Powering ahead...

Annual report and accounts 2011

proteome sciences

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.

Our strategic focus is to:

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

— Commercialise extensive IP portfolio and specialist biomarker CRO services

— 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

proteome sciences

...to become a global standard

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.

Chairman's message

A year of progress and acceptance

2011 was an important year for Proteome Sciences, a year in which we passed through the inflection point where our biomarker products and services gained global acceptance.

All our business divisions make considerable progress

Considerable progress was made in each of the three main business divisions proprietary biomarkers, biomarker services and reagents. Contracts were announced with Eisai, Takeda and Siena Biotech, collaborations with The Moffitt Cancer Center and The Buck Institute in the US in the fields of cancer pathways and breast cancer respectively and further EU framework 7 grant funding through DENAMIC (Developmental Neurotoxicity Assessment of Mixtures in Children). These will enable us to rapidly produce novel biomarker assays and expand our range of products and sales.

From a standing start in 2010, the proprietary biomarker coverage in Proteome Sciences assays increased to around 50 last year and these numbers are expected to more than double again in 2012 and will reflect in considerably enhanced revenue from products and services.

The strong progress last year has continued into 2012 and has culminated with highly encouraging results from the 1,000 sample Alzheimer's validation study where we filed further IP and that delivered three biomarker panels in blood, each containing between 11 and 16 proteins that discriminate between mild cognitive impairment, Alzheimer's and control groups respectively and, working with our collaborators these will quickly lead to the development of clinical tests.

The Alzheimer's news was shortly followed by the licence announced with Randox laboratories for our stroke biomarkers which will be rapidly delivered to health care providers through their biochip array systems to hospital laboratories in 130 countries globally. The terms, a seven digit US$ fee with double digit royalties for a non-exclusive licence, set a new precedent in the field and was consistent with the strategy and predictions previously set out to our shareholders.

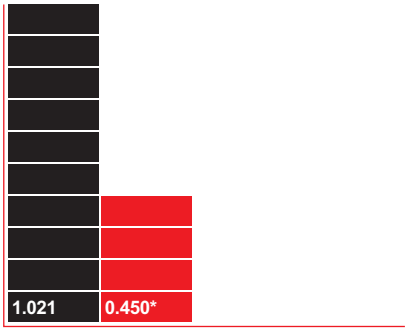
In conclusion

Our company has come a very long way, backed by the outstanding science and IP portfolio that we have established and I would like to thank our staff for their hard work and commitment over the last year. We would not have accomplished all that we did in 2011 without their resolve and determination. I would also like to thank our commercial partners, collaborators and shareholders for their support.

The investment that we have made has opened up major commercial opportunities for our biomarker content, assays and services and we are poised to see this reflected through strong commercial growth and success in 2012 and beyond.

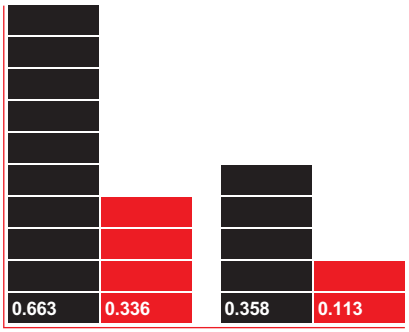
Steve Harris
Chairman

Financial highlights 2011



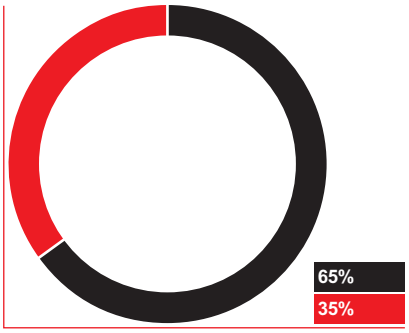
Revenue growth (£m)

* Excluding exceptional revenue from the Sanofi-Aventis warranty settlement in 2010 and including grant services revenue



Revenue growth by type (£m)

— Licences/Sales/Contracts
— Grant Services



Revenue breakdown

— Licences/Sales/Contracts
— Grant Services

+127%

Revenue increased 127% to £1.02m

(2010: £0.45m*)

£3.96m

Loss after tax 20% lower at £3.96m

(2010: £4.97m*)

+97%

Licences, sales and contracts revenue increased to £0.66m

(2010: £0.34m)

£4.06m

Cash balance £4.06m

at 31st December 2011
(2010: £9.54m)

+53%

TMT® Reagent sales increased 53%

in 2011

Rapidly accelerating growth

Our commercial business is developing with great pace.

We delivered strong first half growth in 2011 and anticipate significant like-for-like growth in 2012. Encouragingly, much greater contribution is expected to come during the second half of the year.

There are multiple drivers of commercial value accelerating this 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

Rapidly accelerating growth

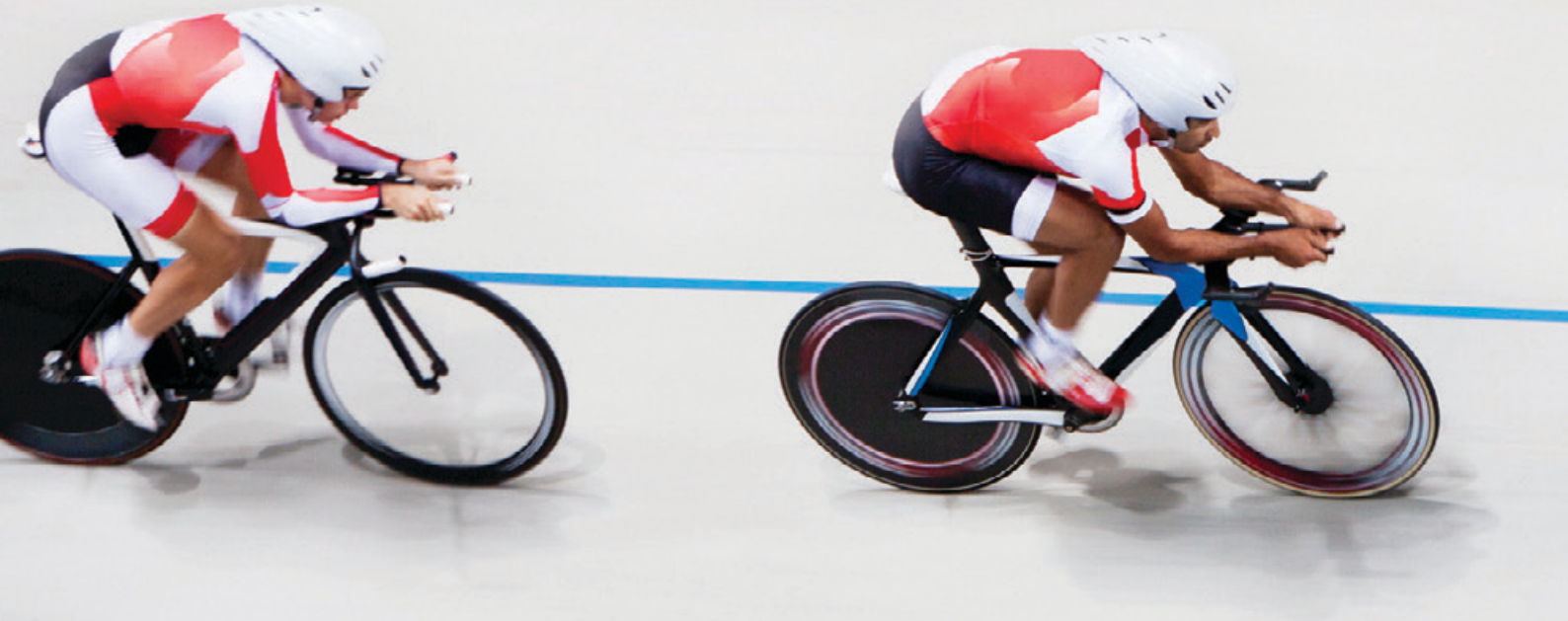
Our clear measures for success...

...we are on track today and making 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 have a cash position of over £4 million at the end of 2011 and revenue growth forecast to accelerate sharply in 2012.

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 are well positioned to exploit potential

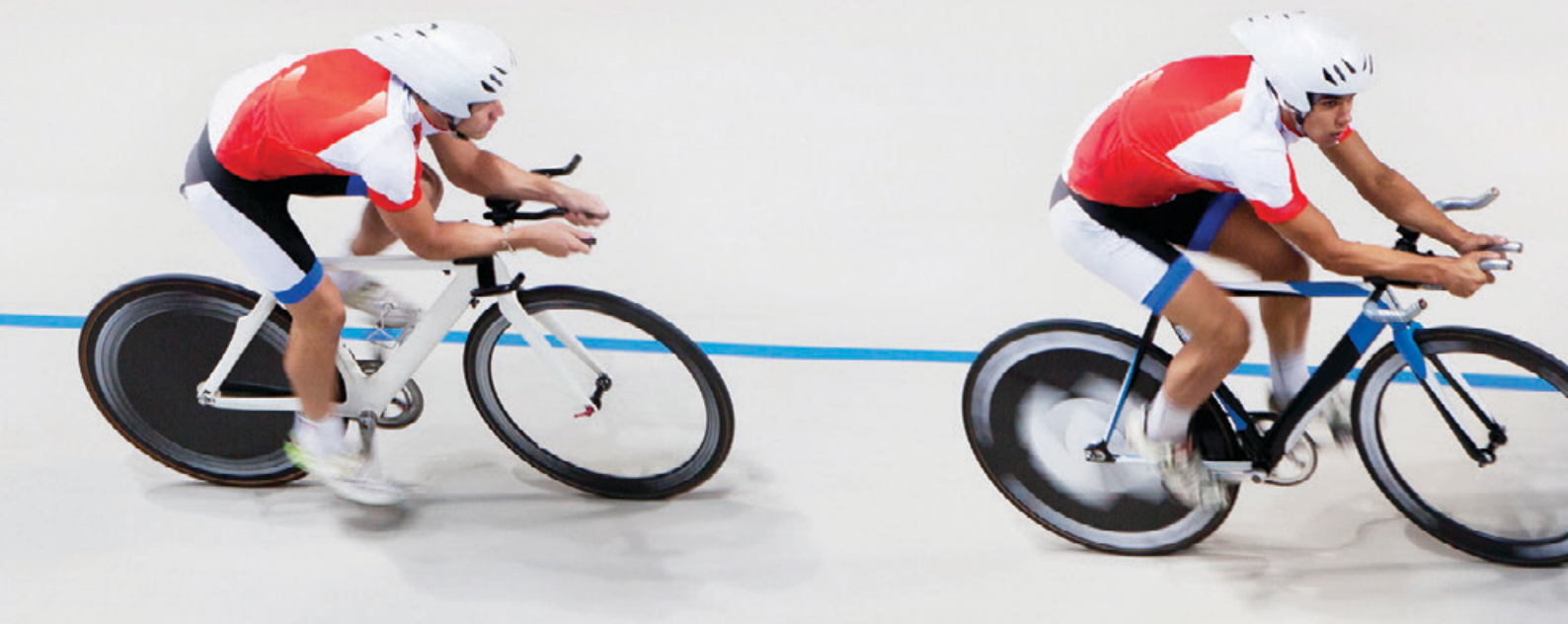
Biomarkers are key components in the process to measure and monitor changes across the range of major human diseases and disorders and where there are substantial and significant unmet needs and enormous economic value. By using innovative techniques including mass spectrometry these can be addressed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

Potential clients 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 are 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.



