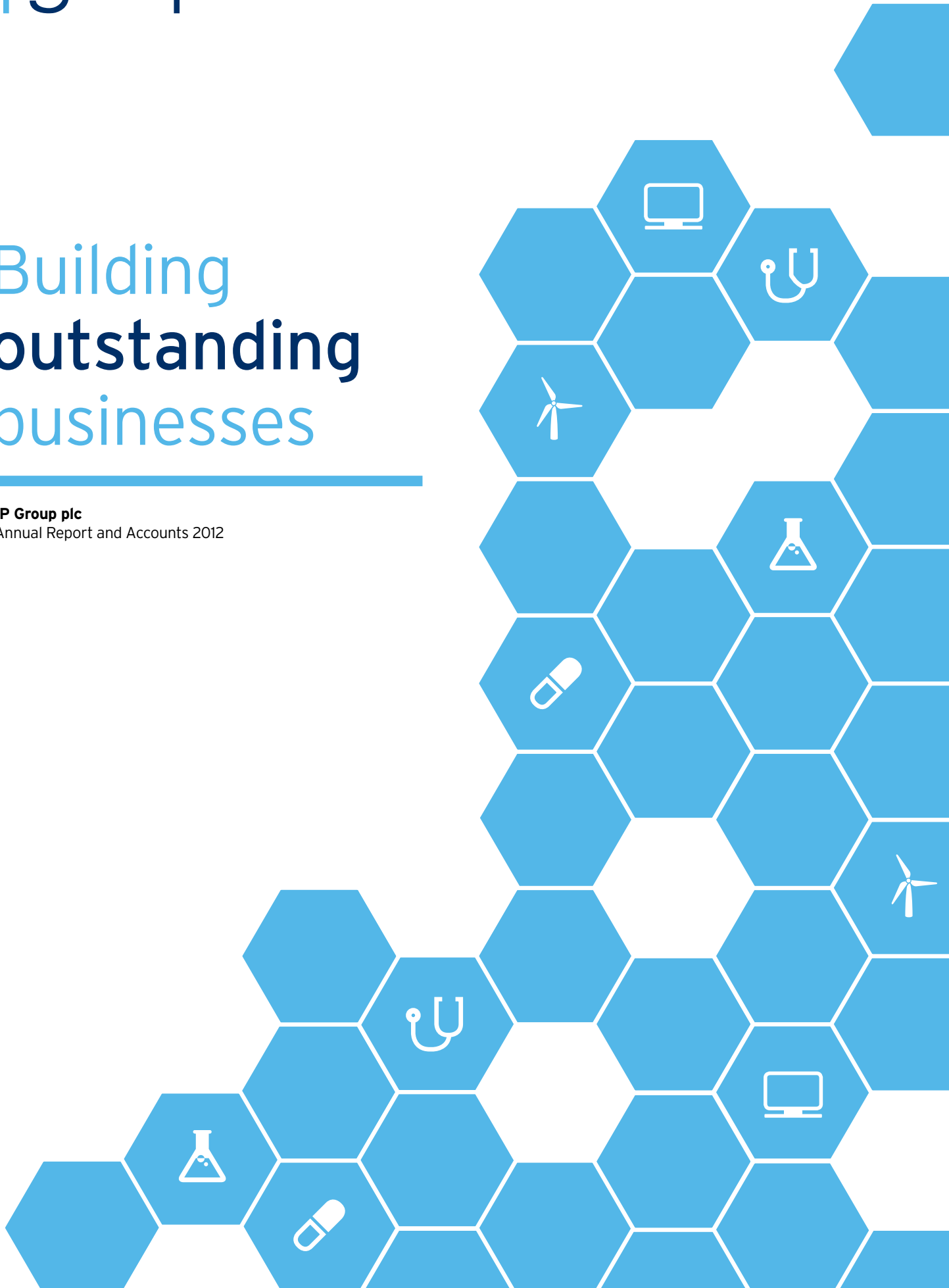


# Building outstanding businesses

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**IP Group plc**  
Annual Report and Accounts 2012



# IP Group plc develops intellectual property-based businesses.

Our strategy is to systematically build outstanding businesses based on disruptive intellectual property.

We provide capital to portfolio companies from our balance sheet and also from funds that we manage on behalf of others.

We pioneered the concept of a long-term partnership model with UK universities and now have arrangements covering a number of the country's leading research-intensive universities.

## Our aims

- To identify compelling intellectual property-based opportunities in our key target sectors
- To develop these opportunities into a diversified portfolio of robust businesses
- To grow our assets and those we manage on behalf of third parties
- To provide our shareholders with quoted access to potentially high growth technology companies

Disclaimer: This Annual Report and Accounts may contain forward-looking statements. These statements reflect the Board's current view, are subject to a number of material risks and uncertainties and could change in the future. Factors that could cause or contribute to such changes include, but are not limited to, the general economic climate and market conditions, as well as specific factors relating to the financial or commercial prospects or performance of individual companies within the Group's portfolio.

Throughout this Annual Report and Accounts the Group's percentage holdings in portfolio companies reflect the undiluted beneficial equity interest excluding debt, unless otherwise explicitly stated.

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# Highlights

## Net assets

£263.1m

(2011: £221.6m)

## Fair value of portfolio

£181.8m

(2011: £123.8m)

## Value of ten largest holdings

£138.2m

(2011: £89.0m)

## Cash, cash equivalents and deposits

£47.9m

(2011: £60.5m)

## Financial and operational highlights

- Net assets increased to £263.1m (2011: £221.6m)
- Net cash and deposits of £47.9m (2011: £60.5m)
- Adjusted profit before tax of £46.7m (2011: £0.5m), excluding £6.0m reduction in fair value of Oxford Equity Rights asset (2011: £6.0m)

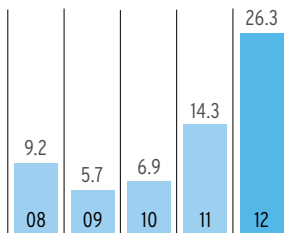
## Portfolio

- Fair value of investment portfolio: £181.8m (2011: £123.8m)
- Continued increase in capital provided to portfolio companies to £26.3m (2011: £14.3m)
- Portfolio realisations: £16.7m (2011: £3.7m)
- Acquisition of Proximagen Group by Upsher-Smith for total proceeds of up to £357m (IP Group initial cash proceeds £15.4m)
- Value of ten largest holdings: £138.2m (2011: £89.0m)
- Group's portfolio companies raised in excess of £110m of new capital (2011: £90m)
  - Retroscreen Virology and Revolymer admitted to AIM, raising gross proceeds of £15m and £25m respectively at IPO
  - Oxford Nanopore Technologies Limited completed £31.4m private financing

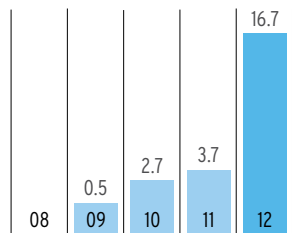
## Post-year-end highlights

- New flagship intellectual property commercialisation agreement signed with the University of Manchester
- Net unrealised fair value increase in the Group's holdings in quoted portfolio companies of £16.0m between 31 December 2012 and 1 March 2013

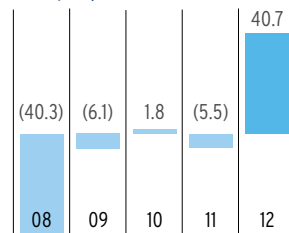
Purchase of equity and debt investments (£m)



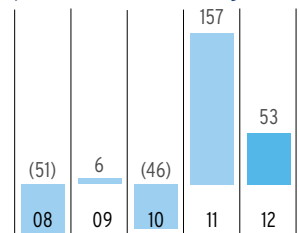
Proceeds from sale of equity investments (£m)



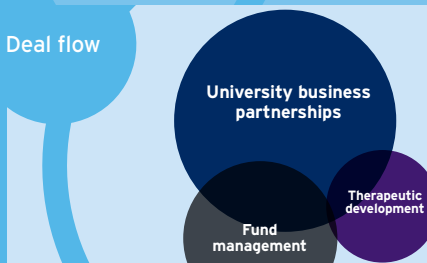
Profit/(loss) attributable to equity holders (£m)



IP Group share price performance (% change)



## Deal flow



## Our business model

Turning innovation into successful businesses. Read more about our business model.

p.02



## CEO's report: Successfully executing our core strategy

Alan Aubrey reviews the Group's performance and outlook

p.10



## Our portfolio: continuing to develop and mature

Read more about the performance of the Group's portfolio companies during 2012

p.12

About IP Group

How we work

# Our business model: turning innovation into successful businesses

Our business model is to form high-quality companies based on disruptive intellectual property, much of which is developed at the UK's leading universities. We aim to take a significant minority equity stake in these companies and then grow the value of our equity by taking an active role in business building.

Our methodology consists of three core components: **deal flow**, **business building** and **capital**.



