proteome sciences

The measure of personalised medicine

Annual report and accounts 2013

Proteome Sciences in brief

Proteome Sciences is a leading protein biomarker company specialising in proteomics and peptidomics services and applications, and a best-in-class mass spectrometry protein analysis capability.

We have developed a broad portfolio of novel, high value protein biomarker content addressing numerous disease areas where there is unmet need, or where the range of existing diagnostic or therapeutics available have severe limitations. These include neurodegenerative diseases, stroke and cancer and where biomarker product candidates have the potential to transform disease management and treatment.

Through our novel biomarker discovery both internally and with collaborative partners, our goal is to improve the quality of life for patients with debilitating and life-threatening diseases.

Mission and vision

Proteome Sciences is a life sciences company delivering content for personalised medicine through its services, biomarkers and reagents. We have a strong track record in discovery and innovation supported by intellectual property.

We use high sensitivity proprietary technologies to detect biomarkers (differentially expressed proteins from body fluids or tissue in diseases) and to make rapid assays for testing. These are developed and commercialised as diagnostic, monitoring or therapeutic products through strategic alliances and out-licensing.

Our strategy is to discover, develop and implement measurably better biomarker tools for a range of major human diseases and to provide rapid cost effective outsourcing services and assays which enable our partners to deliver more effective healthcare.

Proteomics explained

Proteomics is the scientific discipline which studies proteins and searches for proteins that are associated with a disease by means of their altered levels of expression and/or post-translational modification between control and disease states. It enables correlations to be drawn between the range of proteins produced by a cell or tissue and the initiation or progression of a disease state and the effect of therapy.

The abundance of information and detailed analysis of the proteome permits the discovery of new protein markers for diagnostic purposes and of novel molecular targets for drug discovery. Proteomics play a major role in biomedical research and the development of future generations of diagnostic and therapeutic products.

Cautionary statement on forward-looking statements

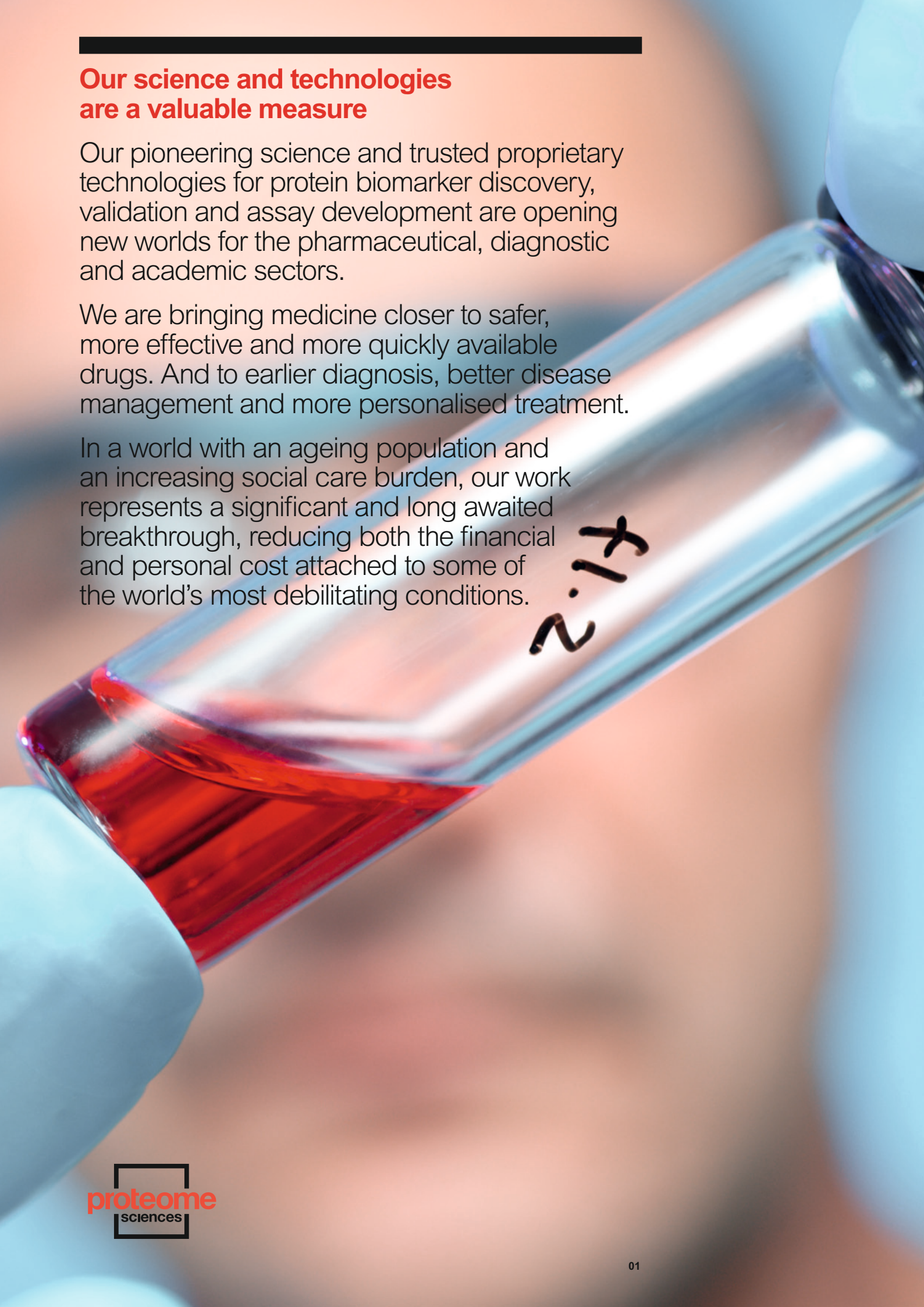
This document contains certain forward-looking statements relating to the Group. The Group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Group to differ materially from those contained in any forward-looking statement. These statements are made by the directors in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Our science and technologies are a valuable measure

Our pioneering science and trusted proprietary technologies for protein biomarker discovery, validation and assay development are opening new worlds for the pharmaceutical, diagnostic and academic sectors.

We are bringing medicine closer to safer, more effective and more quickly available drugs. And to earlier diagnosis, better disease management and more personalised treatment.

In a world with an ageing population and an increasing social care burden, our work represents a significant and long awaited breakthrough, reducing both the financial and personal cost attached to some of the world's most debilitating conditions.



proteome sciences

Chairman's message

Demand for our products and biomarker services is growing fast

Considerable progress was made in 2013 from each of the three main business divisions – proprietary biomarkers, biomarker services and reagents and this was reflected in the 86% growth in revenue for the year from our expanding range of products and commercial services.

Biomarkers covered by our assays continue to grow sharply

The number of biomarkers covered by our assays grew sharply again assisted by further developments from our SysQuant® global phosphorylation workflow where the coverage has increased from 2,200 to over 20,000 in a single experiment. New tests launched included the Breast Cancer Triplex Assay, CSF 16-plex TMT®-SRM assay and assays in AD for Amyloid Beta, Tau and Phospho Tau. This trend is expected to continue.

Major agreements with Thermo Fisher Scientific and Cosmetics Europe

We concluded a strategically important $2.1m licence and research agreement with Thermo Fisher Scientific for MS3 TMT® under which Proteome Sciences was provided with cash and state-of-the-art equipment. Our SensiDerm® multiplex assay was selected by Cosmetics Europe in the first set of in vitro priority tests for development and optimisation as replacement for animal testing following the EU ban in 2013.

Results of blood biomarkers in Alzheimer's disease

We are very encouraged by the results of our blood biomarkers for the diagnosis of early stage Alzheimer's disease which show positive predictive accuracy of 94% in Alzheimer's and 88% in mild cognitive impairment. Furthermore, we are delighted that we have received confirmation that the related 1,000 sample study undertaken with Kings College Hospital is to be published in a major peer review journal. These important developments bring the prospect of a blood test for the early stage diagnosis and prognosis of blood biomarkers in Alzheimer's Disease considerably closer.

CK1D results

Results presented at the Alzheimer's Association International Conference (AAIC) and at HUPO on CK1d confirmed that our two lead compounds caused a dramatic drop in the amount of phosphorylated tau protein in the brain, an effect increasingly recognised as key to the development of effective Alzheimer's treatments.

Increased exposure expected to lead sales

The general introduction of TMT® 10-plex and the MS3 three stage fragmentation methodology following favourable critical exposure at the ASMS meeting from the key opinion leaders, created a buoyant background which is expected to lead to strong sales increases as the products start to be used in wider applications in systems biology.

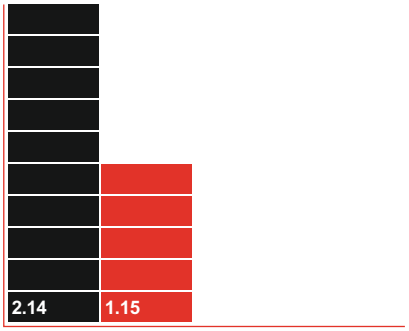
In conclusion

As key components in personalised medicine, demand for our products and biomarker services is growing fast and leading the field. Our TMT® chemical tags have become market leaders and that position should be extended through new product introductions later this year. SysQuant® has delivered outstanding data in pancreas cancer, liver cancer and Alzheimer's disease. This has been as a result of the continued creativity and commitment of our staff and collaborators and I would like to thank them for keeping our biomarker technologies at the forefront, driving the growth in revenues.

Proteome Sciences is exceptionally placed to capitalise on the development of personalised medicine through its technology and the biomarkers, assays and services that it has established and these should better reflect the long term value of our business. Against this background, we are confident that we should see continued fast growth in revenues from our main activities for the foreseeable future.

Steve Harris
Chairman

Key financial performance indicators



Revenue growth (£m)

+86%

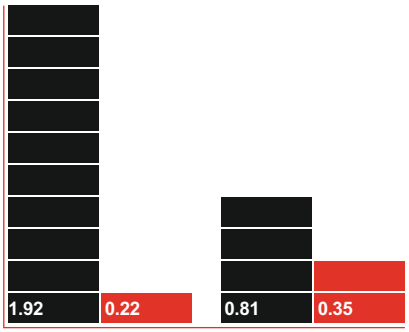
Revenue increased 86% to £2.14m

(2012: £1.15m)

£3.15m

Loss after tax at £4.25m

Excluding other gains and loses, the loss after taxation was £3.15m (2012: £3.49m)



Revenue growth by type (£m)

— Licences/Sales/Contracts
— Grant Services

+137%

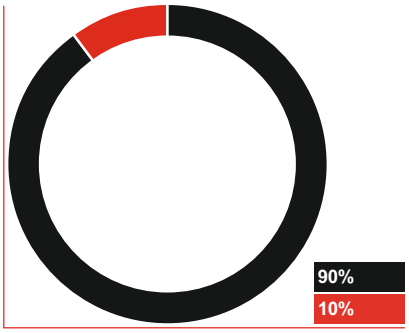
Licences, sales and contracts revenue increased to £1.92m

(2012: £0.81m)

£0.60m

Cash balance £0.60m

(2012: £0.86m)



Revenue breakdown

— Licences/Sales/Contracts
— Grant Services

+63%

TMT® Reagent sales increased 63% in 2013

+17

IP portfolio strengthened

Another 17 patents granted and a further 32 applications were filed in 2013

Proteome Sciences at a glance

Proteome Sciences is a leading protein biomarker discovery services company specialising in proteomics and peptidomics applications and boasts a best-in-class mass spectrometry protein analysis and assay development capability.

— We have developed a broad portfolio of novel, high value protein biomarker content addressing numerous disease areas which are available for licensing

— We are heavily invested in conducting novel biomarker discovery and assay development both internally and with key collaborative partners

— In addition to our comprehensive biomarker services and validated protein biomarkers for discovery and diagnostics applications, we offer an array of high performance protein tags and assays for mass spectrometry analysis

PS Biomarker Services™

Our state-of-the-art biomarker discovery services use the very latest in sample preparation and separation techniques, isobarically labelled and label-free sample analysis platforms and data analysis tools at our ISO 9001:2008 accredited facility.

Our biomarker discovery consulting services provide access to extensive custom assay development options for a wide range of disease model and human sample types.

The number of biomarkers covered by our assays increased significantly in 2013 and this number is expected to continue to grow sharply in 2014 as we complete additional mass spectrometry assays and workflows, particularly through the introduction of our 'game-changing' SysQuant® workflows.

Our customers include major pharmaceutical companies including Johnson & Johnson, Takeda, Eisai etc., CROs (Icon, Parexel) biotechnology companies and academia.

Case study:

Mapping protein modification to improve biomarker performance

Virtually all proteins undergo some form of modification after they are made in the body and these changes can dramatically affect their activity leading to disease and treatment failure. None of these changes can be measured by genomic technologies. These protein modifications represent a potent source of early and sensitive biomarkers and Proteome Sciences is exploiting this across its biomarker portfolio.

Many proteins found in blood carry mutliple sugars attached to their backbone which often reduces the ability of antibodies to bind to them. This makes detecting them as diagnostic markers with traditional methods more difficult. We have recently developed a mass spectrometry method for specific sugar modifications on an Alzheimer's disease biomarker that has a significant improvement over traditional detection methods for prognosis of disease severity and we are filing new intellectual property on these specific biomarkers.

ps biomarker services

Biomarkers

Proteome Sciences conducts its own novel research and discovery for new protein biomarkers in many human diseases.

We have numerous collaborations and partnerships with leading laboratories in both industry and academia to drive discovery, validation and implementation of novel protein biomarkers for drug discovery and diagnostic uses. From these, we have discovered a broad portfolio of validated biomarkers across a variety of disease biology and therapeutic indications and where we have established comprehensive intellectual property coverage.

The main areas include CNS disorders, (Alzheimer's, Huntington's, stroke, traumatic brain injury, TSE's and pain) Oncology (lung, breast, esophageal, colorectal cancers and neuroblastoma) and organ transplant rejection (renal, cardiac).

Anyone wanting to use any of our biomarkers for a commercial application will have to obtain a licence, from which Proteome Sciences will obtain fees and royalties on any products sold.

TMT® Reagents

TMT® works like a car tracker system to uniquely tag proteins and peptides, radically reducing the variability of biomarker discovery and speeding up the transition to biomarker validation.

Through issued US and EU patents, Proteome Sciences dominates the global isobaric mass tag space. We have developed and are rapidly expanding a range of novel isobaric and isotopic reagents under the Tandem Mass Tag® (TMT®) brand which are exclusively licensed and distributed worldwide by Thermo Scientific.

TMT® considerably enhances the performance of mass spectrometers and delivers the ability to measure with absolute quantitation.