Proteome Sciences at a glance

Proteome Sciences is a leading Protein Biomarker Discovery Service 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 labeled and label-free sample analysis platforms and data analysis tools at our ISO 9001:2008 accredited facility.

Our Biomarker Discovery Consulting Service provides access to extensive custom assay development options for a wide range of disease model and human sample types.

At the end of 2011 we had around 50 biomarkers covered by our assays and this number is expected to more than double in 2012 as we complete additional mass spectrometry assays.

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

ps biomarker services

Case study:

Quickly and accurately diagnosing stroke victims using our biomarker panels

Our extensive portfolio of patented plasma biomarkers of stroke and other brain damage-related disorders discovered in partnership with the Biomedical Proteomics Research Group at the University of Geneva have shown that blood proteins are able to accurately rule out 90% of patients that have not had a stroke but who may currently be misdiagnosed in primary care and allows 90% of genuine strokes to be confirmed within minutes of the onset of symptoms.

These biomarkers provide a highly effective way of minimising long-term disability in ischaemic stroke, reduce the cost of care and considerably improve the quality of life for stroke patients and their families.

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 (AD) 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:

Alzheimer's plasma biomarker validation study aimed at addressing major unmet needs

In collaboration with the National Institute for Health Research (NIHR), Biomedical Research Centre for Mental Health and Merck Millipore, Proteome Sciences has completed a large, 1,000 sample Alzheimer's Disease (AD) biomarker validation study. Our analysis of the data from this study provides individual markers and defined marker panels that have good diagnostic and prognostic utility.

Preliminary results indicate that these biomarkers could form the basis of a series of simple blood tests for the diagnosis and management of this debilitating disease. Such tests will address a major unmet need and will have widespread application and commercial value. We are hopeful that these will benefit patients and families suffering from the devastating effects of Alzheimer's.

Case study:

Targeting methods to identify cognitive skills and development disorders in children

A new project called DENAMIC (Developmental Neurotoxicity Assessment of Mixtures in Children) has been awarded a €6.99m EU Framework 7 Grant over the next two years to study the effects of environmental contamination in health and developmental disorders in children. As a key participant, Proteome Sciences will receive €0.530m for its contribution to the project. The study will be undertaken with mass spectrometry using TMT® labelled peptides from which biomarker assays will be developed.

The project aims to develop tools and methods to monitor neurotoxic effects of environmental pollutants that may cause adverse effects on cognitive skills and developmental disorders in children including Attention Deficit Hyperactivity Disorder, autism and anxiety disorders. We hope to provide a range of novel diagnostic biomarker assays to help manage these diseases through early diagnosis and assist in the development of new treatments.

Operational and financial review

Performance fuels expectation for growth in 2012 and beyond

Key achievements 2011

— Strong first half growth for PS Biomarker Services™ and sharp growth in TMT® revenues delivered

— Launch of SysQuant™ assay presents Proteome Sciences' with a significant USP as a biomarker services provider

— Significant breakthrough in the evolution of mass spectrometry, opening up new commercial opportunities

— Range of new commercial contracts and strategic collaborations secured

— IP portfolio strengthened

Key objectives 2012

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

— The sales and marketing support and infrastructure that we have developed over the last six months is fundamental to achieving that goal and this is now being reflected in the level of orders, enquiries and interest in our products and services

— Maximising the value of the TMT® franchise and target future jump in sales and sustained growth from TMT® reagent portfolio

— Focus our main attention towards PS Biomarker Services™ and Proprietary Biomarkers and deliver considerable expected revenue growth in 2012 and beyond

— Continue to focus on cash generation and being sustainably profitable

+127%

Group revenue

Full year revenue increased to £1.02m (2010: £0.45m excluding the exceptional warranty settlement from Sanofi-Aventis)

+217%

Grant Services revenue

Grant Services revenue increased to £0.36m (2010: £0.11m)

Revenue growth

PS Biomarker Services™ revenue – strong growth in the first half and further growth expected in 2012

The strong growth of PS Biomarker Services™ in the first half of the year continued with full year revenue increasing 127% to £1.02m (2010: £0.45m excluding the exceptional income from the warranty settlement from Sanofi-Aventis). In the breakdown of revenue, Licences/Sales/Services rose 97% to £0.66m (2010: £0.34m), Grant Services trebled to £0.36m (2010: £0.11m) and TMT® Reagent sales increased 53%. This is expected to continue in 2012 with increased market penetration supported by industry projections of 26.5% compound growth in the global biomarker market through to 2017. Significant progress has been achieved raising our profile and with the expectation that the benefits will come through in 2012 and with further strong growth in products and services as currently evidenced in the first half of the year.

TMT® revenue – Revenue grows sharply, expected to continue

As predicted, TMT® revenue grew sharply with reagent sales increasing by 53% in 2011. We expect that this rate of growth should continue and accelerate in 2012 and beyond with TMT® 18 plex becoming more widely available, dramatically increasing the value proposition. Comparative performance of different quantitative proteomics methods at the American Society for Mass Spectrometry (ASMS) in 2011 demonstrated that TMT® 6 plex provided the optimum performance. This positive endorsement of key opinion leaders will further accelerate the use of TMT® into mainstream biological and medical research groups and is expected to fuel a significant rise in revenues and a more meaningful group contribution. Two new complementary TMT®s have also been added to the range, Iodo TMT® and Hydrazine TMT® that will contribute to even stronger sales growth.

Dedicated US based business development and marketing team added

A major initiative was implemented in Q4 2011 to increase sales of our products and services, following the appointment of a North American business development/marketing team. After the integration of the existing customer database with their established networks and the launch of the new website at the end of 2011, the impact of these changes is feeding through into a fast expanding range of new customers and orders. This will be increasingly visible in H1 2012 and we are confident of a considerable increase in revenue in 2012.

Major developments

Increasing our biomarker services offer
We have concentrated on expanding PS Biomarker Services™ and the amount of assays and services that we provide principally using our own proprietary biomarker content. At the end of 2011 we had around 50 biomarkers covered by our assays and this figure is expected to at least double in 2012 as additional mass spectrometry assays are completed. In the year we have announced 6- and 3- plex breast cancer assays, cell signalling pathway assays, assays for brain damage, AD cerebrospinal fluid (CSF), and for CSF QC. Increased commercial and academic interest focusing on Tau protein has necessitated the expansion of our Tau phosphorylation assays in AD to 10 sites including some CK1 specific sites.

Launch of 'game changing' SysQuant™ assay
The most recent major development has been the recent launch of the SysQuant™ global phosphorylation assay in March 2012 at the AACR meeting in the US. This is a multiplexed quantitative mass spectrometry based assay for the simultaneous measurement of multiple phosphoproteins. SysQuant™ provides comprehensive measurement of signalling pathway activity in cultured cells, tumour tissue and frozen clinical samples. SysQuant™ can be used both as a discovery tool and in clinical applications for drug discovery, clinical research and diagnostics. SysQuant™ is a 'game changing' assay that will give PS Biomarker Services™ a significant USP in the biomarker space and should make a considerable contribution to our assay portfolio and revenues.

Significant breakthrough in the evolution of mass spectrometry
The 2012 ASMS meeting will provide the backcloth to the launch of MS3 TMT® Mass Spectrometry Workflow. This will create a quantum leap in TMT® isobaric mass spectrometry performance that will be exclusive to PS Biomarker Services™ and its customers. We have developed a multiplexed mass spectrometry based assay workflow that virtually eliminates the ratio distortion interface seen with the current two-stage mass spectrometry (MS2) methodologies which use isobaric labelling techniques. This represents a significant breakthrough in the evolution of mass spectrometry for use in multiplexed quantitative proteomics and opens up the door to use of this technology in a far wider range of proteomics applications for basic research, drug discovery and diagnostics. Proteome Sciences will be negotiating licenses this for technology with mass spectrometry equipment manufacturers that will position us with a substantive and exclusive advantage over the competitors.

Preliminary 1,000 sample Alzheimer's results show extremely encouraging data
The large 1,000 patient sample study in Alzheimer's disease was slightly delayed into 2012 because of the volume and complexity of the data analysis, however the release of the preliminary results in March delivered highly encouraging results that show the biomarkers have significant potential diagnostic and prognostic utility and that these can quickly form the basis of a series of simple blood tests for the diagnosis and management of Alzheimer's.

TMT® reagents now sufficient to address increased mass spectrometry market over coming years
In 2011 we completed the synthesis of a large new production batch of the core TMT® molecule with enhanced features to match recent developments in mass spectrometry. Whilst the process is highly complex and involves multiple sequential stages taking around a year, Proteome Sciences now holds sufficient core TMT® reagents to address the increased market requirements for the next few years.

Sens-it-iv makes progress towards animal testing alternative
With results announced from the Sens-it-iv project in November, Proteome Sciences has made significant progress towards the goal of replacing animal testing for key allergens. We have developed a number of novel *in vitro* assays for testing these allergens in products including chemicals, pharmaceuticals, cosmetics and detergents and these *in vitro* assays will shortly become mandatory under EU legislation.

Case study:

Improving breast cancer treatment

Under the research agreement with The Buck Institute, Proteome Sciences is supporting development of clinical mass spectrometry assays measuring molecular changes in estrogen receptor (ER) that have been shown to be associated with response to anti-estrogen therapies in breast cancer.