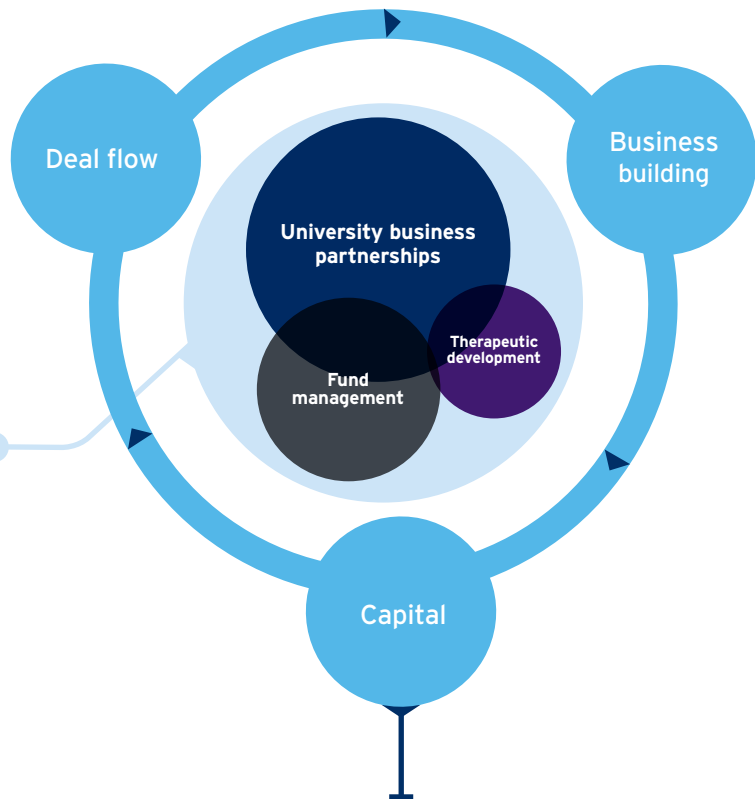
**Deal flow**

One of the key differentiators of the IP Group business model is its access to proprietary deal flow. Over the last twelve years the Group has established long-term partnerships with a number of the UK's leading research intensive universities. The Group's specialist in-house sourcing team works with our partners, as well as academics from other universities, to identify promising research and to create and build businesses around this research.

**Operating segments**

The Group's operating segments reflect what are considered to be distinct (but interrelated) elements of the Group operations and reflect areas separately managed by the Group. Further information is provided in note 5 to the consolidated financial statements.

p.66



**Capital**

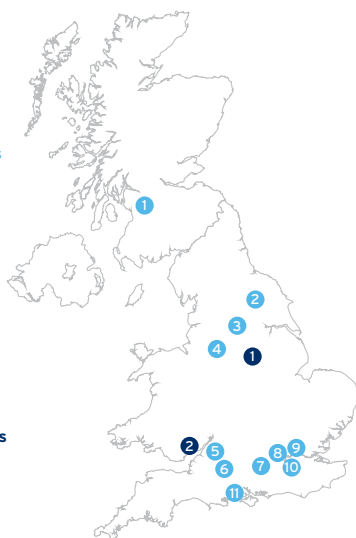
IP Group provides long-term capital for the development of its portfolio companies from its own balance sheet and also manages a number of venture capital funds including the IP Venture Fund and the Finance for Business North East Technology Fund which, subject to investment guidelines, can provide further additional sources of capital. In addition, the Group works with a wide network of co-investors that can provide further capital alongside the Group.

**IP Group plc partnerships**

- 1 Glasgow
- 2 York
- 3 Leeds
- 4 Manchester
- 5 Bristol
- 6 Bath
- 7 Oxford
- 8 King's College London
- 9 Queen Mary, London
- 10 Surrey
- 11 Southampton

**Fusion IP plc partnerships**

- 1 Sheffield
- 2 Cardiff





**Our strategy**

View our KPIs and strategy

p.04



**IP Group portfolio**

Read about our developing and maturing portfolio

p.12



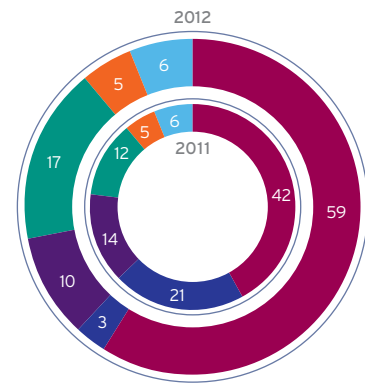
**Business building**

During the early stages of an opportunity's development, members of the Group's team work closely with its founders to shape its strategic direction and frequently take an interim commercial management role until the business reaches a sufficient stage of maturity and has the resources to widen the leadership team.

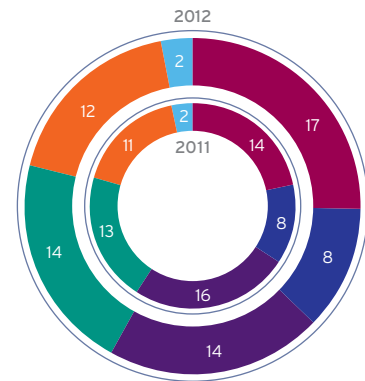
IP Group uses its specialist early-stage in-house executive search consultancy, IP Exec, to recruit experienced and high-calibre individuals to lead its developing businesses alongside founders and IP Group team members, who continue to provide strategic guidance in a non-executive capacity. Through the Group's proprietary IP Impact programme, focusing on maximising the performance of CEOs and company boards, the Group seeks to accelerate later-stage company growth.

The Group also provides operational, legal and business support, including company secretarial, to its companies with a view to minimising the most common administrative factors that can contribute to early-stage company failure.

Portfolio analysis by fair value (%)



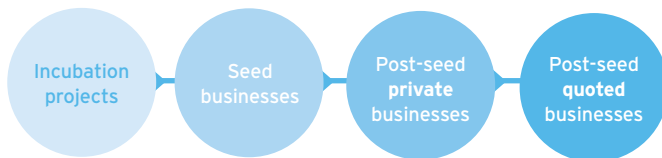
Portfolio analysis by number



**Key:**

- Medical Equipment & Supplies
- Pharma & Biotech
- Chemicals & Materials
- Energy & Renewables
- IT & Communications
- Multiple sectors

**Diversified by company stage**



**Diversified by sector**



Medical Equipment & Supplies



Pharma & Biotech



Chemicals & Materials



Energy & Renewables



IT & Communications

About IP Group

## Our strategy

# Our strategy: systematically building businesses

Our strategy is to systematically build outstanding business based on disruptive intellectual property much of which is developed at the UK's leading universities.

The Group has a clear and consistent core strategy to build outstanding businesses.

We reassess our priorities each year, taking into account market trends and the Group's available resources.



### CEO's statement

Read more about our strategy and performance in the CEO's review

p.10

#### Our strategic aims

### Identify

To identify compelling intellectual property-based opportunities in our key target sectors

### Develop

To develop these opportunities into a diversified portfolio of robust businesses

### Grow

To grow our assets and those we manage on behalf of third parties

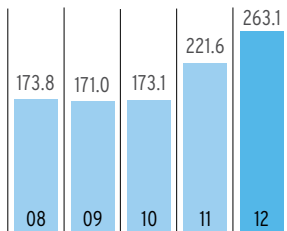
### Provide

To provide our shareholders with quoted access to potentially high-growth technology companies

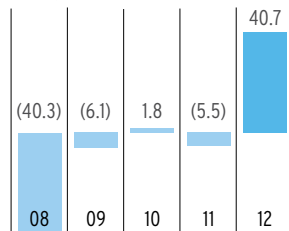
### Our key performance indicators

We assess the performance of our business against a number of KPIs on a continuous basis, allowing us to monitor and measure progress against our strategy.

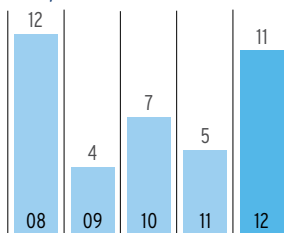
Total equity ("net assets") (£m)



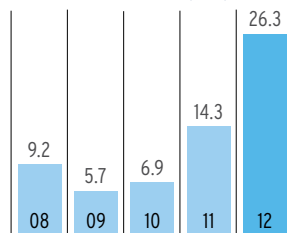
Profit/(loss) attributable to equity holders (£m)



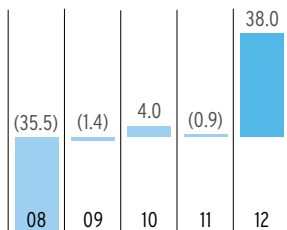
Number of new portfolio companies



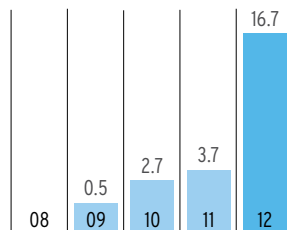
Purchase of equity and debt investments (£m)



Change in fair value of equity and debt investments (£m)



Proceeds from sale of equity investments (£m)



### Principal risks

#### Early stage risk

The returns and cash proceeds from the Group's early-stage companies can be very uncertain

#### Capital risk

It may be difficult for the Group and its early-stage companies to attract capital

#### Partnership model risk

Universities or other research-intensive institutions may terminate their partnerships or other collaborative relationships with the Group

#### Personnel risk

The Group may lose key personnel or fail to attract and integrate new personnel

#### Legal, regulatory and policy risk

There may be changes to, or impacts from, legislation, government policy or regulation

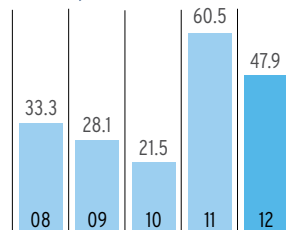


### Risk management

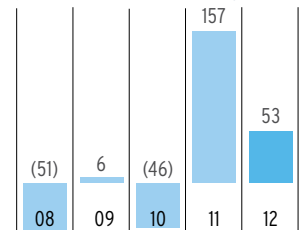
Read about our risk management strategies

p.24

Cash, cash equivalents and deposits (£m)



IP Group share price performance (% change)



 About IP Group

## Our portfolio at a glance

# Our portfolio: continuing to develop and mature



## Medical Equipment &amp; Supplies

## Number of companies

17

(2011: 14)

## Fair value

£107.3m

(2011: £52.0m)

## Highlights

- The major contributors to this significant increase in fair value were Oxford Nanopore Technologies Limited (£26.4m), Retroscreen Virology Group plc (£10.3m) and Avacta Group plc (£4.8m).
- Having announced its intention to commence commercialisation of two revolutionary DNA sequencing products, the GridION and MinION, Oxford Nanopore completed a £31.4m further financing in May at a premium to its previous financing round.
- Retroscreen gained admission to AIM during the year and raised £15.0m in its placing. Retroscreen further announced that it expects full-year revenues for the year ending 31 December 2012 to exceed £13.0m.
- In January, Avacta completed a £5.1m placing and at year end the value of the Group's holding had increased by 450%.