Case study:

Liver cancer – novel biomarker test

Effective treatment for two most common types of liver cancer HCC and CC remains one of the toughest challenges for doctors with the five-year survival rate of only 13% barely improved since the 1970s and where differentiation of the sub-types, that require different treatments, has been extremely difficult.

Using novel proprietary workflow in FFPE tissue samples, Proteome Sciences presented in the journal EUPA Open Proteomics in November, a panel of differentially expressed biomarkers from 2,864 proteins that differentiated CC and HCC with 100% specificity. This provides for the first time, a highly effective way of identifying liver cancer.

A further study of 197 samples has recently been analysed again delivering 100% specificity as further validation before outlicensing and moving the novel biomarker test to widespread clinical adoption.

Case study:

CK1D – finding the right path in Alzheimer's

Last year we reported the successful outcome of testing our novel CK1D inhibitors in a mouse model of the tau damage found in human Alzheimer's disease. We demonstrated that levels of tau phosphorylation were reduced and that several other proteins we anticipated would be affected by CK1D inhibition behaved as expected. This was performed using either targeted methods with antibodies or using Selected Reaction Monitoring mass spectrometry.

Recent research has implicated CK1D in a number of signalling pathway events that may be relevant to the damage caused in brain cells during Alzheimer's disease. To explore whether our inhibitors also affected these pathways we applied our proprietary SysQuant® workflow for the first time in a CNS study to analyse different regions of the brains of treated and control animals.

Read more about this on page 10.

Our business model

With a rising research and product profile, we expect a strong performance from our commercial business that should result in a considerable uplift in 2014 revenue.

There are multiple drivers of commercial value accelerating our growth:

— Use of validated biomarker assays saves time and cost of development

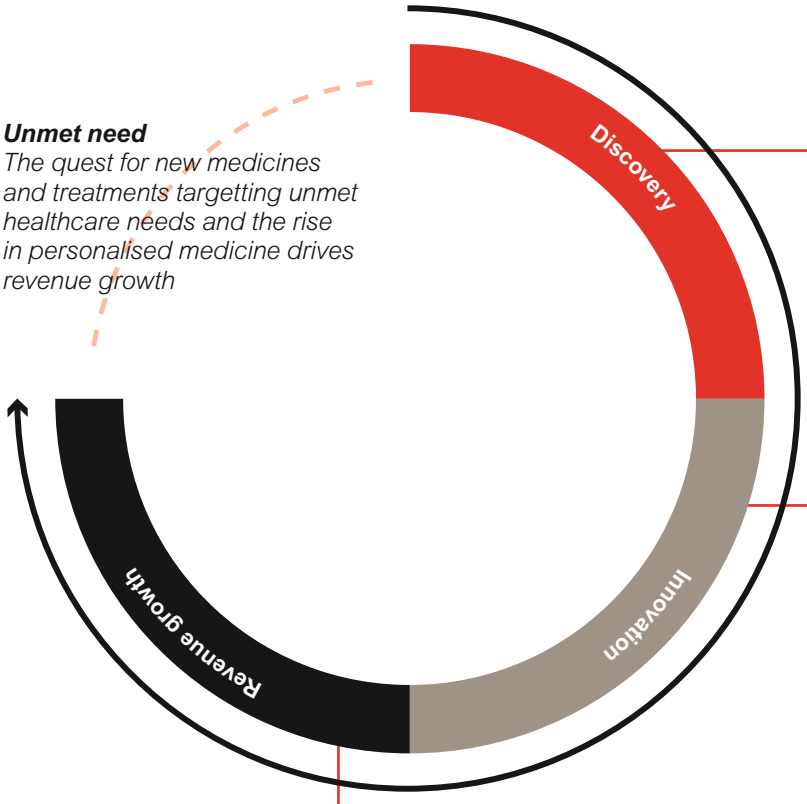
— Biomarker discovery and validation workflows offer greater chances of success to find new biomarkers for drug development and patient management

— Novel IP can be generated around biomarkers and add value to therapeutics

— New diagnostics products and drug companion diagnostics provide additional revenue opportunities and economic value

— Multiplex TMT™ are the reagents of choice for latest generation mass spectrometry applications in systems biology

Unmet need
The quest for new medicines and treatments targetting unmet healthcare needs and the rise in personalised medicine drives revenue growth



Research and development
Conducting novel biomarker discovery and assay development both internally and with collaborative partners

Intellectual property
IP portfolio underpins the value created through research and is reflected by licence fees, milestones and royalties

Revenue generating services
Comprehensive biomarker services and validated protein biomarkers for diagnostic applications and high performance protein tags and assays for mass spectrometry analysis

Our measures for success...

...we continue to make strong progress

We have taken our research skills in protein discovery and validation and converted those abilities into a leading protein biomarker contract research organisation (CRO) in great shape for tomorrow.

This has been achieved by a combination of depth and breadth of experience in discovery, innovation, intellectual property management, business development and finance needed to manage the Group in the current challenging environment. Against this we expect a considerable increase in revenue growth in 2014.

With the three core areas of our business fully established with the costs of intellectual property (IP), products and services absorbed and supported by US and European sales teams, the risks associated with Proteome Sciences are significantly lower than those associated with drug discovery, diagnostics or biotechnology.

...we continue to address healthcare potential

Biomarkers are key components in the process to measure and monitor changes across the range of major human diseases and disorders and where there are substantial and significant unmet needs and enormous economic value. By using innovative techniques including mass spectrometry these can be addressed more effectively and can deliver value for money for healthcare providers and reduce the social care burden.

Prospective customers will use Proteome Sciences' assays when suitable tests are available due to cost and time considerations, or use biomarker discovery, validation and assay development services if no appropriate tests exist, or if a pharmaceutical company wants to increase IP around a drug programme by using proprietary biomarkers associated with the drug to test and show effectiveness.

..we will keep setting the new standards

The value of Proteome Sciences' technology and patents has been thoroughly validated by the collaborations formed with major pharmaceutical, diagnostics, scientific equipment companies and academic institutions. The ISO 9001 accreditation at its PS Biomarker Services™ division provides a significant endorsement of its operations.

Pharmaceutical companies continue to cut internal R&D facilities in order to reduce costs and increase efficiency through outsourcing and are increasingly expected to use biomarker services more extensively due to pressure from regulators and to improve productivity.

Strategic report

Considerable progress over the year has delivered another significant rise in revenues

Our strategic focus is to...

— Build on our reputation of excellence and leadership in our field

— Commercialise extensive IP portfolio, specialist biomarker CRO services and SysQuant® workflows

— Form new alliances including out-licensing biomarkers to be widely used

— Build reputation and increase sales in key healthcare markets (US/EU)

— Be cash generative and sustainably profitable

Key achievements 2013

— Strong growth for PS Biomarker Services™ and TMT®

— The expanded sales and marketing support and insfrastructure has impacted the shift from pilot to large scale programmes and increased the pipeline of products and services

— SysQuant® and TMT® calibrator workflows provide Proteome Sciences with a significant USP as a biomarker services provider

— Significant progress with Ck1d and blood biomarkers in Alzheimer's Disease

— Breakthroughs in mass spectrometry development and performance opening up new commercial opportunities in systems biology

— New commercial contracts and strategic collaborations

— IP portfolio strengthened

Key objectives 2014

— Optimising revenue from our three core areas: PS Biomarker Services™, proprietary biomarkers and TMT® chemical reagents

— Maximising the value of the TMT® franchise through new products and applications to drive growth

— Focus our main attention on PS Biomarker Services and proprietary biomarkers to deliver significant revenue growth in 2014 and beyond

— Expansion of SysQuant® workflows in cancer and CNS

— Monetisation of Ck1d and AD biomarkers

— Continue to focus on cash generation and being sustainably profitable

Principal activity and business review

The Company is required to set out in this report a strategic review of the business of the Group during the financial year ended 31st December 2013.

The principal activity of the Group is in biomarker research and development as a global leader in applied proteomics, using high sensitivity proprietary techniques to detect and characterise differentially expressed proteins in diseases for diagnostic, prognostic and therapeutic applications.

PS Biomarker Services™ provides integrated proteomic services for biomarker discovery, validation and measurement in clinical trials and in vitro diagnostics. Key features include the proprietary isobaric tandem mass tag technology TMT® for accurate and reliable biomarker quantification and the ability to rapidly develop highly reproducible quantitative biomarker assays.

The main focus of research is to address neurological, neurodegenerative, cardiovascular and cancer conditions and blood biomarkers in stroke, brain damage, solid organ transplant rejection and Alzheimer's disease have been discovered.

Veri-Q Inc., a subsidiary company in which the Group has an interest of 76.9%, is developing technologies for the quality control of synthetic oligonucleotides and is well placed to benefit from the anticipated expansion of antisense and RNA interference therapeutics.

There have been no significant changes in the Group's principal activities in the year under review, nor are the Directors aware, at the date of this report, of any major likely changes in the Group's activities in the next year.

Further details of the Group's performance during the year and expected future developments are contained in the Chairman's message.

Our operational structure and performance reporting
The Group's operations are organised into three geographic regions: UK, Germany and US. Internal reporting on performance is allocated accordingly.

In the UK
The company's main country of operation is the United Kingdom. Our executive management team, including business development, marketing and administrative functions, is located at its HQ in Cobham.

Proteome Sciences' laboratory is located at the Institute of Psychiatry, King's College London. It provides high sensitivity gel and gel-free protein separation and state-of-the-art mass spectrometry (MS) capabilities with a strong emphasis on the identification and analysis of post-translational modification of proteins, particularly protein phosphorylation, image analysis and bioinformatics. It has been actively involved in the development of rapid MS based assays (TMT®-SRM assays) for a range of different protein biomarkers.

In Germany
Our Frankfurt facility was purpose built to accommodate the former proteomics division of Aventis Research and Technologies where PS Biomarker Services™ is based. The ISO 9001:2008 facility operates at the leading edge of high output proteomics (high throughput combined with high sensitivity). Through this facility, Proteome Sciences has novel, proprietary protein profiling technologies including TMT® (Tandem Mass Tags®) which offer simultaneous, timely and accurate relative quantitation of a large number of proteins for the discovery of novel targets or biomarkers.

In the United States
Our sales and marketing team are strategically based in the US. We also have collaborative research agreements with leading institutions such as the University of Michigan, The Buck Institute and Moffitt Cancer Center.

The Group also manages the performance of the business according to its major products and services, as set out in this section of the report.

Revenue

Strong performance expected in 2014
— Revenue increased by 86% during the year to £2.14m (2012: £1.15m)

— In the breakdown, Licences/Sales/Services rose by 137% to £1.92m (2012: £0.81m)

— From this TMT® Reagent sales increased by 63%

— Grant Services income was £0.22m (2011: £0.35m)

Revenue performance is managed both geographically and by way of major products and services.

The drive to increase sales of our products and services through expanded business development activities was strongly reflected in an 86% increase in 2013 revenue.

With a growing pipeline of contracts as we continue to raise our corporate and research profile, further strong performance is expected from licences, products and services income which should result in a significant increase in revenue again in 2014.

Driving acceleration in Biomarker Services
The Group's main focus continues to be the expansion of PS Biomarker Services™ and the amount of assays and services that we provide principally using our own proprietary content. This has been considerably extended through the rapid development and availability of SysQuant® and TMT® calibrator workflows.

Investment in new mass spectrometer is delivering impressive results and additional capacity
The Orbitrap Fusion mass spectrometer provided as part of the licensing deal with Thermo Fisher Scientific last June was installed at the end of 2013 and this is delivering most impressive results with increases of over 100% in the number of proteins quantified using TMT®. This has produced considerable additional capacity to process and expand customer contracts at PS Biomarker Services™. By way of update we are pleased that the pilot study report just submitted has provided stunning results and should put Proteome Sciences in a strong position to secure the major contract on offer. This will be further assisted by the appointment of Dr. Chee Gee See as Director of Personalised Medicine who has made a considerable impact in opening new opportunities and applications with the major pharmaceutical companies.

Interest in biomarker services continues to grow resulting in new contracts with both existing and new customers

The pipeline and level of interest in biomarker services continues to grow in 2014, reflecting the shift from pilot studies to large scale programmes. We signed the term sheet for a large biomarker services contract to process a cohort of patient samples from which we aim to develop a companion diagnostic. A pilot study, the prelude to a potential major contract in cancer, has been signed and we are actively finalising a number of new biomarker services contracts with existing and new customers.

The commitment to showcasing the potential of our business is resulting in increased exposure and endorsement

Proteome Sciences has an intense sequence of high profile presentations from April to August at the major international meetings to showcase its leading technology development and applications, its assays and services in particular its SysQuant® and TMT® calibrator workflows in cancer and CNS and the expanding multiplex capabilities and growing range of users for TMT® mass tags. These include:

April – American Association for Cancer Research (AACR)

May – American Society of Clinical Oncology (ASCO)

June – American Society for Mass Spectrometry (ASMS)

July – Alzheimer's Association International Conference (AAIC)

August – 10th Siena Meeting – From Genome to Proteome

The increased exposure and endorsement from key opinion leaders has created a buoyant background to our business and services and this is expected to expand with the increased use of our products and services in mainstream systems biology.

Biomarkers

Alzheimer's Disease (AD)

Advanced research results bring the prospect of a blood test for AD considerably closer

During his key note address to the G8 Dementia Summit, UK Prime Minister David Cameron drew attention to the ground-breaking work Proteome Sciences is doing discovering and validating blood biomarkers for early stage diagnosis of Alzheimer's disease (AD). The research is at an advanced stage following the announcement of excellent results in the summer showing positive predictive accuracy of 94% in AD and 88% in mild cognitive impairment (MCI) which brings the prospect of a blood test considerably closer.

King's College, London are also making significant AD progress using our Biomarkers

In parallel to our own results, we were strongly encouraged by the news from our collaborators at King's College, London (KCL) that they have made a significant step forward to develop a test which could allow doctors to detect AD at an early stage before any noticeable warning signs. Out of thousands of proteins in blood, the group have identified a group of 10, based on results from over 1,000 individuals, that they believe could be used to identify Alzheimer's. Further details are awaited with great interest and are expected to be in the form of a high profile detailed scientific paper that is likely to command considerable media attention.

The KCL research has followed a complementary immunoassay approach to the mass spectrometry workflow developed by Proteome Sciences and this should provide considerable cross validation of our novel biomarkers and workflows.

Proteome Sciences controls the valuable commercial rights relating to both sets of discoveries

The biomarkers from these two programmes will provide content for three major applications: for patient stratification, for drug testing and for clinical diagnosis in AD. We are actively marketing the results and content to pharmaceutical and diagnostics companies to commercialise these through licences, assays and biomarker services contracts. Each of these applications is in a major area of unmet need and will command substantial commercial values.

