Proteome Sciences plc

Registered number: 02879724

Report and Financial Statements

for the year ended 31 December 2019

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CHIEF EXECUTIVE OFFICER'S STATEMENT

for the year ended 31 December 2019

This has been a year of significant development for the company with strong growth from licensing and service revenues including receipt of a significant milestone payment related to isobaric tandem mass tag (TMT®) sales that has resulted in a profit for the year (2018: (£1.31m)). Whilst this is encouraging, the underlying performance without one-off milestone payments would have produced a loss after tax of £0.60m. Revenues for the full year increased by 53% to £4.7m (2018: £3.05m). Year on year sales and royalties attributable to TMT® reagents grew 68% to £3.7m (2018: £2.20m). Proteomics services increased 24% to £0.93m (2018: £0.75m) reflecting the growing impact of our sales efforts in North America. Total costs of £4.36m were 1.4% lower (2018: £4.42m) reflecting the final stages of reorganisation. Cash reserves at the year-end were down marginally at £0.80m (2018: £0.96m) though no further draw-down from the Vulpes loan was taken and the cash position has been strengthened by receipt in March 2020 of £0.75m in respect of the TMT® sales milestone. Most significantly, the value of work carried forward into 2020 is roughly four-fold greater than in the prior year with £0.70m in signed orders on the books. As a result of these positive events I am pleased to report that we achieved a profit after tax of £0.15m compared with a loss of £1.31m in the preceding year.

Services

This has been the busiest year for our proteomics services business with orders for projects received from 40 clients. This reflects our transition to become a full-service contract research organisation specialising in mass spectrometry proteomics which was completed at the end of 2018. We carried forward approximately £150,000 of orders from 2018 giving a solid start to the year, but this was followed by a slow second quarter as the signing of orders and delivery of samples was delayed by our clients. Nevertheless, we increased H1 revenues by 30% to £0.35m.

Consistent with previous years, the second half of the year saw much stronger performance with over 60% of full year revenue recognised in this period with the fourth quarter being particularly strong with £0.40m of recognised revenue and £0.80m of new orders signed. In total for 2019 we took orders worth £1.54m, nearly doubling the previous year (£0.87m). As a result, we started 2020 with a very strong order book in excess of £0.70m with samples already received for over half of this. Following the growth in 2018, these results show a continuing trend towards higher values and repeat business as our clients in the pharmaceutical and biotechnology sectors adopt proteomics across their drug development programmes at all stages.

A significant development was the application of our proprietary TMTcalibrator™ biomarker discovery workflow in clinical studies. As an example, our proteomics analysis of cerebrospinal fluid (CSF) samples from patients enrolled in Cognition Therapeutics Phase 1 trial of novel compound Elayta™, identified multiple potential biomarkers supporting the positive effect of treatment. Based on this study, we have now extended our relationship with Cognition Therapeutics and are currently analysing both CSF and plasma samples from an ongoing Phase 2 trial of Elayta™.

We also completed our first clinical-grade targeted assay study under the certified Good Clinical Laboratory Practice (GCLP) protocol. Our client required high-sensitivity detection of an undisclosed biomarker which was not quantifiable using standard immunoassay methods. We were able to develop a test with a low pg/ml limit of quantification that was free of any matrix interference and subsequently used this to analyse an initial cohort of samples from patients enrolled in a Phase 1 trial.

We received considerable interest in the Super Depletion method for the unbiased analysis of plasma samples at high sensitivity. During the year we have extended our offering to include different species commonly used in pre-clinical drug development studies and combined it with higher-plexing TMTpro™ and TMTcalibrator™ workflows for several new and existing customers. We expect this trend of renewed engagement in blood biomarker research to continue and we are ideally placed to exploit our status as exclusive providers of Super Depletion combined with TMTcalibrator™ and TMTpro™.

In August we expanded our sales team by recruiting a European Sales Manager reflecting our confidence in the growth potential for proteomics services in Europe and with the goal of diversifying our client base to achieve a greater balance between the US and EU sales. At the same time, we terminated the partnership with our European agents Cenibra.

This year we have continued to expand our marketing activities in line with growing revenues. Our strategy is to combine a mix of direct business development visits to the main pharmaceutical and biotech hubs in the US and EU alongside attending trade shows where we typically have a booth in the exhibition hall. We undertook 4 quarterly trips to the US visiting each coast on a six-month schedule, all of which resulted directly in orders for biomarker services. Over the year we also attended 21 trade shows and I was invited to speak and chair sessions at three of these. Through these activities we detected a marked improvement in the level of interest in performing proteomics studies across all stages in drug development, both from our traditional client base of the small to medium sized biotechnology companies and most notably within larger pharmaceutical companies, with all of them looking to fulfil their requirements mainly through outsourcing.

Licences

This year was significant for the launch of the 16plex TMTpro™ reagents in the summer. The positive growth in sales seen in the first half of this year was bolstered by initial orders for TMTpro™ stocks which continued through the second six months. The strong market response to TMTpro™ has been supported by several studies showing the new tags perform as well as the original TMT® reagents, and the addition of 5 extra channels means there are fewer missing data points, allowing more expansive studies to be designed. Proteome Sciences was the first to publish data on the new tags and we are aware of several other publications currently under review for publication, all of which are likely to drive further demand.

We also introduced TMTpro™ into our proteomics services and have received a strong response from our clients. We are the only service provider currently able to offer TMTpro™ and we are working with our exclusive licensee Thermo Scientific to ensure all Contract Research Organisations and commercial service providers offering TMT®-based services are aware of the appropriate licensing options, that currently do not include TMTpro™.

The combined TMT® and TMTpro™ sales and royalties were well ahead of our internal forecasts, delivering 34% annual growth in the underlying business. Importantly, we have not seen any decrease in the level of TMT® reagent ordering from our licensee Thermo Scientific suggesting that the launch of TMTpro™ has not materially affected the existing tag market. In addition to the underlying growth of the core TMT® and TMTpro™ sales and royalties, we also accrued the second sales-related milestone of £0.75m in December which was received in cash in March 2020. This has only taken 25 months from the first sales milestone that was attained in November 2017, demonstrating the rapid acceleration in the use of isobaric tagging across a wide range of proteomics applications.

There has been further progress from both licensees of our stroke blood biomarkers. Randox Laboratories has continued to recruit patients into its clinical validation study required for CE (Conformité Européene) marked approval of its stroke biochip array and Evidence Analyzer system. Whilst clinical validation studies have been ongoing, Randox have also validated the Stroke Biochip for use on the Evidence MultiSTAT device which is designed for point-of-care testing and this has featured in their marketing activities at several trade shows, including the prestigious American Association of Clinical Chemistry in August. As well as supporting an early stroke diagnosis, Randox now state that the test can also differentiate between ischemic and haemorrhagic stroke and provide a stronger indication for use of thrombolysis when used in combination with brain imaging (which is standard of care).

This year we also signed a further non-exclusive licence to the Company's stroke biomarker IP with Galaxy CCRO Inc. ("Galaxy"), a recently formed US clinical contract research organisation. Galaxy are initially developing a lateral flow device for measurement of GST-P in patients suspected of having stroke. It is intended that the device can be utilised both in the emergency response setting by ambulance crews and paramedics as well as by nursing staff within a hospital emergency department or specialised stroke unit. Galaxy have made good progress in developing a prototype device and expect to initiate clinical validation studies in Europe and the US in 2020. Under the terms of the licence the Company will benefit from subsequent development milestones and a running royalty on any product sales and we look forward to updating shareholders at a later date.

Research

The restructuring of our business completed in 2018 has focused exclusively on expanding the proteomics services revenue and supporting the launch of TMTpro™. As an inevitable consequence of these activities, there has been little scope for new research projects which has delayed the launch of the two targeted mass spectrometry assays for clusterin and tryptophan metabolites. However, we have initiated a new research trial to evaluate the clusterin assay in both plasma and cerebrospinal fluid of 30 Alzheimer's disease patients, 20 individuals with mild cognitive impairment and 30 cognitively normal controls. We expect this study to complete in the first quarter of 2020. Similarly, for the tryptophan metabolite assay, we have performed further analyses within a multinational research project PROMETOV supported by the EU ERA-NET TRANSCAN-2 programme. We are now reviewing data within the consortium and expect to be able to update shareholders on the outcomes later this year.

We published the first scientific paper on TMTpro™ reagents in November (Thompson et al. 2019. Anal. Chem. 2019, 91, 24, 15941-15950) showing their equivalent performance to TMT® and providing details on their optimized methods of use.

Operating Environment

The slowing of pharmaceutical industry spending on proteomics and other outsourced activities seen in the mid-part of 2018 showed signs of reversing in the last quarter as we have previously reported. This allowed us to start 2019 with a modest order book and we have seen the growth in outsourcing continue to improve through the current year. This reflects a very apparent re-engagement of pharmaceutical and biotechnology companies in the creation of multi-omic strategies to better inform drug development decision making, and the need to backfill studies with high quality proteomic data. It has been particularly pleasing that several of the new clients we have worked with this year mentioned our quality and reputation as a major reason for working with us.

We remain confident that the implementation of the UK's decision to leave the European Union on 31 January 2020 will have no short-term impact on our business as all operational activities are performed in our German subsidiary Proteome Sciences R&D GmbH & Co KG. We also expect that the impact for our clients' research budgets and external activities will be unaffected, supported by the early evidence of our order book value of £0.70m carried into 2020.

We completed the final stage of company re-organisation and cost reduction at the start of the year with the benefit being a further 1.4% reduction in operating costs compared to 2018. We have now attained high levels of efficiency across the different parts of the business and were able to deliver strong growth in proteomic service revenues for the full year.

A significant factor in our growing service revenues has been an increased presence in our core markets, particularly in the US. This followed an evolution of our strategy to build on the positive effects achieved through working with a contract sales organisation to taking a more direct approach to business development activities through site visits and attending trade shows with an exhibition booth. Based on this success, we have now recruited a sales manager for Europe and are replicating the model that has been successful in the US. Although only in post since August, they have already had a positive impact.

In common with previous years we applied for the R&D tax credit and payment of our 2018 claim was received in a timely manner. As expected, our move to more contract research projects led to a reduction in the size of the R&D tax credit and we expect future claims to be of similar value.

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

I am grateful to the dedication and hard work of all staff and to our growing client base for their continued business. Finally, on behalf of all shareholders, I would like to thank Jeremy Haigh who left the Company at the end of the year, for his considerable efforts in leading the business through this process of change. We are currently in the process of appointing a full-time replacement CEO. It has been a year of positive progress as we have seen the refocusing of our business start to deliver the expected benefits to both our cost base and revenue streams. Bolstered by outstanding revenues from TMT® we have achieved our first operational profit and the business is in a strong position to take advantage of the significant opportunities in the next decade.

Outlook

The last ten years will rightly be seen as the decade of genomics as next generation sequencing allowed population-level studies to identify hundreds of new associations with disease, and virtually every drug development programme incorporated the analysis of nucleic acids to deliver personalised medicine. However, it also saw major progress in proteomics with rapid gains in speed and sensitivity of mass spectrometers, the dominance of our isobaric tagging technologies, TMT® and the recently introduced TMTpro™, new workflows including TMTcalibrator™ and plasma Super Depletion for biomarker discovery, and the wider acceptance of targeted MS methods for clinical use. We are perhaps then justified in predicting the coming decade as being that of proteomics where we will leverage the optimised business strategy we have developed in the last 3 years.

