 5,200 |

On 25 April 2017 special resolutions were passed at the Annual General Meeting of the company to remove the concept of authorised share capital and to amend the Articles of Association to remove references to the Preference shares. Following the passing of these resolutions the only share class remaining is Ordinary shares of £0.01 each.

Prior to the Annual General Meeting of the Company held on 25 April 2017 the company retained the concept of authorised share capital. Consequently prior to 25 April 2017 the company had an authorised share capital of £5,200,000 comprising 786,178 Non-voting Redeemable Preference Shares of £1.00 each, 49,998 Redeemable shares of £1.00 each, 1,063,822 Redeemable Preference Shares of £1.00 each and 330,000,200 Ordinary Shares of £0.01 each. None of the non-voting Redeemable Preference Shares, Redeemable Shares or Redeemable Preference Shares were in issue and as at 25 April 2017 294,648,723 Ordinary Shares of £0.01 each were in issue.

ii) Allotted and called-up

| | 2017 | 2016 |
|----------------------------|--------------|-------|
| | £'000 | £'000 |
| Ordinary Shares of 1p each | 2,952 | 2,943 |

The increase in the number of shares in issue in 2017 arose as follows:

| | 2017 | 2016 |
|--|--------------------|--------------------|
| | Number | Number |
| As at 1 January 2017 | 294,324,832 | 227,966,732 |
| Issued on exercise of LTIP award in April 2017 | 323,891 | 100,000 |
| Issued in previous share placing | – | 66,258,100 |
| Issue of equity | 533,333 | – |
| At 31 December 2017 | 295,182,056 | 294,324,832 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

20 SHARE CAPITAL continued

iii) 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 Official List of the London Stock Exchange.

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

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 | | |

At 31 December 2016, 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 2015 | Awarded in the year | Exercised in the year | Lapsed in the year | Number at 31 December 2016 | Vesting Date | Latest Exercise Date |
|----------------------------|---------------------|-----------------------|--------------------|----------------------------|----------------|----------------------|
| 700,965 | – | (100,000) | – | 600,965 | – | 2 July 2017 |
| 300,000 | – | – | – | 300,000 | 2 October 2017 | – |
| 1,000,965 | – | (100,000) | – | 900,965 | | |

(v) 2004 Share Option Plan

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 |
| 56,826 | 568.26 | | |

At 31 December 2016 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

20 SHARE CAPITAL continued

| Number of shares | Amount of Capital (£) | Exercise Price (p) | Dates Exercisable |
|------------------|-----------------------|--------------------|-------------------|
| 67,650 | 676.50 | 36.77 | 2.7.10 – 2.7.17 |
| 40,590 | 405.90 | 36.77 | 2.7.10 – 2.7.17 |
| 8,118 | 81.18 | 27.72 | 10.4.11 – 10.4.18 |
| 52,767 | 527.67 | 27.72 | 10.4.11 – 10.4.18 |
| 33,825 | 338.25 | 15.52 | 14.7.11 – 14.7.18 |
| <u>202,950</u> | <u>2,029.50</u> | | |

(vi) 2011 Share Option Plan

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 | 500.00 | 49.87 | 25.6.16 | 25.6.16 – 25.6.26 |
| 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 | 1,250.00 | 15.50 | 29.2.19 | 25.6.17 – 25.6.24 |
| 63,000 | 630.00 | 16.75 | 18.3.19 | 18.3.19 – 18.3.26 |
| <u>416,000</u> | <u>4,160.00</u> | | | |

At 31 December 2016 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 |
|------------------|-----------------------|--------------------|--------------|-------------------|
| 111,000 | 1,110.00 | 36.50 | 17.2.15 | 17.2.15 – 17.2.22 |
| 70,000 | 700.00 | 49.87 | 25.6.16 | 25.6.16 – 25.6.26 |
| 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 | 1,250.00 | 15.50 | 29.2.19 | 28.2.19 – 28.2.26 |
| 63,000 | 630.00 | 16.75 | 18.3.19 | 18.3.19 – 18.3.26 |
| <u>444,000</u> | <u>4,440.00</u> | | | |