At present, 80% of breast cancers are characterised by increased expression of ER which can be treated with therapies such as tamoxifen. However, over one third of ER positive patients never respond to treatment and of those who do respond, 30-50% become resistant during treatment.

By combining expertise in this collaboration, we will be able to rapidly convert fundamental scientific research into targeted protein assay products enabling better treatment choices through biomarker-guided selection of the most appropriate targeted therapies. Together with regular monitoring of resistance markers during treatment, the outcome for breast cancer patients will significantly improve.

6 key...

...new customer contracts/ collaborations

During 2011, we secured 6 key new commercial contracts/collaborations. They include: Eisai Ltd, Takeda and Siena Biotech S.p.A

600+

IP portfolio strengthened

Another 26 patents granted and a further 26 applications were filed in 2011 taking our total to over 600

Contracts, collaborations and partnerships

Securing new customer contracts and strategic collaborations

Following the PS Biomarker Services™ contract with Janssen (J&J) at the end of 2010, biomarker services contracts were secured with Eisai Ltd for our AD TMT-SRM assay, a follow-on CNS contract with Takeda, a master services agreement with Siena Biotech S.p.A and a contract with Siena Biotech in a neurological disease in 2011. Strategic collaborations were closed with Moffitt Cancer Center and Buck Institute in the US in the fields of cancer pathways and breast cancer respectively allowing us to rapidly produce novel biomarker assays and expand our range of products and sales. These provided further validation of Proteome Sciences technology and services and the building blocks for further value generation.

Working in partnership with Kings College London to quickly develop and licence content for commercial application

Three biomarker panels in blood, each containing between 11 and 16 proteins have been identified which discriminate between mild cognitive impairment (MCI), AD and control. Further IP has been filed around these panels which include and combine markers covered by existing patents with additional newly validated biomarkers which will all come under the research use only license we provided to Merck Millipore for their Milliplex platform. Together with King's College London, we will move quickly to develop clinical tests based on these biomarker panels and to license that content to the major diagnostic companies. Such tests will address a major unmet need and will have widespread application and commercial value and most importantly will help patients and families suffering from the devastating effects of AD.

Key role in European study on the effects of environmental contamination in children

The excellent results achieved from the Sens-it-iv EU framework 7 Grant have assisted us in securing a key role in the DENAMIC €6.99m EU Framework 7 Grant over the next two years to study the effects of environmental contamination in health and developmental disorders in children. Proteome Sciences has been selective in joining high quality consortia/ proposals that fit our criteria of interest and we are optimistic that further applications will be successful.

IP portfolio

Our unrivalled asset base

Proteome Sciences has established an unrivalled asset base through our extensive IP portfolio of key biomarkers across a broad range of diseases, applications and technologies. In 2011 we had another 26 patents granted with a further 26 applications filed taking the total to over 600. We are actively engaged in increasing our IP estate for shareholders and its importance and underlying value will be demonstrated by new license fees, milestones and royalties.

Identifying and developing patented biomarkers with speed to create new revenue streams

Using the PS Biomarker Services™ platform we identified and filed patents for over 100 biomarkers from cells in the immune system and more than 100 more from skin cells. Eight of these were selected and were developed into TMT-SRM assays in just four weeks with excellent results. Assays will be made initially for the most important biomarkers and marketed to industrial manufacturers producing a wide range of products to confirm the safety of their products. This will lead to new revenue streams with a range of novel industrial testing products and service contracts for PS Biomarker Services™.

CK1 testing completed leading to additional IP filing

The selected compounds previously identified as potential inhibitors against CK1 completed their testing in cells and showed good activity. Further IP was filed to cover the results which the Directors believe will considerably increase the value of the CK1 programme. Further refinement of the new compounds has been undertaken and we are targeting to move to an *'in vivo'* model system to complete lead optimisation in mid-2012 and licensing later in the year.

Financial review

Revenue performance

Revenue for the twelve month period ended 31st December 2011 increased 127% to £1.02m (2010: £0.45m excluding the exceptional £9.53m income from the Sanofi-Aventis warranty claim settlement). In the breakdown of revenue, Licences/ Sales/Services rose 97% to £0.66m (2010: £0.34m), Grant Services trebled to £0.36m (2010: £0.11m) and TMT® reagent sales increased 53%. The loss before tax was reduced to £4.51m, down from £4.94m loss before tax in 2010 (excluding the exceptional income from the warranty settlement from Sanofi-Aventis).

Costs and available cash

Costs are broadly unchanged over 2011 and are likely to remain relatively constant in 2012. After the R&D tax credit, the loss after taxation for the period was £1.01m lower at £3.96m (2010: £4.97m excluding the exceptional income from the Sanofi-Aventis warranty settlement).

Cash at the year end was £4.06m.

Outlook for 2012

The key objectives for 2012 are to focus on optimising revenue from our three core areas: PS Biomarker Services™, Proprietary Biomarkers and TMT® chemical reagents. The sales and marketing support and infrastructure that we have developed over the last six months is fundamental to achieving that goal and this is now being reflected in the level of orders, enquiries and interest in our products and services. As exclusive licensee, ThermoScientific is intent on maximising the value of the TMT® franchise and is targeting a quantum jump in sales in TMT® reagent over the next few years. We have already made the investment and products to deliver this, and we look forward to disproportionate and sustained growth from the TMT® reagent portfolio.

PS Biomarker Services™ and Proprietary Biomarkers are receiving the main attention and these are expected to deliver considerable revenue growth in 2012 and beyond and for Proteome Sciences to become cash generative and sustainably profitable.

With the rapid build of biomarker services contracts, the growth in TMT® reagents, and the prospect of multiple licenses from our proprietary biomarkers, particularly in Alzheimer's disease and stroke, we will be able to show how close we are to fulfilling that objective.

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, USA

Dr. Rainer Voegeli
Commercial Director, Europe

Dr. Hans-Dieter Zucht
Chief Technical Officer,
Proteome Sciences R&D, Frankfurt

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

Dr. Anthony Walker
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 USA.

Senior Management Team:

Glenn Barney
VP Business Development, USA
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. Rainer Voegeli
Commercial Director, Europe
Dr. Rainer Voegeli joined Proteome Sciences in September 2007 after being Head of Business Development at BioVisioN AG (later Digilab BioVisioN GmbH) where he concluded deals with many major pharmaceutical companies. Before moving into Biotechnology, he worked for ASTA Medica AG in research and business development positions in Germany and the USA. Rainer Voegeli qualified with a PhD in biochemistry at the University of Giessen, Germany and has developed considerable proteomics expertise in peptides and proteins.

Senior management team and board of directors (continued)

Dr. Hans-Dieter Zucht
Chief Technical Officer, Proteome Sciences R&D, Frankfurt
Dr. Zucht came to Proteome Sciences in November 2008. He was Chief Technology Officer and Head of Bioinformatics at Biovision AG (Digilab Biovision GmbH) in Germany for 10 years. A biochemist by training, he worked from 1992 in molecular biology and peptide biochemistry at the Lower Saxony Institute of Peptide Research (later IPF pharmaceuticals) in Hanover, Germany. He is visiting professor at the Paris Lodron University in Salzburg, Austria.

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 45 years including with ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is non-executive Director of Advanced Medical Solutions plc and Phynova plc and is non-executive Chairman of Cyprotex plc, Aquapharm Biodiscovery Ltd and Ocelus 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 Ltd, Pharmovation Ltd, Novolytics Ltd, Antitope Ltd and a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Dr. Anthony Walker
Non-executive Director (i) (ii)
Dr. Anthony Walker has considerable commercial and scientific expertise in the life sciences and biotechnology industries with 12 years as CEO of Onyvax, a cancer vaccines company he co-founded in 1997, and currently as a partner of Alacrita LLP. He spent 10 years as a management consultant specialising in the pharmaceutical and biotechnology industries initially at Arthur D. Little where he launched the UK Pharmaceutical Practice and subsequently at Wilkerson Group.

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

Directors' report

for the year ended 31st December 2011

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report, for the year ended 31st December 2011.

Directors' responsibilities
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 elected to prepare the parent company financial statements in accordance with 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 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; and

— 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

— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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.

Principal activity and business review
The Group is required to set out in this report a review of the business of the Group during the financial year ended 31st December 2011 and of the position of the Group at the end of that financial year and a description of the principal risks and uncertainties facing the Group. Other information that fulfils the requirements of the Business Review including an analysis of the key performance indicators can be found in the Directors' report, in the Chairman's message on page 02 and in the financial statements on pages 24 to 56.

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™ (incorporating ProteoSHOP®) 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.

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 licencing 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 Company'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.

Post balance sheet events
Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

Financial instruments
Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies is given in note 27 on pages 54 to 56.

Results and dividends
The loss after tax for the year was £3,957,341 (2010 – profit: £4,563,163 after crediting the receipt of income from the settlement of the Sanofi-Aventis claim). The Directors do not recommend the payment of a dividend (2010: £nil). The Group results are described in the consolidated income statement on page 24.

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
Professor A.E.A. Lindberg (resigned 10th January 2011)	Non-Executive
Dr. A.I. Walker	Non-Executive

In accordance with the Company's articles, J.L. Malthouse and Professor W. Dawson retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' report (continued)

for the year ended 31st December 2011

The Directors at 31st December 2011 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	31st December 2011 Number of Ordinary Shares of 1p each	31st December 2010* 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	**–**	–

* or date of appointment, if later.

No changes took place in the beneficial interests of the Directors between 31st December 2011 and 6th June 2012.

b) Number of Ordinary Shares under option:

		Number at 31st December 2010	Lapsed in the year	Adjustment (i)	Number at 31st December 2011	Exercise price (pence)	Date of grant
C.D.J. Pearce	(ii)	264,255	(264,255)	–	**–**	117.5p	9th July 2004
J.L. Malthouse	(ii)	159,574	(159,574)	–	**–**	117.5p	9th July 2004
Dr. I.H. Pike	(iii)	60,301	–	21,286	**81,587**	49.75p	25th November 2002
	(iv)	94,594	–	33,392	**127,986**	73.91p	6th December 2004
		154,895	–	54,678	**209,573**		

(i) Details of the adjustment to the number of shares under option and their exercise price are set out in Note 21 (iv)(a) to the Accounts on page 49.

(ii) Denotes options granted under the Unapproved Scheme which was adopted in 1994. The options are exercisable on or after the third anniversary of the date of grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the seventh anniversary of the date of grant.