Making a measurable difference to healthcare

SysQuant® – Looking for ways to treat the untreatable

The early stages of pancreatic cancer do not usually produce symptoms resulting in this disease being advanced by the time it is diagnosed. Pancreatic cancer is almost always fatal and the number of people surviving 5-years very low

12th

Most common cancer worldwide

Pancreatic cancer is the twelfth most common cancer in the world (joint position with kidney cancer)

2nd

Rising death rates from pancreatic cancer

Pancreatic cancer is expected to become the second most common cause of cancer-related death in the US by 2020, overtaking deaths from breast and colon cancers

Pancreatic cancer spreads rapidly and has a poor prognosis. With a lack of obvious symptoms this cancer is seldom detected in its early stages – a major factor in why it remains a leading cause of cancer death.

Treatment choices for people with aggressive cancers are currently limited

During the last 12 months we have continued to develop SysQuant®, the proprietary phosphoproteomics workflow, for the analysis of tumour biopsy samples to identify key proteins that can be targeted with existing cancer drugs. The current system for the approval of drugs is based on demonstrating utility in a tumour found in a particular organ or tissue and extending this to other sites. This requires separate drug trials. Tumours that are particularly aggressive, such as pancreatic cancer are rarely used to trial new drugs and as such the treatment choices remain limited.

Comprehensive pathway profiling provides better treatment outcomes for cancer patients

Recent understanding of the causes of cancer suggest that rather than focus on the site of a tumour to select the most appropriate drugs we need to look at the signalling pathways operating in each individual. Targeting two or three of these pathways simultaneously can then provide better treatment outcomes, even in advanced cases. To be able to deliver this highly personalised approach to cancer medicine requires a tool for comprehensive pathway profiling – SysQuant®.

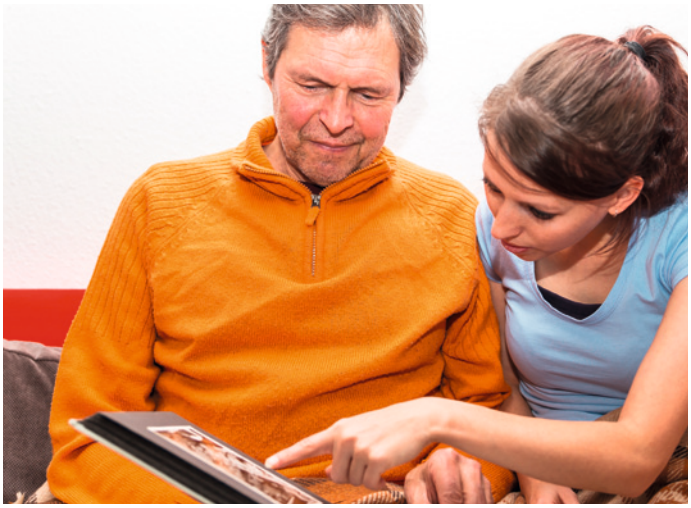
The results of our data suggest personalised medicine could lead to better outcomes using existing anti-cancer drugs

Working with the Department of Hepatobiliary Cancer at King's College Hospital we analysed the tumours of 12 patients with pancreatic cancer using SysQuant®. In total, 6,284 unique phosphorylation sites were quantified along with 2,101 proteins, representing the largest single data set in pancreatic cancer. Significantly, we were able to identify multiple cancer-generating pathways that were activated in the patients with some pathways highly active in all 12 patients whilst others were only found in a subset of the patients. In each case we were able to identify unique combinations of targets for existing anti-cancer drugs that could potentially have provided a superior treatment outcome.

We have made further improvements to the SysQuant® workflow since this study was published in the journal PLOS ONE in March 2014, and we intend to start a prospective trial of SysQuant® to predict outcomes in liver cancer later this year.

Making a measurable difference to healthcare

Rapid progress –
Our biological validation is leading the way for Alzheimer's treatments



Early diagnosis and intervention are important for treatment of dementia, yet three out of four people currently suffering have had no formal diagnosis

$604bn

Estimated financial impact of dementia

Total estimated worldwide cost of dementia in 2010 was US$604 billion. 70% of these costs occur in Western Europe and the US

44.4m

People currently suffering from Alzheimer's

44.4 million people are believed to be living with Alzheimer's disease or other dementias worldwide. Without a breakthrough discovery, they are projected to increase to increase to over 75 million by 2030

Alzheimer's disease is a degeneration of the brain which causes problems for memory, cognition and personality. Eventually it leads to death from total brain failure. It is currently the 5th leading cause of death in the US and projected to continue rising.

CK1D – Finding the Right Path in Alzheimer's

Last year we reported the successful outcome of testing our novel CK1D inhibitors in a mouse model of the tau damage found in human Alzheimer's disease. We demonstrated that levels of tau phosphorylation were reduced and that several other proteins we anticipated would be affected by CK1D inhibition behaved as expected. This was performed using either targeted methods with antibodies or using Selected Reaction Monitoring mass spectrometry.

Recent research has implicated CK1D in a number of signalling pathway events that may be relevant to the damage caused in brain cells during Alzheimer's disease. To explore whether our inhibitors also affected these pathways we applied our proprietary SysQuant® workflow for the first time in a CNS study to analyse different regions of the brains of treated and control animals.

Our most comprehensive mapping analysis to date has identified several key pathways

We mapped over 20,000 unique phosphorylation sites and approximately 8,000 proteins, providing the most comprehensive analysis yet seen of signalling pathway disturbances in tau pathology. In addition to confirming a reduction in tau phosphorylation of CK1D with our two drug compounds PS110 and PS 27805, most interestingly we also identified several key pathways relating to energy production, amyloid processing and oxidative phosphorylation. These changes support a much wider mode of action for our CK1D compounds in preventing tau-mediated damage in the brains of mice and endorse their development and value as important clinical candidates in AD. Our Casein kinase 1 delta (CK1d) inhibitors are showing great promise as reported later.

We are now undertaking the testing required to be able optimise testing in humans

To further support our strategy of partnering the CK1d inhibitor portfolio we are undertaking further compound testing using computer-aided design and smart biological testing to determine the effects that changes in chemical structure have on the target selectivity, activity and safety, an important step to optimise drugs prior to testing in humans. This round of testing adds incremental value to the CK1d portfolio and further supports the strategy to outlicense the programme to a pharmaceutical company.

A valuable resource for pharmaceutical companies for the development of new treatments

Combined with the outstanding biological profiling, we are delivering detailed information showing the enormous potential of our proprietary compounds to protect against tau-mediated damage at a time when pharmaceutical companies are moving away from amyloid beta and are looking for new approaches centred on tau.

TMT®

Revenue – Fast growth rate is expected to continue

— TMT® product sales increased by 63% in 2013.

— This growth has continued and should be extended in 2014 as TMT® 10-plex reagents become widely available and the planned arrival of TMT® 20-plex and TMT® 30-plex later this year will further expand the coverage and size of the market.

— The strong endorsement of the key opinion leaders should further increase the visibility and penetration of TMT® into mainstream biology and medical research groupsand the pace of growth has accelerated where it is running close to double 2013 levels.

Our TMT® is recognised as being central to improved quantitation

Scientists working to discover protein-based biomedical breakthroughs with the goal of accelerating discovery of effective therapies are constrained by the time and cost required to identify and quantify large numbers of proteins.

TMT® was developed by Proteome Sciences to advance multiplexing technology – the ability to analyse multiple protein samples in a single mass spectrometer run – to gain new insight into complex disease mechanisms. The launch of TMT® 10-plex in 2013, multiplexing 10 protein samples from cells, tissues or fluids "Represented a landmark increase. Combining new isobaric reagents with purpose-driven instrumentation allows for proteome-wide measurements of protein expression differences simultaneously across 10 samples in about 24 hours. It is simply fantastic." according to key opinion leader Dr. Steven Gygi at Harvard Medical School.

Collaboration between Harvard Medical School and Thermo Fisher Scientific aims to make benefits of TMT® expertise more available

Demonstrating the importance of TMT®, an industry-academic collaboration has been set up between Harvard Medical School and Thermo Fisher Scientific to develop new ways of protein quantitation on a much larger scale than currently possible using TMT® and to develop improved methods and training to make this expertise available to the greater scientific community. The combination of TMT® with new generation mass spectrometry technology provides the route to increase the amount of quantitation by orders of magnitude, but importantly without sacrificing data quality.

Thermo Fisher Scientific, the global leader in mass spectrometry, has reiterated that these advances will usher in a new era in functional proteomics, increasing understanding of mechanisms of disease and evaluation of potential new therapies.

TMT® is central to these programmes and this will be reflected through increased usage and sales globally in mainstream systems biology. The planned launch of TMT® 20- and 30-plex in 2014 should increase and accelerate that process.

SensiDerm® has potential for additional future revenue streams as the EU ban on animal testing increases pressure in Asia and the US

We were delighted the SensiDerm™ 10 protein multiplex TMT®-SRM assay was selected by Cosmetics Europe in April in the first set of priority tests for further development and optimisation. Since that time, we have been actively engaged with Cosmetics Europe and a number of industrial partners in the process. The priority is to introduce fast, accurate and cost effective in vitro assays not only for cosmetics but for other products manufactured with sensitizers/allergens including chemical ingredients and household products all affected by the EU ban on animal testing in March 2013. Similar policies and pressures relating to animal testing are following close behind in the US and Asia. With a novel in vitro SRM testing method and patents filed over 100 skin and 100 respiratory markers for each, Proteome Sciences now has the prospect of substantial additional revenue streams as animal testing replacements are introduced for a broad range of in vitro applications in industrial testing. Although the timing and amount of funding available from Cosmetics Europe has been delayed, further development of SensiDerm™ is expected in 2014.

IP portfolio

Additional 17 patents added and further 32 filed

Our 600 plus patent IP portfolio of key biomarkers across a broad range of diseases, applications and technologies that supports our extensive asset base has been further extended. Another 17 patents were granted in 2013 with a further 32 applications filed over the period. Our IP estate underpins the value that has been created through our research and this will be reflected by license fees, milestones and royalties.

Financial review

Results and dividends
The loss after tax for the year was £3,149,159 (2012 – loss: £4,253,594). The Directors do not recommend the payment of a dividend (2012: £nil). The Group results are stated in the consolidated income statement on page 25, and are reviewed in the Chairman's message on page 2, and the Strategic report on pages 8 to 15.

Post balance sheet events
Details of significant events since the balance sheet date are contained in note 30 to the financial statements.

Key performance indicators ("KPIs")
i) The Directors consider that revenue, gross profit and profit before tax are key performance indicators in measuring group performance, as the financial profile of the Group changes as a result of the licensing agreements that have already been entered into and as future licences and other commercial arrangements are concluded.

   The performance of the Group in this latter area is set out in details in the Chairman's message on page 2 of these accounts.

ii) In addition, the Directors also believe that a further important KPI is the Group's rate of cash expenditure and its effect on Group cash resources. Details of cash flow during 2013 are set out on page 31 of these accounts and in notes 24 and 25.

The group maintained a positive cash balance in 2013 and continues to seek to generate improved cash flows from commercial income.

Financial performance –
As also witnessed in the previous year, our revenues continued to grow at considerable pace
Revenue for the twelve month period ended 31st December, 2013 increased 86% to £2.14m (2012: £1.15m). In the breakdown of revenue, Licences/Sales/Services rose 137% to £1.92m (2012: £0.81m) of which TMT® Reagent sales increased 63%. Grant services were £0.22m (2012: £0.35m). The loss before tax was £3.60m (2012: £5.20m) including other gains and losses of £nil (2012: £0.76m).

Costs and available cash –
Despite a significant rise in revenue, our operating costs remain constant
Administrative expenses in 2013 showed a slight fall to £4.92m (2012: £5.01m) and are likely to remain relatively constant in 2014. After the R&D tax credit of £0.44m, the loss after taxation for the period was £3.15m (2012: £4.25m). The net cash outflow from operating activities reduced to £2.77m (2012: £3.49m).

Cash at the year-end was £0.60m (2012: £0.86m). A placing of 17.86m ordinary shares was completed in February 2014 which added £5.00m pre-expenses to the Group's cash resources.

Outlook for 2014

Revenue trend expected to continue
Strong progress has been made from the three core activities: PS Biomarker Services™, Proprietary Biomarkers and TMT® chemical reagents. The number of assays/products in 2013 increased at a fast pace and was reflected by the significant rise in revenue. This trend is expected to continue during 2014.

The profile of TMT® continues to rise, becoming the market leader and with growth running close to double 2013 levels.

A shift from pilot studies to large-scale projects
Our pipeline and interest in biomarker services is expanding quickly as customers shift from pilot studies to large scale-projects with this reflected by the contracts announced to date in the current year and with many more to follow.

We are clearly differentiated in the marketplace
SysQuant® and TMT® calibrator significantly differentiate Proteome Sciences in the marketplace. We believe that these will make a considerable contribution to our assay portfolio and revenues and firmly underpin our position in personalised medicine as lead providers of biomarker content and workflows for drug development and early diagnosis. Strong growth is anticipated from Licences, Sales and Services.

Exceptionally placed to capitalise from personalised medicine
Proteome Sciences is exceptionally placed to capitalise on the development of personalised medicine through its technology and the biomarkers, assays and services that it has established and these should better reflect the long term value of our business. Against this background, we are confident that we should see continued fast growth in revenues from our main activities for the foreseeable future.

Principal risks and uncertainties

Licensing arrangements and uncertainty of commercialisation

The Group intends to sub-license its discoveries and products to third parties, but there can be no assurance that such licensing arrangements will be successful. It is also uncertain whether commercial tests can be developed and will be successful in the market.

— *Management of risk:*
The Group manages this risk by a thorough investigation of proposed research projects to assess their scientific and commercial feasibility. It has an experienced board and management team to carry out this process and also aims to spread this risk by not concentrating its resources on any one project.

Competition and technology

The international biotechnology industry is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render the Group's developments obsolete or uncompetitive.

— *Management of risk:*
The Group employs highly qualified research scientists and senior management who monitor and are aware of developments in technology that might affect its research capability and through their access to scientific publications and attendance at conferences.

Dependence on key personnel

The Group depends on its ability to attract and retain qualified management and scientific personnel. Competition for such personnel is intense. Whilst the Group has entered into employment arrangements with its key personnel with the aim of securing their services for minimum terms, the retention of their services cannot be guaranteed.

— *Management of risk:*
The Group has a policy of organising its research so that its projects are not dependent on any one individual. It also seeks to retain staff by the grant of share options to all employees and through annual reviews of remuneration packages.