Critical to our success will be the continued delivery of novel biomarker discovery and development strategies and expansion into additional areas of protein characterisation. Our introduction of plasma Super Depletion in 2018 has been well received by our pharmaceutical industry clients. We are already seeing strong growth for this workflow combined with the higher plexing rates of TMTpro™ and the sensitivity gains offered by TMTcalibrator™, both of which are unique to Proteome Sciences. Following the successful accreditation of our Frankfurt facility under GCLP we have moved our technologies nearer to the clinic and created a significant opportunity in performing the proteomic analysis of therapeutic proteins with one client already engaged and further expansion expected in 2020.

The very positive response to the launch of 16plex TMTpro™ suggests that there is strong demand for higher plexing rates, and this had very little effect on sales of the original TMT® reagents. We are confident that the overall value of TMT® and TMTpro™ will continue to grow strongly as exciting new TMT®-based workflows such as SCoPE-MS (single-cell proteomics) and CETSA (drug target profiling) become widely adopted.

This year we have opportunities to consolidate our position as preferred supplier to a number of recently acquired clients and build strong new partnerships as the pharmaceutical industry continues to accelerate its integration of proteomics services through outsourcing. The strength of our order book and increased capacity in sales means we are well placed to maintain our competitive position as a global leader in providing proteomic services.

Whilst ongoing events relating to the COVID-19 pandemic have the potential to disrupt our business, we are currently operating as usual, processing samples from the orders carried forward at the end of 2019. We have also received new orders and our clients have confirmed that they do not expect any delays to provision of samples for these studies. We continue to monitor developments globally and specifically in Germany with the health and safety of our staff being our highest priority.

The Board is confident of building on the great progress made in 2019 as we start with a strong order book and cash position following receipt of the TMT® sales milestone and, subject to unforeseen events relating to COVID-19, we expect to sustain and further improve our financial performance in 2020.

I would like to thank our shareholders and employees for their continuing support and patience and look forward to communicating further progress during 2020.

Dr. Ian Pike
Interim Chief Executive Officer

9 April 2020

STRATEGIC REPORT

for the year ended 31 December 2019

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 TMTpro™, and manufacture these small, protein-reactive chemical reagents which are sold for multiplex quantitative proteomics under exclusive license by Thermo Scientific.

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

Progress during 2019

Growing Our Services Business

The use of outsourcing to specialist service laboratories within the biopharmaceutical sector continues to grow in value, particularly in the area of proteomics. This now extends to the whole procurement process itself, with most major pharmaceutical companies using third-party outsourcing agencies to handle contracts and payments. This is simplifying the process of engaging with new clients and reducing the time to complete contracts but can increase the burden on providing competitive tenders. To ensure we can offer our clients the best service, we continue to invest significantly in direct sales activities with over a dozen business development trips involving face-to-face meetings conducted in the US and Europe in 2019. In addition, we had a presence at 21 trade shows covering a wide range of disease areas and core drug-development topics. We have also moved away from using contract sales agents as we now have a sufficiently active opportunities list to support a second sales manager, who was recruited to cover the European market in August.

The growing requirement for outsourced proteomics services is reflected by a growth in the number of non-specialist companies offering MS capabilities to this market, though very few of these are licensed to use TMT® in contract research and currently there are no others licensed to use TMTpro™. This has not impacted our client base significantly, and we continue to attract business from clients who have worked with other proteomics service providers in the past. One of the major drivers is the increasing recognition of the quality of our service from the initial sales approach, through study design to delivery of the final report.

Industry Trends Increase the Need for Proteomics

Pharmaceutical drug development has a tendency to follow trends as one Company reporting progress in a particular area, triggers others to enter the same research space. Recent trends include the rapid expansion of activities in immuno-oncology, fibrotic disorders and inflammatory diseases. In all three of these areas there is a growing need for deeper analysis of protein expression as the diseases are predominantly characterised by extensive post-translational modifications affecting how cells and proteins interact with each other. We have been successful in aligning our core technologies to serve the needs of pharmaceutical companies working in this space to better understand how their experimental medicines are working, and how diseases may adapt to escape the drug effects.

Another major growth opportunity is the analysis of protein degradation. Abnormal expression and clearance of proteins within cells can have many negative consequences leading to disease. Understanding how individual proteins or complexes involved in a specific cellular function are being processed may open new opportunities for therapeutic intervention. Answering these questions has so far relied on limited approaches that cannot provide the necessary holistic view. We have leveraged our proprietary technologies to design a single workflow to monitor both degradation of selected proteins and changes in the wider biology of treated cells using a combination of unbiased peptidomics, proteomics and phosphoproteomics combined with TMTpro™.

Light on the Horizon for Alzheimer's

The high-profile failure of a raft of clinical trials of drugs targeting beta-amyloid in Alzheimer's disease led to a significant withdrawal from the space by most large pharmaceutical companies. At the same time, it increased focus on companies using alternative therapeutic strategies targeting tau, different brain receptors and inflammatory processes. It also raised significant questions about the best biomarkers to use to monitor treatment and assess outcomes.

In 2019 we started working with Pittsburgh-based Cognition Therapeutics who are developing Elayta™, a small molecule inhibitor of beta-amyloid interaction with synaptic receptors that modifies downstream signalling and provides neuroprotective effects. In a first study we applied TMTcalibrator™ to quantify changes in the levels of specific proteins and protein phosphorylations in cerebrospinal fluid (CSF) from 24 individuals enrolled in a phase 1b/2a clinical trial. We demonstrated drug-mediated reductions in phosphorylation at the majority of sites on tau protein, a key hallmark of Alzheimer's disease and an important biomarker of disease diagnosis and progression. This was the opposite of what we have previously reported in untreated Alzheimer's disease patients where CSF levels of tau phosphorylation are generally increased compared to controls, suggesting a positive effect of Elayta™.

We are currently working with Cognition Therapeutics to analyse both CSF and plasma samples from a second Elayta™ trial.

We have also initiated proteomics studies for biomarker discovery and/or targeted assay development for two other companies developing alternative therapeutic approaches for Alzheimer's disease as well as with an academic group exploring the mechanism of a reported protective gene mutation.

Reinvigorating the Tandem Mass Tag® Product Portfolio

We delivered the first supplies of 16pex TMTpro™ tags to our exclusive licensing partner Thermo Scientific in the early summer. Following a soft launch at the American Society for Mass Spectrometry meeting in June, the tags were officially launched at the Human Proteome Organisation annual conference in September. With TMTpro™ we have introduced a completely new structure that builds in improvements in synthesis evolved from the original TMT® tags allowing a full set of tags to be manufactured in around 70% of the time.

Prior to launch, we tested the relative performance of TMTpro™ against the original tags to demonstrate equivalence. In common with other beta testers including Thermo Scientific we found that the total number of peptides and proteins quantified was essentially the same whilst users could analyse 45% more samples per experiment. The initial market response has been very positive as users see the value in running larger biomarker discovery studies with fewer individual experiments, increasing both the number of quantified features and reducing the amounts of missing data.

The impact of TMTpro™ on sales of original TMT® is difficult to predict, though it has clearly driven the larger part of increased revenues this year. Early indications are that many of the major users will switch to the higher-plex tags for all new projects and use original TMT® for completing legacy research and we therefore expect sales of the original TMT® tags to remain relatively flat in 2020.

Patent Applications and Proprietary Rights
The review of patents undertaken last year has produced a substantial saving in external patent costs and we continue to evaluate the portfolio for its economic potential. Three patents were granted in 2019 relating to TMT®, TMTpro™ and our proprietary clusterin glycoform biomarkers in Alzheimer's disease.

Board Changes
On 31 October 2019 the Company announced that Dr. Jeremy Haigh, Chief Executive Officer, had resigned and would leave the organisation and cease to be a Director on 31 December 2019. Dr. Ian Pike, Chief Scientific Officer, has assumed the duties of the CEO in an Interim role. The Board has engaged search consultants and is making good progress on recruiting a new CEO.

Financial Review
Results and Dividends
The profit after tax for the year was £0.15m (2018: (£1.31m)). The directors do not recommend the payment of a dividend (2018: Nil). The Group results are stated in the Consolidated Income Statement and reviewed in the Chief Executive Officer's Statement.

Key Performance Indicators (KPI's)

- The directors consider that revenue and profit before/after tax are important in measuring Group performance. The profile of the Group has changed as a result of ongoing licensing agreements and with the adoption/conclusion of other commercial agreements and service contracts. The performance of the Group is set out in the Chief Executive Officer's Statement.
- The directors believe that the Group's rate of cash expenditure and its effect on Group cash resources are important. Net cash inflows/(outflows) from operating activities for FY2019 were £0.02m (2018: (£0.50m)). The cost-containment measures put in place in the previous two years were consolidated, and we achieved strong growth in both TMT® and Biomarker Services revenues. Consequently, we did not require further draw down from the arranged loan from Vulpes. Cash at 31 December (£ 0.80m) was supplemented by the £0.75m sales milestone and stronger than expected Q4 royalties for TMT® that were received in March 2020.
- We have now completed our transition to a service-based business, contract revenues from our proteomics (biomarker) services should increase both in absolute terms and as a proportion of total Group revenues; in 2019 we increased service income by 24% to £0.93m relative to 2018, though the share of total revenue fell slightly due to strong TMT® sales. We expect growth in revenue from Biomarker Services to continue in the coming year, along with the percentage contribution to total revenues.
- We also look to increase the amount of repeat business as this is an important measure of customer satisfaction. This year we increased the number and value of projects from existing customers, who now account for 75% of sales value. These same customers are also looking to place further orders in 2020.
- We believe it is essential that we respond to our customer needs in a timely manner, looking to minimise the lead time from first contact to placing of orders. Whilst we have previously focused primarily on time to deliver requested quotes, we now consider the rate of conversion from quote to order as a more relevant metric of the strength of our product offering and sales process. In 2019 we provided over 50 detailed statements of work with 55% of these being converted into orders.

Financial Performance
For the twelve-month period ended 31 December 2019 revenue increased 53% to £4.66m (2018: £3.05m).

- Licences, sales and services revenue increased 57% to £4.63m (2018: £2.96m). This is comprised of two revenue streams: TMT®-related revenue and Proteomic (Biomarker)

Services. Although core sales and royalties for TMT® tags increased by 68% to £3.70m, this includes a significant milestone reached in late 2019 from our exclusive distribution partner Thermo Scientific without which growth of core TMT® related revenue would have been 34% (2018: £2.20m)

- Grant income was £0.02m (2018: £0.09m).

The profit after tax was £0.15m (2018: (£1.31m)).

Taxation
Owing to the changing nature of our services business, with a stronger focus on commercial activities, we have not fully assessed our available R&D tax credit for 2019, and such amounts are only recognised when reasonably assured.

Costs and Available Cash

- The Group maintained a positive cash balance in 2019 and continues to seek improved cash flows from commercial income streams. Our operating costs have been significantly reduced which enabled positive cash flows throughout the year. We consider that in order to maintain a positive cash balance, costs will need to be kept in line with 2019
- Administrative expenses in 2019 were £2.65m (2018: £3.24m). This is a decrease of 18%, representing full year cost savings following continued cost containment during the year.
- Staff costs for the year were £2.11m (2018: £2.25m).
- Property costs of £0.30m 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 arose as a result of interest due on loans from two major investors in the Company and inclusion of IFRS16 related interest of £0.01m. Costs of £0.34m are marginally higher than the prior year.
- Profit after tax for 2019 was £0.15m (2018: loss of £1.31m). The net cash inflow from operating activities was £0.02m (2018: (£0.50m)). Cash at the year-end was £ 0.80m (2018: £0.96m).