## Energy &amp; Renewables

## Number of companies

14

(2011: 13)

## Fair value

£31.0m

(2011: £14.4m)

## Highlights

- Significant increases in fair value during the period were achieved in this sector with the major contributors being Ceres Power Holdings plc (£5.1m) and Oxford Catalysts Group plc (£3.9m).
- Modern Water plc raised £10.0m following the installation and commissioning of the world's first commercial Forward Osmosis desalination plant and the announcement of a framework agreement with Hangzhou Development Center of Water Treatment Technology in the People's Republic of China.
- Oxford Catalysts was selected to provide its Fischer-Tropsch technology to GreenSky London, Europe's first commercial scale sustainable jet fuel facility, being developed in partnership with British Airways. British Airways confirmed that it had committed to purchase the sustainable jet fuel produced by the plant for ten years (at market rates), worth \$500m.
- A 25.8% stake in Ceres Power was acquired for £1.1m in December. Positive market sentiment towards the restructuring and revised business strategy resulted in the Group's holding increasing by £5.1m.



## Chemicals &amp; Materials

## Number of companies

14

(2011: 16)

## Fair value

£18.0m

(2011: £17.5m)

## Highlights

- The Chemicals & Materials sector's unrealised fair value reduction (excluding net investment) was largely as a result of a decrease in share price during the year of both Revolymer plc (£1.4m) and Green Chemicals plc (£1.4m).
- Revolymer completed its AIM IPO and £25.0m placing in July and also progressed with their six joint development agreements with major international partners.
- Green Chemicals raised £1.0m in a placing in November 2012 and announced that trials at Harrods of Knightsbridge in conjunction with Urban Retreats Limited are viewed as having been highly successful.



Fair value of portfolio

£181.8m

(2011: £123.8m)

Investment in portfolio

£26.3m

(2011: £14.3m)

Number of portfolio companies

67

(2011: 64)



IT & Communications

Number of companies

12

(2011: 11)

Fair value

£9.7m

(2011: £6.4m)



Pharma & Biotech

Number of companies

8

(2011: 8)

Fair value

£5.6m

(2011: £25.4m)



Multiple sectors

Number of companies

2

(2011: 2)

Fair value

£10.2m

(2011: £8.1m)

Highlights

- The £2.5m unrealised fair value gain seen by the IT & Communications sector was predominantly due to the performance of Tracsis plc's share price.
- Tracsis reported its fifth successive year of revenue growth since its AIM IPO in 2007, with revenues increasing 112% to £8.7m for the year ended 31 July 2012. In November, Tracsis won Company of the Year in the Mid-Sized category at the Growing Business Awards.

Highlights

- The absolute value of the Group's Pharma & Biotech portfolio saw a significant decrease during the year as a result of the sale of Proximagen Group plc and the full write down of Photopharmica Limited.
- During August, Proximagen was acquired by a wholly owned subsidiary of Upsher-Smith Laboratories, Inc, for a total potential consideration of up to £356.8m. The Group received an initial cash payment of £15.4m and contingent value rights that could result in the receipt of up to a further £9.2m by the Group.
- Having been unsuccessful in securing a licence or co-development deal for its lead therapeutic programme despite positive Phase IIb clinical trial results in 2011, the Group led a restructuring and limited refinancing of Photopharmica resulting in a £13m fair value reduction.
- Synairgen announced positive results in April from its Phase II trial of inhaled interferon beta ("IFN-beta") in asthma and strengthened its balance sheet in July by raising £2.5m.

Highlights

- Fusion IP plc completed its first material portfolio exit during 2012 with the sale of Simcyp to Certara for \$32m, generating approximately £4m to the company, a 200-fold return on its original investment. Fusion also saw a significant increase in the fair value of its portfolio and the company's positive share price performance resulted in a £2.1m increase in the value of the Group's holding.

 About IP Group

## Chairman's statement



Dr Bruce Smith  
Chairman

# An encouraging year for IP Group

### In summary

- Good overall progress across the business
- Strong growth in the value of the portfolio and net assets
- A new partnership announced with the University of Manchester
- Focus on corporate governance

I am pleased to be able to report that 2012 has been an encouraging year for IP Group with good overall progress across the business being reflected in strong growth in the value of the Group's portfolio and its net assets.

The Group seeks to generate value for its stakeholders through a well-defined core strategy of building high-quality businesses based on intellectual property. As outlined in more detail in this report, during 2012 we saw evidence that suggests that many of the Group's businesses are maturing and thereby creating value for stakeholders. For example, there has been a substantial increase in the value of the Group's portfolio of spin-out companies, a significant acquisition of one of our drug discovery companies and commercial progress being made by a number of the Group's businesses.

From a financial perspective, the Group's performance in 2012 was very encouraging. Driven by the performance of the portfolio, the Group recorded an adjusted profit before tax of £46.7m excluding the £6.0m reduction in the value of the Oxford Equity Rights asset (2011: £0.5m profit; £6.0m reduction). Net assets, excluding intangibles and the Oxford Equity Rights asset, increased by 25% to £236.6m (2011: £189.1m). It is important to note that, due to the long-term nature of the Group's business, profits and especially cash realisations can vary significantly from year to year.

While the economic environment continued to face a number of challenges during 2012, the performance of UK financial markets was stronger than in the recent past, particularly for smaller-capitalised companies. The AIM market, where 15 of our portfolio companies are quoted, was broadly flat, although this masked some significant sectoral differences. The value of our quoted portfolio companies, in total, fared well. Many factors, including the health of the UK economy, the Eurozone and the wider international picture, contribute to a degree of continuing uncertainty and,

**“Having pioneered the concept of the university partnership model, we were delighted to announce a new relationship with the University of Manchester.”**

as always, this uncertainty brings both opportunities and potential challenges for the Group and its portfolio companies that are increasingly producing goods and services for markets around the globe.

In part due to the improved financial markets, the Group's portfolio companies were successful in raising in excess of £110m of new capital during the year (2011: in excess of £90m). Notwithstanding this positive trend, the financing environment for early-stage technology businesses continues to be relatively challenging, with a comparatively small number of investors deploying significant capital into the sector. The Group has continued to play a key role for its portfolio companies during 2012 in both providing capital directly and helping them to source funds from a variety of capital pools and will continue to do so in the future.

In terms of its access to world-class commercialisable intellectual property, the Group continues to work closely with academics from many of the UK's leading research institutes and, having pioneered the concept of the university partnership model, we were delighted to announce earlier in 2013 a new relationship with the University of Manchester. We look forward to building a long and mutually beneficial partnership with academics and staff at the university.

The Board continues to recognise the importance of a strong focus on corporate governance. As I described in my last report, 2011 saw five changes to the Group's Board with the addition of two experienced, independent non-executive directors, two internal promotions to executive director from the existing management team and the retirement of our long-standing Audit Committee chairman. During 2012, the Board has worked to ensure it is positioned to help drive the next phase of the Group's growth and has also, during early 2013, undergone an external evaluation process. As well as considering the recommendations arising

from this evaluation to optimise the Board's effectiveness, we intend that the Group and its Board will continue to evolve over the forthcoming year. This will ensure that it retains an appropriate and diverse mix of skills, knowledge and experience, with consideration also being given to other criteria such as gender and ethnicity, while taking into account additional corporate governance requirements that apply to the Group given its inclusion in the FTSE350 during 2012.

The performance of the Group is the culmination of the hard work and dedication of a large number of teams and individuals often, in the case of its academic partners and spin-out management teams, over periods of many years. I would like to record my thanks for the efforts and support of the Group's staff, shareholders and limited partners. I would also like to record a note of congratulation to Proximagen Group on its successful exit to Upsher-Smith during the year, a significant achievement not only for the company itself but also for its staff and shareholders, including the Group and King's College London.

Finally, Professor Graham Richards, who has served on the Group's Board since 2001, including periods as Chairman and Senior Non-executive Director, and who was instrumental in the Group's original partnership with the University of Oxford's Chemistry Department, has today announced his intention to retire as a non-executive director at the Group's forthcoming AGM. I would like to take this opportunity to extend my significant thanks to Graham for his considerable contribution to the Board over the years and am pleased to report that Graham has agreed to continue as an adviser to the Group.

**Bruce Smith**  
Chairman

## Chief Executive's statement



Alan Aubrey  
Chief Executive Officer

# Successfully executing the Group's core strategy

### In summary

- Significant increase in net assets to £263.1m (2011: £221.6m)
- First significant portfolio company sale generated initial cash proceeds of £15.4m
- Fair value of portfolio increased to £181.8m from £123.8m
- Total portfolio realisations of £16.7m (2011: £3.7m)
- Companies across the portfolio raised in excess of £110m of new capital

2012 saw IP Group continue to successfully execute its core strategy of building high-quality businesses based on intellectual property.

The Group's overall financial results for the year were pleasing, with substantial growth in the value of the Group's portfolio of technology businesses contributing to a significant increase in the Group's net assets. In line with our stated commitment we have again increased the overall level of capital deployed into our portfolio to £26.3m (2011: £14.3m) while maintaining an appropriate level of new spin-out creation. The Group's first significant portfolio company sale, the acquisition of Proximagen Group plc ("Proximagen") by Upsher-Smith Laboratories, Inc, generated initial cash proceeds of £15.4m in 2012, representing 35 times the Group's investment, with up to a further £9.2m potentially receivable in future by way of contingent value rights.

The business model that the Group employs in order to source, build and fund intellectual property-based companies relies on three core components:

- proprietary access to potentially disruptive, commercialisable intellectual property;
- a rigorous and systematic approach to opportunity appraisal and business building; and
- access to sources of capital to finance businesses as they develop.

Through the application of this business model, the Group seeks to form, or assist in the formation of, spin-out companies based on fundamental innovation, to take a significant minority equity stake in those spin-out companies and then to grow the value of that equity over time through active participation in their development.