(iii) Denotes options granted under the Approved Scheme which was adopted in 1995. The options are exercisable on or after the third anniversary of the date of the grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the tenth anniversary of the date of grant.

(iv) 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 LTIP, in each case for an aggregate consideration of £1, are as follows:

		Number at 31st December 2010*	Lapsed in the year	Adjustment	Granted in the year	Number at 31st December 2011
(i) C.D.J. Pearce	(a)	204,785	–	72,289	–	**277,074**
	(b)	1,882,500	(1,882,500)	–	–	**–**
	(c)	–	–	–	1,174,269	**1,174,269**
		2,087,285	(1,882,500)	72,289	1,174,269	**1,451,343**
(ii) J.L. Malthouse	(a)	190,915	–	67,393	–	**258,308**
	(b)	1,170,000	(1,170,000)	–	–	**–**
	(c)	–	–	–	767,251	**767,251**
		1,360,915	(1,170,000)	67,393	767,251	**1,025,559**
(iii) Dr. I.H. Pike	(a)	122,382	–	43,201	–	**165,583**
	(b)	750,000	(750,000)	–	–	**–**
	(c)	–	–	–	654,971	**654,971**
		872,382	(750,000)	43,201	654,971	**820,554**

* or date of appointment, if later.

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to in the LTIP section on pages 21 and 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 (i) (a), (ii) (a) and (iii) (a) at the 31st December 2011 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 (i) (a), (ii) (a) and (iii) (a) was 49.75p, for the awards numbered (i) (b), (ii) (b) and (iii) (b) was 25p and for the awards numbered (i) (c), (ii) (c) and (iii) (c) was 21.375p.

d) As set out in note 20(b) (i) to (viii) 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 2011 was 30p and the range during the year was 17.25p to 41.50p.

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 46 years including with ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is also the non-executive Chairman of Cyprotex plc.

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, Pharmovation Limited, Novolytics Limited, Antitope Limited and was Chair of the Board of Governors of De Montfort University from 2008 to 2011. He is also a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Dr. Anthony Walker has considerable commercial and scientific expertise in the life sciences and biotechnology industries with 12 years as CEO of Onyvax, a cancer vaccines company he co-founded in 1997, and currently as a partner at Alacrita LLP. Previously he spent ten years as a management consultant specialising in the pharmaceutical and biotechnology industries, initially at Arthur D. Little where he launched the UK Pharmaceutical Practice and subsequently at The Wilkerson Group.

Substantial shareholdings
As at 29th May 2012, 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	31,538,075	16.38
Vulpes Life Science Fund	33,100,000	17.20

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 (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 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 and 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.

Key performance indicators ("KPI's")

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 02 of these accounts.

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 2011 are set out on page 30 of these accounts and in notes 24 and 25.

The Group maintained a positive cash balance in 2011 but continues to seek to generate improved cashflows from commercial income.

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 02 and the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the Accounts, in particular in the consolidated cash flow statement on page 30 and in notes 20 (financial liabilities) and 27 (financial instruments).

The Group is heavily reliant upon the generation of commercial revenues and intends to achieve this by sub-licensing its discoveries and products to third parties. There can be no assurances that such licencing arrangements will be successful and hence the timings and amounts of such revenue are uncertain. The Directors have concluded that these circumstances represent a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, after making appropriate enquiries and in view of the Group's current cash resources and the operational cash outflows and inflows anticipated over the next twelve months, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual report and accounts.

Remuneration committee report

The Remuneration Committee is made up of three non-executive Directors, Professor W. Dawson, R.S. Harris and Dr. A.I. Walker. 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.

The Company's Long Term Incentive Plan was closed for new awards in 2009 and during the year the Remuneration Committee, in conjunction with Wessex Professional Services Ltd, a specialist executive compensation and share scheme consultancy, addressed the need to replace this scheme and the 2004 Share Option Plan which had also expired.

Following this review proposals were put to shareholders to introduce new share option schemes and on 29 June 2011 shareholders approved the introduction of a new Long Term Incentive Plan and a Discretionary Share Option Plan.

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.

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 2011, 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 (2010: nil). The equivalent figure for the Group is 23 days (2010: 19 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 29th June 2012, as well as the routine business, the following items will be proposed as Special Business:

i) Resolution 5 – An Ordinary Resolution (Resolution 5), as set out in the notice of meeting on page 58, will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £641,019.93 which represents approximately a third of the current issued Ordinary Share capital of the Company as at 6th June 2012. The authority will lapse at the conclusion of the next Annual General Meeting after the passing of the Resolution or on 29th June, 2013, whichever is the earlier. The Directors do not have any present intention of exercising this authority.

ii) Resolution 6 – Resolution 6, which is set out in the notice of meeting 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 £384,996.95, representing 20 per cent of the current issued Ordinary Share capital of the Company as at 6th June, 2012. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or on 29th June, 2013, 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

6th June 2012

Independent auditor's report

For the year ended 31st December 2011

To the Members of Proteome Sciences plc
We have audited the financial statements of Proteome Sciences plc for the year ended 31st December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 29. 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. 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 2011 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.

Emphasis of matter – Going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the company's ability to continue as a going concern. As at 31st December 2011, the Group had cash and cash equivalents of £4.06m being a reduction of £5.34m on the prior year. The Group has a fixed cost base and is therefore reliant upon a significant growth in commercial revenues to realise its assets and discharge its liabilities in the normal course of business.

These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in 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
Chartered Accountants and Statutory Auditor
Southampton, United Kingdom

6th June 2012

Consolidated income statement

for the year ended 31st December 2011

Notes		Year ended 31st December 2011 £	Re-presented Year ended 31st December 2010* £	Restated Year ended 31st December 2010 £
Continuing operations				
Revenue				
Warranty settlement		**–**	–	9,530,000
Licences/sales/services		**663,030**	336,628	336,628
Grant services		**358,137**	113,460	113,460
Revenue	5, 6	**1,021,167**	450,088	9,980,088
Cost of sales		**(257,274)**	(105,144)	(105,144)
Gross profit		**763,893**	344,944	9,874,944
Administrative expenses	7	**(5,105,213)**	(5,001,223)	(5,001,223)
Operating (loss)/profit		**(4,341,320)**	(4,656,279)	4,873,721
Investment revenues	8 (i)	**23,847**	14,342	14,342
Finance costs	8 (ii)	**(192,782)**	(299,365)	(299,365)
(Loss)/profit before taxation		**(4,510,255)**	(4,941,302)	4,588,698
Tax	12	**552,914**	(25,535)	(25,535)
(Loss)/profit for the period from continuing operations		**(3,957,341)**	(4,966,837)	4,563,163
Attributed to shareholders of the company		**(3,957,341)**	(4,966,837)	4,563,163
(Loss)/earnings per share				
Basic and diluted	13	**(2.06p)**	(3.04p)	2.79p

*These figures exclude the exceptional warranty settlement income received in the year as explained in Note 5.

Further details of the re-statement of the 2010 figures are set out in Note 5.

Consolidated statement of comprehensive income

for the year ended 31st December 2011

	Year ended 31st December 2011 £	Year ended 31st December 2010 £
Exchange differences on translation of foreign operations	**(141,525)**	(21,241)
Other comprehensive expense for the year	**(141,525)**	(21,241)
(Loss)/profit for the year	**(3,957,341)**	4,563,163
Total comprehensive (expense)/income for the year attributable to equity holders of the company	**(4,098,866)**	4,541,922

Consolidated balance sheet

as at 31st December 2011

	Notes	2011 £	2010 £
Non-current assets			
Goodwill	14	**4,218,241**	4,218,241
Property, plant and equipment	15	**660,682**	677,336
Other investments	17	**763,502**	763,502
		5,642,425	5,659,079
Current assets			
Inventories	18	**300,521**	209,281
Trade and other receivables	19 (a)	**902,588**	184,779
Cash and cash equivalents	19 (b)	**4,064,080**	9,543,870
		5,267,189	9,937,930
Total assets		**10,909,614**	15,597,009
Current liabilities			
Trade and other payables	20 (a)	**(673,632)**	(1,440,798)
Current tax liabilities		**(18,033)**	(49,757)
Short-term borrowings	20 (b)	**(6,526,260)**	(6,333,478)
Short-term provisions	20 (c)	**(213,301)**	(404,440)
		(7,431,226)	(8,228,473)
Net current (liabilities)/assets		**(2,164,037)**	1,709,457
Non-current liabilities			
Long-term provisions	20 (c)	**(179,580)**	(149,788)
Total liabilities		**(7,610,806)**	(8,378,261)
Net assets		**3,298,808**	7,218,748
Equity			
Share capital	21	**1,921,724**	1,921,724
Share premium account	23	**40,582,138**	40,582,138
Equity reserve	23	**2,785,744**	2,606,818
Other reserve	23	**10,755,000**	10,755,000
Translation reserve	23	**(42,705)**	98,820
Retained loss	23	**(52,703,093)**	(48,745,752)
Total equity		**3,298,808**	7,218,748

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 6th June 2012. They were signed on its behalf by:

C.D.J. Pearce
Director

J.L. Malthouse
Director

6th June 2012. The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

as at 31st December 2011

	Notes	2011 £	2010 £
Non-current assets			
Investment in subsidiaries	16	**40,942,804**	35,218,808
Other investments	16	**763,502**	763,502
		41,706,306	35,982,310
Current assets			
Trade and other receivables	19 (a)	**4**	4
Cash and cash equivalents	19 (b)	**3,879,383**	9,522,416
		3,879,387	9,522,420
Total assets		**45,585,693**	45,504,730
Current liabilities			
Loan from other group entity		**(299,835)**	(307,568)
Short-term borrowings	20 (b)	**(1,257,658)**	(1,220,540)
		(1,557,493)	(1,528,108)
Non-current liabilities			
Long-term provision	27 (c)	**(33,683)**	–
Total liabilities		**(1,591,176)**	(1,528,108)
Net assets		**43,994,517**	43,976,622
Equity			
Share capital	21	**1,921,724**	1,921,724
Share premium account	23	**40,582,138**	40,582,138
Group reconstruction reserve	23	**1,082,244**	1,082,244
Equity reserve	23	**2,785,744**	2,606,818
Retained loss	23	**(2,377,333)**	(2,216,302)
Total equity		**43,994,517**	43,976,622

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 6th June 2012. They were signed on its behalf by:

C.D.J. Pearce
Director

J.L. Malthouse
Director

6th June 2012

Consolidated statement of changes in equity

for the year ended 31st December 2011

	Share capital £	Share premium account £	Equity reserve £	Translation reserve £	Other reserve £	Retained loss £	Total £
At 1st January 2010	1,328,036	29,660,338	2,207,586	120,061	10,755,000	(53,308,915)	(9,237,894)
Profit for the year	–	–	–	–	–	4,563,163	4,563,163
Exchange differences on translation of foreign operations	–	–	–	(21,241)	–	–	(21,241)
Total comprehensive income/(expense) for the year	1,328,036	29,660,338	2,207,586	98,820	10,755,000	(48,745,752)	(4,695,972)
Issue of share capital	593,688	10,921,800	–	–	–	–	11,515,488
Credit to equity for share-based payment	–	–	399,232	–	–	–	399,232
At 31st December 2010	1,921,724	40,582,138	2,606,818	98,820	10,755,000	(48,745,752)	7,218,748
At 1st January 2011	1,921,724	40,582,138	2,606,818	98,820	10,755,000	(48,745,752)	7,218,748
Loss for the year	–	–	–	–	–	(3,957,341)	(3,957,341)
Exchange differences on translation of foreign operations	–	–	–	(141,525)	–	–	(141,525)
Total comprehensive (expense)/income for the year	1,921,724	40,582,138	2,606,818	(42,705)	10,755,000	(52,703,093)	3,119,882
Credit to equity for share-based payment	–	–	178,926	–	–	–	178,926
At 31st December 2011	1,921,724	40,582,138	2,785,744	(42,705)	10,755,000	(52,703,093)	3,298,808

Company statement of changes in equity

for the year ended 31st December 2011

Company	Share capital £	Share premium account £	Group reconstruction reserve £	Equity reserve £	Profit and loss account £	Total £
At 1st January 2010	1,328,036	29,660,338	1,082,244	2,207,586	(1,951,540)	32,326,664
Retained loss for the year	–	–	–	–	(264,762)	(264,762)
Credit to equity for share based payment	–	–	–	399,232	–	399,232
Issue of share capital	593,688	10,921,800	–	–	–	11,515,488
At 31st December 2010	1,921,724	40,582,138	1,082,244	2,606,818	(2,216,302)	43,976,622
At 1st January 2011	1,921,724	40,582,138	1,082,244	2,606,818	(2,216,302)	43,976,622
Retained loss for the year	–	–	–	–	(161,031)	(161,031)
Credit to equity for share based payment	–	–	–	178,926	–	178,926
31st December 2011	1,921,724	40,582,138	1,082,244	2,785,744	(2,377,333)	43,994,517

Consolidated and company cash flow statements

for the year ended 31st December 2011

	Note	Group Year ended 31st December 2011 £	Company Year ended 31st December 2011 £	Group Year ended 31st December 2010 £	Company Year ended 31st December 2010 £
Cash flows from operating activities					
Cash (used in)/generated from operations	24	**(5,143,263)**	**(113,594)**	4,116,861	(90,538)
Interest paid		**–**	**–**	(299,365)	(186,187)
Tax (paid)/refunded		**(23,027)**	**–**	185,373	–
Net cash inflow/(outflow) from operating activities		**(5,166,290)**	**(113,594)**	4,002,869	(276,725)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(206,235)**	**–**	(630,775)	–
Interest received		**23,847**	**23,364**	14,342	11,963
Proceeds on asset disposal		**8,353**	**–**	–	–
Net cash (outflow)/inflow from investing activities		**(174,035)**	**23,364**	(616,433)	11,963
Financing activities					
Proceeds on issue of shares		**–**	**–**	11,515,489	11,515,489
Loans repaid		**–**	**–**	(5,453,540)	(1,767,418)
New loans advanced		**–**	**(5,552,803)**	–	–
Net cash from financing activities		**–**	**(5,552,803)**	6,061,949	9,748,071
Net (decrease)/increase in cash and cash equivalents		**(5,340,325)**	**(5,643,033)**	9,448,385	9,483,309
Cash and cash equivalents at beginning of year		**9,543,870**	**9,522,416**	131,158	39,107
Effect of foreign exchange rate changes		**(139,465)**	**–**	(35,673)	–
Cash and cash equivalents at end of year	25	**4,064,080**	**3,879,383**	9,543,870	9,522,416

Notes to the consolidated financial statements

for the year ended 31st December 2011

1 General information

Proteome Sciences plc is a company incorporated in the United Kingdom 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 Directors report on pages 16 to 22. 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 and revised standards

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

In the current financial year, the Group has adopted IAS 24 "Related Party Disclosures" and Improvements to IFRSs 2010 – as published in May 2010. IAS 24 simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by government related entities and clarifies the definition of a related party. This revision does not impact the Group's related party disclosures.

The Improvements to IFRSs 2010 incorporated necessary, but non-urgent amendments to seven International Financial Reporting Standards. The amendment most relevant to the Group is:

— IFRS 7 Financial Instruments – Disclosures

The required enhanced disclosures, where applicable have been incorporated in these financial statements.

The remaining six amendments in this collection of improvements do not currently impact the Group's financial statements.

The following Standards and Interpretations are also effective from the current financial year, but currently do not impact the Group's financial statements: IAS 32 (Amendment) "Classification of Rights Issues"; IFRS 1 (Amendments) "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"; and IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".

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 are not yet effective:

— IFRS 1 (Amendment) Removal of Fixed Dates for First-Time Adopters. Effective for annual periods beginning on or after 1st July 2011.

— IFRS 1 (Amendment) Severe Hyperinflation. Effective for annual periods beginning on or after 1st July 2011.

— IFRS 7 (Amendment) Disclosures – Transfers of Financial Assets. Effective for annual periods beginning on or after 1st July 2011. Endorsed by the EU.

— IFRS 7 (Amendment) Disclosures – Offsetting Financial Assets and Financial Liabilities. Effective for annual or interim periods beginning on or after 1st January 2013.

— IFRS 9 Financial Instruments. Effective from periods commencing on or after 1st January 2015.

— IFRS 10 Consolidated financial statements. Effective for annual periods beginning on or after 1st January 2013.

— IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after 1st January 2013.

— IFRS 12 Disclosures of Interests in Other Entities. Effective for annual periods beginning on or after 1st January 2013.

— IFRS 13 Fair Value Measurement. Effective for annual periods beginning on or after 1st January 2013.

— IAS 1 (Amendment) Presentation of Items of Other Comprehensive Income. Effective for reporting periods beginning on or after 1st July 2012.

— IAS 12 (Amendment) Deferred Tax: Recovery of Underlying Assets. Effective for annual periods beginning on or after 1st January 2012.

— IAS 19 (Amendments) Employee Benefits. Effective for annual periods beginning on or after 1st January 2013.

— IAS 27 Separate financial statements. Effective for annual periods beginning on or after 1st January 2013.

— IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1st January 2013.

— IAS 32 (Amendment) Presentation – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after 1st January 2014.

With the exception of IFRS 9, the Directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material impact on these financial statements, except for additional disclosures, when the relevant Standards come into effect.

IFRS 9 may impact both the measurement and disclosures of the Group's financial statements in future periods. However, it is not practicable to provide a reasonable estimate of the effect of this Standard 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.

Basis of preparation – going concern

The Group is heavily reliant upon the generation of commercial revenues and intends to achieve this by sub-licensing its discoveries and products to third parties. There can be no assurance that such licencing arrangements will be successful and hence the timings and amounts of such revenue are uncertain. The Directors have concluded that these circumstances represent a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, after making appropriate enquiries and in view of the Group's current cash resources and the operational cash outflows and inflows anticipated over the next twelve months, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent 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. In the prior year it also includes non-recurring income received in respect of the settlement of the warranty claim against Sanofi-Aventis Deutschland GmbH.

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 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 period. 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 as grant services on the face of the income statement. This represents a change in accounting policy from the prior year and gives rise to a prior year restatement. See note 5 for further information.

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

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

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG from Aventis Research & Technologies GmbH & Co. KG, the Group contributes to a defined benefit pension scheme in Germany. The scheme is a multi-employer defined benefit scheme administered by Pensions Kasse der Mitarbeiter der Hoechst-Gruppe. The scheme's assets are held in separately administered funds. The other employers who contribute to the scheme are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the scheme. Accordingly the scheme has been accounted for as a defined contribution scheme. The Group's contributions to the scheme are included within the amount charged to the income statement in respect of pension contributions.

No information is available about any surplus or deficit that exists in the scheme.

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.

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, patents 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 2011.

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. From a review of these projections, which can cover periods up to ten years, the Directors believe that the investments concerned will generate sufficient economic benefits to justify their 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
The Directors have valued other investments in the light of both the scientific and commercial developments achieved by the Company during the year and the price of recent stock issues. On this basis the Directors believe that their carrying value in the balance sheet is appropriate.

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:

	2011 £	Restated 2010 £
Licence/Sales/Services	663,030	336,628
Grant services	358,137	113,460
Warranty settlement	–	9,530,000
	1,021,167	9,980,088

Prior year restatement
The Group has changed its accounting policy in respect of the treatment of grants received which are now disclosed separately in the income statement within the revenue category, having previously been netted off against administrative costs therein. This change has had no effect on the operating profit for the year to the 31st December 2010, nor on net profit or net assets, and has been made to enable shareholders to receive a fuller description of the company's sources of revenue. The effect of the restatement on the figures previously disclosed for administrative expenses and for revenue is as shown below:

	31st December 2010	
	As originally stated £	Restated £
Total revenue	9,866,628	9,980,088
Administrative expenses	(4,887,763)	(5,001,223)

For the year ended 31st December 2010, in order to present a clearer view of the Group's results, an additional column has also been presented in the consolidated income statement which excludes the proceeds of the warranty settlement received in that year.

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.