Principal Risks and Uncertainties

Commercialisation Activities
It is uncertain whether our range of contract proteomic services will generate sufficient revenues for the Group ultimately to be successful in an increasingly competitive commercial market which generally favours companies with a broader technology platform than our own. Progress in 2019 was encouraging as both interest and orders increased quarter on quarter during the year with 14 contracts worth over £0.70m carried into 2020. This reflects the growing recognition that proteomics requires a high level of expertise only generally available in specialised service providers.

Management of Risk: The Group has sought to manage this risk by broadening its proteomic services offering (e.g. Super Depletion), investing in our own sales by employing a dedicated Sales Manager in Europe, dedicating more staff time to direct business development activities in our principal commercial territories and adopting conventional service-based metrics directed at speed, cost and quality.

Dependence on Key Personnel
The Group depends on its ability to retain a limited number of highly qualified scientific, commercial and managerial personnel, the competition for whom is strong. While the Group has entered into conventional employment arrangements with key personnel, aimed at securing their services for minimum terms, their retention cannot be guaranteed as evidenced by two resignations during 2019.

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

Cash Limitations
Despite remaining cash positive, making a small profit and seeing steady growth in our proteomics services revenues in 2019, we are still reliant on TMT® sales and royalties for the majority of our revenues and working capital to invest in growing the business remains limited.

Management of Risk: In addition to previous cost reduction and ongoing containment measures which have significantly changed the cost profile of the business over the last two years, we also actively engage with our major creditors to manage the Company's debt.

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 where increasing demand from the pharmaceutical industry remains ahead of the growth in service provider capacities.

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.

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

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

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

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

Coronavirus (COVID-19) Pandemic
The rapid emergence of the coronavirus pandemic has caused significant disruption to many manufacturing and retail businesses where the implementation of social distancing measures is not practical or deemed ineffective. In many countries pharmaceutical research and development has been protected from more general restrictions on worker travel and we expect this to remain to be the case throughout the pandemic. However, there is a risk that we will be forced to suspend operations in our laboratory in Frankfurt, or that our clients cannot source and ship samples for analysis, leading to delay in completion of projects. We have also seen a number of international and national trade shows and exhibitions be postponed or move to a virtual format. As these events are one of the methods used to establish business to business introductions there is the potential that there may be an impact to our business development activities.

STRATEGIC REPORT

for the year ended 31 December 2019

Management of Risk: We have implemented social distancing and enhanced cleaning measures for our laboratories and implemented home working for all UK staff and those capable of doing so in Frankfurt. We have also cancelled all site visits other than essential maintenance. Our sales staff are also working from home and using our prospect database to engage new business. We will continue to monitor the ability to deliver client work and ensure we are able to utilise any central or regional Government funding available to support businesses during the pandemic.

Section 172 statement

From 1 January 2019 legislation was introduced requiring companies to include a statement pursuant to section 172 of the Companies Act 2006.

The Board recognises the importance of the Group's wider stakeholders when performing their duties under Section 172(1) of the Companies Act and their duties to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

The Board considers that all their decisions are taken with the long-term in mind, understanding that these decisions need to regard the interests of the company's employees, its relationships with suppliers, customers, the communities and the environment in which it operates. It is the view of the Board that these requirements are addressed in the Corporate Governance Statement on page 13, which can also be found on the company's website www.proteomics.com.

For the purpose of this statement detailed descriptions of the decisions taken are limited to those of strategic importance. The Board believes that three decisions taken during the year fall into this category and were made with full consideration of both internal and external stakeholders.

- The decision to grant Galaxy CCRO a licence to the Company's stroke biomarker IP. The benefit of granting this licence is creating value from the patent portfolio that the Company has maintained. The Board considered the views of both the internal and external stakeholders in this matter before granting the licence and concluded that it was in the best interests of all stakeholders as the Company will benefit from royalties from any future product sales and development milestones.
- The decision to move away from using contract sales agents in EU and bringing those functions in house by appointing a European Sales Manager. The Board consulted with internal stakeholders on this matter and considered that it enabled the Group to provide a better service to its external stakeholders, primarily being its customers in that region.
- The decision to manufacture and launch TMTpro™ tags enabled us to meet market demands for higher plexing rates and maintain strong revenue growth. The Board engaged with the internal and external stakeholders to conclude that investment in the manufacture and launch of new products would be of benefit to all stakeholders and shareholders by meeting a clear market demand and extending the wider TMT® portfolio.

By Order of the Board
Hamilton House
Mabledon Place
London WC1H 9BB

V Birse
Company Secretary

9 April 2020

BOARD OF DIRECTORS

for the year ended 31 December 2019

Dr Jeremy Haigh (resigned 31 December 2019)

Chief Executive Officer

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

Dr Ian Pike

Interim Chief Executive Officer (appointed 1 January 2020) and Chief Scientific Officer

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

Richard Dennis

Chief Commercial Officer

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

Christopher Pearce

Non-executive Chairman

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

Roger McDowell

Non-executive Director (i) (ii)

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

Martin Diggle

Non-executive Director

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

Dr Ursula Ney

Non-executive Director (i) (ii)

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

(i) Member of Audit Committee
(ii) Member of Remuneration Committee

CORPORATE GOVERNANCE

for the year ended 31 December 2019

The Chairman's Statement on Corporate Governance
I am pleased to present this year's Corporate Governance Statement.

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

The Company adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code) during 2018 and continues to comply with each of the ten principles of the QCA Code. The remainder of this statement sets out how the Company applies the Code. Further information on the Company's compliance is published on our website (www.proteomics.com/investors).

Compliance with the Quoted Companies Alliance Corporate Governance code
The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters (the "QCA Code"). The Directors of Proteome Sciences plc comply with the QCA Code.

The QCA Code sets out ten principles which should be applied. These are listed below together with a short explanation of how the Company applies each of the principles. Where the Company does not fully comply with a principle an explanation as to why has also been provided.

1. Establish a strategy and business model which promote long-term value for shareholders
Proteome Sciences plc is a contract research organisation specializing in the analysis of proteins by mass spectrometry, providing both discovery and targeted proteomics services and proprietary biomarker assays to biopharmaceutical and diagnostic companies engaged in the discovery and development of precision medicines.

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

2. Seek to understand and meet shareholder needs and expectations
The Board is committed to maintaining good communication and having constructive dialogue with its shareholders on a regular basis.

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

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

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

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

Risk management

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

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

Conflicts of interest

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

Company materiality threshold

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

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

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

The Board currently comprises two Executive Directors:

Dr Ian Pike (Interim Chief Executive Officer – appointed 1 January 2020 and Chief Scientific Officer)

Richard Dennis (Chief Commercial Officer)

and four Non-Executive Directors;

Christopher Pearce (Chairman)

Roger McDowell

Martin Diggle

Dr Ursula Ney

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

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

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

– Martin Diggle, a director of Vulpes Investment Management which manages the Vulpes Life Sciences Fund (the largest shareholder in the Company) is not remunerated for his role on the Board and is not a member of any Board sub-committee.

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

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

All members of the Board bring relevant experience. The Board believes that its blend of experience, skills, personal qualities and capabilities is suitable to ensure it successfully executes its strategy. Following the retirement of a non-executive director with a pharmaceutical background, Dr Ursula Ney was appointed in August 2018 bringing with her considerable scientific and management experience in the biotechnology industry to the Board. The existing spectrum of differing entrepreneurial skills continues to be represented on the Board together with considerable knowledge and expertise from scientific research and the pharmaceutical industry. The Board will continue to ensure that Directors receive appropriate support and training as required to keep them up to date with current practices. The Board's biographies are set out on page 12.

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

The Board considers that it is appropriate to evaluate the performance of the Board and its Committees annually. The 2019 evaluation is detailed below. This is intended to make sure that the Board remains effective, well-informed and able to make high quality and timely decisions for the benefit of all stakeholders in the Company with regular meetings to discuss the strategic direction and the terms of reference for the Committees. Areas covered include Board structure, Board arrangements, frequency and time, content of Board meetings, Board culture and succession planning. It is recognised that there continues to be more regulation about which Directors need to be informed and aware. The Board will continue to ensure that Directors receive appropriate support and training as required to keep them up to date with current practices.

The Chairman led an annual performance assessment of the Board and its Committees at the end of 2019. The performance effectiveness process included each Director completing a performance evaluation questionnaire, the results and feedback from which were collated into a summary and discussed by the Board.

The Chairman's summary of the Board Evaluation concluded that the Board is well balanced and is effective in overseeing corporate goals and activities. Management is free to operate within the Board-defined goals and receives appropriate support, oversight and challenge where required. The Board again identified that an appropriate framework for succession planning is needed, though the challenge of this for a small board was also recognized.

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

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

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

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

Chairman

The current Chairman of the Company is Christopher Pearce who has been a director of the

Company since July 1994. The responsibilities of the Chairman are to:

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

Chief Executive Officer
The responsibilities of the Chief Executive Officer are to:

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

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

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

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

Board Committees
There are two board committees:

- Audit Committee – members are Roger McDowell (Chair), and Dr Ursula Ney. This committee met twice during 2019.
- Remuneration Committee – members are Dr Ursula Ney (Chair) and Roger McDowell. This committee met once during 2019.

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

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

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

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

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

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

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders
Shareholders are regularly advised of any significant developments in the Company through announcements via the Regulated News Service and are encouraged to participate in the Annual General Meeting and any other General Meetings that may take place throughout the year.

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

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

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

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

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

- Control environment: particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.

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

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

Board operation

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

Board effectiveness

The Board and Committee meetings are scheduled in advance for each calendar year. Additional meetings are arranged as necessary. Board and Committee meetings and attendance during the year ended 31 December 2019 were as follows:

Director	Board Meeting	Audit Committee	Remuneration Committee
C.D.J. Pearce	8/8	N/A	N/A
R. McDowell	8/8	2/2	1/1
M. Diggle	8/8	N/A	N/A
Dr U. Ney	8/8	2/2	1/1
Dr J.R.M Haigh (resigned 31 December 2019)	8/8	N/A	N/A
Dr I. Pike	8/8	N/A	N/A
R. Dennis	8/8	N/A	N/A

CORPORATE GOVERNANCE

for the year ended 31 December 2019

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

The Annual General Meeting (AGM)

In light of the ongoing and highly dynamic coronavirus pandemic we have taken the decision to delay setting the date and venue of the Annual General Meeting of the Group until such time as the restrictions on travel and group gatherings are relaxed. We will continue to monitor the requirements of an AIM-listed Company and will provide shareholders with the prescribed information within the required notice period by separate mailing of a Notice of Meeting and publication on our website (www.proteomics.com).

Christopher Pearce
Chairman

9 April 2020

AUDIT COMMITTEE REPORT

for the year ended 31 December 2019

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

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

Committee Composition

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

Committee Duties

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

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

Financial reporting

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

In the financial year commencing 1 January 2019 the Group applied one new accounting standard.

IFRS 16 *Leases*

IFRS 16 is effective for periods beginning on or after 1 January 2019. The Group has elected to adopt IFRS 16 retrospectively with the cumulative effect of applying IFRS 16 recognized at the date of initial application 1 January 2019. Consequently the comparative period has not been restated.