At 31 December 2012, the overall value of the Group's portfolio had increased to £181.8m (2011: £123.8m). Despite continued challenging economic conditions, both in the UK and overseas, much of the Group's portfolio has

## “2012 has been another strong year for the Group, marked by a number of significant developments across our portfolio.”

continued to develop and mature. The three most significant positive contributors to the Group's fair value increases during the year, Oxford Nanopore Technologies, Retroscreen Virology and Proximagen, all announced positive commercial developments, as did a number of other businesses. The one significant disappointment during 2012 was the fact that, despite the successful completion of its Phase IIb clinical trial for the use of antimicrobial photodynamic therapy in the treatment of chronic leg ulcers, Photopharmica was unable to complete a transaction for its therapeutic platform. Further detailed analysis is provided in the Portfolio review.

Our intellectual property sourcing model has developed over time. We continue to work closely with our university partners to identify, build and finance intellectual property-based spin-out companies. We retain a core of exclusive partnerships from where the majority of our spin-out companies have originated to date and, while the rate of spin-out formation from university to university can be variable over time, we expect this to continue to be the case. In addition to our core partnerships and as a result of our track record and specialist skill set, the Group has also backed a number of new intellectual property-based businesses seeking to commercialise research and innovation from academics at other high-quality research institutions and expects to continue to do so. During 2012, the Group added eleven companies to its portfolio, including the creation of seven new technology businesses (2011: five).

We continue to monitor the depth and breadth of our pipeline and, where compelling opportunities are identified, we may add to this pipeline. Accordingly, the Group was pleased to announce the addition of a new partnership since the start of 2013: an exciting opportunity that will see the Group work closely with the University of Manchester, an institution with considerable research pedigree having been ranked third in the UK in terms of “research power” in the most recent Research Assessment Exercise.

Under the terms of the commercialisation agreement with the University of Manchester, the Group will create a Proof of Principle (“PoP”) fund of up to £5m to facilitate the identification and formation of new spin-out companies. The fund will be used to provide capital to new projects intended for commercialisation as spin-out companies, with the Group receiving equity stakes in the companies on pre-agreed terms. The agreement, which is for a minimum term of four years, or five years subject to certain conditions, covers the areas of materials and clean technology, electronics and communications, all non-therapeutic life, medical and human sciences, and information technology.

On the capital side, the Group's FSA-regulated subsidiary, Top Technology Ventures, has continued the management of two active venture capital funds during the year, the £31m IP Venture Fund (“IPVF”) and the £25m Finance for Business North East Technology Fund (“NETF”), as well as assisting portfolio companies with accessing further capital for their development. As anticipated in my last report, IPVF reached the end of its five-year “investment period” in August 2012 and, having invested in 26 of the Group's portfolio companies since 2006, will now deploy its remaining capital into its existing portfolio. NETF has now been investing in developing technology companies in north-east England for three years, providing capital to 43 businesses across the development spectrum. The Group and NETF have now co-invested in five companies, including the Group's first spin-out from Durham University, Durham Graphene Sciences Limited, which met the technical milestones triggering its second tranche of seed financing during the year.

As described above, the Group has continued to increase the level of capital deployed into its portfolio during 2012, with a significant proportion having been provided to its most promising maturing businesses. Having strengthened the Group's balance sheet in 2011 through the raising of £55m of new capital, the £15.4m proceeds from the sale of Proximagen during 2012 has helped to

ensure that the Group closed the year with cash resources of £47.9m (2011: £60.5m) and no debt.

### Outlook

While 2012, and indeed the early months of 2013, saw positive performance for many equity markets, the broader macroeconomic environment remains uncertain. Many commentators, including the IMF, expect a continuation of the lower levels of underlying growth that have been evident since 2008. This could present challenging trading and funding conditions for small, early-stage businesses, while equity market volatility could have short-term impacts on the value of the Group's portfolio companies. However, our belief is that the challenges addressed by many of the Group's portfolio companies, including clean energy, big data, healthcare, food supply and availability of fresh water, are global in nature and technologies that address these have the potential to generate significant value.

During 2013 the Group intends to continue supporting the development of its most promising portfolio companies with people, networks and capital, to grow its net assets and identify further intellectual-property-based opportunities. The Group remains confident of the commercial potential of its portfolio, while our pipeline of commercialisable intellectual property opportunities remains strong. We will continue to mature our post-seed businesses and pipeline and look forward to guiding them towards potentially significant inflection points over the next few years.

The Group's unrivalled access to commercialisable UK intellectual property, recently strengthened through its new partnership with the University of Manchester, its broad portfolio and its cash resources give the directors confidence in being able to deliver against this intention.

**Alan Aubrey**  
Chief Executive Officer

 Business review

## Portfolio review

# Our portfolio: continuing to develop and mature

A maturing portfolio and an increase in total capital deployed have led to a significant increase in the value of the Group's most promising portfolio companies during 2012.



## Retroscreen Virology

Expertise in viruses, a spin-out from Queen Mary, University of London.

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## Xeros

Environmentally funded cleaning technology from the University of Leeds.

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## Ceres Power

Fuel cell technology, originally developed at Imperial College.

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## Actual Experience

An IT spin-out from Queen Mary, University of London.

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## Fair value of portfolio

# £181.8m

(2011: £123.8m)

## Investment in portfolio

# £26.3m

(2011: £14.3m)

## Number of portfolio companies

# 67

(2011: 64)

## Realisations from portfolio

# £14.3m

(2011: £3.7m)

## Number of new portfolio companies

# 11

(2011: 5)

### Overview

A maturing portfolio and an increase in total capital deployed have led to a significant increase in the value of the Group's most promising portfolio companies during 2012. At year end, the Group's portfolio had increased in value to £181.8m, from £123.8m in 2011, and comprised holdings in 67 businesses (2011: 64).

In line with the commitments made at the time of the Group's 2011 placing, total capital deployed into portfolio companies during the year again increased significantly to £26.3m, from £14.3m in 2011. The Group has utilised its increased capital to maintain its equity interest in a number of its most promising companies.

The Group has broadly maintained the level of capital deployed into new spin-out opportunities, with seven new companies being formed during the year (2011: five) and first-time investments being made into a further four existing businesses. The latter included the participation in the December refinancing of AIM-listed Ceres Power Holdings plc, a developer of clean, efficient fuel cell technology based on intellectual property originally developed at Imperial College, London. A total of four companies were sold during the period, while a further four companies, with a total cumulative cost to the Group of £1.2m, were closed.

A number of companies announced positive commercial developments during the year and completed significant financings, with the Group's portfolio raising in excess of £110m of new capital. Having announced its intention to commence commercialisation of two revolutionary DNA sequencing products, the GridION and MinION, University of Oxford spin-out, Oxford Nanopore, completed a £31.4m further financing in May 2012. Two companies were admitted to AIM during the period: Retroscreen, a virology healthcare business that provides clinical services focused on the Viral Challenge Model, raised £15.0m in May 2012, while Revolymer plc, best known for its removable confectionary gum, raised £25.0m in July 2012. Retroscreen has subsequently announced a significant increase in revenues and seen positive share price performance while Revolymer, despite the launch of its nicotine gum in Canada and the appointment to its board of Julian Heslop, formerly chief financial officer of GlaxoSmithKline plc, and Dr Bryan Dobson, formerly President Global Operations Croda, has seen a reduction in its share price.

As described in the Group's Half-yearly Report, Photopharmica (Holdings) Limited ("Photopharmica") was unable to secure a co-development or partnership deal for its lead therapeutic programme during the first half of the year, leading to a significant

reduction in the fair value of the Group's holding. In December, company management worked with the Group's life sciences team to revise its therapeutic development plan and the Group led a capital restructuring and limited refinancing. The restructuring led to a further £2.5m reduction in the fair value of the Group's holding, a total of £13.0m for the year. The Group has invested a total of £3.4m cash in Photopharmica to date, in addition to £4.5m through an issue of the Group's shares in 2007.

During the year, cash proceeds from the realisation of investments increased to £16.7m (2011: £3.7m). This was predominantly driven by the sale of Proximagen to USL Pharma International UK Limited, a wholly-owned subsidiary of Upsher-Smith Laboratories, Inc, for total potential consideration of up to £356.8m. The acquisition of the Group's 7.6% stake resulted in the receipt of initial cash proceeds of £15.4m, representing a multiple of 35 times the Group's total investment, with up to a further £9.2m potentially receivable in future by way of contingent value rights.

 Business review

## Portfolio review continued

**“As envisaged at the time of the Group’s 2011 placing, the rate of capital deployment has again increased during 2012 to £26.3m.”**

**Performance summary**

	2012 £m	2011 £m
Unrealised gains on the revaluation of investments	64.5	13.6
Unrealised losses on the revaluation of investments	(26.5)	(12.7)
Net fair value gains	38.0	0.9
Profit on disposals of equity investments	11.8	2.3
Change in fair value of limited partnership interests	0.4	0.6
<b>Net portfolio gain</b>	<b>50.2</b>	<b>3.8</b>

**Cash investment analysis by company stage 2012**

	2012 £m	2011 £m
Incubation opportunities	0.5	0.1
Seed businesses	4.2	2.1
Post-seed private businesses	13.1	5.8
Post-seed quoted businesses	8.5	6.3
<b>Total</b>	<b>26.3</b>	<b>14.3</b>
<b>Proceeds from sales of equity investments</b>	<b>16.7</b>	<b>3.7</b>

**Performance summary**

A summary of the gains and losses across the portfolio is shown above.

The most significant contributors to unrealised gains on the revaluation of investments comprised £26.4m as a result of Oxford Nanopore’s May financing round, £10.3m as a result of the AIM IPO and subsequent share price increase of Retroscreen and increases in the share prices of Ceres Power Holdings plc (£5.1m) and Avacta Group plc (£4.8m).

Unrealised losses on the revaluation of investments included £13.0m from Photopharmica and from reductions in the share prices of certain of the Group’s quoted companies, including Green Chemicals plc (£1.4m) and Revolymer plc (£1.4m).