Patent applications and proprietary rights

The Group seeks patent protection for protein biomarkers identified which may be of diagnostic, prognostic or therapeutic value and for its chemical mass tags. Successful commercialisation of such biomarkers and chemical mass tags may depend on the establishment of such patent protection. The Group also seeks patent protection for its proprietary technology.

There is no assurance that the Group's pending applications will result in the grant of patents or that the scope of protection offered by any patents will be as planned or whether any such patents ultimately will be upheld as valid by a court of competent jurisdiction 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 in such unpatented proprietary products and techniques.

— *Management of risk:*
The Group has an experienced patent department which has established controls to avoid the release of patentable material before it has filed patent applications. It also draws heavily on external patent advisers and uses several firms for this process, enabling it to target the firms which have the areas of expertise relevant to each area of its patentable activities.

By order of the Board,

J.L. Malthouse
Company Secretary

Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP

29 May 2014

Senior management team and board of directors

Senior Management Team

Christopher Pearce
Chief Executive

James Malthouse
Finance Director

Dr. Ian Pike
Chief Operating Officer

Glenn Barney
VP Business Development, US

Dr. Chee Gee See
Director of Personalised Medicine

Dr. Malcolm Ward
Chief Technical Officer,
London Research Facility

Dr. Josef Schwarz
Head of Projects & Production,
Proteome Sciences R&D

Board of Directors

Executive Directors

Christopher Pearce
Chief Executive

James Malthouse
Finance Director

Dr. Ian Pike
Chief Operating Officer

Non-executive Directors

Steve Harris
Chairman

Professor William Dawson
Non-executive Director

Executive Directors:

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

James Malthouse
Finance Director
James Malthouse joined the Group in 1993 and is a Chartered Accountant with banking and corporate finance experience. He was Chairman and Finance Director of Unigroup plc and Finance Director of Harcourt Group plc.

Dr. Ian Pike
Chief Operating 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.

Senior management team and board of directors (continued)

Senior Management Team:

Glenn Barney
VP Business Development, US
Glenn brings over 25 years of sales and business development experience with global life sciences companies, with strong biomarker focus. He was formerly VP Business Development at NextGen Sciences Inc. and held senior positions at Decision Biomarkers and Parkin Elmer Inc. Mr. Barney holds a BA in Biology from Boston University.

Dr Chee Gee See
Director of Personalised Medicine
Chee Gee is a biomarker and translational medicine expert, a former Biomarker and Experimental Medicine Leader for 5 years at Roche in multiple therapeutic areas including CNS, cardiovascular, respiratory and inflammation. Most notable was his role as the clinical oncology biomarker leader for the pivotal Phase III ToGA Herceptin trial and the co-development of the HER2 companion diagnostic in gastric cancer. Prior to this Chee Gee spent 11 years at Glaxo Smith Kline where he was the European Therapeutic Area Analyst for Genetics Research reporting to Dr Allen Roses. He has specialist expertise in regulatory affairs and value-based drug pricing, reimbursement and market access.

Dr. Malcolm Ward
Chief Technical Officer, London Research Facility
Malcolm Ward joined Proteome Sciences plc in May 2001 having previously worked for GlaxoWellcome for 12 years, in protein mass spectrometry. He was involved in the establishment of the new leading edge protein separation and mass spectrometry facility at the Institute of Psychiatry, King's College London. His research team is involved in biomarker discovery, validation and assay development. His academic qualifications include a Master of Science (MSc) in Molecular Biology from the University of Hertfordshire in 1996 and a Graduateship from the Royal Society of Chemistry (GRSC) in 1992. He obtained a PhD in Applied Proteomics at King's College, London in 2009.

Dr. Josef Schwarz
Head of Projects & Production, Proteome Sciences R&D
Joseph Schwarz joined the Group in summer 2002 when Xzillion, the former proteomics division of Aventis Research and Technologies, was acquired by Proteome Sciences plc. He worked for Aventis/Hoechst Research and Technologies for 6 years, initially as head of mass spectrometry and later as research collaboration project leader. He was instrumental in the establishment of the integrated high throughput 2DE/mass spectrometry proteomics platform at the Frankfurt research facility. Josef Schwarz holds a PhD in organic chemistry/mass spectrometry from the Technical University of Berlin, Germany and a MBA from the University of Durham, UK. He is an author of a number of publications and co-inventor of patents.

Non-executive Directors:

Steve Harris
Chairman (i) (ii) (iii)
Steve Harris is a Fellow of the Royal Pharmaceutical Society. Until June 1995 he was Director of Development and Licensing at Medeva plc. He has worked in the pharmaceutical industry for 48 years including with ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is also a non-executive Director of Cyprotex plc and Domainex Ltd.

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

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

Directors' report

for the year ended 31st December 2013

The Directors present their Annual report on the affairs of the Group, together with the Consolidated financial statements and Independent auditor's report, for the year ended 31st December 2013.

Directors' responsibilities statement
The Directors are responsible for preparing the Annual report and the financial statements in accordance with the applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of that Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

— properly select and apply accounting policies;

— present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

— provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

— make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
The Directors confirm that to the best of our knowledge:

— the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

— the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 28 on pages 54 to 56.

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

R.S. Harris	Non-Executive, Chairman
C.D.J. Pearce	Chief Executive
J.L. Malthouse	Finance Director
Dr. I.H. Pike	Chief Operating Officer
Professor W. Dawson	Non-Executive
Dr. A.I. Walker	Non-Executive (resigned 3rd March 2014)

In accordance with the Company's articles, Prof. W. Dawson retires by rotation at the next Annual General Meeting and, being eligible, offer himself for re-election.

The Directors at 31st December 2013 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	31st December 2013 Number of Ordinary Shares of 1p each	31st December 2012* Number of Ordinary Shares of 1p each
R.S. Harris	**177,199**	177,199
C.D.J. Pearce	**31,538,075**	31,538,075
J.L. Malthouse	**755,031**	755,031
Dr. I.H. Pike	**–**	–
Professor W. Dawson	**20,372**	20,372
Dr. A.I. Walker (resigned 3rd March 2014)	**–**	–

* or date of appointment, if later.

On 28th February 2014 C.D.J. Pearce subscribed for 3,571,429 new ordinary shares of 1p each at a price of 28p per share as part of the placing referred to in note 30 to these accounts. No other changes took place in the beneficial interests of the Directors between 31st December 2013 and 29th May, 2014.

b) Number of Ordinary Shares under option:

		Number at 31st December 2013	Number at 31st December 2012	Exercise price (pence)	Date of grant
Dr. I.H. Pike	(i)	**127,986**	127,986	73.91p	6th December, 2004
		127,986	127,986		

(i) Denotes options granted under the 2004 Share Option Plan.

c) 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 31st December 2013	Number at 31st December 2012*
(i) C.D.J. Pearce	(a)	**277,074**	277,074
	(b)	**1,174,269**	1,174,269
	(c)	**328,105**	328,105
		1,779,448	1,779,448
(ii) J.L. Malthouse	(a)	**258,308**	258,308
	(b)	**767,251**	767,251
		1,025,559	1,025,559
(iii) Dr. I.H. Pike	(a)	**165,583**	165,583
	(b)	**654,971**	654,971
		820,554	820,554

* or date of appointment, if later.

The entitlement to shares shown under (i)(b), (ii)(b) and (iii)(b) under the LTIP is subject to achieving the performance conditions referred to in the LTIP section on page 22. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Awards made have no performance retesting facility.

The numbers shown in (a)(i), (a)(ii) and (a)(iii) at the 31st December 2013 relate to awards that have vested but have not yet been exercised.

The market price at the date of grant of the above awards numbered (a)(i), (a)(ii) and(a)(iii) was 49.75p, and for the awards numbered (i)(b), (ii)(b) and (iii)(b) was 21.38p and for the award numbered (i)(c) was 38.25p.

d) As set out in note 20(b) (i) to (vii) to these Accounts, C.D.J. Pearce has made a loan facility available to the Company which can be converted, at Mr. Pearce's option, into Ordinary Shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29th June 2006 (the date on which details of the original loan agreement were disclosed).

e) The market price of the Ordinary Shares at 31st December 2013 was 29.88p and the range during the year was 28.25p to 77.75p.

Non-executive Directors
Steve Harris is a Fellow of the Royal Pharmaceutical Society. Until June 1995 he was Director of Development and Licensing at Medeva plc. He has worked in the pharmaceutical industry for 48 years including with ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is also a non-executive director of Cyprotex plc and Domainex Ltd.

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

Substantial shareholdings
As at 27th May, 2014, 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	35,109,504	16.40
Vulpes Life Science Fund	33,400,217	15.60
M. Staveley	9,820,829	4.59
Helium Special Situations Fund	11,423,385	5.34

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation
The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and by circulation of copies of the interim and annual accounts. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Corporate governance
Although, as a Company listed on the Alternative Investment Market of the London Stock Exchange, the Company is not required to make a formal statement setting out the extent of its compliance with the UK Corporate Governance Code issued by the Financial Reporting Council in 2010 and amended in 2012 (the "Code"), the policy of the Board of Directors of the Company (the "Board") is to try to manage the affairs of the Company in accordance with the principles of the Code insofar as it considers it practical to do so and is appropriate for a company of its size.

The Company has formalised the following matters by Board resolution:

— a formal schedule of Board responsibilities;

— the procedure for Directors to take independent professional advice if necessary, at the Company's expense;

— the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and

— establishment of and written terms of reference for an audit, nominations and remuneration committees.

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

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

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

— Identification and evaluation of business risks and control objectives: particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.

— Main control procedures: which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal approval procedures and the definition of authorisation limits (both financial and otherwise).

— Monitoring: particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

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

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 Chairman's message on page 2 and Strategic report on pages 8 to 15 and 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 31 and in notes 20 (other financial liabilities) and 28 (financial instruments).

These financial statements have been prepared on the going concern basis. The Directors have reviewed the going concern principle in the light of the guidance provided by the FRC. The Group's business activities, and the factors likely to affect its future development, are set out in the Annual report, and include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks.

As at 31 December 2013 the Group had cash resources of £600,262 and realised a loss for the year of £3,149,159. Subsequent to the year end the Group raised a further £5,000,000 (before expenses) through a placing to raise further funds for the development of the Group's activities. As explained in the Strategic report in the Annual report some of the Group's products are still in the research and development phase and as such the Directors consider that costs could exceed income in the short term. The Group's projections indicate that the Group should have sufficient resources to meet its current obligations as they fall due for at least the 12 months from the date of signing these financial statements, using its available cash resources together with anticipated income from sales, services, outlicensing, grant income and R&D tax credits. The Directors have reviewed the progress and status of the various commercial discussions which are underway in relation to the elements of forecast income, and consider that they represent a reasonable basis for the revenue as forecast, but recognise that there is some risk surrounding the timing and quantum of such revenue, associated with the ongoing research and development and the nature of the business.

The Group is dependent on the unsecured loan facility provided by the Chief Executive of the Group, which is repayable on demand. Further details of this facility are set out in note 20(b) to the financial statements. The Directors are not aware of any reason to conclude that the facility will not continue 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.

Accordingly, having reviewed each of the factors that could impact on the going concern of the Group, the Directors have concluded that no material uncertainties exist that cast significant doubt about the ability of the Group to continue as a going concern for at least the next 12 months and the financial statements have therefore been prepared on the going concern basis.

Remuneration committee report

The Remuneration Committee is made up of two non-executive Directors, Professor W. Dawson and R.S. Harris. The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the executive Directors. The remuneration of non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance. Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 11 to the accounts and in the Directors' report.

In view of the Company's dependence on its key executives, the service contracts of Mr. Pearce and Mr. Malthouse were amended during 1997 to provide for a notice period of not less than 2 years.

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

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

In 2013 the Remuneration Committee agreed a cash bonus scheme for the executive directors for the year to 31st December, 2013 under which a bonus of 50% of annual salary would be paid if the Company achieved revenue in 2013 of £2m. This would increase to 100% if turnover for the year reached £4m, and to a maximum of 150% for revenue of £6m.

In view of the level of the Group's revenue in 2013 a provision has been made in these accounts for a bonus payment of 50% of the executive directors' basic salary in 2013 in accordance with the terms of the bonus scheme set out in the previous paragraph.

Supplier payment policy
It is the policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them. As the Company owed no amounts to trade creditors at 31st December 2013, the number of days to be shown in this Report, to comply with the provisions of Schedule 8.12 of the Companies Act 2006, is nil (2012: nil). The equivalent figure for the Group is 31 days (2012: 28 days).

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 re-appoint Deloitte LLP as auditor for the ensuing 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.

Special business at the Annual General Meeting
At the Annual General Meeting of the Company to be held on 30th June 2014, as well as the routine business, the following items will be proposed as Special Business:

i) Resolution 4 – An Ordinary Resolution (Resolution 4), as set out in the Notice on page 58, will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £713,685.39 which represents approximately a third of the current issued Ordinary Share capital of the Company as at 29th May 2014. The authority will lapse at the conclusion of the next Annual General Meeting after the passing of the Resolution or on 30th June 2015, whichever is the earlier. The Directors do not have any present intention of exercising this authority.

ii) Resolution 5 – Resolution 5, which is set out in the Notice on page 58, will be proposed as a Special Resolution of the Company. The Resolution will renew the Directors' authority under Section 570 of the Companies Act 2006 to disapply pre-emption rights, thereby enabling the allotment of a limited number of shares for cash up to an aggregate nominal amount of £428,211.24 representing 20 per cent of the current issued Ordinary Share capital of the Company as at 29th May 2014. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or on 30th June 2015, whichever is the earlier.

The Directors believe that the proposed resolutions are in the best interest of the Company and its shareholders and unanimously recommend shareholders to vote in favour of the proposed resolutions, as the Directors intend to do in respect of their own beneficial shareholdings.

By order of the Board,

J.L. Malthouse
Company Secretary

Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP

29th May 2014

Independent auditor's report

for the year ended 31st December 2013

To the Members of Proteome Sciences plc
We have audited the financial statements of Proteome Sciences plc for the year ended 31st December 2013 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and parent company balance sheets, the Consolidated and parent company statements of changes in equity, the Consolidated and parent company cash flow statements and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the 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 Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 31st December 2013 and of the Group's loss for the year then ended;

— the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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.