On transition to IFRS 16 the Group elected to measure its Frankfurt lease previously classified as operating under IAS 17 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognized in the statement of financial position immediately before the initial application. See note 3 for further explanations of how the Group transitioned to IFRS 16.

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

External Auditor

BDO was re-appointed as the Group's auditor at the Annual General Meeting held on the 30 April 2019. The Committee considers that its relationship with the auditor is working well and is satisfied with their effectiveness.

The Committee is responsible for ensuring there is a suitable policy for ensuring that non-audit work undertaken by the auditor is reviewed to ensure it will not impact their independence and objectivity. The breakdown of fees between audit and non-audit services is provided in note 8 on page 54 of the Group's financial statements. The non-audit fees primarily relate to Group taxation compliance.

As necessary the Committee held private meetings with the auditor to review key items in its responsibilities. Taking into account the auditor's knowledge of the Group and experience, the Committee has recommended to the Board that the auditor is re-appointed for the period ending 31 December 2020.

Roger McDowell
Chair of the Audit Committee

9 April 2020

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2019

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

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

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

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

Remuneration policy
The key principles of the Remuneration Policy include:

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

Director's Remuneration
The following table summarises the total gross remuneration for the qualifying services of the directors who served during the year to 31 December 2019.

Directors' remuneration and transactions
The directors' emoluments in the year ended 31 December 2019 were:

	Basic salary 2019 £'000	National Insurance Contributions 2019 £'000	Benefits in kind 2019 £'000	Pension Costs 2019 £'000	Total 2019 £'000	Total 2018 £'000
Executive Directors						
Dr J.R.M. Haigh	161	21	3	–	185	250
Dr I. Pike	126	16	3	10	155	168
R. Dennis	135	17	–	13	165	159
Non-Executive Directors						
C.D.J. Pearce	110	4	5	–	119	124
R. McDowell	20	2	–	–	22	25
M. Diggle	–	–	–	–	–	
Dr U. Ney	16	1	–	–	17	23
	568	61	11	23	663	749

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2019

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 (resigned 31 December 2019)	Chief Executive Officer
Dr I.H. Pike	Chief Scientific Officer
R. Dennis	Chief Commercial Officer
R. McDowell	Non-Executive
M. Diggle	Non-Executive
Dr U. Ney	Non-Executive

In accordance with the Company's articles Roger McDowell retires by rotation at the next Annual General Meeting and, being eligible, offers himself for re-election. The directors at 31 December 2019 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	**31 December 2019 Number of Ordinary Shares of 1p each**	**% shareholding**
C.D.J. Pearce	36,915,059	12.53
Dr J. R. M. Haigh (resigned 31 December 2019)	400,000	0.14
Dr I.H. Pike	165,583	0.05
R. Dennis	–	–
R. McDowell	2,500,000	0.85
M. Diggle	–	–
Dr U. Ney	–	–

Note

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

On the 28 February 2020 Vulpes Life Sciences Fund purchased 256,424 shares. Following this purchase, Vulpes Life Sciences Fund has a total direct and indirect interest in 65,203,158 Ordinary Shares, equivalent to approximately 22% of the issued share capital of the Company.

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 2019		Number at 31 December 2018
(i) Dr I.H. Pike	(a)	**3,750,000**	(b)	3,750,000
(ii) Dr J. R. M .Haigh	(a)	**9,000,000**	(b)	9,000,000
(iii) R. Dennis	(a)	**3,250,000**	(b)	3,250,000

The numbers shown in (i)(a), (ii)(a) and (iii)(a) at 31 December 2019 relate to awards that were made during 2017. The options in the table above attributed to Dr Haigh will lapse following his resignation.

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2019

Executive Directors' service contracts

The Executive Directors signed service contracts on their appointment. These contracts are not of fixed duration. Executive Directors' contracts are terminable by either party giving three months' written notice.

Non-Executive Directors

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

The Committee has met once during the financial year to 31 December 2019.

Ursula Ney
Chair of the Remuneration Committee

9 April 2020

DIRECTORS' REPORT

for the year ended 31 December 2019

The directors present their annual report and financial statements for the year ended 31 December 2019. An indication of likely future developments in the business is set out in the Strategic Report.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Richard Dennis
Martin Diggle
Jeremy Haigh (resigned 31 December 2019)
Roger McDowell
Christopher Pearce
Ian Pike
Ursula Ney

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the Group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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

Website publication

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

Financial instruments and liquidity risks

Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies are given in note 24 of the financial statements (page 73).

a) As set out in note 18(b) (i) to (iii) in these financial statements, C.D.J. Pearce has made a loan facility available to the Company which can be converted, at Mr. Pearce's option, into Ordinary Shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive 10 day trading period since 29 June 2006 (the date on which details of the original loan agreement were disclosed). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc.

b) On 2 July 2018, Proteome Sciences plc secured a loan facility of £1.0m from Vulpes Investment Management (VIM). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan. The Company has received confirmation from VIM that they will not seek repayment before May 2021. This loan is deemed a related party transaction by nature of a common director being on both the boards of Proteome Sciences plc and VIM.

c) The market price of the Ordinary Shares at 31 December 2019 was 2.94p and the range during the year was 4.4p to 2.2p.

Substantial shareholdings
As at 9 April 2020, the Company had received notification of the following significant interests in the ordinary share capital of the Company:

Name of holder	**Number of Ordinary Shares**	Percentage of issued Ordinary Share Capital
C.D.J. Pearce	36,915,059	12.53
Vulpes Life Science Fund	65,203,158	22.00
Helium Special Situations Fund	19,212,273	6.51

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Statement on page 2 and Strategic Report on page 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements, in particular in the consolidated cash flow statement on page 41 and in notes 18(b) (Financial liabilities) and 24 (Financial instruments).

These 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 Company's and 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.

In particular, the directors' have considered the potential impacts of COVID-19 may have on the ability to achieve adequate level of sales. The rapid emergence of the coronavirus pandemic has caused significant disruption to many manufacturing and retail businesses where the implementation of social distancing measures is not practical or deemed ineffective. In many countries pharmaceutical research and development has been protected from more general restrictions on worker travel and we expect this to remain to be the case throughout the pandemic. However, there is a risk that we will be forced to suspend operations in our laboratory in Frankfurt, or that our clients cannot source and ship samples for analysis, leading to delay in completion of projects. We have also seen a number of international and national trade shows and exhibitions be postponed or move to a virtual format. As these events are one of the methods used to establish business to business introductions there is the potential that there may be an impact to our business development 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) to the financial statements.

The directors have received confirmation from the Chairman that he has no intention of seeking its repayment, with the facility continuing to be made available to the Group, on the existing terms, for at least 12 months from the date of approval of these financial statements.

The Group is also dependent on the loan facility provided by VIM. Further details of the facility are set out in note 18 (b).

The directors have received confirmation from VIM that they will not seek repayment for at least 12 months from the date of approval of these financial statements.

However, 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.

As such, 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 and therefore that they may be unable to realise assets and discharge liabilities in the normal course of business. 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.

Events after the balance sheet date

Coronavirus (COVID-19) Pandemic

The rapid emergence of the coronavirus pandemic has caused significant disruption to many manufacturing and retail businesses. However, the coronavirus pandemic wasn't a condition in existence at the year-end date therefore, it is being regarded as a non-adjusting subsequent event.

Research and development

Details of the Group's activities on research and development during the year are set out in the Chief Executive Officer's Statement (page 4) and Strategic Report (page 8).

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 he ought to have taken as a director to make himself aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditor is aware of that information.

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

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

Liability insurance for Company officers

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

By order of the Board

Hamilton House
Mabledon Place
London
WC1H 9BB

V. Birse
Company Secretary

9 April 2020

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2019

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 2019 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 2019 and of the Group's profit 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 relating to going concern

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

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

The directors' assessment of going concern involves a number of highly subjective judgements, therefore, this was accordingly identified as a Key Audit Matter.

Our audit procedures included the following:

- Reviewing management's assessment of going concern through analysis of the Group's cash flow forecast and other projections through to 30 June 2021, including assessing and challenging assumptions used through discussions with management and comparison against post year-end results to date and performing sensitivity analysis to consider cash flow changes if the revenue forecasts were not achieved.
- Reviewing the terms of the Group's financing, including loans from Mr C.D.J Pearce (Chairman and a related party) and Vulpes Investment Management (a related party) including recalculation of amounts due and interest payable and obtaining confirmation that these loans will not be recalled within a 12 month period following sign-off of the Annual Report.
- Reviewing post-balance sheet events, including the cash flow position against budgeted performance and the group and company's resilience to the business impacts of the Coronavirus.

  Considering the adequacy of the disclosures in the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty relating to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Matter	***How we addressed the matter in our audit***
Revenue Recognition under IFRS 15: Revenue from Contracts with Customers The Group has a number of discrete revenue streams for which the accounting differs. Due to the fact that there is more than one revenue stream, and the fact that revenue is recognised both point in time and over a period of time, there is a significant risk of material misstatement due to error or fraud arising from both the recognition of revenue around the year end (cut-off) and the application of the revenue recognition policy itself, as detailed in note 3 to these financial statements.	We assessed whether the revenue recognition policies adopted by the Group comply with IFRS as adopted by the European Union and Industry Standard. The relevant IFRS is International Financial Reporting Standard 15 Revenue from Contracts with Customers. Furthermore, we have performed specific testing over each revenue stream including the following: • Verifying a sample of contract revenue recognised in the year, reconciling to underlying agreements, cash receipt and appropriate trigger events for revenue recognition in accordance with IFRS 15.

Matter	*How we addressed the matter in our audit*
	• Agreeing a sample of TMT kits sales and royalties for all four quarters received through to delivery order confirmation, royalty statements and ultimately cash receipt. • All Biomarker services revenue recognised in December 2019 and January 2020 was reviewed against the invoices date and the date the reports were delivered to the customers check revenue has been recorded within the correct period. • Assessment of incremental costs of obtaining contracts and amortisation period to determine whether any contract cost assets are required to be capitalised. • Received third party confirmation to verify the sales milestone was achieved during the year, reconciling to the underlying agreement and cash receipt post year end. *Key observations* There were no material issues identified by our testing of revenue recognition in the year.

Our application of materiality

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

Level of materiality applied and rationale

We determined materiality for the Group financial statements as a whole to be £46,565 (2018: £84,000) which represents 1% of revenue (2018: 5% loss before tax). Materiality for the parent company was set at 45% of group materiality, at £20,954 (2018: £63,000). Revenue has been determined to be the most relevant performance measure to the stakeholders of the Group given the directors' current focus on revenue growth, particularly in relation to the services platform revenues.

Individual component audits were carried out using component materialities between 70%-85% (2018: 75%) of overall financial statement materiality, this ranged from £32,595 to £39,580 (2018: £63,000).

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2019

Performance materiality was set at 75% of materiality £34,924 (2018: £63,000). In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £2.328 (2018: £4,200), 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 reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results. We identified three individually significant components.

To this extent:

– The Group audit team performed full scope audits for Proteome Sciences Plc and its subsidiary Electrophoretics Limited;

– We instructed the BDO network German member firm as component auditors for Proteome Sciences R&D GmbH & Co. KG to perform a full scope audit. Detailed instructions were issued and discussed with the component auditor, and these covered the significant risks (including the Group risks of material misstatement described in the above key audit matters) that should be addressed by the audit team. The Group audit team was actively involved in directing the audit strategy of the German audit, reviewed in detail the audit work and findings and considered the impact of these upon the Group audit opinion. We visited the component auditors in Germany to carry out a detailed review of their file and hold a clearance meeting with local management.