The Group’s holdings in companies quoted on either AIM or ISDX saw a net unrealised fair value increase of £28.0m, while the Group’s holdings in unquoted companies experienced a net fair value increase of £10.0m. The Group believes that the increasing maturity and technical and commercial progress of many of its underlying portfolio businesses, both quoted and unquoted, contributed to significant increases in fair value during the year. The share price performance of the Group’s quoted portfolio companies has continued to be positive during the first two months of 2013, with the portfolio having seen a £16.0m net unrealised fair value increase from the year end to 1 March 2013.

**Investments and realisations**

As envisaged at the time of the Group’s June 2011 placing and open offer, the Group’s rate of capital deployment has again increased during 2012, with a total of £26.3m being invested across 43 new and existing projects (2011: £14.3m; 42 projects), as shown above.

“Incubation opportunities” comprise businesses or pre-incorporation projects that are generally at a very early stage of development and typically involve investments of less than £0.1m from the Group. “Seed businesses” are those that have typically received capital of approximately £0.5m in total, primarily from the Group, in order to continue to progress towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement. “Post-seed businesses” are those that have received some level of further funding from co-investors external to the Group, with total funding received generally in excess of £0.5m. Of these, “post-seed quoted businesses” consist of those whose shares are quoted on either AIM or ISDX.

The Group has continued to mature its post-seed businesses with a number announcing further financings supported by the Group and/or IPVF, the dedicated follow-on venture capital fund managed by the Group. IPVF invested a total of £3.0m into Group portfolio businesses during the year (2011: £2.4m).

The Group’s pipeline of commercialisable intellectual property opportunities remains strong. Eight opportunities received initial incubation or seed funding during the year

(2011: five), two existing incubation projects progressed to seed stage (2011: four), with a further three developing businesses receiving capital from the Group for the first time.

**The eight new opportunities included:**

- TheySay Limited (University of Oxford): employs linguistic intelligence to complement machine learning techniques that enable new levels of insight into sentiment analysis;
- Oxehealth (University of Oxford): a novel technology that should enable a webcam to remotely monitor the vital signs of patients in artificial light, without the need for any additional hardware;
- Cryptographiq Limited (University of Leeds): developer of cyber-security tools;
- Azuri Technologies Limited (University of Cambridge): renewable energy company with award-winning Indigo pay-as-you-go home solar system technology; and
- in addition, the Group provided seed capital to Marblar Limited, a company that has developed an online network for inventors to interact directly with the scientific research community to come up with novel ways to exploit scientific discoveries.

The average level of capital deployed per company increased from £340,000 to £610,000 in 2012. Excluding the Group’s participation in Oxford Nanopore’s 2012 financing round, the average investment per company was still increased at £470,000. This trend is expected to continue in the future.





Case study: Ceres Power

## Developing clean, efficient, cost-effective fuel cell technology

Ceres Power is developing clean, efficient, cost-effective fuel cell technology for use in decentralised energy products that reduce operating costs, lower CO<sub>2</sub> emissions and improve energy security. These products use the company's mass manufacturable technology platform, the Fuel Cell Module, based on its unique patented intermediate temperature solid oxide fuel cell technology and operating on mains natural gas or in the future a range of other fuels including packaged fuels, such as LPG.

### Portfolio analysis - by stage of company maturity

At 31 December 2012, the Group's portfolio fair value of £181.8m was distributed across stages of company maturity as follows:

Company stage	As at 31 December 2012				As at 31 December 2011			
	Fair value		Number		Fair value		Number	
	£m	%		%	£m	%		%
Incubation opportunities	0.5	–	8	12%	0.2	–	6	9%
Seed businesses	9.9	5%	17	25%	5.3	4%	14	22%
Post-seed private businesses	86.8	48%	26	39%	68.3	55%	29	46%
Post-seed quoted businesses	84.6	47%	16	24%	50.0	41%	15	23%
All portfolio businesses	181.8	100%	67	100%	123.8	100%	64	100%

Of the 67 companies in the Group's portfolio, 76% (2011: 72%) of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £138.2m (2011: £89.0m).

### Portfolio analysis - by sector

The Group's portfolio consists of five key sectors, as depicted in the following table:

Sector	As at 31 December 2012				As at 31 December 2011			
	Fair value		Number		Fair value		Number	
	£m	%		%	£m	%		%
Medical Equipment & Supplies	107.3	59%	17	25%	52.0	42%	14	22%
Energy & Renewables	31.0	17%	14	21%	14.4	12%	13	20%
Chemicals & Materials	18.0	10%	14	21%	17.5	14%	16	25%
IT & Communications	9.7	5%	12	18%	6.4	5%	11	17%
Pharma & Biotech	5.6	3%	8	12%	25.4	21%	8	13%
Multiple sectors	10.2	6%	2	3%	8.1	6%	2	3%
	181.8	100%	67	100%	123.8	100%	64	100%

As can be seen from the table, the Group's portfolio by number of companies is well diversified across five main sectors. By fair value, however, the portfolio is currently more concentrated in the medical equipment & supplies sector, largely as a result of the relative valuation of the Group's holding in Oxford Nanopore.

The Group's holdings in two companies across multiple sectors (IP commercialisation companies Fusion IP plc and Frontier IP plc) saw an unrealised fair value increase of £2.0m. Fusion IP plc ("Fusion") completed its first material portfolio exit during 2012 with the sale of Simcyp to Certara for \$32m. The sale of Simcyp, a modelling and simulation platform for predicting the fate of drugs in virtual populations, generated approximately £4m for Fusion, a 200-fold return on their original investment. Fusion also saw a significant increase in the fair value of its portfolio and Fusion's positive share price performance resulted in a £2.1m increase in the value of the Group's holding.

A more detailed analysis of each sector is set out on the following pages.

 Business review

## Portfolio review continued

## Medical Equipment &amp; Supplies

	Group stake at 31 December 2012 % <sup>(i)</sup>	Fair value of Group holding at 31 December 2011 £m	Year to 31 December 2012		Fair value of Group holding at 31 December 2012 £m
			Net investment/(divestment) £m	Fair value movement £m	
<b>Oxford Nanopore Technologies Limited</b> Single-molecule detection and analysis using nanopore technology	<b>20.4%</b>	33.4	6.7	26.4	<b>66.5</b>
<b>Retroscreen Virology Group plc</b> Contract virology research company	<b>22.7%</b>	0.6	1.5	10.3	<b>12.4</b>
<b>Tissue Regenix Group plc</b> Regenerative dCELL <sup>®</sup> tissue implants	<b>13.8%</b>	12.6	–	(1.3)	<b>11.3</b>
<b>Avacta Group plc<sup>(ii)</sup></b> Specialist detection and analysis technologies and services	<b>29.8%</b>	2.2	2.9	4.8	<b>9.9</b>
<b>Other companies</b>		3.2	3.1	0.9	<b>7.2</b>
<b>Total</b>		52.0	14.2	41.1	<b>107.3</b>

(i) Stake represents undiluted beneficial equity interest excluding debt.

(ii) Net investment includes the £0.5m acquisition in January 2012 of Aptuscan Limited, an existing Group company.

The Group's portfolio of Medical Equipment & Supplies or "med tech" companies saw the most significant increase in fair value during the period. The major contributors to this increase were Oxford Nanopore (£26.4m) as a result of its further £31.4m fundraising being completed at a premium to its previous financing round, Retroscreen (£10.3m) which experienced strong share price performance following its £15.0m placing and admission to AIM and Avacta Group plc (£4.8m) that completed a £5.1m placing and whose share price performed positively during the year. These were offset to a limited degree by a decrease in the fair value of the Group's holding in Tissue Regenix (£1.3m).

Following its £15.0m AIM IPO in May, Retroscreen Virology Group plc ("Retroscreen") announced in December that it expects full-year revenues for the year ending 31 December 2012 to exceed £13.0m, more than three times 2011

revenues, and that it had dosed its 1,000th volunteer. In January 2013, the company announced a further Viral Challenge Model contract valued at £3.9m. The study will be the largest ever investigation into influenza transmission and is a collaboration with the University of Nottingham and other international groups, funded by the United States Centers for Disease Control and Prevention.

Following a successful £25.0m fundraising in December 2011, Tissue Regenix was able to continue its meniscus and human dermis studies. The company announced that both studies had produced encouraging data and a Yale University study into cell re-population showed that dCELL<sup>®</sup> matrices in vascular patches outperformed a competitor product. The company then announced in February 2013 that it had successfully completed the safety study for its dCELL meniscus, paving the way for clinical studies to begin in Europe following

regulatory review. The dCELL meniscus is being developed for use in knee repair, where more than 1.5 million meniscal procedures are expected in the US and Europe in 2013. Despite these developments, Tissue Regenix experienced some weakening of its share price.

The Group's holding in Avacta Group plc ("Avacta"), which provides reagents, arrays and instruments to the life sciences and healthcare industries, saw a significant fair value increase during the period of £4.8m. From an operational perspective, Avacta has continued to perform strongly announcing underlying revenue growth of 28% to £3.1m for the year to 31 July 2012 and the signing of a further exclusive marketing and distribution agreement with Pall Corporation in India. In January 2012, Avacta completed a £5.1m placing and acquired Aptuscan Limited.

## Case study: Retroscreen Virology

## Conquering viral disease

Retroscreen Virology is the only company in the world dedicated to the Human Viral Challenge Model. These studies take place in Retroscreen's unique, purpose-built, quarantine unit in London or occasionally at other facilities. The Human VCM enables pharmaceutical and biotechnology companies as well as world leading academic groups to accelerate and reduce the cost of bringing anti-viral drugs, diagnostics, and vaccines to market. Retroscreen floated on AIM in 2012.