Tobias Wright (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Southampton, United Kingdom

29th May 2014

Consolidated income statement

for the year ended 31st December 2013

	Notes	Year ended 31st December 2013 £	Year ended 31st December 2012 £
Revenue			
Licences/sales/services		**1,916,123**	808,235
Grant services		**220,558**	344,732
Revenue	5, 6	**2,136,681**	1,152,967
Cost of sales		**(592,656)**	(385,468)
Gross profit		**1,544,025**	767,499
Administrative expenses	7	**(4,916,540)**	(5,008,493)
Operating loss	9	**(3,372,515)**	(4,240,994)
Other gains and losses	17	**–**	(763,502)
Investment revenues	8 (i)	**1,677**	8,633
Finance costs	8 (ii)	**(225,350)**	(199,624)
Loss before taxation		**(3,596,188)**	(5,195,487)
Tax	12	**447,029**	941,893
Loss for the period from continuing operations		**(3,149,159)**	(4,253,594)
Attributed to shareholders of the Company		**(3,149,159)**	(4,253,594)
Loss per share			
Basic and diluted	13	**(1.62p)**	(2.21p)

All activities are derived from continuing operations.

Consolidated statement of comprehensive income

for the year ended 31st December 2013

	Year ended 31st December 2013 £	Year ended 31st December 2012 £
Exchange differences on translation of foreign operations	**(42,962)**	(33,074)
	(42,962)	(33,074)
Other comprehensive expense for the year		
Loss for the year	**(3,149,159)**	(4,253,594)
Total comprehensive for the year attributable to equity holders of the Company	**(3,192,121)**	(4,286,668)

Consolidated balance sheet

as at 31st December 2013

	Notes	2013 £	2012 £
Non-current assets			
Goodwill	14	**4,218,241**	4,218,241
Property, plant and equipment	15	**1,055,183**	494,633
		5,273,424	4,712,874
Current assets			
Inventories	18	**402,581**	331,431
Trade and other receivables	19(a)	**778,944**	1,047,347
Cash and cash equivalents	19(b)	**600,262**	858,249
		1,781,787	2,237,027
Total assets		**7,055,211**	6,949,901
Current liabilities			
Trade and other payables	20(a)	**(792,631)**	(478,147)
Current tax liabilities		**(15,264)**	(572)
Short-term borrowings	20(b)	**(7,951,234)**	(6,725,884)
Short-term provisions	20(c)	**(240,512)**	(209,267)
		(8,999,641)	(7,413,870)
Net current liabilities		**(7,217,854)**	(5,176,843)
Non-current liabilities			
Long-term provisions	20(c)	**(255,382)**	(302,562)
Total liabilities		**(9,255,023)**	(7,716,432)
Net liabilities		**(2,199,812)**	(766,531)
Equity			
Share capital	21	**1,962,485**	1,924,985
Share premium account	23	**42,121,558**	40,602,808
Equity reserve	23	**3,185,732**	2,983,142
Other reserve	23	**10,755,000**	10,755,000
Translation reserve	23	**(118,741)**	(75,779)
Retained loss	23	**(60,105,846)**	(56,956,687)
Total deficit		**(2,199,812)**	(766,531)

Signed on behalf of the Board

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 29th May 2014. They were signed on its behalf by:

C.D.J. Pearce
Director

J.L. Malthouse
Director

29th May 2014. The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

as at 31st December 2013

	Notes	2013 £	2012 £
Non-current assets			
Investment in subsidiaries	16	**43,611,673**	41,874,011
		43,611,673	41,874,011
Current assets			
Trade and other receivables	19(a)	**–**	–
Cash and cash equivalents	19(b)	**486,640**	576,301
		486,640	576,301
Total assets		**44,098,313**	42,450,312
Current liabilities			
Loan from other group entity		**(298,638)**	(291,130)
Short-term borrowings	20(b)	**(1,335,434)**	(1,296,016)
		(1,634,072)	(1,587,146)
Non-current liabilities			
Long-term provisions		**(28,904)**	(57,890)
Total liabilities		**(1,662,976)**	(1,645,036)
Net assets		**42,435,337**	40,805,276
Equity			
Share capital	21	**1,962,485**	1,924,985
Share premium account	23	**42,121,558**	40,602,808
Group reconstruction reserve	23	**1,082,244**	1,082,244
Equity reserve	23	**3,185,732**	2,983,142
Retained loss	23	**(5,916,682)**	(5,787,903)
Total equity		**42,435,337**	40,805,276

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 29th May 2014. They were signed on its behalf by:

C.D.J. Pearce
Director

J.L. Malthouse
Director

29th May 2014

Consolidated statement of changes in equity

for the year ended 31st December 2013

	Share capital £	Share premium account £	Equity reserve £	Translation reserve £	Other reserve £	Retained loss £	Total equity/(deficit) £
At 1st January 2012	1,921,724	40,582,138	2,785,744	(42,705)	10,755,000	(52,703,093)	3,298,808
Loss for the year	–	–	–	–	–	(4,253,594)	(4,253,594)
Exchange differences on translation of foreign operations	–	–	–	(33,074)	–	–	(33,074)
Total comprehensive expense for the year	–	–	–	–	–	–	(4,286,668)
Issue of share capital	3,261	20,670	–	–	–	–	23,931
Credit to equity for share-based payment	–	–	197,398	–	–	–	197,398
At 31st December 2012	1,924,985	40,602,808	2,983,142	(75,779)	10,755,000	(56,956,687)	(766,531)
At 1st January 2013	1,924,985	40,602,808	2,983,142	(75,779)	10,755,000	(56,956,687)	(766,531)
Loss for the year	–	–	–	–	–	(3,149,159)	(3,149,159)
Exchange differences on translation of foreign operations	–	–	–	(42,962)	–	–	(42,962)
Total comprehensive expense for the year	–	–	–	–	–	–	(3,192,121)
Issue of share capital	37,500	1,518,750	–	–	–	–	1,556,250
Credit to equity for share-based payment	–	–	202,590	–	–	–	202,590
At 31st December 2013	1,962,485	42,121,558	3,185,732	(118,741)	10,755,000	(60,105,846)	(2,199,812)

Company statement of changes in equity

for the year ended 31st December 2013

Company	Share capital £	Share premium account £	Group reconstruction reserve £	Equity reserve £	Retained loss £	Total equity £
At 1st January 2012	1,921,724	40,582,138	1,082,244	2,785,744	(2,377,333)	43,994,517
Retained loss for the year	–	–	–	–	(3,410,570)	(3,410,570)
Credit to equity for share-based payment	–	–	–	197,398	–	197,398
Issue of share capital	3,261	20,670	–	–	–	23,931
At 31st December 2012	1,924,985	40,602,808	1,082,244	2,983,142	(5,787,903)	40,805,276
At 1st January 2013	1,924,985	40,602,808	1,082,244	2,983,142	(5,787,903)	40,805,276
Retained loss for the year	–	–	–	–	(128,779)	(128,779)
Credit to equity for share-based payment	–	–	–	202,590	–	202,590
Issue of share capital	37,500	1,518,750	–	–	–	1,556,250
At 31st December 2013	1,962,485	42,121,558	1,082,244	3,185,732	(5,916,682)	42,435,337

Consolidated and company cash flow statements

for the year ended 31st December 2013

	Notes	Group Year ended 31st December 2013 £	Company Year ended 31st December 2013 £	Group Year ended 31st December 2012 £	Company Year ended 31st December 2012 £
Cash flows from operating activities					
Cash used in from operations	24	**(3,201,138)**	**(159,372)**	(4,209,832)	(99,170)
Tax refunded		**434,151**	**–**	856,465	–
Net cash inflow/(outflow) from operating activities		**(2,766,987)**	**(159,372)**	(3,353,367)	(99,170)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(9,202)**	**–**	(14,603)	–
Interest received		**1,677**	**1,607**	8,633	8,523
Net cash (outflow)/inflow from investing activities		**(7,525)**	**1,607**	(5,970)	8,523
Financing activities					
Proceeds on issue of shares		**1,556,244**	**1,556,244**	23,930	23,930
Loans advanced/(repaid)		**1,000,000**	**(1,488,139)**	–	(3,236,365)
Net cash inflow/(outflow) from financing activities		**2,556,244**	**68,105**	23,930	(3,212,435)
Net decrease in cash and cash equivalents		**(218,268)**	**(89,660)**	(3,335,407)	(3,303,082)
Cash and cash equivalents at beginning of year		**858,249**	**576,301**	4,064,080	3,879,383
Effect of foreign exchange rate changes		**(39,719)**	**–**	129,576	–
Cash and cash equivalents at end of year	25	**600,262**	**486,641**	858,249	576,301

Notes to the consolidated financial statements

for the year ended 31st December 2013

1 General information

Proteome Sciences plc is a company incorporated in England and Wales under registration number 02879724. The address of the registered office is given on the back cover of this document. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 8 to 15. These financial statements are the consolidated financial statements of Proteome Sciences plc and its subsidiaries ("the Group").

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2 Adoption of new standards

In the current year, the following new and revised Standards and Interpretations have been adopted:

IFRS 10 Consolidated Financial Statements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

IAS 1 (amendments) Presentation of Financial Statements

The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IAS 27 (revised)	Separate Financial Statements
IAS 36 (amendments)	Recoverable Amount Disclosures for Non-Financial Assets
IAS 32 (amended)	Offsetting Financial Assets and Liabiltiies
IAS 39 (amendments)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC Interpretation 21	Levies

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, except as that IFRS 9 will impact both the measurement and disclosures of Financial Instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with the IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

In line with IAS 1 the exemption from the preparation of a company only income statement has been adopted.

Basis of preparation – going concern

These financial statements have been prepared on the going concern basis. The Directors have reviewed the going concern principle in the light of the guidance provided by the FRC. The Group's business activities, and the factors likely to affect its future development, are set out in the Annual report, and include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks.

As at 31 December 2013 the Group had cash resources of £600,262 and realised a loss for the year of £3,149,159. Subsequent to the year end the Group raised a further £5,000,000 (before expenses) through a placing to raise further funds for the development of the Group's activities. As explained in the Strategic report in the Annual report some of the Group's products are still in the research and development phase and as such the Directors consider that costs could exceed income in the short term. The Group's projections indicate that the Group should have sufficient resources to meet its current obligations as they fall due for at least the 12 months from the date of signing these financial statements, using its available cash resources together with anticipated income from sales, services, outlicensing, grant income and R&D tax credits. The Directors have reviewed the progress and status of the various commercial discussions which are underway in relation to the elements of forecast income, and consider that they represent a reasonable basis for the revenue as forecast, but recognise that there is some risk surrounding the timing and quantum of such revenue, associated with the ongoing research and development and the nature of the business.

The Group is dependent on the unsecured loan facility provided by the Chief Executive of the Group, which is repayable on demand. Further details of this facility are set out in note 20(b) to the financial statements. The Directors are not aware of any reason to conclude that the facility will not continue 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.

Accordingly, having reviewed each of the factors that could impact on the going concern of the Group, the Directors have concluded that no material uncertainties exist that cast significant doubt about the ability of the Group to continue as a going concern for at least the next 12 months and the financial statements have therefore been prepared on the going concern basis.

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 31st December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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 arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

Sales of goods are recognised when goods are delivered and title has passed. Licence income is recognised when the benefit has been transferred to the licensee. Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be recognised reliably).

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The directors have considered the requirements of IFRS in determining how to account for the licence and research collaboration agreement concluded with Thermo Fisher Scientific in 2013. Under this agreement the Group was provided with cash and also with the loan of equipment for a period of at least three years, as consideration for the transfer of the licence to a three-stage mass spectrometry (MS3) fragmentation methodology. The Directors have concluded that the fair value of the MS3 licence transferred at the commencement of the agreement is represented by the cash and loan of the machine elements of the consideration, and have therefore valued the revenue at the agreed total contract value less the element relating to the ongoing research collaboration agreement.

The Group's policy for the recognition of grant income within revenues is described below.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the same term.

Foreign Currencies

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

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. 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 exchange differences arising on the retranslation of non-monetary items carried at fair value 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 such non-monetary items, any exchange component of that gain or loss is also 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.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred with the exception of borrowing costs related to the construction of a fixed asset which are capitalised during the construction phase.

Grants

Government grants relating to property, plant and equipment are treated as deferred income and released to income statement over the expected useful lives of the assets concerned. Other grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Grants released to the income statement are recognised within the revenue category on the face of the income statement.

Operating (loss)/profit

Operating (loss)/profit is stated before investment income and finance costs.

Retirement benefit costs

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 partially funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG, an independent German mutual insurance company, which is required to comply with German insurance company regulations. This company does not prepare a plan valuation on an IAS 19 basis.

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 schemes are included within the amount charged to the income statement in respect of pension contributions.

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.

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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

As noted in the Revenue Recognition accounting policy above, in December 2013 the Company was provided with mass spectrometry equipment for a period of at least three years, pursuant to the licence and research collaboration agreement made with Thermo Fisher Scientific earlier in the year. The directors have considered the requirements of IFRS in determining how this equipment should be treated in the Group's accounts. The directors have taken into account the fact that the machine has been provided to the Group with no restrictions on its use, and the fact that the three year period of the loan is considered to represent substantially the entire useful economic life of the asset. The directors have concluded that the economic risks and rewards of ownership of the equipment have therefore been transferred to the Group, and have recognised the equipment within the Property, Plant and Equipment asset category accordingly. The value at which the directors have recognised the asset is considered to be represented by the fair value of the MS3 licence transferred at the commencement of the agreement less the cash consideration received. The equipment is being depreciated over the three year period of the loan agreement.

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.

Patents
Patents are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives if they meet the measurement and recognition criteria of IAS 38 Intangible Assets. Otherwise, patent costs are written off in the year of expenditure.

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. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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

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

Other investments
Other investments comprise unquoted investments recognised at fair value. Where it is not possible to establish a reliable fair value, such investments are recognised at cost less, where appropriate, provisions for impairment.

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

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

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

Borrowings
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual 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.

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-based 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 and adjusted for the effect of non-market-based vesting conditions.

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

4 Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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.

An internally-generated intangible asset arising from the Group's research and development is recognised only if all of the following conditions are met:

— an asset is created that can be identified (such as software and new processes);

— it is probable that the asset created will generate future economic benefits; and

— the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The Directors do not consider that any such intangible assets have been created in 2013.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £4,218,241.

Details of the judgements used in the calculation are set out in note 14.

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. These income streams have been discounted using the 5 years to perpetuity model for Electrophoretics Ltd and over 10 years for Proteome Sciences Inc and Veri-Q Inc. From a review of these projections, which can cover periods up to ten years, the Directors do not consider that any provision should be made against their carrying costs as shown in note 16 to the accounts and the Directors therefore believe that the investments concerned will generate sufficient economic benefits to justify their revised carrying costs, despite the inevitable uncertainties over timing of the receipt of income and the size of the markets from which income is anticipated.