21 SHARE BASED PAYMENTS

The Company issues equity-settled share based payments under the 2004 and 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 an 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 2017, awards over 284,826 shares (2016: 600,965) had vested and were capable of exercise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

21 SHARE BASED PAYMENTS continued

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 20 (iv) 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 £67,041 (2016: £ 34,000) 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, 2016 | 231,363 | 30.52 | 700,965 | 31.70 |
| Exercised in the year | – | – | (100,000) | 31.70 |
| Forfeited in the year | (28,413) | 30.62 | – | – |
| Outstanding at 31 December 2016 | 202,950 | 30.51 | 600,956 | 31.70 |
| Forfeited in 2017 | (146,124) | 31.60 | (277,074) | 31.70 |
| Exercised in the year | – | – | (323,891) | 31.70 |
| Outstanding and exercisable at 31 December 2017 | 56,826 | 27.72 | – | – |
| Exercisable at 31 December 2016 | 202,950 | 30.51 | 600,956 | 31.70 |

| | 2011 Share Option Plan | |
|---------------------------------|------------------------|-------------------------------------|
| | Options | Weighted average exercise price (p) |
| Outstanding at 1 January 2016 | 304,000 | 39.8 |
| Granted in the year | 188,000 | 15.9 |
| Forfeited during the year | (48,000) | 40.7 |
| Outstanding at 31 December 2016 | 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 |
| Exercisable at 31 December 2017 | 153,000 | 40.9 |
| Exercisable at 31 December 2016 | 181,000 | 41.7 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

21 SHARE BASED PAYMENTS continued

| | 2011 LTIP | |
|----------------------------------|--------------------------|---|
| | Maximum Number of Shares | Weighted average fair value per share (p) |
| Outstanding at 1 January 2016 | 300,000 | 21.7 |
| Granted in the year | – | – |
| Lapsing in the year | – | – |
| Outstanding at 31 December, 2016 | 300,000 | 21.7 |
| Granted in the year | 18,160,000 | 4.25 |
| Lapsing in the year | (2,460,000) | 6.38 |
| Outstanding at 31 December, 2017 | 16,000,000 | 4.25 |
| Exercisable at 31 December, 2017 | – | – |
| Exercisable at 31 December, 2016 | – | – |

The options outstanding at 31st December 2017 had a weighted average remaining contractual life as follows:

| | 2017 No. of Months | 2016 No of Months |
|------------------------|-----------------------|----------------------|
| 2004 Share Option Plan | 3.3 | 10.7 |
| 2011 Share Option Plan | 78.7 | 89.6 |
| LTIP | 114.4 | 35.0 |

The inputs into the Black-Scholes model were:

| | 2017 | 2016 |
|---------------------------------|-----------------|---------------|
| Weighted average share price | 4.9p | 29.6p |
| Weighted average exercise price | 4.9p | 29.6p |
| Expected volatility | 63.56% - 56.05% | 60.1% - 56% |
| Expected life | 4 years | 4 years |
| Risk free rate | 1.13% - 0.15% | 1.13% - 0.87% |
| 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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.

Other Reserves

The other 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 2017, a transfer has been recognised to the company's Retained loss reserve.

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 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 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Within 1 year | 282 | 45 | 228 | – |
| Within 2-5 years | 138 | – | 311 | – |
| | 420 | 45 | 539 | – |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

24 FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowing disclosed in note 18b, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity on page 30.