## Energy & Renewables

	Group stake at 31 December 2012 % <sup>(i)</sup>	Fair value of Group holding at 31 December 2011 £m	Year to 31 December 2012		Fair value of Group holding at 31 December 2012 £m
			Net investment/(divestment) £m	Fair value movement £m	
<b>Modern Water plc</b> Technologies to address the world's water crisis	<b>20.9%</b>	5.8	–	0.9	<b>6.7</b>
<b>Oxford Catalysts Group plc</b> Speciality catalysts for the generation of clean fuels	<b>5.0%</b>	2.4	–	3.9	<b>6.3</b>
<b>Ceres Power Holdings plc</b> Ceramic fuel cell technology	<b>25.7%</b>	–	1.1	5.1	<b>6.2</b>
<b>GETECH Group plc</b> Gravity and magnetic data analysis for the oil and gas industry	<b>24.2%</b>	1.4	–	1.7	<b>3.1</b>
<b>Other companies</b>		4.8	3.7	0.2	<b>8.7</b>
<b>Total</b>		14.4	4.8	11.8	<b>31.0</b>

(i) Stake represents undiluted beneficial equity interest excluding debt.

Companies in the Energy & Renewables sector also saw a significant increase in fair value during the period (£11.8m). The major contributors to this increase were Ceres Power Holdings plc (£5.1m) and Oxford Catalysts Group plc (£3.9m) whose share prices either performed positively during the year or, in the case of the former, following the Group's participation in the company's refinancing in December 2012.

In March 2013, Modern Water plc ("MW"), a company that develops leading water technologies focused on addressing the scarcity of fresh water and the monitoring of water quality, announced it had raised £10.0m. This followed the installation and commissioning by the company of the Al Najdah plant, the world's first commercial forward osmosis desalination plant in September 2012. MW also announced that it had entered into a Framework Agreement with Hangzhou Development Center of Water Treatment Technology Company Limited in the People's Republic of China, which will allow both organisations to jointly identify and develop projects in China including seawater desalination plants and other water-related opportunities, as well as a Cooperation and Agency Agreement with

Kazema Global Holding KSCH in Kuwait, with a view to the company and Kazema working together in Kuwait to promote the company's forward osmosis technology.

Oxford Catalysts Group plc ("OCG") is a spin-out from the University of Oxford that designs and develops technology for the smaller scale production of clean synthetic fuels from conventional fossil fuels and renewable sources such as biowaste. The company announced in July 2012 that it had been selected to provide its Fischer-Tropsch technology to GreenSky London, Europe's first commercial scale sustainable jet fuel facility, being developed in partnership with British Airways. British Airways confirmed that it had committed to purchase the sustainable jet fuel produced by the plant for ten years (at market rates) - worth \$500m. The company's share price rose significantly in the period resulting in an increase in the fair value of the Group's holding of £3.9m and the company completed a £31.0m placing in January 2013.

In December 2012, the Group invested £1.1m as part of a £3.3m placing in Ceres Power Holding plc ("Ceres"). Ceres is an AIM-quoted company developing clean,

efficient, cost-effective fuel cell technology for use in distributed generation and other applications. Two members of the Group's staff joined the company in a non-executive capacity and worked alongside new interim CEO, Steve Callaghan, to implement a revised strategy. This saw a significant resizing of the business and a focus on the continued development and commercialisation of its core fuel cell and fuel cell module technology platform. Appreciation in the company's share price following the completion of the placing resulted in a £5.1m increase in the fair value of the Group's 25.7% holding during December.

GETECH, the oil services business specialising in the provision of exploration data and petroleum systems studies and evaluations, announced a number of major contracts including five further Globe sponsors and two substantial sales of its global gravity and magnetic datasets during the period. The company's share price responded to its positive trading performance, which included annual results for the year ended 31 July 2012 that saw a 21% increase in revenues to £6.4m and a 86% increase in pre-tax profits to £1.2m.

 Business review

## Portfolio review continued

## Chemicals &amp; Materials

	Group stake at 31 December 2012 % <sup>(i)</sup>	Fair value of Group holding at 31 December 2011 £m	Year to 31 December 2012		Fair value of Group holding at 31 December 2012 £m
			Net investment/(divestment) £m	Fair value movement £m	
<b>Revolymr plc</b> Novel polymers e.g. "removable chewing gum"	10.6%	2.9	2.5	(1.4)	4.0
<b>Oxford Advanced Surfaces Group plc</b> ONTO and VISARC surface modification technologies	14.4%	2.1	–	0.6	2.7
<b>Surrey Nanosystems Limited</b> Low temperature carbon nanotube growth	21.0%	1.5	0.7	0.1	2.3
<b>Green Chemicals plc</b> Environmentally friendly textiles and bleaching chemicals	24.5%	3.2	0.3	(1.4)	2.1
<b>Xeros Limited</b> "Virtually waterless" washing machines	21.0%	1.4	–	–	1.4
<b>Other companies</b>		6.4	1.9	(2.8)	5.5
<b>Total</b>		17.5	5.4	(4.9)	18.0

(i) Stake represents undiluted beneficial equity interest excluding debt.



Case study: Xeros

## Environmentally friendly cleaning technology

Xeros has developed an environmentally friendly cleaning technology which originally came out of pioneering work by the University of Leeds. The \$100bn global laundry industry is the initial market for the Xeros polymer bead cleaning system and the technology has been installed at sites in both London and North America. Xeros has now raised over £16m in funding from private investment and government R&D grants to commercialise the technology. The company successfully completed a £10m fund raising in March 2013.

The unrealised fair value loss seen by the Chemicals & Materials portfolio was largely as a result of a decrease in share price during the year in both Revolymr plc ("Revolymr") and Green Chemicals plc ("Green Chemicals").

As mentioned above, Revolymr completed its AIM IPO and £25.0m placing in July. During the year Revolymr also announced good progress with its six joint development agreements with major international partners in the household products, and coatings and adhesives business areas, the launch of nicotine gum in Canada through two pharmacy businesses of the McKesson group, and further strengthening of the board of directors with the appointments of Julian Heslop, former

CFO of GSK, and Dr Bryan Dobson, formerly President Global Operations Croda, both as independent non-executive directors. Despite this progress, the company's share price saw a limited decline in the latter half of the year and this continued into 2013, when the company also announced that it would vigorously defend a patent infringement claim received.

Oxford Advanced Surfaces plc ("OAS"), a University of Oxford spin-out, continued the development of its ONTO™ and VISARC™ surface modification technologies during 2012. In October, Adrian Meldrum, formerly director of IQE plc, joined as chief executive while, in June, the company announced its first

commercial agreement with a global industrial manufacturing company, covering the use of its VISARC technology in electronic displays.

Green Chemicals, a spin-out from the University of Leeds that is developing "cleaner, greener, safer" solutions for a range of applications in the textile, health and beauty and personal care markets, raised £1.0m in a placing in November 2012 and announced that trials at Harrods of Knightsbridge of the TruKolor™ hair de-colourant and hair colouration technology in conjunction with Urban Retreats Limited ("Urban Retreats") are viewed by the company and by Urban Retreats as having been highly successful.

## IT & Communications

	Group stake at 31 December 2012 % <sup>(i)</sup>	Year to 31 December 2012			Fair value of Group holding at 31 December 2012 £m
		Fair value of Group holding at 31 December 2011 £m	Net investment/(divestment) £m	Fair value movement £m	
<b>Tracsis plc</b> Provider of operational planning software to passenger transport industries	12.6%	2.1	(0.4)	3.3	5.0
<b>Arkivum Limited</b> Digital preservation and management	45.8%	0.7	0.8	0.4	1.9
<b>Actual Experience Limited</b> Optimising the human experience of networked application	40.5%	1.2	–	–	1.2
<b>Other companies</b>		2.4	0.4	(1.2)	1.6
<b>Total</b>		6.4	0.8	2.5	9.7

(i) Stake represents undiluted beneficial equity interest excluding debt.

At 31 December 2012, the Group's portfolio of holdings in IT & Communications companies was valued at £9.7m (2011: £6.4m) and recorded a fair value gain of £2.5m (2011: £0.6m), the majority of which was due to the performance of Tracsis plc's share price.

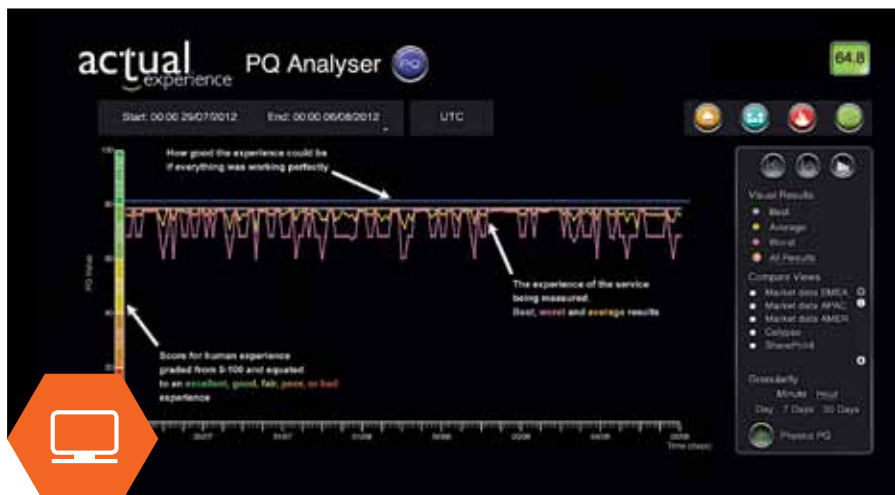
Tracsis, a leading provider of operational planning software to passenger transport industries, reported its fifth successive year of revenue growth since its AIM IPO in 2007, with revenues increasing 112% to £8.7m for the year ended 31 July 2012. The company's performance contributed to it being awarded

the Company of the Year in the Mid-sized category at the Growing Business Awards. In February 2013, the company announced that it had signed an agreement with a major UK rail freight operator, its first in the sector, to supply a customised version of its TrainTRACS crew scheduling software for a period of three years.