Other investments
In the continuing absence of any recent financial information on the Company's investment in VIRxSYS it is still not possible at this stage to determine an appropriate fair value and the Directors believe that it is therefore prudent to maintain the provision against the carrying cost of this investment at 31st December, 2013.

Licence and research collaboration agreement
During the year a licence and research collaboration agreement was concluded with Thermo Fisher Scientific. Revenue recognised in 2013 under this agreement relates to the transfer of the licence to a three-stage mass spectrometry (MS3) fragmentation methodology. This was represented by consideration comprising cash and the loan of equipment by Thermo Fisher Scientific for a period of at least three years. The Directors have concluded that the fair value of the MS3 licence transferred at the commencement of the agreement is represented by the cash and loan of the machine elements of the consideration, and have therefore valued this element of the revenue at the agreed total contract value less the element relating to the ongoing research collaboration agreement.

In determining how the equipment should be treated in the Group's accounts, the directors have taken into account the fact that the machine has been provided to the Group with no restrictions on its use, and the fact that the three year period of the loan is considered to represent substantially the entire useful economic life of the asset. The directors have concluded that the economic risks and rewards of ownership of the equipment have therefore been transferred to the Group, and have recognised the equipment within the Property, Plant and Equipment asset category accordingly. The value at which the directors have recognised the asset is considered to be represented by the fair value of the MS3 licence transferred at the commencement of the agreement less the cash consideration received.

Share based payments
Calculation of the amount to be charged to the income statement for share based payments involves the exercise of judgement in determining some of the key inputs for this process, for example in respect of the expected life of the relevant options. Whilst the Directors have based such judgements on the basis of past experience in this area there can be no certainty that such patterns will continue.

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

	2013 £	2012 £
Licences/sales/services	**1,916,123**	808,235
Grant services	**220,558**	344,732
	2,136,681	1,152,967

During the year a licence and research collaboration agreement was concluded with Thermo Fisher Scientific, with a total value of $2.1m. Revenue recognised in 2013 under this agreement relates to the transfer of the licence to a three-stage mass spectrometry (MS3) fragmentation methodology. This was represented by consideration comprising cash and the loan of equipment by Thermo Fisher Scientific for a period of at least three years. The Directors have concluded that the fair value of the MS3 licence transferred at the commencement of the agreement is represented by the cash and loan of the machine elements of the consideration, and have therefore valued this element of the revenue at the agreed total contract value less the element relating to the ongoing research collaboration agreement.

6 Segment information
The Group's operations are organised into three geographic regions: United Kingdom, Germany and US. Internal reporting on costs and performance is segregated into these segments.

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.

Geographical segments:

	United Kingdom		Germany		US		Consolidated	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Revenue								
Licences/sales/services	**1,916,123**	808,235	**–**	–	**–**	–	**1,916,123**	808,235
Grant services	**101,081**	278,202	**119,477**	66,530	**–**	–	**220,558**	344,732
Total	**2,017,204**	1,086,437	**119,477**	66,530	**–**	–	**2,136,681**	1,152,967
Operating loss	**(1,640,403)**	(2,319,702)	**(1,701,889)**	(1,887,668)	**(30,223)**	(33,388)	**(3,372,515)**	(4,240,994)
Provision for impairment	**–**	–	**–**	–	**–**	–	**–**	(763,502)
Investment revenues	**1,607**	8,523	**70**	110	**–**	–	**1,677**	8,633
Finance costs	**(225,350)**	(199,624)	**–**	–	**–**	(236)	**(225,350)**	(199,624)
Loss before tax	**(1,864,146)**	(2,510,803)	**(1,701,819)**	(1,887,558)	**(30,223)**	(33,624)	**(3,596,188)**	(5,195,487)
Tax	**457,520**	953,601	**(10,491)**	(11,708)	**–**	–	**(447,029)**	941,893
Loss after tax	**(1,406,626)**	(1,557,202)	**(1,712,310)**	(1,899,266)	**(30,223)**	(33,624)	**(3,149,159)**	(4,253,594)

	United Kingdom		Germany		US		Consolidated	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Other information								
Capital additions	**712,237**	3,466	**6,965**	11,137	**–**	–	**721,439**	14,603
Depreciation	**33,021**	34,593	**134,777**	131,844	**–**	–	**167,798**	166,437

	United Kingdom		Germany		US		Consolidated	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Assets								
Current assets	**1,550,953**	1,981,399	**226,849**	231,525	**3,985**	23,833	**1,781,787**	2,236,757
Non-current assets	**5,037,399**	4,358,183	**236,025**	354,961	**-**	-	**5,273,424**	4,713,144
Segment assets	**6,588,352**	6,339,582	**462,874**	586,486	**3,985**	23,833	**7,055,211**	6,949,901

	United Kingdom		Germany		US		Consolidated	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Liabilities								
Current liabilities	**(8,571,812)**	(6,984,617)	**417,539**	(418,768)	**(10,290)**	(10,485)	**(8,999,641)**	(7,413,870)
Non current liabilities	**(28,904)**	(93,295)	**(226,478)**	(209,267)	**–**	–	**(255,382)**	(302,562)
	(8,600,716)	(7,077,912)	**(644,017)**	(628,035)	**(10,290)**	(10,485)	**(9,255,023)**	(7,716,432)

Revenues from major products and services

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

	2013 £	2012 £
Continuing operations		
TMT® revenues	**588,347**	431,492
Other commercial income	**1,327,776**	376,743
Grant services	**220,558**	344,732
Revenues from major products and services	**2,136,681**	1,152,967

Geographical Information

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

	2013 £	2012 £
UK	**110,387**	166,677
US	**1,750,901**	640,214
EU	**47,347**	447
Other	**7,488**	897
	1,916,123	808,235
Grant services income	**220,558**	344,732
Revenues from major products and services	**2,136,681**	1,152,967

Included in revenues arising from the US segment are revenues of approximately £1,298,347 (2012: £431,492) which arose from sales to the Group's largest customer: Thermo Fisher Scientific Inc. This figure includes £710,000 in respect of equipment on loan to the Company from Thermo Fisher Scientific Inc.

7 Administrative expenses

	2013 £	2012 £
Administrative expenses excluding research and development	**2,997,258**	2,578,434
Research and development expenses	**1,919,282**	2,430,059
	4,916,540	5,008,493

8 (i) Investment revenues

	2013 £	2012 £
Investment revenues represent income arising from bank deposits	**1,677**	8,633

(ii) Finance costs

	2013 £	2012 £
Interest on loans (note 20)	**225,350**	199,624

9 Operating loss

Operating loss is stated after charging/(crediting):

	2013 £	2012 £
Depreciation charge – owned	**167,798**	166,437
Research and development costs	**1,919,282**	2,430,059
Operating lease rentals – other	**284,019**	214,113
Auditor's remuneration (see below)	**95,699**	109,000
Staff costs (note 10)	**2,738,723**	2,451,176
Net foreign exchange (gains)/loss	**(2,735)**	1,513
Cost of inventories charged as an expense	**283,793**	199,381

The analysis of auditor's remuneration is as follows:

	2013 £	2012 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**38,750**	29,000
Fees payable to the Company's auditor for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	**22,000**	22,000
Total audit fees	**60,750**	51,000
Tax services	**32,409**	58,000
Other services – Income tax advice	**2,540**	–
Total non-audit fees	**34,949**	58,000
Total fees	**95,699**	109,000

10 Staff costs

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

	2013 Number	2012 Number
Research and development	**28**	30
Administration	**5**	5
	33	35

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

	2013 £	2012 £
Wages and salaries	**2,237,744**	1,899,118
Social security costs	**328,957**	336,826
Other pension costs (see note 26(b))	**172,022**	215,232
	2,738,723	2,451,176

Social security costs shown above include a credit of £28,986 (2012 charge: £24,212) for a provision for notional National Insurance contributions payable upon the future exercise of vested LTIP options.

11 Directors' remuneration and transactions

The Directors' emoluments in the year ended 31st December 2013, excluding pension costs, were:

	Basic salary 2013 £	Incentive Payments 2013 £	Benefits in kind 2013 £	Total 2013 £	Total 2012 £
Executive Directors					
C.D.J. Pearce	**251,000**	**125,500**	**11,230**	**387,730**	261,830
J.L. Malthouse	**164,000**	**82,000**	**3,262**	**249,262**	158,659
Dr. I. Pike	**140,000**	**70,000**	**3,543**	**213,543**	143,106
Non-Executive Directors					
Prof. W. Dawson	**27,500**	**–**	**–**	**27,500**	27,500
R.S. Harris	**38,000**	**–**	**–**	**38,000**	38,000
Dr. A. Walker	**27,000**	**–**	**–**	**27,000**	27,000
	647,500	**277,500**	**18,035**	**943,035**	656,095

(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) No options were exercised by Directors during the year (2012: none).

(iv) Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in the Directors' report on pages 19 to 20.

(v) With effect from 1st May, 2011 J.L. Malthouse entered into a salary sacrifice agreement by which the amount of his basic salary was reduced by 20% in return for the Company's making a similar additional contribution to his pension scheme. This agreement was revoked on the 20th March 2012.

(vi) The incentive payments for 2013 were awarded pursuant to the bonus scheme set out in the Remuneration Committee report on page 22 of these accounts.

(vii) The number of Directors in pension schemes is as follows:

	2013	2012
Money purchase pension schemes	**3**	3

Pension costs in the year ended 31st December 2013 were as follows:

	2013 £	2012 £
C.D.J. Pearce	**22,500**	22,500
J.L. Malthouse	**16,800**	22,787
Dr. I. Pike	**14,000**	14,000
	53,300	59,287

(a) Professor W. Dawson is a shareholder in Bionet Ltd. which provided consultancy services to the Company during the year at a cost of £5,127 (2012: £nil).

(b) Directors' transactions
Save as disclosed in (a) above and in note 20(b), no Director had a material interest in any contract of significance with the Company in either year.

12 Tax credit on loss before taxation on ordinary activities

	2013 £	2012 £
UK Corporation tax –		
R&D tax credit	**495,513**	625,478
Overseas tax charge	**(10,491)**	(11,708)
Group tax credit for the year	**485,022**	613,770
Adjustment re previous year	**(37,993)**	328,123
	447,029	941,893

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

In 2012 the adjustment for the prior year included a tax credit for the year ended 31st December 2010 following the re-submission of the tax computations for that year.

At 31st December 2013 there were tax losses available for carry forward of approximately £41.4 million (2012: £40.3 million).

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

Factors affecting the tax credit/(charge) for the year
The tax credit for the year is lower (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £	2012 £
Loss from operations	**(3,596,188)**	(5,195,487)
Income tax credit calculated at 23.25% (2012: 24.5%)	**836,114**	1,272,894
Effects of:		
Expenses that are not deductible in determining taxable profit	**(99,083)**	(241,016)
Fixed asset timing differences	**(7,677)**	(8,475)
Effect of concessions (Research and Development)	**581,852**	733,386
Short-term timing differences	**20,376**	(5,267)
Losses surrendered for R&D tax credit	**(1,047,334)**	(1,351,003)
Unrecognised tax losses carried forward	**(220,310)**	(400,519)
Effect of overseas tax	**(10,491)**	(11,708)
R&D tax credit claimed	**495,513**	625,478
Other taxable income	**(63,937)**	–
Group tax credit for the year	**485,023**	613,770
Adjustment re prior years	**(37,994)**	328,123
	447,029	941,893

Unrecognised deferred tax	2013 £	2012 £
The following deferred tax assets and liability have not been recognised at the balance sheet date:		
Tax losses – revenue	**9,625,974**	9,263,241
Depreciation in excess of capital allowances	**(19,759)**	(27,142)
Provisions	**21,346**	23,669
Share-based payments	**1,541**	125,911
Total	**9,629,102**	9,385,739

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.

Future tax legislation
In the UK, the Finance Act 2012 included legislation to reduce the main rate of corporation tax from 24% to 23% from 1st April 2013. This gives an effective tax rate of 23.25% for the current tax for the year ended 31st December 2013.

The Finance Act 2013, which provides for a reduction in the main rate of corporation tax from 23% to 21% effective from 1st April 2014 and to 20% effective from 1st April 2015 was substantively enacted on 2nd July 2013. Deferred tax has been provided at the rate prevailing when the temporary differences are expected to reverse.

13 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	2013 £	2012 £
Loss for the financial year	**(3,149,159)**	(4,253,594)

	2013 Number of shares	2012 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share:	**194,015,055**	192,452,555

In 2013 and 2012 the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options that are out of the money would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of the International Financial Reporting Standard 33.

14 Intangible fixed assets – goodwill

	Goodwill £
Cost and carrying amount 1st January 2013 and 31st December 2013	4,218,241

Goodwill, which is allocated to the United Kingdom cash generating unit ("CGU"), on the basis that this is the CGU that benefits from the synergies of this business combination relates to the acquisition of Proteome Sciences R&D GmbH & Co. KG in the year ended 31st December 2002.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Further details of the Group's accounting policy for goodwill are set out in note 3 on page 33.

The Group regards the United Kingdom segment as a single CGU for the purpose of testing goodwill and the recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management. The cash flow projections are a long-term view and cover a period of up to ten years based on the anticipated time taken for the CGU's products to penetrate the markets. The growth rate used to extrapolate the cash flows is 5%.

This rate does not exceed the average long-term growth rate for the relevant markets.

The Group has used the 5 years to perpetuity model to discount the forecast cash flows from the United Kingdom at a discount rate of 10% CGU (2012: 10 per cent). The Group has conducted sensitivity analysis on the impairment test of the CGU carrying value. This includes varying the discount rate and the forecasted growth, but retaining the assumption that the CGU's products will successfully penetrate the markets. This analysis indicates sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

15 Property, plant and equipment

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

	Laboratory equipment, fixtures and fittings £
Cost	
1st January 2012	3,723,239
Exchange adjustments	(73,277)
Additions during the year	14,603
Disposals during the year	(7,130)
1st January 2013	3,657,435
Exchange adjustments	63,303
Additions during the year	719,202
Disposals during the year	(24,846)
31st December 2013	4,415,094
Depreciation	
1st January 2012	3,062,557
Exchange adjustments	(59,062)
Disposals during the year	(7,130)
Charge for the year	166,437
1st January 2013	3,162,802
Exchange adjustments	54,157
Disposals during the year	(24,846)
Charge for the year	167,798
At 31st December 2013	3,359,911
Carrying amount	
31st December 2012	494,633
31st December 2013	1,055,183

Included within Property, Plant and Equipment is mass spectrometry equipment with a net book value of £710k, which was provided to the Group for a period of at least three years, pursuant to the licence and research collaboration agreement made with Thermo Fisher Scientific earlier in the year. The equipment is being depreciated over the three year period of the loan agreement. See the tangible fixed asset accounting policy note for further details.