Categories of financial instruments

| | Group | Company | Group | Company |
|------------------------------|----------------|----------------|---------|---------|
| | 2017 | 2017 | 2016 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | |
| Cash | 908 | 58 | 2,884 | 2,152 |
| Trade receivables | 333 | – | 399 | – |
| Financial liabilities | | | | |
| Other payables and accruals | (560) | – | (414) | – |
| Trade and other payables | – | – | (28) | – |
| Short-term borrowings | (8,946) | 1,501 | (8,700) | (1,461) |
| Loan from other Group entity | – | – | – | (306) |
| Hire purchase payables | (166) | – | (386) | – |

Financial risk management objectives

The Group's operations expose it to a variety of risks including credit risk, interest risk and liquidity risk.

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).

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.

Foreign currency sensitivity analysis

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

None of the Group's companies have assets or liabilities that are denominated in a currency other than the functional currency in which the companies operate. Hence, there is not a material exposure to foreign exchange risk and therefore a foreign currency sensitivity analysis would not be appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

24 FINANCIAL INSTRUMENTS continued

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.

At the reporting date, the largest exposure was represented by the carrying value of other debtors of £329,000 (2016: £537,000). No provision for impairment was recognised for FY2017 or FY2016 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. The Group does not have significant concentrations of credit risk on its trade receivables.

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 of £7.5m. A provision for impairment was recognised in FY2017 of £1.63m (2016: £17.9m) against the carrying value of loans owed by Electrophoretics Limited. At 31 December 2017, the carrying value of loans owed by Electrophoretics Limited to the company was £0.4m (2016: Nil).

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 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 2017 would have increased by £44,825 (2016: £43,000).

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.

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

- a) The following tables detail the Group and Company's remaining contractual maturity for its non-derivative financial liabilities. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

24 FINANCIAL INSTRUMENTS continued

The table includes both interest and principal cash flows.

| | Weighted average effective interest Rate % | Less than 1 month | | Within one year | Within 1-2 years | Within 2-3 years |
|---|--|-------------------|---------------|-----------------|------------------|------------------|
| | | Group £'000 | Company £'000 | Group £'000 | Group £'000 | Group £'000 |
| 2017 | 2.79 | 8,946 | 1,502 | - | - | - |
| Variable interest rate instruments - Borrowings | - | - | - | - | - | - |
| Fixed rate instruments - Hire purchase | 10.8 | - | - | 166 | - | - |
| 2016 | | | | | | |
| Variable interest rate instruments - Borrowings | 3.0 | 8,700 | 1,461 | - | - | - |
| Fixed rate instruments - Hire purchase | 10.8 | - | - | 220 | 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 2016 | 8,011 | 15,982 | 23,993 |
| Additional investment in the year | - | 1,935 | 1,935 |
| Provision for impairment | (462) | (17,917) | (18,379) |
| At 31 December, 2016 | 7,549 | - | 7,549 |
| 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 |

2) Loan from subsidiary undertaking:-

| | |
|----------------------|-----|
| At 1 January, 2016 | 264 |
| Exchange adjustment | 42 |
| At 31 December, 2016 | 306 |
| At 1 January, 2017 | 306 |
| Exchange adjustment | 12 |
| At 31 December, 2017 | 318 |

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

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(b) on page 51.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

25 RELATED PARTY TRANSACTIONS continued

c) 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'.

d) 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 2017 and the comparative period were as follows:

Jeremy Haigh (Chief Executive Officer)

Geoff Ellis (Finance Director) (resigned 1 August 2017)

Ian Pike (Chief Scientific Officer)

Stefan Fuhrmann (Finance Director)

Christopher Pearce Chairman (Non-Executive Director)

Roger McDowell (Non-Executive Director)

William Dawson (Non-Executive Director) (resigned 1 August 2017)

Martin Diggle (Non-Executive Director)

Ursula Ney (Non-Executive Director) (appointed 1 August 2017)

Key management personnel remuneration was as follows:

| | 2017 £'000 | 2016 £'000 |
|------------------------------|---------------|---------------|
| Salary | 525 | 599 |
| Other long-term benefits | 15 | 19 |
| Defined benefit scheme costs | – | – |
| Share based payment expense | 58 | 22 |
| Consultancy fee | 70 | 41 |
| | 668 | 681 |