IFRS 8, Operating Segments, has been applied from 1st January 2009. 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	
	2011 £	Restated 2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	Restated 2010 £
Revenue								
Revenue – all external	**1,021,167**	450,088	**87,420**	–	**–**	–	**1,021,167**	450,088
Warranty Settlement	**–**	9,530,000	**–**	–	**–**	–	**–**	9,530,000
Operating (Loss)/profit	**(2,123,709)**	7,061,193	**(2,181,670)**	(2,158,776)	**(35,941)**	(28,696)	**(4,341,320)**	4,873,721
Investment revenues	**23,364**	13,273	**483**	1,069	**–**	–	**23,847**	14,342
Finance costs	**(192,782)**	(299,129)	**–**	(236)	**–**	–	**(192,782)**	(299,365)
(Loss)/profit before tax	**(2,293,127)**	6,775,337	**(2,181,187)**	(2,157,943)	**(35,941)**	(28,696)	**(4,510,255)**	4,588,698
Tax	**586,181**	–	**(33,267)**	(25,535)	**–**	–	**552,914**	(25,535)
(Loss)/profit after tax	**(1,706,946)**	6,775,337	**(2,214,454)**	(2,183,478)	**(35,941)**	(28,696)	**(3,957,341)**	4,563,163

Details of the restatement of the 2010 figures are set out in Note 5.

	United Kingdom		Germany		US		Consolidated	
	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £
Other information								
Capital additions	**181,185**	9,681	**25,050**	621,093	**–**	–	**206,235**	630,774
Depreciation	**23,615**	9,000	**181,883**	159,141	**–**	–	**205,498**	168,141
Assets								
Segment assets	**5,217,419**	9,631,488	**4,912,356**	5,187,712	**16,337**	14,307	**10,146,112**	14,833,507
Other investments							**763,502**	763,502
Consolidated total assets							**10,909,614**	15,597,009

	United Kingdom		Germany		US		Consolidated	
	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £
Liabilities								
Segment liabilities	**(6,980,005)**	(7,702,475)	**(619,642)**	(665,026)	**(11,159)**	(10,760)	**(7,610,806)**	(8,378,261)

Revenues from major products and services

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

	2011 £	Restated 2010 £
Continuing operations		
TMT® product sales	**306,659**	218,935
Other	**356,371**	117,693
Grant services	**358,137**	113,460
Revenues from major products and services	**1,021,167**	450,088

Geographical Information

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

	2011 £	Restated 2010 £
UK	**102,273**	–
US	**332,052**	330,607
EU	**197,937**	
Other	**30,768**	6,021
	663,030	336,628
Grant services	**358,137**	113,460
Revenues from major products and services	**1,021,167**	450,088

Included in revenues arising from the US segment are revenues of approximately £306,659 (2010: £218,935) which arose from sales to the Group's largest customer.

7 Administrative expenses

	2011 £	Restated 2010 £
Administrative expenses excluding research and development	**2,821,508**	2,421,647
Research and development expenses	**2,283,705**	2,579,576
Administrative expenses	**5,105,213**	5,001,223

8 (i) Investment revenues

	2011 £	2010 £
Investment revenues represent income arising from bank deposits	**23,847**	14,342

(ii) Finance costs

	2011 £	2010 £
Interest on loans (note 20)	**192,782**	299,365

9 Operating (loss)/profit

Operating(loss)/profit is stated after charging/(crediting):

	2011 £	Restated 2010 £
Depreciation charge – owned	**205,498**	168,141
Research and development costs	**2,283,705**	2,579,576
Operating lease rentals – other	**259,127**	261,908
Auditors' remuneration (see below)	**78,000**	93,310
Staff costs (note 10)	**2,638,142**	2,664,786
Net foreign exchange gains	**(11,727)**	(130,629)
Cost of inventories charged as an expense	**82,231**	68,600

The analysis of auditors' remuneration is as follows :

	2011 £	2010 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**22,000**	20,550
Fees payable to the Company's auditors for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	**21,000**	25,700
Total audit fees	**43,000**	46,200
Tax services	**34,000**	39,562
Other services – VAT, grants and share schemes advice	**1,000**	7,548
Total non-audit fees	**35,000**	47,110

10 Staff costs

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

	2011 Number	2010 Number
Research and development	**32**	33
Administration	**6**	6
	38	39

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

	2011 £	2010 £
Wages and salaries	**2,188,195**	3,350,005
Social security costs	**393,590**	516,759
Other pension costs (see note 26(c))	**168,857**	799,001
	2,750,642	4,665,765
Less: Charged to the refinancing provision (see notes 11 and 20)	**(112,500)**	(2,000,979)
	2,638,142	2,664,786

Social security costs shown above include a charge of £33,678 (2010: nil) for a provision for notional National Insurance contributions payable upon the exercise of vested LTIP options.

The charge for wages and salaries in 2011 does not include any amount (2010 : £1,293,532) for salary payments to the executive directors made in accordance with note 11(xi) on the following page.

In addition, other pension costs in 2011 do not include any amount (2010 : £632,500) for pension payments to the executive directors which were also made in accordance with note 11(xi) on the following page.

11 Directors' remuneration and transactions

The Directors' emoluments in the year ended 31st December 2011, excluding pension costs, were:

	Basic salary 2011 £	Incentive Payments 2011 £	Benefits in kind 2011 £	Total 2011 £	Total 2010 £
Executive Directors					
C.D.J. Pearce	**251,000**	**–**	**11,939**	**262,939**	1,156,043
J.L. Malthouse	**142,133**	**–**	**7,551**	**149,684**	422,789
Dr. I. Pike	**123,333**	**70,000**	**3,347**	**196,680**	80,929
Non-Executive Directors					
Prof. W. Dawson	**27,500**	**–**	**–**	**27,500**	13,750
R.S. Harris	**38,000**	**–**	**–**	**38,000**	120,000
Dr. A. Walker	**32,200**	**–**	**–**	**32,200**	–
Dr. A.E.A. Lindberg (xi)	**50,000**	**–**	**–**	**50,000**	62,500
	664,166	**70,000**	**22,837**	**757,003**	1,856,011

(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. (2010: 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 21 and 22.

(vii) By agreements dated 1st July, 2006 certain executive and non-executive Directors agreed to waive all or part of their salaries with effect from that date. These agreements were to remain in force until the Company or the Director served notice of termination thereof by giving one day's prior written notice. The waived salaries were provided for as set out at note 20(c).

(viii) Subject to the provisions of (ix) below, in the event that there was, in the reasonably held opinion of the Director notified in writing to the Company, a successful licensing round, funding round, merger, material business acquisition or takeover by or of the Company, the Company agreed to make to the Director a payment (net of tax and other deductions) of an amount equal to the amount of the Remuneration that would have been payable to the Director up to the date of making such payment (or the end of the period from 1st July 2006 to such date as is notified by the Director under this clause (the "Period"), whichever occured first) had the Director not waived his entitlement to receive payment of such amount pursuant to (vii) above, provided that after a payment had been made pursuant to this clause, no further sum should be payable pursuant to (ix) below.

(ix) If any of the following events occurred before the payment referred to in (viii) above was paid, the Director would no longer be entitled to receive any payment pursuant to (viii) above (whether or not an event of the type referred to in (viii) has occurred) and the Company should have upon the first of such following events occurring become liable to pay to the Director an amount (net of tax and other deductions) equal to the amount of the remuneration that would have been payable to the Director up to the date of making such payment (or the end of the Period, whichever occurred first) had the Director not waived his entitlement to receive payment of such amount pursuant to (viii) above:

(a) Termination of the Director's employment with the Company.

(b) The making of any proposal to amend the Director's contract of service which the Director reasonably regards as involving a material adverse change in the rates of remuneration or the main terms of employment.

(c) Any insolvency event in respect of the Company, including the passing of any resolution to wind up (whether voluntarily or otherwise but not for the purpose of a solvent reconstruction or amalgamation), any composition with creditors and the appointment of a receiver or administrator to any material part of the Company's business or assets.

Provided that payment pursuant to this paragraph (ix) should be made on one occasion only and after such payment has been made, no further amounts should be payable to the Director pursuant to this paragraph.

(x) The Company re-instated the payment of full salaries to the Directors from the 1st July 2010.

(xi) By separate deeds of waiver dated 9th December, 2010 with R.S. Harris, Prof. W. Dawson, Dr. A. Lindberg, C.D.J. Pearce and J.L. Malthouse it was agreed that whilst the receipt of €11m (£9.5m) in full and final settlement of a claim issued by the company against Sanofi-Aventis Deutschland GmbH ("settlement") did not constitute an event under note (viii) above the Remuneration Committee of the Board had nevertheless resolved that in the light of the settlement it wished to pay various sums for the Directors in full and final settlement of any obligations that might be owed by the Company to them in the future as a result of the occurrence of such an event.

The payment to Dr. A.E.A. Lindberg relates to deferred salary from previous years.

(xii) An amount of £100,000 has been released in the 2011 accounts (2010: £2,000,979) from the provision of £112,500 at the 31st December 2010 to cover amounts which have been paid under (xi) above, and which relate to salaries waived and the related employer's national insurance thereon.

(xiii) 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.

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

	2011	2010
Money purchase pension schemes	**3**	2

Pension costs in the year ended 31st December 2011 were as follows:

	2011 £	2010 £
R.S. Harris	**50,000**	20,000
Prof. W. Dawson	**–**	123,750
C.D.J. Pearce	**22,500**	255,000
J.L. Malthouse	**40,656**	408,600
Dr. I. Pike	**12,333**	3,000
	125,489	810,350

Pension costs in 2011 include £50,000 (2010: £776,250) of costs arising from the payments made under clause (xi) above.

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/(charge) on (loss)/profit before taxation on ordinary activities

	2011 £	2010 £
UK Corporation tax –		
R&D tax credit	**586,181**	373
Overseas tax charge	**(33,267)**	(25,908)
Group tax credit/(charge) for the year	**552,914**	(25,535)

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

At 31st December 2011 there were tax losses available for carry forward of approximately £42.2 million (2010: £39.9 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/(charge) for the year is lower (2010: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £	2010 £
(Loss)/profit from operations	**(4,510,255)**	4,588,698
Income tax (charge)/credit calculated at 28.0% (2010 : 26.5%)	**1,195,218**	(1,284,835)
Effects of:		
Expenses that are not deductible in determining taxable profit	**(56,921)**	(126,868)
Fixed asset timing differences	**(6,258)**	(282)
Effect of concessions (Research and Development)	**475,524**	–
Short-term timing differences	**31,138**	557,436
(Losses surrendered for R&D tax credit)/R&D relief	**(1,109,557)**	629,547
(Unrecognised tax losses carried forward)/brought forward losses utilised	**(529,144)**	249,033
Effect of overseas tax	**(33,267)**	(49,938)
R&D tax credit claimed	**586,181**	372
Group tax credit/(charge) for the year	**552,914**	(25,535)

Unrecognised deferred tax	2011 £	2010 £
The following deferred tax assets and liability have not been recognised at the balance sheet date:		
Tax losses – revenue	**10,556,391**	10,470,449
Depreciation in excess of capital allowances	**(6,598)**	774
Provisions	**21,250**	53,950
Share based payments	**215,878**	361,657
Total	**10,786,921**	10,886,830

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.