– The remaining components are not subject to full scope audit have been reviewed for group reporting purposes, by the Group auditor, using analytic procedures to corroborate the conclusions reached that there are no significant risks of material misstatement of the aggregated financial information of these components.

We ensured that audit teams both at group and at component level have the appropriate skills and competences which are needed to perform the audit of a biotechnology research and development company.

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

Other information

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

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2019

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

Leighton Thomas (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

9 April 2020

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 2019

	Notes	2019 £'000	2018 £'000
Revenue	5, 6		
Licences, sales and services		**4,634**	2,958
Grant services		**22**	91
Revenue – total		**4,656**	3,049
Cost of sales		**(1,702)**	(1,180)
Gross profit		**2,954**	1,869
Administrative expenses		**(2,655)**	(3,239)
Operating profit/loss		**299**	(1,370)
Finance income	7(i)	**–**	–
Finance costs	7(ii)	**(335)**	(289)
Profit/Loss before taxation		**(36)**	(1,659)
Tax	11	**185**	346
Profit /Loss for the year		**149**	(1,313)
Profit /Loss per share			
Basic and diluted	12	**0.05p**	(0.44p)

The accompanying notes 1 to 27 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit/Loss for the year	**149**	(1,313)
Other comprehensive income for the year		
Items that will or may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(70)**	24
Profit/Loss and total comprehensive income for the year	**79**	(1,289)
Owners of parent	**79**	(1,289)

The accompanying notes 1 to 27 are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Goodwill	13	**4,218**	4,218
Property, plant and equipment	14(a)	**75**	56
Right-of-use asset	14(b)	**581**	
		4,874	4,274
Current assets			
Inventories	16	**871**	1,147
Trade and other receivables	17(a)	**486**	320
Contract assets	5	**1,331**	328
Cash and cash equivalents	17(b)	**799**	958
		3,487	2,753
Total assets		**8,361**	7,027
Current liabilities			
Trade and other payables	18(a)	**(738)**	(541)
Contract liabilities	5 & 18(a)	**(26)**	(25)
Borrowings	18(b)	**(10,262)**	(9,936)
Lease Liabilities	26	**(584)**	
		(11,610)	(10,502)
Net current liabilities		**(8,123)**	(7,749)
Non-current liabilities			
Provisions			
Pension provisions	19	**(403)**	(343)
		(403)	(343)
Total liabilities		**(12,013)**	(10,845)
Net liabilities		**(3,652)**	(3,818)
Equity			
Share capital	20	**2,952**	2,952
Share premium		**51,466**	51,466
Share-based payment reserve		**3,615**	3,532
Merger reserve	22	**10,755**	10,755
Translation reserve		**(109)**	(43)
Retained loss		**(72,331)**	(72,480)
Total (deficit)		**(3,652)**	(3,818)

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 9 April 2020. They were signed on its behalf by:

Dr I. Pike Director

R. Dennis Director
9 April 2020

The accompanying notes 1 to 27 are an integral part of the financial statements.

COMPANY BALANCE SHEET

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investment in subsidiaries	15	**8,613**	8,154
		8,613	8,154
Current assets			
Cash and cash equivalents	17(b)	**219**	496
		219	496
Total assets		**8,832**	8,650
Current liabilities			
Payables from other group entity	18(a)	**(467)**	(321)
Borrowings	18(b)	**(2,331)**	(2,257)
		(2,798)	(2,578)
Total liabilities		**(2,798)**	(2,578)
Net assets		**6,034**	6,072
Equity			
Share capital	20	**2,952**	2,952
Share premium account		**51,466**	51,466
Share-based payment reserve		**3,615**	3,532
Retained loss		**(51,999)**	(51,878)
Total equity		**6,034**	6,072

The Company generated a loss for the year ended 31 December 2019 of £0.12m (2018: £0.14m).

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 9 April 2020. They were signed on its behalf by:

Dr I. Pike Director

R. Dennis Director
9 April 2020

The accompanying notes 1 to 27 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	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	Total (deficit) £'000
At 1 January 2018	2,952	51,466	3,503	(67)	10,755	(71,167)	(2,558)	(2,558)
Loss for the year	–	–	–	–	–	(1,313)	(1,313)	(1,313)
Exchange differences on translation of foreign operations	–	–	–	24	–	–	24	24
Loss and total comprehensive income for the year	–	–	–	24	–	(1,313)	(1,289)	(1,289)
Credit to equity for share-based payment	–	–	29	–	–	–	29	29
At 31 December 2018	2,952	51,466	3,532	(43)	10,755	(72,480)	(3,818)	(3,818)
At 1 January 2019	2,952	51,466	3,532	(43)	10,755	(72,480)	(3,818)	(3,818)
Profit/Loss for the year	–	–	–	–	–	149	149	149
Exchange differences on translation of foreign operations	–	–	–	(66)	–	–	(66)	(66)
Profit/Loss and total comprehensive income for the year	–	–	–	(66)	–	149	83	83
Credit to equity for share-based payment	–	–	83	–	–	–	83	83
At 31 December 2019	**2,952**	**51,466**	**3,615**	**(109)**	**10,755**	**(72,331)**	**(3,652)**	**(3,652)**

The accompanying notes 1 to 27 are an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

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 2018	2,952	51,466	–	3,503	(51,740)	6,181
Loss and total comprehensive income for the year	–	–	–	–	(138)	(138)
Credit to equity for share-based payment	–	–	–	29	–	29
At 31 December 2018	2,952	51,466	–	3,532	(51,878)	6,072
At 1 January 2019	2,952	51,466	–	3,532	(51,878)	6,072
Loss and total comprehensive income for the year	–	–	–	–	(121)	(121)
Credit to equity for share-based payment	–	–	–	83	–	83
At 31 December 2019	**2,952**	**51,466**	**–**	**3,615**	**(51,999)**	**6,034**

The accompanying notes 1 to 27 are an integral part of the financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

for the year ended 31 December 2019

	Note	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Loss before tax		**(36)**	(1,659)	**(121)**	(138)
Adjustments for:					
Net finance costs	7	**335**	289	**74**	55
Depreciation of property, plant and equipment	14(a)/14(b)	**89**	229	**–**	–
Share-based payment expense	21	**83**	29	**–**	–
Operating cash flows before movements in Working capital		**471**	(1,112)	**(47)**	(83)
Increase in inventories		**276**	(201)	**–**	–
Increase in receivables		**(1,169)**	77	**–**	–
Increase in payables		**197**	6	**165**	–
Decrease in provisions		**60**	(20)	**–**	–
Cash used in operations		**(165)**	(1,250)	**118**	(83)
Net Tax refunded		**185**	746	**–**	–
Net cash inflow/(outflow) from operating activities		**20**	(504)	**118**	(83)
Cash flows from investing activities					
Purchases of property, plant and equipment	14	**(58)**	(4)	**–**	–
Loans advanced to subsidiary undertakings			–	**(377)**	(182)
Interest received	7	–	–	**0**	–
Net cash outflow from investing activities		**(58)**	(4)	**(377)**	(182)
Financing activities					
Lease payments	18(c)	**(58)**	–	**–**	–
Proceeds on issue of borrowings		**–**	700	**–**	700
Repayment of HP creditors		**–**	(166)	**–**	–
Net cash (outflow)/inflow from financing activities		**(58)**	534	**–**	700
Net increase in cash and cash equivalents		**(96)**	26	**(259)**	435
Cash and cash equivalents at beginning of year		**958**	908	**496**	58
Effect of foreign exchange rate changes		**(63)**	24	**(18)**	3
Cash and cash equivalents at end of year	17b	**799**	958	**219**	496

The accompanying notes 1 to 27 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1 GENERAL INFORMATION

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

2 CHANGES IN ACCOUNTING POLICIES

Adoption of new and revised standards effective from 1 January 2019

Proteome Sciences Plc has applied the same accounting policies and methods of computation in its financial statements as in its 2018 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2019, which have been adopted in the current year's financial statements. New standards that have impacted the Group for the year ended 31 December 2019 are:

IFRS 16 "Leases"

IFRS 16 is effective for periods beginning on or after 1 January 2019. The Group has elected to adopt IFRS 16 retrospectively with the cumulative effect of applying IFRS 16 recognized at the date of initial application 1 January 2019. Consequently the comparative period has not been restated.

On transition to IFRS 16 the Group elected to measure its Frankfurt lease previously classified as operating under IAS 17 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognized in the statement of financial position immediately before the initial application. See note 3 for further explanations of how the Group transitioned to IFRS 16.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), which are adopted by the EU and as applied in accordance with the Companies Act 2006.

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 2019, the Group had cash resources of £0.80 m (2018: £0.96m), realised a profit for the year of £0.15 m (2018: a loss of £1.31m), had net cash inflows from operating activities of £0.02m (2018: net cash outflow of £0.50m) and had net current liabilities of £8.12m (2018: £7.75m).

3 SIGNIFICANT ACCOUNTING POLICIES continued

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. The directors have considered the potential impact of COVID-19 may have on the ability to achieve adequate level of sales. The rapid emergence of the coronavirus pandemic has caused significant disruption to many manufacturing and retail businesses where the implementation of social distancing measures is not practical or deemed ineffective. In many countries pharmaceutical research and development has been protected from more general restrictions on worker travel and we expect this to remain to be the case throughout the pandemic. However, there is a risk that we will be forced to suspend operations in our laboratory in Frankfurt, or that our clients cannot source and ship samples for analysis, leading to delay in completion of projects. We have also seen a number of international and national trade shows and exhibitions be postponed or move to a virtual format. As these events are one of the methods used to establish business to business introductions there is the potential that there may be an impact to our business development 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.

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

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

On 2 July 2018, the Company secured a loan facility of £1.0m, of which £0.7m was drawn at 31 December 2019, from Vulpes Investment Management ('VIM'). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan. The Company has received confirmation from VIM that they will not seek repayment before 1 May 2021.

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 and therefore that they may be unable realise assets and discharge liabilities in the normal course of business. 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

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.

Revenue recognition

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

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

TMT® product sales

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

TMT® royalties

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

TMT® revenue milestones

Milestone revenues are due on cumulative sales-related revenues. The milestone revenue is recognised at a point in time when the revenue milestone has been achieved.

Biomarker services

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

Determining the transaction prices and allocation of amounts to performance obligations

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

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

For biomarker services revenues the Company does not use any discount or bonus schemes, so revenue is allocated at the transaction price specified in the contract for the specific individual work orders representing a distinct performance obligation.

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

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

Research grants

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

Leasing

All leases are accounted for by recognising a right-of-use asset and a lease liability except for the London office.

The rentals for the London office, which amounts to £26k, and is not considered under IFRS 16 because there is no control over the asset.

In the case of the Group there is only one lease recognised under IFRS 16 for the Frankfurt operation of the Group, which started in August 2019 and ends after 5 years at the end of July 2024. Its asset class is land and building as a rental lease. It does not contain variable elements or break out options. Similarly there are no special restoration clauses attached, there are no restrictions or covenants in place and it is no sale and lease back transaction.