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

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| | 58 | 22 |

26 EVENTS AFTER THE BALANCE SHEET DATE

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

NOTICE OF MEETING

Notice is hereby given that the 24th Annual General Meeting of Proteome Sciences plc will be held at finnCap, 60 New Broad Street, London, EC2M 1JJ on 30 May 2018 at 12 midday for the purpose of considering and, if thought fit, passing the following Resolutions of which numbers 1 to 6 will be proposed as ordinary Resolutions and number 7 to 8 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 2017.
- 2 To re-appoint Christopher Pearce as a Director.
- 3 To re-appoint Ursula Ney as a Director.
- 4 To re-appoint Richard Dennis as a Director.
- 5 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

- 6 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 30th June 2019, 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

- 7 THAT subject to, and upon Resolution 6 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) and (b)) 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

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 2019, 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.

- 8 The regulations contained in the draft articles of association (a copy of which is available for inspection – See Note to Resolution 8 overleaf) be adopted as the Company’s articles of association, in substitution for, and to the exclusion of all existing articles of association.

By order of the Board

Hamilton House
Mabledon Place
London WC1H 9BB

V. Birse

Company Secretary

23 April 2018

NOTICE OF MEETING

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 12:00 midday on 28 May 2018 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.

Resolution 2

In accordance with Article 118 of the Company's articles of association at each Annual General Meeting one third, or the number nearest to but not exceeding one-third of the directors are to retire by rotation Mr C Pearce is the director retiring by rotation at this meeting.

Resolution 3

Dr U M Ney was appointed as a director of the Company on 1 August 2017. Article 125 of the Articles of Association requires that any director appointed between Annual General Meetings must retire at the next following Annual General Meeting.

Biographical details of the directors offering themselves for re-election are included on pages 12 – 13 of the annual report and accounts.

The Board of Directors considers the performance of each of the Directors standing for re-election at the Annual General Meeting to be fully effective and they each demonstrate the commitment and behaviours expected of a director of Proteome Sciences plc.

Resolution 4

Mr R Dennis was appointed as a director of the Company on 24 April 2018. Article 125 of the Articles of Association requires that any director appointed between Annual General Meetings must retire at the next following Annual General Meeting.

NOTICE OF MEETING

Biographical details have not been included in the Annual Report due to Mr. Dennis' very recent appointment.

The Board of Directors considers the performance of each of the Directors standing for re-election at the Annual General Meeting to be fully effective and they each demonstrate the commitment and behaviours expected of a director of Proteome Sciences plc.

Resolution 5

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 6

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.

Resolution 7

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.

Special Resolution 8 – Adoption of new Articles of Association

The Company's current Articles of Association ('Current Articles') were adopted in July 2008 before the Companies Act 2006 (the '2006 Act') was fully enacted and although amendments were made at the 2017 Annual General Meeting to remove certain redundant provisions a review of the current Articles has revealed that it may be more appropriate to adopt fully updated Articles of Association. The Company proposes to adopt new Articles of Association ('New Articles'). A copy of the New Articles will be available for inspection during normal working hours at the Company's registered office (Hamilton House, Mabledon Place, London, WC1H), from the date of this notice up until the AGM. A copy may also be downloaded from the Company's website (www.proteomics.com). A copy will also be available 15 minutes prior to, and during the AGM.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and remove gender specific references are not dealt with in any detail.

The Company's Memorandum of Association

The provisions regulating the operations of the Company are currently set out in the Company's current Memorandum and Articles of Association. The Memorandum of Association contains, amongst other things, an objects clause which sets out the scope of activities that the Company is authorised to undertake, the Company's authorised share capital (ie the maximum number of shares that can be in issue) (this clause was removed at the 2017 Annual General Meeting) and the liability of the members.