Finance Act 2011

Finance (No 2) Act 2011 provided for a reduction in the main rate of corporation tax from 26% to 25%, effective from 1 April 2012. The 2012 Budget has proposed reducing the main rate of corporation tax further to 24% effective from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 December 2011, as the 1% reduction to 25% has been enacted, deferred tax has been recognised at 25%.

13 (Loss)/profit per ordinary share

The calculations of basic and diluted (loss)/profit per ordinary share are based on the following (losses)/profits and numbers of shares.

Basic and Diluted	2011 £	2010* £	2010 £
(Loss)/profit for the financial year	**(3,957,341)**	(4,966,837)	4,563,163

Number of shares	2011	2010*	2010
Weighted average number of ordinary shares for the purposes of basic earnings per share:	**192,172,408**	163,633,581	163,633,581
Effect of dilutive potential ordinary shares	**–**	–	450
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**192,172,408**	163,633,581	163,633,131

*These figures exclude the exceptional warranty settlement income received in the year as explained in Note 5.

In 2011 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 IFRS 33.

14 Intangible fixed assets – goodwill

	Goodwill £
Cost and carrying amount	
1st January 2011 and 31st December 2011	4,218,241

Goodwill 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 pages 31 to 35.

The Group regards Proteome Sciences R&D GmbH & Co. KG as a single cash-generating unit ("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 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from Proteome Sciences R&D GmbH & Co KG is 15 per cent (2010: 15 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 the Group. The movement in the year was as follows:

	Laboratory equipment, fixtures and fittings Total £
Cost	
1st January 2010	3,023,867
Exchange adjustments	(71,833)
Additions during the year	630,774
Disposals during the year	–
1st January 2011	3,582,808
Exchange adjustments	(64,478)
Additions during the year	206,235
Disposals during the year	(1,326)
31st December 2011	3,723,239
1st January 2010	2,801,702
Exchange adjustments	(64,371)
Disposals during the year	–
Charge for the year	168,141
1st January 2011	2,905,472
Exchange adjustments	(47,789)
Disposals during the year	(624)
Charge for the year	205,498
At 31st December 2011	3,062,557
Carrying amount	
31st December 2010	677,336
31st December 2011	660,682

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 2010	5,002,152	38,627,857	763,502	44,393,511
Additional/(reduced) investment in the year	399,232	(8,810,433)	–	(8,411,201)
At 31st December 2010	5,401,384	29,817,424	763,502	35,982,310
At 1st January 2011	5,401,384	29,817,424	763,502	35,982,310
Additional investment in the year	178,926	5,545,070	–	5,723,996
At 31st December 2011	5,580,310	35,362,494	763,502	41,706,306

(i) The increase in the cost of shares in subsidiary undertakings of £178,926 (2010: £399,232) 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 2011 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.

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.	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Veri-Q Inc.	U.S.A.	Research Company	76.9% Common Stock	76.9% Common Stock
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

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

17 Other investments

Group	£
Cost at 1st January 2011 and 31st December 2011	989,258
Amounts written off at 1st January 2011 and 31st December, 2011	(225,756)
Net Book Value at 31st December 2011	763,502

Company	£
At 1st January 2011 and 31st December 2011	763,502

The Company's investment in VIRxSYS currently consists of 1,173,712 (2010: 1,173,712) Series G-1 Preferred Stock. The Company may also receive two further tranches each of 293,428 shares, contingent upon the achievement of certain milestones.

In addition, the Company had a Stock Purchase Right which entitles it to purchase from VIRxSYS, at a purchase price of $2.25, up to 880,284 shares of capital stock offered and sold by VIRxSYS in any private placement offering made for the purpose of raising funds. The Stock Purchase Right expired on 20th September 2011.

VIRxSYS is an unlisted company. The Directors have taken into account recent share issues by the Company and considered an appropriate discount to reflect the illiquidity of the shares. However, the Directors consider that it is not possible to establish a reliable fair value for this investment and accordingly, the investment has been recognised at cost less provision for impairment.

The Group owns shares of $0.001 common stock of Geneva Proteomics, Inc. which is incorporated in Delaware, United States of America, and shares of CHF100 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. At this stage 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.

Europroteome SA is currently in insolvency proceedings.

18 Inventories

	2011 £	2010 £
Work-in-progress	**213,150**	90,375
Finished goods	**87,371**	118,906
	300,521	209,281

19 Other financial assets

a) Trade and other receivables

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Amount receivable for the sale of goods	**68,301**	**–**	–	–
R&D tax credit recoverable	**586,181**	**–**	–	–
Other debtors	**82,539**	**4**	136,718	4
Prepayments	**165,567**	**–**	48,061	–
	902,588	**4**	184,779	4

No allowance for doubtful debts was made in 2011 or 2010 and thus no further disclosures on this matter are required in this note.

b) Cash and cash equivalents

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Cash and cash equivalents	**4,064,080**	**3,879,383**	9,543,870	9,522,416

20 Other financial liabilities

(a) Trade and other payables

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Trade creditors and accruals	**673,632**	**–**	1,440,798	–

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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Loan from related party	**6,526,260**	**1,257,658**	6,333,478	1,220,540

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.

(c) Provisions

Group	Re-financing provision £	Other provisions £	Pensions provision £	Total £
At 1st January, 2011	112,500	291,940	149,788	554,228
Additional provision in the year	–	33,683	–	33,683
Utilisation of provision	(112,500)	(78,639)	(3,891)	(195,030)
At 31st December 2011	–	246,984	145,897	392,881
Included in short-term provisions	–	213,301		213,301
Included in long-term provisions		33,683	145,897	179,580
		246,984	145,897	392,881

Company – long term provision	£
At 1st January 2011	–
Additional provision in the year	33,683
At 31st December 2011	33,683

(i) The re-financing provision represents the amount of Directors' salaries and other remuneration waived but which may become payable in accordance with the agreements dated 1st July 2006, details of which are set out in note 11 to these accounts. The greater part of this provision was utilised in 2010 following the occurrence of the events set out in note 11 (xi) above and the remainder was utilised in 2011.

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

(iii) 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 26(c). This provision will be utilised as members of the scheme reach retirement age and draw down their pensions.

(iv) Long term provisions include £33,683 (2010: nil) for notional National Insurance contributions payable upon the exercise of vested LTIP options.

21 Share capital

i) Authorised

	2011 £	2010 £
330,000,200 (2010: 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 cent per annum.

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

	2011 £	2010 £
192,172,408 Ordinary Shares of 1p each (2010: 192,172,408)	**1,921,724**	1,921,724

iii) Options

At 31st December 2011 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
Approved (1)	81,587	815.87	36.77p	25.11.05 – 25.11.12
Granted under Separate Option Deed (2)	150,000	1,500	29.75p	1.10.13 – 1.10.20

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 options were granted in the following periods:

a) Year to 31st December 2002 – (1)

b) Year to 31st December 2010 – (2)

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

At 31st December 2011, 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 2010	Awarded in the year	Lapsed in the year	Adjustment (a)	Number at 31st December 2011	First Vesting Date	Latest Exercise Date
518,082	–	–	182,883	**700,965**	–	2nd July 2017
213,333	–	(112,570)	75,306	**176,069**[(b)]	–	10th April 2018
3,802,500	–	(3,802,500)	–	**–**	31st July 2011	–
–	2,596,491	–	–	**2,596,491**	7th November 2014	–
4,533,915	2,596,491	(3,915,070)	258,189	**3,473,525**		

(a) In June 2010 the Company undertook a Placing and an Open Offer and a proportion of the convertible loans provided by the Chief Executive was converted into Ordinary Shares at the placing price. In accordance with the plan rules and best practice, given this alteration to the Company's Ordinary Share Capital the Remuneration Committee resolved that it would be fair and reasonable to take account of the Placing and conversion and to adjust the number of subsisting awards. In determining the adjustment factor to be applied to the number of subsisting awards the Remuneration Committee considered the share price prior to the announcement of the Placing and decided that the adjustment should take account of the effect of the Placing and Conversion on the Company's share price.

(b) Shares that have vested in the year.

(v) 2004 Share Option Plan

At 31st December 2011 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p 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
77,121	771.21	27.72	10.4.11 – 10.4.18
33,825	338.25	15.52	14.7.11 – 14.7.18
202,950	2,029.50	14.78	31.7.11 – 31.7.18
40,590	405.90	14.78	31.7.11 – 31.7.18
686,216	6,862.16		

22 Share based payments

As described in the Director's report on page 16 the Company issues equity-settled share based payments under the 2004 Share Option Plan. Such payments were also made under the Company's Approved and Unapproved share option schemes, both of which are now closed to new participants. 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 2011 awards over 877,034 shares had vested and were capable of exercise.

The 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 16. 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 2,596,491 shares. A charge to the income statement of £178,926 (2010: £399,232) was made during the year in respect of both schemes.

	Approved Scheme		Unapproved Scheme	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at 1st January 2010	202,159	51.4	1,805,125	96.5
Forfeited during the year	(50,847)	59.0	(1,319,996)	89.6
Outstanding at 1st January 2011	151,312	48.8	485,129	115.1
Forfeited in the year	(91,011)	48.2	(485,129)	115.1
Adjustment (Note 21 (iv)(a))	21,286	–	–	–
Outstanding at 31st December 2011	81,587	36.77	–	–
Exercisable at 31st December 2011	81,587	36.77	–	–
Exercisable at 31st December 2010	151,312	48.8	485,129	115.1

The weighted average share price at the date of exercise for share options exercised during the period was nil (2010 : nil).