Renewal of the Frankfurt lease during August 2019 has been accounted under IFRS 16 without restatement of comparative figures applying the modified retrospective approach. The following policies apply subsequent to the date of initial application:

Information of the right of asset and its amortisation are represented in note 14b. Information of future lease payments can be found in note 23 and bout financial commitments and their timing in note 24.

Detail's of the Group's leases existing at the balance sheet date can be found in note 26.

Foreign Currencies

The individual financial statements of each Group company are prepared in the currency of their primary economic environment in which they operate (their functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling.

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.

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 (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 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.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

Research and development tax credit

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

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 2019 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

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

Investments in subsidiaries

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

Inventories

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

Financial instruments

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

Amortised cost

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

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

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

Contract assets

Contract assets are recognised on the face of the balance sheet and are defined as the right to consideration in exchange for goods or services that the have been transferred to a customer when that right is conditional on something other than the passage of time (for example, the entity's future performance). Contract assets are considered within the expected loss calculation under IFRS 9, but usually do not fulfil the recognition criteria.

3 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

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

Borrowings

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

Trade payables

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

Provisions

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

Share-based payments

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

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

COVID-19

The spread of COVID-19 takes large effect on the social and economic situation of both individuals and companies. Without disputing the COVID-19 has an effect on our business, as for example sales activity related to trade fairs is very much reduce. Nevertheless, the actual business effect so far is difficult to evaluate and to quantify. We think that a reduction at a moderate amount to both our service sales as well as our TMT sales in the range of possibilities and will reflect such reductions in our forecasts in regards of sales and profit. Nevertheless, we do not think that any impairment or devaluation of loans between companies at the current stage is appropriate, and hence will not be reflected in valuations at the 31 December 2019. This does not exclude that an impairment might result for the financial period of 2020.

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 2019 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. As the recoverable amount of goodwill at the balance sheet date exceeded the goodwill amount as shown in the balance sheet of £4.2m an impairment was not undertaken. 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 not 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.

Leases

Leases accounted under IFRS16 require judgement in respect of interest rates applied. The Group uses the internal borrowing rate equating to the interest rate agreed for the Group's major loans granted by the shareholders of the Group and considers this to be the most appropriate discount rate as the Group does not use other external financing.

Pension

The Group operates for its German employees a defined benefit retirement scheme and treats, where appropriate, payments to the scheme similar to payments to a defined contribution scheme. Valuation of the scheme is based on the annual report of an independent actuary. The Group considers this is sufficient to guarantee appropriate valuation of the scheme and to consider all resulting financial liabilities.

5 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

Year to 31 December 2019	Biomarker services £'000	Other licence income £'000	TMT Sales £'000	TMT Royalties £'000	Grant income £'000	Total £'000
Primary Geographic Markets						
US	**665**	**–**	**1,768**	**1,936**	**22**	**4,391**
UK	**10**	**–**	**–**	**–**	**–**	**10**
EU	**216**	**–**	**–**	**–**	**–**	**216**
Rest of the World	**39**	**–**	**–**	**–**	**–**	**39**
	930	**–**	**1,768**	**1,936**	**22**	**4,656**
Revenue recognised at a point in time	**–**	**–**	**1,768**	**1,936**	**22**	**3,726**
Revenue recognised over a period	**930**	**–**	**–**	**–**	**–**	**930**
	930		**1,768**	**1,936**	**22**	**4,656**
Year to 31 December 2018						
Primary Geographic Markets						
US	277	–	1, 259	948	–	2.484
UK	103	–	–	–	–	103
EU	371	–	–	–	91	462
	751	–	1,259	948	91	3,049
Revenue recognised at a point in time	–	–	1,259	948	91	2,298
Revenue recognised over a period	751	–	–	–	–	751
	751	–	1,259	948	91	3,049

5 REVENUE FROM CONTRACTS WITH CUSTOMERS continued

Contract Balances

	Contract Assets 2019 £'000	Contract Assets 2018 £'000	**Contract Liabilities 2019 £'000**	Contract Liabilities 2018 £'000
At 1 January/accrued in the period	**328**	237	**(25)**	(35)
Transfer in the period from contract assets to trade receivables	**(328)**	(237)	**25**	–
Amounts included in contract liabilities that were recognised as revenue during the period	**–**	–	**–**	35
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	**1,331**	328	**(26)**	–
Cash received in advance of performance and not recognised as revenue during the period	**–**	–	**–**	(25)
	1,331	328	**(26)**	(25)

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

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

Remaining performance obligations

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

In the current and previous year there are no contracts that remained open over the balance sheet date, so revenue for all contracts started in the year has also been recognised in the year.

6 SEGMENT INFORMATION

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

6 SEGMENT INFORMATION continued

Revenues from major products and services

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

	2019 £'000	2018 £'000
TMT® revenues	**3,704**	2,207
Biomarker services and other licence income	**930**	751
Grant income	**22**	91
Total	**4,656**	3,049

Revenues from one customer totalled £3,704k (2018: £2,207k) representing all revenues from the TMT® segment.

7 (i) FINANCE INCOME

	2019 £'000	2018 £'000
Income arising from bank deposits	–	–

(ii) FINANCE COSTS

	2019 £'000	2018 £'000
Interest on loans (note 18)	**335**	289

8 OPERATING LOSS

	2019 £'000	2018 £'000
Operating loss is stated after charging/(crediting):		
Depreciation charge		
– owned	**89**	229
Research and development costs	**355**	441
Operating lease rentals		
– other	**60**	322
Auditor's remuneration for the Audit 2019 (see below)	**80**	72
Foreign exchange losses	**2**	3
Net increase in inventories	**(276)**	201

The analysis of auditor's remuneration is as follows:

Fees payable to the Company's auditor for the audit of the Company's annual accounts	**55**	57
Fees payable to the Company's auditor for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation		
Total audit fees	**55**	57
Tax compliance services	**25**	15
Other tax compliance services – VAT, grants, share schemes, income tax advice	**–**	–
Total non-audit fees	**25**	15
Total fees	**80**	72

9 STAFF COSTS

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

	2019 Number	2018 Number
Research and development	**20**	21
Administration	**5**	8
	25	29

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

	£'000	£'000
Wages and salaries	**1,657**	1,838
Social security costs	**269**	317
Other pension costs	**181**	92
	2,107	2,247

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

Social security costs shown above include a credit of £Nil (2018: £Nil) 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 2019, were:

	Basic salary 2019 £'000	National Insurance Contributions 2019 £'000	Benefits in kind 2019 £'000	Pension Costs 2019 £'000	Total 2019 £'000	Total 2018 £'000
Executive Directors						
Dr J.R.M. Haigh	**161**	**21**	**3**	**–**	**185**	250
Dr I. Pike	**126**	**16**	**3**	**10**	**155**	168
R. Dennis	**135**	**17**	**–**	**13**	**165**	159
Non-Executive Directors						
C.D.J. Pearce	**110**	**4**	**5**	**–**	**119**	124
R. McDowell	**20**	**2**	**–**	**–**	**22**	25
M. Diggle	**–**	**–**	**–**	**–**	**–**	–
Dr U. Ney	**16**	**1**	**–**	**–**	**17**	23
	568	**61**	**11**	**23**	**663**	749

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

10 DIRECTORS' REMUNERATION AND TRANSACTIONS continued

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

	2019	2018
Defined contribution pension schemes	2	2

Pension costs in the year ended 31 December 2019 were as follows:

	2019 £'000	2018 £'000
Dr I. Pike	**10**	15
R. Dennis	**13**	13
	23	28

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 £110,000 noted above. The balance of the fees relating to the consultancy agreement at the year end was £251k (2018: £181k). This increase during the year represents the charge for consultancy during the year.

11 TAX

Tax credit on loss before taxation on ordinary activities

The Group is entitled to make claims for UK tax credit income on qualifying R&D expenditure each year under the Corporation and Taxes Act 2009. As an SME qualifying entity, tax credits can be claimed in respect of the tax effect of tax losses generated from qualifying R&D expenditure. From 2018 the Group recognised R&D tax claims on a receipt basis.

	2019 £'000	2018 £'000
UK Corporation tax – R&D tax credit	**–**	–
Overseas tax charge	**(54)**	(53)
Group tax charge for the year	**(54)**	(53)
Adjustments re previous years	**–**	–
R&D tax credit received	**239**	399
Group tax credit for the year	**185**	346

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

At 31 December 2019 there were tax losses available for carry forward of approximately £46.5m (2018: £46.6m)

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

11 **TAX** continued

Factors affecting the tax credit for the year

R&D tax credit entitlements are significantly smaller than in the previous year, due to the stronger commercial focus of the Company's research activities. As such the Company has not recognised any tax credit in respect of 2019. The differences are explained below:

	2019 £'000	2018 £'000
Profit/Loss before tax	**(36)**	(1,686)
Income tax credit calculated at 19.0% (2018: 19.00%)	**7**	320
Effects of:		
Expenses that are not deductible in determining taxable profit	**(0)**	(1)
Fixed asset timing differences	**(14)**	(11)
Unrecognised tax losses carried forward	**43**	(308)
Effect of overseas tax	**(54)**	(53)
Other taxable income	**–**	–
Group tax credit for the year	**(54)**	(53)
R&D tax received	**239**	399
	185	346

Tax Unrecognised deferred tax	**2019 £'000**	2018 £'000
The following deferred tax assets and liability have not been recognised at the balance sheet date:		
Tax losses	**7,894**	7,919
Depreciation in excess of capital allowances	**2**	41
Provisions	**18**	31
Total	**7,914**	7,991

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

A reduction in the UK tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply from 1 April 2020, and this change was substantively enacted on 17 March 2020.

12 **PROFIT/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	
	2019 £'000	2018 £'000
Profit/Loss for the financial year	**149**	(1,313)

12 PROFIT/LOSS PER ORDINARY SHARE continued

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share:	**295,182,056**	295,182,056
Weighted average number of ordinary shares and outstanding options for the purposes of calculating diluted earnings per share	**295,182,056**	295,182,056

In 2019 the profit 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 none of the issued share options are in the money and are therefore not dilutive.

13 GOODWILL

	Goodwill £'000
Cost and carrying amount	
1 January 2019 and 31 December 2019	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 2019, the market capitalisation for the Group was £8.7m based on the quoted share price of the Company of 2.94p 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 2019.

14 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSET

(a) 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 2018	710	3,278
Exchange adjustments	–	20
Additions during the year	–	4
Disposals during the year	–	(932)
31 December 2018	710	2,370
1st January 2019	710	2,370
Exchange adjustments	–	(79)
Additions during the year	–	58
Disposals during the year	–	(5)
31 December 2019	710	2,344
Depreciation		
1 January 2018	710	2,997
Exchange adjustments	–	19
Charge for the year	–	229
Depreciation relating to disposals	–	(931)
At 31 December 2018	710	2,314
At 1 January 2019		
Exchange adjustments	–	(77)
Charge for the year	–	36
Depreciation relating to disposals	–	(4)
At 31 December 2019	710	2,269
Net book value		
At 1 January 2019	–	56
31 December 2019	–	75

(b) Right-of-use asset	
Cost	
1 January 2019	–
Exchange adjustments	–
Additions during the year	633
Disposals during the year	–
31 December 2019	633
Depreciation	
1 January 2019	–
Exchange adjustments	–
Charge for the year	52
Depreciation relating to disposals	–
At 31 December 2018	52
Net book value	
At 1 January 2019	0
At 31 December 2019	581

14 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSET continued

The group enrolled in August 2019 in a 5-year lease contract for the Frankfurt operation, which is due to finish in July 2024. The right relating to this contract amounts to £581k as at 31 December 2019 and amortises evenly until July 2024.