The Company owned no fixed assets during either the current or preceding financial year.

16 Non-current investments

Company	Cost of shares in subsidiary undertakings £	Loans to subsidiary undertakings £	Other Investments £	Total £
At 1st January 2012	5,580,310	35,362,494	763,502	41,706,306
Additional investment in the year	197,398	3,227,660	–	3,425,058
Provision for impairment (Note 17)	(828,316)	(1,665,535)	(763,502)	(3,257,353)
At 31st December 2012	4,949,392	36,924,619	–	41,874,011
At 1st January 2013	4,949,392	36,924,619	–	41,874,011
Additional investment in the year	202,590	1,535,072	–	1,737,662
At 31st December 2013	5,151,982	38,459,691	–	43,611,673

(i) The increase in the cost of shares in subsidiary undertakings of £202,590 (2012: £197,398) 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 under IFRS 2.

(ii) The increase in loans to subsidiary companies in 2013 arose from the provision of further funds to the Company's trading subsidiary and German subsidiary company.

(iii) For further details of other investments and the basis of their valuation see note 17.

(iv) Foreign exchange differences arising on the translation of inter company loans at the balance sheet date are adjusted through the statement of comprehensive income.

Principal Group investments

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

Principal subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the Company	Description and proportion of shares held by the Group
Proteome Sciences R&D Verwaltungs GmbH	Germany	Administrative Company	100% Share Capital	100% Share Capital
Proteome Sciences R&D GmbH & Co. KG	Germany	Research Company	100% Partnership Interest	100% Partnership Interest
Xzillion GmbH & Co. KG	Germany	Administrative Company	100% Partnership Interest	100% Partnership Interest
Proteome Sciences, Inc.	United States	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.	United States	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.

17 Other investments

Group	£
Cost at 1st January 2013 and 31st December 2013	989,258
Amounts written off at 1st January 2013	989,258
Amounts written off at 31st December 2013	989,258
Net Book Value:	
At 31st December 2013	–
At 31st December 2012	–

Company	£
Cost at 1st January 2013	763,502
Amount written off in previous year	(763,502)
Net book value at 31st December 2013	–
Net book value at 31st December 2012	–

The Company's investment in VIRxSYS consisted of 1,173,712 (2012: 1,173,712) Series G-1 Preferred Stock.

VIRxSYS is an unlisted company and the Directors have therefore valued the Company's shareholding therein with reference to recent share issues, but after applying an appropriate discount to reflect the illiquidity of the shares. The investment was recorded at a nil value in the Group and Company balance sheets as at 31st December, 2012. At this stage it is still not possible to determine an appropriate fair value and the Directors believe that it is therefore prudent to continue to provide against the carrying cost of this investment at 31st December, 2013.

The Group owns shares of $0.001 common stock of Geneva Proteomics Inc which is incorporated in Delaware, US and shares of CHF 100 in Europroteome SA, which is incorporated in Switzerland. Geneva Proteomics Inc is currently closing down its operations, and filed a certificate of dissolution in March 2005. As at 31st December 2013 it is not possible to determine the extent of any repayment of capital to shareholders, and therefore the Directors believe that it is prudent to continue to hold a provision against the carrying cost of this investment.

18 Inventories

	2013 £	2012 £
Work-in-progress	**240,276**	227,721
Finished goods	**162,305**	103,710
	402,581	331,431

19 Other financial assets

a) Trade and other receivables

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Amount receivable for the sale of goods	**89,324**	**–**	181,004	–
R&D tax credit recoverable	**495,513**	**–**	625,478	–
Other debtors	**123,891**	**–**	139,788	–
Prepayments	**70,216**	**–**	101,077	–
	778,944	**–**	1,047,347	–

No allowance for doubtful debts was made in 2013 or 2012 and thus no further disclosures on this matter are required in this note.

b) Cash and cash equivalents

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Cash and cash equivalents	**600,262**	**486,640**	858,249	576,301

20 Other financial liabilities

a) Trade and other payables

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Trade creditors	**27,171**	**–**	23,257	–
Other provisions and accruals	**765,460**	**–**	454,890	–
	792,631	**–**	478,147	–

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

b) Short term borrowings

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Loan from related party	**7,951,234**	**1,335,434**	6,725,884	1,296,016

Note:

(i) On 29th June 2006 the Company entered into an agreement with C.D.J. Pearce, the Chief Executive of the Company, under which he agreed to provide an unsecured loan facility of up to £2m to the Company. The loan facility was available from the 1st August, 2006 and carries interest at 2.5% above the base rate of Barclays Bank Plc.

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

(a) C.D.J. Pearce ceasing to be an executive director of the Company. As noted in the Directors' report on page 16, C.D.J. Pearce has a service contract with a notice period of not less than two years.

(b) A general offer to the shareholders of the Company being announced to acquire its issued share capital.

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

(ii) On 21st February 2007 it was announced that C.D.J. Pearce had agreed to increase the total size of the facility to up to £4m, on the same terms, save that in view of the size of the loan facility, it was agreed that security for the loan should be charged against the Company's patent portfolio up to the value of the loan outstanding and that the loan should be convertible, at Mr. Pearce's option, into ordinary shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since the 29th June 2006 (the date on which details of the original loan agreement were disclosed).

(iii) On the 29th June 2007 the Company entered into a further loan agreement, on the same terms as the agreement dated 21st February 2007, with C.D.J. Pearce, the Chief Executive of the Company, which increased the total size of the facility to up to £6m.

(iv) On 24th June 2008 the Company entered into a further loan agreement with C.D.J. Pearce, the Chief Executive of the Company, on the same terms as the agreement dated 21st February 2007, (save that security for the total loan facility includes a floating charge over the Company's stock-in-trade), which increased the total size of the facility to up to £8m.

(v) On 18th June 2009 the Company entered into a further loan agreement with C.D.J. Pearce, the Chief Executive of the Company on the same terms as the agreement dated 24th June 2008, which increased the total size of the facility to up to £10m.

(vi) On 7th June 2010 C.D.J. Pearce entered into a novation agreement with the Company under which its main trading subsidiary, Electrophoretics Ltd, agreed to assume all the obligations of its parent company. The Company will guarantee the subsidiary's payment obligations and the existing security granted by the Company in favour of C.D.J. Pearce remains in place.

(vii) On 30th June 2010 C.D.J. Pearce converted £5m of the outstanding loan into 25,000,000 ordinary shares of 1p each.

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

(ix) As set out in note 30, on 19th April 2013 the Company entered into a further loan agreement with C.D.J. Pearce to provide a loan facility of up to £1m on the same terms as the agreement dated 18th June 2009 save that the loan is not convertible into ordinary shares of the Company.

(c) Provisions

Group	Pensions provisions £	Other provisions £	Total £
At 1st January, 2013	209,267	302,562	511,829
Additional provision in the year	17,211	15,840	33,051
Utilisation of provision	–	(48,986)	(48,986)
At 31st December 2013	226,478	269,416	495,894
Included in short-term provisions			240,512
Included in long-term provisions			253,382

Company – long term provision	£
At 1st January 2013	57,890
Reduction in provision in the year	(28,986)
At 31st December 2013	28,904

(i) Other provisions consist of provisions for various professional and other costs, and will be utilised as the relevant expenditure is incurred within the next 12 months.

(ii) The pension provision relates to pension costs which may become payable in connection with the Company's Frankfurt employees, under the pension scheme arrangements set out in note 27(b). This provision will be utilised as members of the scheme reach retirement age and draw down their pensions.

(iii) Long term provisions include £28,904 (2012: £57,890) for notional National Insurance contributions payable upon the exercise of vested LTIP options.

21 Share capital

i) Authorised

	2013 £	2012 £
330,000,200 (2012: 330,000,200) Ordinary Shares of 1p each	3,300,002	3,300,002
49,998 Redeemable Ordinary Shares of £1 each	**49,998**	49,998
1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting)	**1,063,822**	1,063,822
786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting)	**786,178**	786,178
	5,200,000	5,200,000

The 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) entitle the holders in priority to any payment of dividend to the holders of Ordinary Shares to payment of a fixed non-cumulative preferential dividend at the gross rate of 5% per annum. There are no preference shares of either class in issue.

Every registered holder of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) has the right to receive notice of and to attend but not to speak or vote at any general meeting unless, in the case of a registered holder of 5% (gross) Redeemable Preference Shares (voting), either:

(i) any of the 5% (gross) Redeemable Preference Shares (voting) required to be redeemed have not been redeemed on the due date (in which case the holder of such Preference Shares has the right to speak and vote on any Resolution at a general meeting of the Company): or

(ii) the business of the general meeting includes a Resolution varying the rights attaching to the 5% (gross) Redeemable Preference Shares (voting) (in which case the holders of such Preference Shares shall be entitled to speak and vote on that Resolution only): or

(iii) the business of the general meeting includes consideration of a Resolution for winding-up the Company or reducing its share capital or any share premium account or capital redemption reserve.

In the circumstances described in (i) to (iii) above, registered holders of 5% (gross) Redeemable Preference Shares (voting) are entitled to one vote each on a show of hands or, on a poll, to one vote in respect of each fully paid 5% (gross) Redeemable Preference Share and any registered holder of 5% (gross) Redeemable Preference Shares may call a poll.

All members of the Company shall rank pari passu with each other in respect of any distribution on a return of capital save that the holders of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) shall only be entitled to receive up to a sum equal to the amount paid up thereon and are not entitled to any further rights of participation in the assets of the Company.

Both classes of 5% (gross) Redeemable Preference Shares are redeemable at the option of the Company, at any time on written notice to the holders of those shares but, in any event must be redeemed at par by 31st December 2019.

ii) Allotted and called-up

	2013 £	2012 £
196,248,477 Ordinary Shares of 1p each (2012: 192,498,477)	**1,962,485**	1,924,985

In August 2013 the Company issued 3,750,000 new ordinary shares of 1p each in a placing at 41.5p per share.

iii) Options

At 31st December 2013 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's share option schemes as follows:

	Number of shares	Amount of capital £	Subscription price	Dates normally exercisable
Granted under Separate Option Deed	150,000	1,500	29.75p	1.10.2013–1.10.2020

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

The above option was granted in the year to the 31st December, 2010.

(iv) Long-Term Incentive Plan ("LTIP")

At 31st December 2013, 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 31st December 2012	Awarded in the year	Exercised in the year	Lapsed in the year	Number at 31st December 2013	First Vesting Date	Latest Exercise Date
700,965	–	–	–	**700,965**	–	2nd July, 2017
2,596,491	–	–	–	**2,596,491**	7th November, 2014	–
328,105	–	–	–	**328,105**	24th February, 2015	–
3,625,561	–	–	–	**3,625,561**		

(v) 2004 Share Option Plan

At 31st December 2013 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p each under the Company's 2004 Share Option Plan as follows:

Number of Shares	Amount of Capital (£)	Subscription Price (p)	Dates Normally Exercisable
127,986	1,279.86	73.91	6.12.07 – 6.12.14
13,530	135.30	68.37	15.7.08 – 15.7.15
18,383	183.83	68.00	19.7.08 – 19.7.15
20,295	202.95	31.78	9.6.09 – 9.6.16
67,650	676.50	36.77	2.7.10 – 2.7.17
40,590	405.90	36.77	2.7.10 – 2.7.17
27,060	270.60	36.77	2.7.10 – 2.7.17
16,236	162.36	27.72	10.4.11 – 10.4.18
60,885	608.85	27.72	10.4.11 – 10.4.18
33,825	338.25	15.52	14.7.11 – 14.7.18
426,440	4,264,40		

(vi) 2011 Share Option Plan

At 31st December 2012 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 (£)	Subscription Price (p)	Dates Normally Exercisable
171,000	1,710.00	36.5	14.2.12 – 14.2.22
90,000	900.00	49.8	25.6.16 – 25.6.26
261,000	2,610.00		

22 Share based payments

The Company issues equity-settled share based payments under the 2004 and 2011 Share Option Plans. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are usually forfeited if the employee leaves the Group before the options vest.

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

At the 31st December 2013 awards over 700,965 shares had vested and were capable of exercise.

The 2004 LTIP closed during 2009 and no further awards can be made under this scheme. Details of all the remaining awards that have not yet vested are set out in note 21(iv) above, and the performance conditions attaching to these awards are set out in the Directors' report on page 22. Awards are usually forfeited if the employee leaves the Group before the vesting date.

A new Long Term Incentive Plan was introduced in 2011 and the maximum award under this scheme is 2,924,596 shares. A charge to the income statement of £179,205 (2012: £197,398) was made during the year in respect of both schemes.

	Approved Scheme	
	Options	Weighted average exercise price (p)
Outstanding at 1st January 2012	81,587	36.77
Forfeited during the year	(81,587)	36.77
Outstanding at 1st January 2013	–	–
Outstanding at 31st December 2013	–	–
Exercisable at 31st December 2013	–	–

The weighted average share price at the date of exercise for share options exercised during the period was nil (2012: 37.33p).

	2004 Share Option Plan		2004 LTIP	
	Options	Weighted average exercise price (p)	Maximum Number of shares	Weighted average fair value per share (p)
Outstanding at 1st January, 2012	686,216	33.60	877,034	–
Exercised in the year	(150,000)	14.78	(176,069)	36.20
Forfeited in the year	(56,826)	18.50	–	–
Outstanding at 31st December 2012	479,390	53.50	700,965	–
Forfeited in the year	(52,950)	14.78	–	–
Exercisable at 31st December 2013	426,440	46.44	700,965	31.70
Exercisable at 31st December 2012	479,390	53.50	700,965	31.70

The share price at the date of exercise for the LTIP exercised during the period was 30p (2011: nil).

No LTIP awards were exercised during the period.

	2011 Share Option Plan	
	Options	Weighted average exercise price (p)
Outstanding at 1st January, 2012	–	–
Granted in the year	217,000	36.5
Forfeited during the year	(31,000)	36.5
Outstanding at 1st January 2013	186,000	36.5
Granted in the year	90,000	49.9
Forfeited during the year	(15,000)	36.5
Outstanding at 31st December 2013	261,000	47.3
Exercisable at 31st December 2013	–	–
Exercisable at 31st December 2012	–	–

	2011 LTIP	
	Options	Weighted average exercise price (p)
Outstanding at 1st January, 2011	2,596,491	17.9
Granted in the year	328,105	25.6
Outstanding at 31st December 2012	2,924,596	18.7
Granted in the year	–	–
Outstanding at 31st December, 2013	2,924,596	18.7
Exercisable at 31st December, 2013	–	–
Exercisable at 31st December, 2012	–	–

The options outstanding at 31st December 2013 had a weighted average remaining contractual life as follows:

	Number of Months
2004 Share Option Plan	32.8
2011 Share Option Plan	102.9
LTIP	16.5

The inputs into the Black-Scholes model were as follows:

	2013	2012
Weighted average share price	33.7p	33.7p
Weighted average exercise price	33.7p	33.7p
Expected volatility	60.1%–58%	60.1%–52%
Expected life	4 years	4 years
Risk free rate	1.47%–0.87%	1.47%–0.60%
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.