Actual Experience, a spin-out from Queen Mary, University of London, has accumulated an impressive list of blue chip customers over the past year, including Cisco Systems. Actual Experience Analytics are used by businesses

to quantify and improve the actual "human experience" of key IT applications for their customers and users, potentially unlocking important economic, social and environmental benefits. Actual Experience was the recipient of the prestigious 2012 Innovation Award by the Institution of Engineering and Technology.

During the period the Group realised a total of £0.9m as a result of the acquisition of Overlay Media Limited, a University of Bristol spin-out developing context-aware software for mobile devices, by InMobi, a venture-backed mobile software company.



Case study: Actual Experience

### Improving the actual computing experience for end users

Actual Experience addresses the fact that IT infrastructure (computers, storage and network) will perform at its best, whilst minimising costs, only if it can be managed from a human perception standpoint. A spin-out from Queen Mary, University of London, Actual Experience is enjoying rapid growth and has already amassed an impressive list of blue chip customers including Cisco Systems and Charles Stanley.

 Business review

## Portfolio review continued

## Pharma &amp; Biotech

	Group stake at 31 December 2012 % <sup>(i)</sup>	Year to 31 December 2012			Fair value of Group holding at 31 December 2012 £m
		Fair value of Group holding at 31 December 2011 £m	Net investment/(divestment) £m	Fair value movement £m	
<b>Synairgen plc</b> Developing new drugs for respiratory diseases	10.8%	2.3	0.3	1.1	3.7
<b>Photopharmica Limited</b> Wound treatment using light (photodynamic therapy or "PDT")	38.2%	13.0	0.2	(13.0)	0.2
<b>Proximagen Group plc</b> Treatments for neurodegenerative disorders such as Parkinson's disease	–	5.6	(5.6)	–	–
<b>Other companies</b>		4.5	0.4	(3.2)	1.7
<b>Total</b>		25.4	(4.7)	(15.1)	5.6

(i) Stake represents undiluted beneficial equity interest excluding debt.

The absolute value of the Group's Pharma & Biotech portfolio decreased significantly during the year as a result of the sale of Proximagen, generating cash proceeds of £15.4m, a full write-down of Photopharmica (£13.0m), as described above, and Synairgen plc ("Synairgen"), whose share price increase contributed £1.1m of fair value gains.

During August, Proximagen, a spin-out from King's College, London, was acquired by USL Pharma International UK Limited, a wholly-owned subsidiary of Upsher-Smith Laboratories, Inc, for a total potential consideration of up to £356.8m. Under the terms of the acquisition, Proximagen shareholders received an initial 320p per ordinary share in cash in addition to a potential further 192p in either cash or loan notes by way of contingent value rights ("CVRs"). The initial cash payment of £15.4m received by the Group represented a multiple of 35 times its total investment in Proximagen of approximately £0.4m. At 31 December 2012, the Group's CVRs have been fair valued at £1.4m, or 30p per CVR.

Synairgen, the University of Southampton spin-out that focuses on respiratory drug discovery and development, announced positive results in April from its Phase II trial of inhaled interferon beta ("IFN-beta") in asthma. This showed significant benefit across multiple end points in the Step 4/5 patients (estimated to represent between 10% and 20% of adult asthma sufferers, who are the greatest healthcare burden) and that the compound was well tolerated. The company strengthened its balance sheet in July through a £2.5m placing in which the Group participated.



# A strong financial position

Greg Smith  
Chief Financial Officer

## In summary

- Adjusted profit before tax of £46.7m (2011: £0.5m), excluding £6.0m reduction in fair value of Oxford Equity Rights asset (2011: £6.0m)
- The Group continued to benefit from a strong financial position with cash and deposits of £47.9m and a diversified portfolio of holdings in 67 companies
- The Group continued to have no borrowings or foreign currency deposits
- The Group increased the amount of capital provided to portfolio companies to £26.3m (2011: £14.3m)

## Statement of comprehensive income

A summary analysis of the Group's financial performance is provided below:

	2012 £m	2011 £m
Net portfolio gains	50.2	3.8
Other income	2.3	2.1
Change in fair value of Oxford Equity Rights asset	(6.0)	(6.0)
Administrative expenses - Modern Biosciences	(0.5)	(0.4)
Administrative expenses - all other businesses	(6.2)	(5.6)
Finance income	0.9	0.6
<b>Gain/(loss) and total comprehensive income for the period</b>	<b>40.7</b>	<b>(5.5)</b>

Overall the Group recorded a profit after tax of £40.7m, which compares to a loss of £5.5m during 2011. As was also the case in 2011, this result includes a £6.0m reduction in the fair value of the Group's contract with the University of Oxford's Chemistry Department. Excluding this non-cash fair value reduction, the Group recorded an adjusted profit of £46.7m compared to £0.5m in 2011, largely reflecting significantly higher net portfolio gains in the year.

Net portfolio gains consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses as well as changes in the fair value of its limited and limited liability partnership interests. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 12 to 20.

Other income for the year increased to £2.3m (2011: £2.1m) as increased consulting and corporate finance fees offset a lower level of venture capital fund management fees.

## Finance review continued

**“ ‘Hard’ net assets increased to £236.6m at 31 December 2012 (2011: £189.1m).”**

**Statement of comprehensive income** continued IP Venture Fund reached the conclusion of its five-year “investment period” in August 2012 having invested in over 25 of the Group’s portfolio companies to date. As a result, venture capital fund management income is anticipated to further reduce in 2013 and beyond. The Group continues to receive management fees and has the potential to generate performance fees from successful investment performance of both this fund and the North East Technology Fund LP (“NETF”), whose “investment period” is currently anticipated to continue until the end of 2014.

The Group continued to allocate limited capital to the evaluation and development of certain early-stage therapeutic programmes including through its subsidiary Modern Biosciences plc (“MBS”). These development costs were expensed to the income statement as they were incurred. In November, the Group announced that MBS had been awarded a grant of up to £1.6m by the UK Government-backed Biomedical Catalyst. The award will provide support for MBS’s lead anti-inflammatory programme, OsteoRx. The Group intends to continue developing a small number of early-stage therapeutic assets.

The Group’s administrative expenses, excluding those relating to Modern Biosciences, increased during the period to £6.2m (2011: £5.6m), predominantly due to higher staff costs, included an IFRS 2 share-based payments charge totalling £0.8m (2011: £0.7m) relating to the Group’s Long Term Incentive Plan awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group’s total equity or “net assets”. As described in more detail in the Directors’ Remuneration Report on pages 42 to 49, approximately 81% of the 2010 LTIP awards are anticipated to vest during 2013 as a result of the Group’s strong three-year

share price performance and increase in “hard” net assets. The 2011 and 2012 LTIP awards are subject to vesting conditions until 2014 and 2015 and charges relating to these awards will continue to be recognised in the statement of comprehensive income until this time.

As a result of the Group’s increased average cash balances during the year, the Group’s interest receivable has increased to £0.9m (2011: £0.6m). It is expected that the Group’s future finance income will continue to fluctuate broadly in line with cash held on balance sheet and future interest rate changes.

### Statement of financial position

The Group ended the period with net assets of £263.1m, representing an increase of £41.5m from the position at 1 January 2012 (£221.6m). As described above, the most significant contributor to the increase in net assets during the period was the performance of the Group’s portfolio of holdings in spin-out companies. “Hard” net assets, i.e. those excluding intangible assets and the Oxford Equity Rights asset, totalled £236.6m at 31 December 2012 (2011: £189.1m).

The Group continued to benefit from a strong financial position with cash and deposits of £47.9m (2011: £60.5m) and a diversified portfolio of equity and debt investments in 67 private and publicly listed technology companies (2011: 64). The Group continued to have no borrowings.

The value of the Group’s holdings in portfolio companies increased to £181.8m at year end after net unrealised fair value gains of £38.0m and net investment of £9.6m (2011: £123.8m; £0.9m net unrealised fair value gain; £10.6m net investment). The Portfolio review on pages 12 to 20 contains a detailed description of the Group’s portfolio of equity and debt investments, including key developments and movements during the year.



The Group's statement of financial position includes goodwill of £18.4m (2011: £18.4m) and an equity rights asset of £7.9m (2011: £13.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £16.3m; 2011: £16.3m) and Top Technology Ventures (venture capital fund management business, £2.1m; 2011: £2.1m). The equity rights asset represents amounts paid to the University of Oxford in 2000 and 2001 giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company or of any licensing income emanating from the University of Oxford's Chemistry Department until 2015.

As was also the case in 2011, as the date of expiry (November 2015) of the contract underpinning the Oxford Equity Rights asset draws closer, the value to the Group of the corresponding asset under IFRS reduces and it will have been written off by way of fair value reduction or impairment through the statement of comprehensive income by the expiry date. Based on the directors' calculations, and as described more fully in note 14 to the Group's financial statements, the fair value of the contract at 31 December 2012 has reduced by £6.0m (2011: £6.0m).

The directors expect the Group's long-standing contractual and non-contractual relationships with the University of Oxford to remain successful and mutually valuable. As at 31 December 2012, the fair value of the Group's holdings in Oxford Chemistry spin-out companies totalled £77.0m and, based on having invested a total of £14.6m and realised £6.9m to date, value totalling £69.3m has been derived by the Group from the contract since its inception.

Due to the nature of its activities, the Group has limited current assets or current liabilities other than its cash and short-term deposit balances, which are considered in more detail below.

### Cash, cash equivalents and short-term deposits ("Cash")

The principal constituents of the movement in Cash during the year are summarised as follows:

	2012 £m	2011 £m
Net cash used in operating activities	(2.6)	(3.0)
Net cash used in investing activities	(10.0)	(11.3)
Issued share capital	–	53.3
<b>Movement during period</b>	<b>(12.6)</b>	<b>39.0</b>

At 31 December 2012, the Group's Cash totalled £47.9m, a decrease of £12.6m from a total of £60.5m at 31 December 2011 predominantly due to net investment in the Group's spin-out companies.