15 INVESTMENT IN SUBSIDIARIES

Company	Cost of shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2018	–	7,941	7,941
Additional investment in the year	29	184	213
Provisions for impairment during the year	–	–	–
At 31 December 2018	29	8,125	8,154
At 1 January 2019	**29**	**8,125**	**8,154**
Additional investment in the year	**83**	**376**	**459**
Provisions for impairment during the year	**–**	**–**	**–**
At 31 December 2019	**112**	**8,501**	**8,613**

(i) The increase in the cost of shares in subsidiary undertakings of £83,443 (2018: £28,626) 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 2019 of £376k (2018: £184k) arose from the provision of further funds to the Company's trading subsidiary and German subsidiary company.

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

The Company's loans to subsidiaries were assessed as credit impaired at the date of initial application of IFRS 9, 1 January 2018, and again at the current year-end. As a consequence of the improved financial situation of the subsidiaries no further impairment in 2018 and 2019 were undertaken. Paragraphs (i) and (ii) above provide a reconciliation of movements in relation to the carrying value of the investments at year-end.

The carrying amount of the Company's loans to subsidiaries was £8,613k (1 January 2018: £8,125k).

15 INVESTMENT IN SUBSIDIARIES continued

Group investments

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

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

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

The registered offices of the companies above are:

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

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

Proteome Sciences Inc PO Box 2767 Humble, Texas, 77347. USA

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

16 INVENTORIES

	2019 £'000	2018 £'000
Work-in-progress	**158**	287
Finished goods	**713**	860
	871	1,147

17 OTHER CURRENT ASSETS

a) Trade and other receivables

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Trade receivables	**358**	**–**	186	–
Less: provision for impairment of trade receivables	**(24)**	**–**	(8)	–
Trade receivables – net	**334**	**–**	179	–
Other Debtors	**71**	**–**	83	–
Total financial assets other than cash and cash equivalents classified as loans and receivables				
Prepayments	**81**	**–**	58	–
R&D tax credit recoverable	**–**	**–**	–	–
Total	**486**	**–**	320	–

At 31 December 2019 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 90 days past due	More than 270 days past due	More than 364 days past due	Total £'000
Expected loss rate %	0%	10 %	15%	60%	90%	
Gross carrying amount	422	42	–	–	22	486
Loss provision	–	(4)	–	–	(20)	(24)

As at 31 December 2019 trade receivables of £23,882 (2018: £8,486) were past due and partially impaired.

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

17 OTHER CURRENT ASSETS continued

There were no trade debts outstanding by the end of the period 2018, which were ultimately not recovered; the maturity profile of any due debt is presented below.

	2019	2018
	£'000	£'000
3 to 9 months	–	57
9 to 12 months	–	–
> 12 months	22	–

b) Cash and cash equivalents

	Group	**Company**	Group	Company
	2019	**2019**	2018	2018
	£'000	**£'000**	£'000	£'000
Cash and cash equivalents	**799**	**219**	958	496

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
	2019	**2019**	2018	2018
	£'000	**£'000**	£'000	£'000
Due within one year				
Other payables	**514**	**–**	372	–
Accruals	**224**	**–**	169	–
Payables due from group entities	**–**	**467**	–	321
	738	**467**	541	321

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.

18 FINANCIAL LIABILITIES continued

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

(b) Short term borrowings

	Group 2019 £'000	**Company 2019 £'000**	Group 2018 £'000	Company 2018 £'000
Loans from related parties	**10,262**	**2,331**	9,936	2,257

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

Note:

(i) The loan from related party represents a loan from Mr C. D. J. Pearce, Non-Executive Chairman and the former Chief Executive of the Company. The loan is secured by a fixed charge over the Company's patent portfolio and a floating charge over the Company's inventory. The loan bears interest at 2.5% above the base rate of Barclays Bank plc. Loan amounts representing £5m may be converted into ordinary share capital at the option of Mr Pearce at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29 June 2006. The conversion option is immaterial to the financial statements. The balance owed was £9,532k (FY18: £9,227k)

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

(a) A general offer to the shareholders of the Company being announced to acquire its issued share capital, or

(b) The occurrence of any of the usual events of default attaching to this sort of agreement.

(ii) On 2 July 2018, Proteome Sciences plc secured a loan facility of £1.0m from Vulpes Investment Management (VIM). Interest accrues at 2.5% per annum above the UK sterling base rate of Barclays Bank plc and is repayable alongside the principal loan. The Company has received confirmation from VIM that they will not seek repayment before May 2021. This loan is deemed a related party transaction by nature of a common director being on both the boards of Proteome Sciences plc and Vulpes Investment Management. At 31 December 2019 amounts drawn down were £700k, and interest of £30k was accrued.

(iii) The amounts shown above as outstanding under short term borrowings include accrued interest.

(c) Changes in liabilities arising from financing activities

Group

Note supporting the cash flow statement

	1 January 2019 £,000	**Cash Flow £,000**	**Interest accruing in the period £,000**	**Foreign exchange £,000**	**Fair value change £,000**	**31 December 2019 £,000**
Long term borrowings	**–**	**–**	**–**	**–**	**–**	**–**
Short term borrowings	**9,936**	**–**	**326**	**–**	**–**	**10.262**
Lease Liabilities*	**633**	**(49)**	**–**	**–**	**–**	**584**
Interest on lease	**–**	**(9)**	**9**	**–**	**–**	**–**
Total	**10,569**	**(58)**	**335**	**–**	**–**	**10,846**

* £Nil lease liabilities included in 'Trade and other payables' 2019

** Lease was entered into on 1 August 2019, for completeness it is shown in the 1 January 2019 column, to allow reflection of lease related cash outflows during the year

18 FINANCIAL LIABILITIES continued

Company

Note supporting the cash flow statement

	1 January 2019 £,000	Cash Flow £,000	Interest accruing in the period £,000	Foreign exchange £,000	Fair value change £,000	31 December 2019 £,000
Long term borrowings	–	–	–	–	–	–
Short term borrowings	2,257	–	74	–	–	2,331
Total	2,257	–	74	–	–	2,331

19 PENSION PROVISIONS

Group

	Pension Provisions £'000	2019 Total £'000	2018 Total £'000
At 1 January	343	343	363
Additional provision in the year	60	60	–
Reduction of provision	–	–	(20)
At 31 December	403	403	343

(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) 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 2019, funding contributions payable by the Group are based on employee contributions at the rate of 1.5 % – 2.5. % (2018:1.5% – 2.5%) of wages and salaries and employer contributions at the rate of 6 times (2018: 5 times) employee contributions. The Company expects pension costs for 2019 in relation to the defined benefit scheme of £59,596.

The amount charged to the income statement in respect of the contributions to the scheme in 2019 was £144,958 (2018: £36,679).

19 PENSION PROVISIONS continued

As at 31 December 2019, an actuarial deficit did not exist for the multi-employer scheme. The Group's contributions to the scheme during 2019 represented 0.01% of total contributions to the scheme by employers and employees (2018: 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 1.0% (2018: 2.0%). The Company has assumed an income increase of 2.5% (2018: 2.5%) and German inflation of 1.75 % (2018: 1.75%).

Provisions for future unfunded pension liabilities at 31st December 2019 amounted to £402,914 (2018: £343,190). Amounts recognised through the consolidated income statement for the year to 31st December 2019 included service costs of £11,341 (2018: £21,698), interest costs of £6,431 (2018: £6,381) and an actuarial loss of £63,180 (2018: actuarial loss of £41,945).

Other pension costs in relation to defined contribution schemes for United Kingdom employees amounted to £35,759 (2018: £54,875).

20 SHARE CAPITAL

	2019 £'000	2018 £'000
i) Allotted and called-up		
Ordinary Shares of 1p each	**2,952**	2,952

The increase in the number of shares in issue in 2019 arose as follows:

	2019 Number	2018 Number
As at 1 January 2019	**295,182,056**	295,182,056
Issued on exercise of LTIP award in April 2018	–	–
Issued in previous share placing	–	–
Issue of equity	–	–
At 31 December 2019	**295,182,056**	295,182,056

21 SHARE OPTIONS AND SHARE BASED PAYMENTS

(i) Options

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

(ii) 2011 Long-Term Incentive Plan ("LTIP")

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

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

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

(iii) 2011 Share Option Plan

At 31 December 2019 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
83,000	830.00	36.50	17.2.15	17.2.15 – 17.2.22
48,000	480.00	49.87	25.6.16	25.6.16 – 25.6.23
25,000	250.00	36.25	25.6.17	25.6.17 – 25.6.24
63,000	630.00	16.75	18.3.19	18.3.19 – 18.3.26
219,000	2,190.00			

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

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

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

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

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

At the 31 December 2019, awards over Nil shares (2018: Nil) had vested and were capable of exercise.

The 2004 LTIP closed during 2009 and no further awards can be made under this scheme. Details of all the remaining awards that have not yet vested are set out in note 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 £ 83,443 (2018: £28,626) 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 swill 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%.

21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

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.

	2011 Share Option Plan	
	Options	**Weighted average exercise price (p)**
Outstanding at 1 January 2018	416,000	28.46
Granted in the year	–	–
Forfeited during the year	(52,000)	
Outstanding at 31 December 2018	364,000	
Granted in the year	–	
Lapsing in the year	145,000	
Outstanding at 31 December 2019	219,000	
Exercisable at 31 December 2019	194,000	
Exercisable at 31 December 2018	138,000	

	2011 LTIP	
	Maximum Number of Shares	**Weighted average fair value per share (p)**
Outstanding at 1 January 2018		
Granted in the year	–	–
Lapsing in the year	–	–
Outstanding at 31 December, 2018	16,000,000	4.25
Granted in the year	–	–
Lapsing in the year	–	–
Outstanding at 31 December, 2019	16,000,000	4.25
Exercisable at 31 December, 2019	–	–
Exercisable at 31 December, 2018	–	–

The options outstanding at 31st December 2019 had a weighted average remaining contractual life as follows:

	2019 No. of months	**2018 No. of months**
2011 Share Option Plan	46.8	64.2
LTIP	87.0	99.0

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21 SHARE OPTIONS AND SHARE BASED PAYMENTS continued

The inputs into the Black-Scholes model were:

	2019	**2018**
Weighted average share price	**4.9**	4.9p
Weighted average exercise price	**4.9**	4.9p
Expected volatility	**63.56% – 56.05%**	63.56% – 56.05%
Expected life	**4 years**	4 years
Risk free rate	**1.13% – 0.15%**	1.13% – 0.15%
Expected dividends	**None**	None

Notes

(i) Expected volatility is a measure of the tendency of a security price to fluctuate in a random, unpredictable manner and is determined by calculating the historical volatility of the Company's share price over the previous years.

(ii) The expected life has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(iii) The Company has used the Monte Carlo model to value the LTIP awards, which simulates a wide range of possible future share price scenarios and calculates the average net present value of the option across those scenarios and which captures the effect of the market-based performance conditions applying to such awards.

22 RESERVES DESCRIPTION AND PURPOSE

Share premium

Amount subscribed for share capital in excess of nominal value.