23 Reserves

Group	Other reserve £	Equity reserve £	Share premium account £	Profit and loss account £	Translation reserve £	Total £
At 1st January 2012	10,755,000	2,785,744	40,582,138	(52,703,093)	(42,705)	1,377,084
Loss on foreign currency translation	–	–	–	–	(33,074)	(33,074)
Issue of share capital	–	–	20,670	–	–	20,670
Retained loss for the year	–	–	–	(4,253,594)	–	(4,253,594)
Credit to equity for share-based payment	–	197,398	–	–	–	197,398
At 31st December 2012	10,755,000	2,983,142	40,602,808	(56,956,687)	(75,779)	(2,691,516)
At 1st January 2013	10,755,000	2,983,142	40,602,808	(56,956,687)	(75,779)	(2,691,516)
Loss on foreign currency translation	–	–	–	–	(42,962)	(42,962)
Issue of share capital	–	–	1,518,750	–	–	1,518,750
Retained loss for the year	–	–	–	(3,149,159)	–	(3,149,159)
Credit to equity for share-based payment	–	202,590	–	–	–	202,590
At 31st December 2013	10,755,000	3,185,732	42,121,558	(60,105,846)	(118,741)	(4,162,297)

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

The amounts transferred to the Equity Reserve are for charges made in respect of the requirements of IFRS 2 share-based payment. The other reserve arises from the combination of Group companies.

Company	Share premium account £	Group reconstruction reserve £	Equity Reserve £	Profit and loss account £	Total £
At 1st January 2012	40,582,138	1,082,244	2,785,744	(2,377,333)	42,072,793
Retained loss for the year	–	–	–	(3,410,570)	(3,410,570)
Issue of share capital	20,670	–	–	–	20,670
Credit to equity for share-based payment	–	–	197,398	–	197,398
At 31st December 2012	40,602,808	1,082,244	2,983,142	(5,787,903)	38,880,291
At 1st January 2013	40,602,808	1,082,244	2,983,142	(5,787,903)	38,880,291
Retained loss for the year	–	–	–	(128,779)	(128,779)
Issue of share capital	1,518,750	–	–	–	1,518,750
Credit to equity for share-based payment	–	–	202,590	–	202,590
At 31st December 2013	42,121,558	1,082,244	3,185,732	(5,916,682)	40,472,852

The Group reconstruction reserve arose in the period to the 11 November 1994 and represents 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.

Of total reserves shown in the Company's balance sheet, the following amounts are regarded as non-distributable or otherwise:

	2013 £	2012 £
Non-distributable		
– share premium	**42,121,558**	40,602,808
– group reconstruction reserve	**1,082,244**	1,082,244
Distributable		
– equity reserve	**3,185,732**	2,983,142
– profit and loss account	**(5,916,682)**	(5,787,903)
Total reserves	**40,472,852**	38,880,291

The Company has taken advantage of Group reconstruction relief as allowed by section 611 of the Companies Act 2006.

24 Notes to the consolidated cash flow statement

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Operating loss	**(3,372,515)**	**(293,558)**	(4,240,994)	(320,780)
Adjustments for:				
Depreciation of property, plant and equipment	**167,798**	**–**	166,437	–
Non cash item – equipment provided to the Group	**(710,000)**	**–**	–	–
Share-based payment expense	**202,590**	**202,590**	197,398	197,398
Operating cash flows before movements in working capital	**(3,712,127)**	**(90,968)**	(3,877,159)	(123,382)
Increase in inventories	**(71,150)**	**–**	(30,910)	–
Decrease/(increase) in receivables	**284,977**	**–**	(79,427)	–
Increase/(decrease) in payables	**313,097**	**(39,418)**	(341,284)	–
(Decrease)/Increase in provisions	**(15,935)**	**(28,986)**	118,948	24,212
Cash used in operations	**(3,201,138)**	**(159,372)**	(4,209,832)	(99,170)

25 Analysis and reconciliation of net debt

	Debt due within 1 Year £	Cash at bank and in hand £	Net funds/ (debt) £
1st January 2012	(6,526,260)	4,064,080	(2,462,180)
Non-cash items	(199,624)	–	(199,624)
Cash flow	–	(3,335,407)	(3,335,407)
Effect of foreign exchange rate changes	–	129,576	129,576
31st December 2012	(6,725,884)	858,249	(5,867,635)
1st January 2013	(6,725,884)	858,249	(5,867,635)
Non-cash items	(225,350)	–	(225,350)
Cash flow	(1,000,000)	(218,268)	(1,218,268)
Effect of foreign exchange rate changes	–	(39,719)	(39,719)
31st December 2013	(7,951,234)	600,262	(7,350,972)

26 Analysis and reconciliation of net debt – Company

	Debt due within 1 Year £	Cash at bank and in hand £	Net funds/ (debt) £
1st January 2012	(1,557,493)	3,879,383	2,321,890
Cash flow	(29,653)	(3,303,082)	(3,332,735)
31st December 2012	(1,587,146)	576,301	(1,010,845)
1st January 2013	(1,587,146)	576,301	(1,010,845)
Cash flow	(39,418)	(89,660)	(129,078)
31st December 2013	(1,626,564)	486,641	(1,139,923)

27 Guarantees and other financial commitments

a) Operating lease arrangements

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties.

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

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Within 1 year	**141,046**	**59,531**	195,756	59,531
Within 2 – 5 years	**119,062**	**119,062**	258,058	178,593
	260,108	**178,593**	453,814	238,124

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

b) 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 partially funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG, an independent German mutual insurance company, which is required to comply with German insurance company regulations. This company does not prepare a plan valuation on an IAS 19 basis.

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 schemes are included within the amount charged to the income statement in respect of pension contributions.

The amount charged to the income statement in respect of the contributions to the schemes amounts to £59,096 (2012: £209,267).

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 3% (2012: 3.25%). The company has assumed an income increase of 2.75% (2012: 2.75%) and inflation of 2.25% (2012: 2.25%).

Provisions for future unfunded pension liabilities at 31st December 2013 amounted to £226,478 (2012: £212,748).

28 Financial instruments

The notes to the accounts provide an explanation of the role that financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in IFRS 7 Financial Instruments: Disclosures.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowing disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 23.

Gearing Ratio

The Board reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2013 £	2012 £
Debt	**(7,951,234)**	(6,725,884)
Cash and cash equivalents	**600,262**	858,249
Net debt	**(7,350,972)**	(5,867,635)
Deficit	**(2,199,812)**	(766,531)
Net debt to equity ratio	**N/A**	N/A

Debt is defined as long and short term borrowings, as detailed in note 20(b).

Equity includes all capital and reserves of the Group attributable to equity holders of the parent company.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurements and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of financial instruments

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Financial assets				
Cash	**600,262**	**486,640**	858,249	576,301
Trade receivables	**89,324**	**–**	181,004	–
Financial liabilities				
Trade and other payables	**(792,631)**	**–**	(478,147)	–
Current tax liabilities	**(15,264)**	**–**	(572)	–
Short-term borrowings	**(7,951,234)**	**(1,335,434)**	(6,725,844)	(1,296,016)
Loan from other Group entity	**–**	**(298,638)**	–	(291,130)

Financial risk management objectives
The Group's operations expose it to a variety of risks including interest risk and liquidity risk. Neither the Company nor the Group have material exposures in any of these areas and consequently they do not use derivative instruments to manage these exposures.

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

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

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

None of the Group's companies has any assets or liabilities that are denominated in a currency other than the functional currency in which the companies operate and therefore a foreign currency sensitivity analysis would not be appropriate.

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 20(b).

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

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

If interest rates had been 0.5% higher and all other variables were held constant, the Group's loss for the year ended 31st December 2013 would have increased by £37,558 (2012: increase in loss by £33,271).

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

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

Liquidity and interest risk tables

a) The following tables detail the Group and Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month	
		Group £	Company £
2012			
Variable interest rate instruments	3.00	6,725,884	1,296,016
2013			
Variable interest rate instruments	3.00	7,951,234	1,335,434

b) The following table details the Group and Company's expected maturity date for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on these assets except where the Group and Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month	
		Group £	Company £
2012			
Non-interest bearing	–	–	–
Interest bearing	0.39	576,301	576,301
2013			
Non-interest bearing	–	–	–
Interest bearing	0.23	486,640	486,640

29 Related party transactions

a) Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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 20 on pages 45 and 46.

c) Details of the remuneration of the Directors is set out in note 11 on pages 40 and 41, 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' on pages 19 and 20.

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

2013 £	2012 £
182,495	178,773

30 Events after the balance sheet date

(a) On 28th February 2014 the Company completed a placing of 17,857,143 new ordinary shares of 1p each at a price of 28p per share to raise £5m before expenses to provide additional working capital for the Group.

(b) Dr. A. Walker resigned as a director of the Company on the 3rd March, 2014.

Advisers

Nominated Advisers and Stockbrokers

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Auditor

Deloitte LLP
Statutory Auditor
Mountbatten House
1 Grosvenor Square
Southampton SO15 2BZ

Solicitors

Edwin Coe LLP
2 Stone Buildings
Lincoln's Inn
London WC2A 3TH

Bankers

Barclays Bank Plc
Pall Mall Corporate Banking Group
50 Pall Mall
London SW1Y 5AX

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder Enquires telephone:
+44(0) 871 664 0300

Notice of meeting

Notice is hereby given that the 20th Annual General Meeting of Proteome Sciences plc will be held at The Law Society, 113 Chancery Lane, London WC2A 1PL on Monday 30th June 2014 at 12:00 midday, for the purpose of considering and, if thought fit, passing the following Resolutions of which numbers 1 to 5 will be proposed as ordinary Resolutions and number 6 as a special Resolution.

Ordinary Business

1 To receive the financial statements and the reports of the Directors and of the auditors for the year ended 31st December 2013.

2 To re-appoint Professor W. Dawson as a Director.

3 To re-appoint Deloitte LLP as auditors of the Company in accordance with section 489 of the Companies Act 2006 until the conclusion of the next general meeting of the Company at which audited accounts are laid before the members and to authorise the Directors to fix their remuneration.

Special Business

Ordinary Resolution

4 THAT the directors of the Company be hereby authorised generally and unconditionally pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £713,685.39 until the conclusion of the next Annual General Meeting of the Company or 30th June 2015, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after such expiry.

Special Resolution

5 THAT subject to, and upon Resolution 4 above, having been passed and becoming effective, the Directors be and are hereby authorised and empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities, as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an offer by way of a rights issue, or any other pre-emptive offer, to the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares on a record date fixed by the directors and to the holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the law of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) and (b)) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £428,211.24.

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or on 30th June 2015, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after the expiry of this authority and the directors may then allot equity securities in pursuant of such an offer or agreement as if the authority and power hereby conferred had not expired.

By order of the Board
Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP

J.L. Malthouse
Secretary

29th May 2014

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy, to exercise all or any of his rights to attend, speak and vote in his place on a show of hands or on a poll provided that each proxy is appointed to a different share or shares. Such proxy need not be a member of the Company. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars not less than forty eight hours before the time for holding by 12:00 midday on Thursday 26th June 2014 or any adjourned meeting. A proxy need not also be a member of the Company. A form of proxy and return envelope are enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.

2. Copies of executive directors' service agreements, and copies of the terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the close of the Annual General Meeting (Saturday, Sundays and public holidays excepted) and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company by no later than the close of business two days before the date of the meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Form of proxy

for use by holder of Ordinary Shares at the 20th Annual General Meeting
of Proteome Sciences plc to be held on 30th June 2014 at 12:00 midday

I/WE (1) .....

of .....

being (a) member(s) of the above-named company hereby appoint the chairman of the meeting (2)

or ..... as my/our proxy and to vote for me/us and on my/our behalf at the Company's

Annual General Meeting to be held on 30th June, 2014 at 12:00 midday, at The Law Society, 113, Chancery Lane, London WC2A 1PL, and at any adjournment thereof.

Dated this ..... day of 2014

Signature(s) .....

Please indicate with an X in the space below how you wish your votes to be cast. If no instructions are given as to how the proxy shall vote, on any particular matter, the proxy will abstain or vote as he thinks fit.

Resolution	For	Against	Withheld
Ordinary Business			
1. To receive the financial statements	☐	☐	☐
2. To re-appoint Professor W. Dawson as a Director	☐	☐	☐
3. To re-appoint Deloitte LLP as auditors	☐	☐	☐
Special Business			
4. To renew the Directors' authority to allot shares	☐	☐	☐
5. To renew the Directors' authority to disapply pre-emption rights for the allotment of shares	☐	☐	☐

(1) Fill in your name(s) and address(es) in block capitals.

(2) A member may appoint a proxy of his own choice and if any other proxy is preferred, strike out 'the chairman of the meeting' and add the name of the proxy or proxies desired and initial the alteration.

Notes:

(a) This form of proxy duly completed must, to be valid for use at the meeting, be deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, with the Company's registrars by 12:00 midday on Thursday 20th June 2014 or not less than forty eight hours before the time for holding any adjourned meeting. A proxy may only vote on a poll.

(b) A corporation may execute either under seal or under the hand of an officer or attorney so authorised.

(c) In the case of joint holders of shares, any one of such holders may vote but, if two or more joint holders are present in person or by proxy, the vote of the senior will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority is determined by the order in which the names stand in the register.

(d) A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy, to exercise all or any of his rights to attend, speak and vote in his place on a show of hands or on a poll provided that each proxy is appointed to a different share or shares. Such proxy need not be a member of the Company. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars not less than forty eight hours before the time for holding the meeting or adjourned meeting. A proxy need not also be a member of the Company. Completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting.

(e) To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given.

Form of proxy (continued)

for use by holder of Ordinary Shares at the 20th Annual General Meeting
of Proteome Sciences plc to be held on 30th June 2014 at 12:00 midday

Proxy should be returned to our Registrars, Capita Asset Services at:

PXS 1
34 Beckenham Road
Beckenham
Kent BR3 4ZF

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