NOTICE OF MEETING

However, the 2006 Act significantly reduced the constitutional significance of the Memorandum of Association and only requires it to record the names of the subscribers on formation and the number of shares allotted to them at that time. All other provisions that were contained in the Memorandum of Association, including the objects clause, the authorised share capital and the limited liability of the shareholders, since 1 October 2009, have been deemed to be contained in the Current Articles.

The 2006 Act permits a company not to have an objects clause enabling it to be unrestricted in its activities and the number of shares that can be in issue. The Company proposes to take advantage of this and remove its objects clause and its authorised share capital. Special Resolution 8(a) confirms this removal, but one effect of this removal is the shareholders' limited liability clause, which was also contained in the Company's Memorandum of Association and will also be removed. However, this clause has been carried over to the New Articles to maintain the limited liability of the shareholders.

Articles which duplicate and/or were required by statutory provisions

Provisions in the Current Articles, which replicate provisions in the 2006 Act have, in the main, been omitted in the New Articles.

The 1985 Act required a company to have specific provisions in its articles of association in order to be able to purchase its own shares, consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves, as well as the necessary shareholder authority to take such action. The 2006 Act no longer requires such provisions to be contained in the articles of association, although shareholder approval is still required to effect such things. The relevant provisions have, therefore, been omitted in the New Articles.

Share warrants to bearer

Companies can no longer issue share warrants to bearer and therefore the provisions relating to this have been removed.

Stock

Under the 2006 Act, it is no longer possible for a company to convert its shares into stock. As the Company has no stock in issue, the provisions as regards stock in the Current Articles have been omitted in the New Articles.

Closure of the Register of Members

It is no longer possible under the 2006 Act to suspend the registration of share transfers for up to 30 days in any year. Therefore, this power has been omitted in the New Articles.

Electronic Communications

The New Articles have preserved the ability in the Current Articles for the Company to send electronic communications (such as notices and other documents) to the shareholders.

Electronic General Meetings

The New Articles reflect the current trend in companies to enable the Company to hold general meetings by either having a physical meeting or an electronic meeting or a combination of both. The Articles are being amended to give the directors flexibility to call an electronic general meeting but until such time as technology makes this simpler it is likely that the Company will continue to hold physical general meetings.

NOTICE OF MEETING

Remuneration of directors

The Current Articles state that the aggregate annual remuneration of the directors (other than received in an executive capacity) is £120,000. The New Articles have increased this amount to £250,000 in order to provide sufficient headroom for inflationary increases and for further directors to be appointed, should it be desirable to increase the Board size as part of the growth plans or strategy for the Company.

Retirement by rotation

The Current Articles require that one third of the directors or the number nearest to but not exceeding one third should retire by rotation at each Annual General Meeting, this can, depending on appointments and resignations mean that can be in office for more than three years before next being subject to retirement by rotation. The new Articles provide that directors will need to retire by rotation at every third Annual General Meeting following the Annual General Meeting when they were last elected or re-elected.

Change of name

Under the 1985 Act, a company could only change its name by the shareholders passing a special resolution. The 2006 Act permits companies to have in their articles of association an alternative method to effect a name change. The New Articles enable the directors to change the Company's name by passing a Board resolution. Whilst it is recognised that the New Articles enable the directors to change the Company's name without seeking shareholder approval, there are currently no plans to rebrand the Company or change its name. Any decision to do so would only be taken upon the completion of a full assessment of the Company's brand and its strategy.

Provision for employees

The 2006 Act enables the directors to make provisions for current and former employees of the company (or any of its subsidiaries) in connection with the cessation or transfer of the whole or part of the undertaking of the company or one of its subsidiaries, if they are so authorised by the articles of association or by the shareholders in general meeting. The New Articles enable the directors to exercise such a power which reflects best practice, whereas the Current Articles permit the directors to exercise such a power if the maximum payment to any individual is no higher than 50% of their gross annual salary, otherwise a special resolution of the shareholders is required to sanction such a payment.