Foreign exchange translation reserve

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

Retained earnings

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

Translation Reserves

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

Share based payment Reserve

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

Merger Reserve

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

23 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Operating lease arrangement

The Group leases one office space on short-term operating leases. The Group pays insurance, maintenance and repairs of these properties.

At the balance sheet date, 31 December 2019, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2019 £'000	**Company 2019 £'000**	Group 2018 £'000	Company 2018 £'000
Within 1 year*	**26**	**26**	299	55
Within 2-5 years	**–**	**–**	978	–
> 5 years	**–**	**–**	143	–
	26	**26**	1,420	55

*The group has one lease contracts, and pays rent for its London office which renews on a six monthly basis ending in May 2020 and there is no control over the asset. A five-year lease contract for the Frankfurt facility, starting in August 2019 and terminating in July 2024 is not shown here, but shown under lease liabilities on the face of the balance sheet after valuation under IFRS16 as described in note 3 creating a lease liability of £584k. In 2018 lease commitments were significantly higher than 2019 because the lease for the Frankfurt facility was previously classified as an operating lease but is now shown on the face of the balance sheet.

24 FINANCIAL INSTRUMENTS

Capital risk management

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

The Group's objectives when maintaining capital are:

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

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

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

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

24 FINANCIAL INSTRUMENTS continued

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

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

Financial instruments for the Group comprise:

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

For the Company:

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

Categories of financial instruments

	Group 2019 £'000	**Company 2019 £'000**	Group 2018 £'000	Company 2018 £'000
Financial assets				
Cash and cash equivalents*	**799**	**219**	958	496
Trade and other receivables *	**486**	**–**	262	–
Investment in subsidiaries	**–**	**8,613**	–	8,154
Total financial assets**	**1,285**	**8,832**	1,220	8,650
Financial liabilities				
Trade and other payables and accruals*	**(764)**		(541)	–
Short-term borrowings*	**(10,262)**	**(2,330)**	(9,936)	(2,257)
Lease liabilities	**(584)**			
Total financial liabilities	**(11,610)**	**(2,330)**	(10,477)	(2,257)

The described financial instruments are measured applying the following methodologies:

* measured at amortised costs through the consolidated income statement

** excludes accruals of £1,331k.

24 FINANCIAL INSTRUMENTS continued

The Group is exposed to the following financial risks:

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

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

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

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

At the reporting date, the largest exposure was represented by the carrying value of trade receivables and contract assets of £1,817k (2018: trade receivables and contract assets £514k). A minor provision for impairment was recognised for FY 2019/£23,882(FY 2018: NIL) on the basis that the Company's customers are typically large companies and there is a long-standing relationship and history of payment by customers so there is no history of credit defaults. The Group does have significant concentrations of credit risk on its trade receivables, with the largest debtor/contracted asset amounting to £1,143,558.

Credit risk arising from cash and cash equivalents held with banking institutions is controlled by using only good rated Institutions as presented in the table. Nevertheless, the economic challenges created by the COVID-19 pandemic might result in a strain on the liquidity of the individual banking institutions. As such the company closely the development in the financial markets. As a consequence a more even allocation of funds between the different banks might be adopted and we will consider reallocation of funds to better rated institutions in case of larger changes in credit rating by more than one of the big credit rating agencies (Moody's, S&P, Fitch). Due to fluctuating cash flows we inevitably need to hold a larger amount of cash deposits to fund the operational business requirements and only limited risk mitigation is possible here.

24 FINANCIAL INSTRUMENTS continued

	Group 2019 £'000	**Company 2019 £'000**	Group 2018 £'000	Company 2018 £'000
Barclays plc	**603**	**219**	857	496
Commerzbank AG	**181**	**–**	84	–
Other	**15**	**–**	17	–
	799	**219**	958	496

Company

The Company is exposed to credit risk on loans provided to related parties. At the reporting date, the largest exposure was represented by the carrying value of loans to Proteome Sciences R&D GmbH & Co. KG of £8.01m. At 31 December 2019, the carrying value of loans owed by Electrophoretics Limited to the Company was £0.17m (2018: £Nil), of loans owed by Proteome Sciences R&D GmbH & Co. KG to the Company was £8.6 m (2018: £8.15m). Refer to Note 15 for further detail.

Market risk

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

Fair value and cash flow interest rate risk

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

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

Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 0.5% higher and all other variables were held constant, the Group's loss for the year ended 31 December 2019 would have increased by £50,255 (2018: £49,670), for a decrease of 0.5% in interest rate the loss would have reduced by the same amount.

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

24 FINANCIAL INSTRUMENTS continued

Foreign exchange risk

Foreign currency risk management

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

Foreign currency sensitivity analysis

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

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

Liquidity risk management

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

Liquidity and interest risk tables

The following tables detail the Group and Company's remaining contractual maturity for its non-derivative financial liabilities including both interest and principal cash flows and the interest rates applied. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay. Payments relating to lease liabilities under IFRS16 are shown under note 26.

As at December 2019	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	**764**	**–**	**–**	**–**	**–**
Loans and borrowings	**10,262**	**–**	**–**	**–**	**–**
Short-term lease	**16**	**10**	**–**	**–**	**–**
Total	**11,042**	**10**	**–**	**–**	**–**

24 FINANCIAL INSTRUMENTS continued

Liquidity risk management

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

There are pension provisions existing for the German entity of the Group, which amounted at 31 December 2019 to £0.40m (2018: £0.34m), which do not result in future Cash outflows from the Group.

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 2018	7,549	392	7,941
Additional investment in the year	–	184	184
Provision for impairment	–	–	–
At 31 December, 2018	7,549	576	8,125
At 1 January 2019	7,549	576	8,125
Additional investment in the year	–	376	376
At 31 December, 2019	7,549	952	8,501

2) Loan from subsidiary undertaking:

At 1 January, 2018	318
Exchange adjustment	3
At 31 December, 2018	321
At 1 January, 2019	321
Bank account reallocation*	165
Exchange adjustment	(19)
At 31 December, 2019	467

* A US$ account has been reallocated from Electrophoretics Limited to Proteome Sciences plc

Further details of the Company's shares in and loans to its subsidiary undertakings are set out in note15.

25 RELATED PARTY TRANSACTIONS continued

b) C.D.J. Pearce, a Director of the Company and therefore a related party, has made a loan facility available to the Company full details of which are set out in note 18 on page 65.

c) M Diggle, a Director of the Company, a Director of Vulpes Investment Management (VIM) which manages the Vulpes Life Science Fund which holds 22% of Proteome Sciences and is therefore a related party, VIM has made a loan facility available to the Company full details of which are set out in note 18 on page 65.

d) Details of the remuneration of the directors is set out in note 10, including details of pension contributions made by the Company and information in connection with their long-term benefits is shown in the Directors' Report under the heading 'Directors and their interests'.

e) Key management personnel compensation.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel for the year-ended 31 December 2019 and the comparative period were as follows:

Jeremy Haigh (Chief Executive Officer)

Ian Pike (Chief Scientific Officer)

Richard Dennis (Chief Commercial Officer)

Stefan Fuhrmann (Finance Director)

Christopher Pearce Chairman (Non-Executive Director)

Roger McDowell (Non-Executive Director)

Martin Diggle (Non-Executive Director)

Ursula Ney (Non-Executive Director)

Key management personnel remuneration was as follows:

	2019	2018
	£'000	£'000
Salary	**620**	634
National Insurance Contributions	**75**	94
Other long-term benefits	**83**	28
Defined benefit scheme costs	**–**	–
Share based payment expense	**–**	–
Consultancy fee	**70**	70
	848	826

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

	2019	2018
	£'000	£'000
	–	–

26 LEASES

In the case of the Group there is only one lease recognised under IFRS 16 for the period of 2019, which has been accounted under IFRS 16 without restatement of comparative figures applying the modified retrospective approach. This comprises the lease for the Frankfurt operation of the Group, which started in August 2019 and ends after 5 years at the end of July 2024.

The lease liability on the balance sheet at its initial recognition amounted to £633k. Over the lease term, lease interest of £63k will accrue resulting in a total liability of £696k. As it is a rental lease the resulting right-of-use asset is classified as land and buildings. It does not contain variable elements or break out options. Similarly, there are no special restoration clauses attached, there are no restrictions or covenants in place and it is no sale and lease back transaction.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the term of the lease term, with the discount rate determined by reference to the Groups internal rate of return, as there is no inherent rate to the lease readily determinable. The Groups internal rate of return (ICR) which is the average Barclays interbank rate for the year + 0.75% (currently 3.25%) reflects the refinancing rate agreed for the loans made available by its major shareholders, which are its main source of external finance and reflects the Groups incremental borrowing rate.

Additionally a right-of-use asset is recognised by initially being measured at the amount of the lease liability, reduced for any leases incentives received, and increased for lease payment made before or at commencement of the lease, indirect costs incurred or any contractual obligation for restoration of the leased asset. The right of use asset is depreciated straight line over the lease term and an interest charge on the outstanding lease liability amount using the ICR is recognised as well and being both reflected in the EBIDAT for the term of the lease. This results in slightly higher costs at the beginning of the lease and lower costs at the end of the lease in comparison to the actual lease payments. Recognition of the amount of the liability neutralises the effect on net assets.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made, Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease. Interest on lease liability of £584k considered under IFRS 16 for the period amounted to £9k for the 2019.

The Group discloses amounts in compliance with IFRS 16:53 (a),(b),(g),(h) and (j) in a reconciliation of both right-of-use assets and lease liabilities rather than as stand-alone amounts in the tables below. This is considered more appropriate as it facilitates a clearer picture of what has given rise to changes in the carrying amounts of these items.

Right-of-use asset

	Land and buildings £'000	**Total £'000**
At January 2019	–	–
Additions	633	633
Amortisation	(52)	(52)
Foreign exchange movements	–	–
At 31 December 2019	581	581

26 LEASES continued

Interest on lease liability considered under IFRS 16 for the period amounted to £9k. This results in slightly higher costs at the beginning of the lease and lower costs at the end of the lease in comparison to the actual lease payments.

Lease liability

	Land and buildings £'000	Total £'000
At January 2019	–	–
Addition	633	633
Interest accruing for the year	9	9
Interest expense	(9)	(9)
Lease payments	(49)	(49)
Foreign exchange movements	–	–
At 31 December 2019	584	584

Information of the right-of-use asset and its amortisation are represented in note 14b as well.

The lease of the London office, which amounts to a total liability of £26k, is a short-term lease ending in May 2020 and renews on a 6 month basis is not considered under IFRS 16 and is excluded from the presentation below.

Maturity analysis of undiscounted lease payments

As at December 2019	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Lease liabilities	34	105	139	360	-

27 EVENTS AFTER THE BALANCE SHEET DATE

Coronavirus (COVID-19) Pandemic

The rapid emergence of the coronavirus pandemic has caused significant disruption to many manufacturing and retail businesses where the implementation of social distancing measures is not practical or deemed ineffective. In many countries pharmaceutical research and development has been protected from more general restrictions on worker travel and we expect this to remain to be the case throughout the pandemic. However, there is a risk that we will be forced to suspend operations in our laboratory in Frankfurt, or that our clients cannot source and ship samples for analysis, leading to delay in completion of projects. We have also seen a number of international and national trade shows and exhibitions be postponed or move to a virtual format. This has the potential to impact our business development activities. The coronavirus pandemic wasn't a condition in existence at the year-end date therefore, it is being regarded as a non-adjusting subsequent event.

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