	2004 Share Option Plan		LTIP	
	Options	Weighted average exercise price (p)	Maximum Number of shares	Weighted average fair value per share (p)
Outstanding at 1st January, 2010	545,181	47.4	5,292,216	24.0
Forfeited during the year	(8,000)	46.8	(758,301)	31.7
Outstanding at 1st January, 2011	537,181	47.3	4,533,915	20.0
Granted in the year	–	–	2,596,491	17.9
Adjustment (Note 21 (iv)(a))	179,035	–	182,883	–
Forfeited in the year	(30,000)	39.5	(3,839,764)	17.6
Outstanding at 31st December 2011	686,216	33.6	3,473,525	19.4
Exercisable at 31st December 2011	686,216	33.6	877,034	26.0
Exercisable at 31st December 2010	238,181	73.3	877,034	26.0

The options outstanding at 31st December 2011 had a weighted average remaining contractual life as follows:

	No. of Months
Approved Scheme	11.0
Unapproved Scheme	–
2004 Share Option Plan	65.1
LTIP	42.1

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

	2011	2010
Weighted average share price	**35.3p**	34.0p
Weighted average exercise price	**35.3p**	34.0p
Expected volatility	**72.05% – 62.4%**	74.66% – 62.4%
Expected life	**4 years**	4 years
Risk free rate	**1.47% – 5.7%**	1.47% – 5.7%
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 £	Premium account £	Profit and loss account £	Translation reserve £	Total £
At 1st January 2010	10,755,000	2,207,586	29,660,338	(53,308,915)	120,061	(10,565,930)
Loss on foreign currency translation	–	–	–	–	(21,241)	(21,241)
Retained profit for the year	–	–	–	4,563,163	–	4,563,163
Credit to equity for share–based payment	–	399,232	–	–	–	399,232
Share issues	–	–	11,280,079	–	–	11,280,079
Cost of share issues	–	–	(358,279)	–	–	(358,279)
At 31st December 2010	10,755,000	2,606,818	40,582,138	(48,745,752)	98,820	5,297,024
At 1st January 2011	10,755,000	2,606,818	40,582,138	(48,745,752)	98,820	5,297,024
Loss on foreign currency translation	–	–	–	–	(141,525)	(141,525)
Retained loss for the year	–	–	–	(3,957,341)	–	(3,957,341)
Credit to equity for share–based payment	–	178,926	–	–	–	178,926
At 31st December 2011	10,755,000	2,785,744	40,582,138	(52,703,093)	(42,705)	1,377,804

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 2010	29,660,338	1,082,244	2,207,586	(1,951,540)	30,998,628
Retained loss for the year	–	–	–	(264,762)	(264,762)
Credit to equity for share–based payment	–	–	399,232	–	399,232
Share issues	11,280,079	–	–	–	11,280,079
Expenses of share issues	(358,279)	–	–	–	(358,279)
At 31st December 2010	40,582,138	1,082,244	2,606,818	(2,216,302)	42,054,898
At 1st January 2011	40,582,138	1,082,244	2,606,818	(2,216,302)	42,054,898
Retained loss for the year					
Credit to equity for share–based payment	–	–	–	(161,031)	(161,031)
	–	–	178,926	–	178,926
At 31st December 2011	40,582,138	1,082,244	2,785,744	(2,377,333)	42,072,793

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

	2011 £	2010 £
Non-distributable		
– share premium	**40,582,138**	40,582,138
– group reconstruction reserve	**1,082,244**	1,082,244
Distributable		
– equity reserve	**2,785,744**	2,606,818
– profit and loss account	**(2,377,333)**	(2,216,302)
Total reserves	**42,072,793**	42,054,898

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

24 Note to the consolidated and company cash flow statements

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Operating (loss)/profit	**(4,341,320)**	**(326,198)**	4,873,721	(489,770)
Adjustments for:				
Depreciation of property, plant and equipment	**205,498**	**–**	168,141	–
Credit to equity for share–based payment expense	**178,926**	**178,926**	399,232	399,232
Profit on asset disposal	**(7,651)**	**–**	–	–
Operating cash flows before movements in working capital	**(3,964,547)**	**(147,272)**	5,441,094	(90,538)
(Increase)/decrease in inventories	**(91,240)**	**–**	(39,335)	–
(Increase)/decrease in receivables	**(163,629)**	**–**	323,186	–
(Decrease)/increase in payables	**(762,500)**	**–**	401,995	–
(Decrease)/increase in provisions	**(161,347)**	**33,678**	(2,010,079)	–
Cash (used in)/generated from operations	**(5,143,263)**	**(113,594)**	4,116,861	(90,538)

25 Analysis and reconciliation of net debt – Group

Group	Debt due within 1 Year £	Cash at bank and in hand £	Net funds/ (debt) £
1st January 2010	(11,787,021)	131,158	(11,655,863)
Cash flow	5,453,543	9,412,712	14,866,255
31st December 2010	(6,333,478)	9,543,870	3,210,392
1st January 2011	(6,333,478)	9,543,870	3,210,392
Non cash items	(192,782)	–	(192,782)
Cash flow	–	(5,340,325)	(5,340,325)
Effect of foreign exchange rate changes	–	(139,465)	(139,465)
31st December 2011	(6,526,260)	4,064,080	(2,462,180)

Analysis and reconciliation of net debt – Company

Company	Debt due within 1 Year £	Cash at bank and in hand £	Net funds/ (debt) £
1st January 2010	(12,105,958)	39,107	(12,066,851)
Cash flow	10,577,850	9,483,309	20,061,159
31st December 2010	(1,528,108)	9,522,416	7,994,308
1st January 2011	(1,528,108)	9,522,416	7,994,308
Non cash items	(29,385)	–	(29,385)
Cash flow	–	(5,643,033)	(5,643,033)
31st December 2011	(1,557,493)	3,879,383	2,321,890

26 Guarantees and other financial commitments

a) Capital commitments

At the end of the year the Company and Group had capital commitments amounting to £nil (2010: £nil).

b) 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 and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Within 1 year	**196,763**	**59,531**	200,311	59,531
Within 2–5 years	**258,650**	**178,593**	468,027	238,124
	455,413	**238,124**	668,338	297,655

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

c) 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 contributes to a defined benefit pension scheme in Germany. The scheme is a multi-employer defined benefit scheme administered by Pensions Kasse der Mitarbeiter der Hoechst-Gruppe.

The scheme's assets are held in separately administered funds. The other employers who contribute to the scheme are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the scheme. Accordingly the scheme has been accounted for as a defined contribution scheme.

The Group's contributions to the scheme are included within the amount charged to the profit and loss account in respect of pension contributions.

No information is available about any surplus or deficit that exists in the scheme.

The amount charged to the income statement in respect of the contributions to the scheme in 2011 was £55,909 (2010: £40,615) and provisions for future pension liabilities at 31st December 2011 were £145,897 (2010: £149,788).

27 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:

	2011 £	2010 £
Debt	**(6,526,260)**	(6,333,478)
Cash and cash equivalents	**4,064,080**	9,543,870
Net (debt)/cash	**(2,462,180)**	3,210,392
Equity	**3,298,808**	7,218,748
Net debt to equity ratio	**74.6%**	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.

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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Financial assets				
Cash	**4,064,080**	**3,879,383**	9,543,870	9,552,416
Trade receivables	**68,301**	**–**	–	–
Financial liabilities				
Trade and other payables	**(673,632)**	**–**	(1,440,798)	–
Current tax liabilities	**(18,033)**	**–**	(49,757)	–
Short-term borrowings	**(6,526,260)**	**(1,257,658)**	(6,333,478)	(1,220,540)
Loan from other Group entity	**–**	**299,835**	–	(307,568)

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 2011 would have increased by £32,130 (2010: decrease in profit by £49,855).

The Group's sensitivity to interest rates has decreased during the current year due to the reduction 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 £
2010			
Variable interest rate instruments	3.00	6,333,478	1,220,540
2011			
Variable interest rate instruments	3.00	6,526,260	1,257,658

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 £
2010			
Non-interest bearing	–	21,454	–
Interest bearing	0.35	9,522,416	9,522,416
2011			
Non-interest bearing	–	184,697	–
Interest bearing	0.35	3,879,383	3,879,383

28 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 46 and 47.

c) Details of the remuneration of the Directors is set out in note 11 on pages 39 to 40, 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 18 to 19.

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

2011 £	2010 £
151,688	373,429

29 Events after the balance sheet date

a) Since the balance date 326,069 Ordinary Shares of 1p each have been issued following the exercise of share options and a vested LTIP award.

b) Other than the change in UK corporation tax rates as disclosed in note 12, there are no other events after the balance sheet date to disclose.

Advisers

Nominated Advisers and Stockbrokers

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Auditor

Deloitte LLP
Chartered Accountants and 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 Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

Notice of meeting

Notice is hereby given that the 18th Annual General Meeting of Proteome Sciences plc will be held at 12:00 middayon Friday 29th June 2012 at the offices of FTI Consulting Ltd., Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB, 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 2011.

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

3 To re-appoint J.L. Malthouse as a Director.

4 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

5 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 £641,019.93 until the conclusion of the next Annual General Meeting of the Company or 29th June 2013, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after such expiry.

Special Resolution

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

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

(b) the allotment (otherwise than pursuant to sub-paragraph (a) and (b)) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £384,996.95.

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 29th June 2013, 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

6th June 2012

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 the meeting or 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 18th Annual General Meeting of Proteome Sciences plc to be held on Friday 29th June 2012 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 Friday 29th June 2012 at 12:00 midday, at the offices of FTI Consulting Ltd., Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB, and at any adjournment thereof.

Dated this ..... day of 2012

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 J.L. Malthouse as a Director	☐	☐	☐
4. To re-appoint Deloitte LLP as auditors	☐	☐	☐
Special Business			
5. To renew the Directors' authority to allot shares	☐	☐	☐
6. 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, not less than forty eight hours before the time for holding the meeting or 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 18th Annual General Meeting of Proteome Sciences plc to be held on Friday 29th June 2012 at 12:00 midday

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

PSX
34 Beckenham Road
Beckenham
Kent BR3 4BR

thinker/doer

This report has been designed and produced by thinker/doer using the *thought processing*® proprietary brand and message focus tools.

www.thinkerdoer.co.uk
+44 (0)208 301 8465

Printed by Pureprint Group using their pureprint® environmental print technology, a guaranteed, low carbon, low waste, independently audited process that reduces the environmental impact of the printing process. Pureprint Group is a CarbonNeutral® company and is certified to Environmental Management System, ISO 14001 and registered to EMAS, the Eco Management and Audit Scheme.

www.pureprint.com

The papers used for the production of this report are certified by the Forest Stewardship Council®.

www.fsc-uk.org

MIX
Paper from responsible sources
FSC® C022913

Proteome Sciences plc
Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP
United Kingdom

Email: info@proteomics.com

Tel: +44 (0)1932 865065
Fax: +44 (0)1932 868696

www.proteomics.com

Registered number: 02879724