The Group's net Cash used in investing activities decreased during 2012, however this reflects a significant increase in both investments (2012: £26.3m; 2011: £14.3m) and realisations (2012: £16.7m; 2011: £3.7m). As described in more detail in the Portfolio review on pages 12 to 20, the Group allocated a total of £26.3m across 43 portfolio companies during the period (2011: £14.3m; 42 companies).

A further £0.4m was committed to IP Venture Fund (2011: £0.4m), which in turn invested £3.0m across 15 portfolio companies (2011: £2.4m; 16 companies). Overall, net Cash used in investing activities decreased to £10.0m (2011: £11.3m).

Primarily as a result of a £0.8m increase in interest received, which was partially offset by higher administrative costs during the period, Cash used in operating activities decreased to £2.6m (2011: £3.0m).

It remains the Group's policy to place cash which is surplus to near-term working capital requirements on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria and in low-risk treasury funds rated "AA" or above. The Group's treasury policy is described in detail in note 2 to the Group financial statements alongside details of the credit ratings of the Group's cash and deposit counterparties.

The Group continues to have no borrowings or foreign currency deposits.

### Taxation

Since the Group's activities are mainly trading in nature, the directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE") on chargeable gains arising on the disposal of qualifying holdings and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity stakes which meet the qualifying criteria. The Group's unrecognised deferred tax assets and liabilities are set out in note 9 to the financial statements.

 Business review

## Risk management

# Managing corporate, operational and financial risks

As described in the Corporate Governance report on page 39 the operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are reviewed by the Board on an annual basis and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out as follows:

Risk and description	Impact	Mitigation
<p><b>The returns and cash proceeds from the Group's early-stage companies can be very uncertain</b></p> <p><b>The following risks are typically associated with early-stage companies that can have a high risk of failure:</b></p> <ul style="list-style-type: none"> <li>- may not be able to secure later rounds of funding;</li> <li>- may not be able to source or retain appropriately skilled staff;</li> <li>- competing technologies may enter the market;</li> <li>- technology can be materially unproven and may fail; and</li> <li>- other administrative, taxation or compliance issue leads to company failure.</li> </ul>	<ul style="list-style-type: none"> <li>- Portfolio company failure directly impacts the Group's value and profitability.</li> <li>- At any time, a large proportion of the Group's portfolio value may be accounted for by one, or very few, technology companies which could exacerbate the impact of one or more such company failures.</li> <li>- Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.</li> </ul>	<ul style="list-style-type: none"> <li>- The Group's staff has significant experience in sourcing, developing and growing early-stage technology companies to significant value, including systematic opportunity evaluation and business building methodologies.</li> <li>- Members of the Group's senior team often serve as non-executive directors or advisers to portfolio companies to help identify and remedy critical issues promptly.</li> <li>- The Group has spin-out company holdings across different sectors to reduce the impact of a single company failure or sector demise.</li> <li>- The Group maintains significant cash balances and seeks to employ a capital efficient process deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage.</li> </ul>
<p><b>It may be difficult for the Group and its early-stage companies to attract capital</b></p> <p><b>The Group's operations are reliant on the capital markets, particularly those in the UK. As the Group's operations, and the operations of the majority of its portfolio companies, are based in the UK, the financial and operational performance of the Group and particularly the ability of its portfolio companies to attract development capital is influenced by the general economic climate and trading conditions in the UK.</b></p>	<ul style="list-style-type: none"> <li>- The UK's recession and subsequent limited growth have had (and may continue to have) an adverse effect on trading conditions in the UK, particularly for smaller businesses.</li> <li>- Environment may contribute to a shortage of potential capital providers for early-stage technology businesses such as those that the Group creates.</li> <li>- The Group's portfolio companies may take longer, or find it more difficult, to secure funding for their ongoing development and the commercialisation of their IP.</li> <li>- Failure of companies within the Group's portfolio may make it more difficult for the Group or its spin-out companies to raise additional capital.</li> </ul>	<ul style="list-style-type: none"> <li>- The Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities.</li> <li>- The Group operates a capital markets function which carries out fundraising mandates for portfolio companies.</li> <li>- The Group maintains close relationships with varied co-investors that focus on companies at differing stages of development.</li> </ul>

Risk and description	Impact	Mitigation
<p><b>Universities or other research-intensive institutions may terminate their partnerships or other collaborative relationships with the Group</b></p>	<ul style="list-style-type: none"> <li>- Termination or non-renewal of arrangements through failure to perform obligations may result in the loss of exclusive rights.</li> <li>- The loss of exclusive rights may limit the Group's ability to secure attractive IP opportunities to commercialise.</li> <li>- This could potentially have a material adverse effect on the Group's long-term business, results of operations, performance and prospects.</li> </ul>	<ul style="list-style-type: none"> <li>- Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive.</li> <li>- The Group sources a limited number of opportunities through non-exclusive relationships.</li> <li>- The Group's track record in IP commercialisation can make the Group a partner of choice for other institutions, acting as a barrier to entry to competitors.</li> <li>- The Group continues to consider and, where appropriate, enter into new and innovative collaborations.</li> </ul>
<p><b>The area in which the Group operates is a specialised area and the Group therefore requires highly qualified and experienced employees. There is a risk that the Group's employees could be approached and solicited by competitors or other technology-based companies and organisations. Given the relatively small size of the Group, its operations are reliant on a small number of key individuals. Scaling the team presents an additional potential risk.</b></p>	<ul style="list-style-type: none"> <li>- Loss of key executives and employees of the Group or an inability to attract, retain and integrate appropriately skilled and experienced staff could have an adverse effect on the Group's business, competitive advantage, financial condition, results of operations and/or future prospects.</li> </ul>	<ul style="list-style-type: none"> <li>- Senior team succession planning.</li> <li>- The Group carries out regular market comparisons for staff and executive remuneration.</li> <li>- The Group seeks to offer a balanced incentive package considering the mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working or salary sacrifice arrangements.</li> <li>- The long term incentives for all senior staff are in the form of shares in the Group and all executives are shareholders in the business.</li> <li>- The Group encourages staff development and inclusion through coaching and mentoring.</li> </ul>
<p><b>There may be changes to, or impacts from, legislation, government policy or regulation</b></p>	<ul style="list-style-type: none"> <li>- Changes could result in universities and research institutions no longer being able to own, exploit or protect intellectual property.</li> <li>- Changes in government policy or legislation may make it unattractive for research academics to participate in the commercialisation of the IP that they create.</li> <li>- Changes to tax legislation or the nature of the Group's activities, in particular in relation to the substantial shareholder exemption, may adversely affect the Group's tax position and accordingly its value and operations.</li> <li>- The Group operates an FSA-authorised subsidiary and regulatory changes or breaches could ultimately lead to reputational damage or fines.</li> </ul>	<ul style="list-style-type: none"> <li>- University partners are incentivised to protect their IP for exploitation as the partnership agreements share returns between universities, academic founders and the Group.</li> <li>- The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes.</li> <li>- The Group utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax or other legislation.</li> <li>- The Group has internal policies and procedures to ensure its compliance with applicable FSA Regulations and these are subject to external review.</li> </ul>

In addition, through its normal operations the Group is exposed to a number of financial risks, comprising liquidity, market and credit risks. Further quantitative information is set out in note 2 to the Group's financial statements.

 Business review

## Corporate social responsibility

### Policy statement

IP Group aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders.

The Group is committed to growing the business while ensuring a safe environment for employees as well as minimising the overall impact on the environment.

IP Group endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships.

#### Our commitment to the environment and sustainability

Climate change and increased environmental damage are commonly accepted to be very real threats both now and in the future. Sustainability forms a core component of our business philosophy and we firmly recognise our responsibility to ensure that our business continues to operate in a sustainable manner.

Sustainability features prominently in our opportunity selection agenda and we actively pursue opportunities that have the potential to improve the environment we live in and benefit society's wellbeing on a global scale. In healthcare, the Group has established companies seeking to develop diagnostics and therapeutics across a wide range of disease areas including cancer, wound care, liver diseases, asthma and Alzheimer's disease. The Group has also formed and invested in a number of companies that are pioneering the development of both clean technologies and research in the water, energy, waste management and construction sectors.

The direct environmental impact of the Group and its subsidiary companies is relatively low. The business operates from a small number of offices and employs fewer than 40 people, with the majority of our work being office-based. The Group does, however, remain committed to ensuring that the environmental impacts of the business operations are minimised and reduced wherever possible. While the Board as a whole has primary responsibility for environmental issues, it has allocated day-to-day responsibility for the review of environmental and social issues to the Chief Financial Officer, Greg Smith. The Group has an Environmental Policy, which is monitored and discussed at Board level and reviewed at least annually. This policy is communicated to all new staff upon induction into the business and is available on the Group's website.

#### Measuring our direct impact on the environment

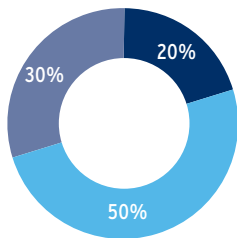
The Group operates out of three main office locations in the UK and during 2012 employed an average of 34 people (2011: 34). As a result, the Group's directors have always considered that the direct environmental impact of the Group's business is relatively low. As was the case in 2011, the Group again employed the services of a specialist adviser, Verco (previously Camco), to evaluate and quantify greenhouse gas ("GHG") emissions associated with the Group's operations.

Verco calculated our emissions by multiplying data provided for particular activities by Defra emission factors. For example, an emission factor is used to convert litres of petrol consumed into the amount of CO<sub>2</sub> emitted from a vehicle's exhaust. Verco's assessment methodology follows the reporting principles and guidelines provided by the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol").

The results from the Group's different operational activities, including refrigerant gas losses, premises fossil fuel consumption, electricity consumption, business travel, commuting and waste disposal, have been calculated to provide an estimate of carbon-related emissions for the activities of the Group for the year ended 31 December 2012, resulting in a quantification of the Group's annual carbon footprint. Verco's report covers the six Kyoto gases, expressed in carbon dioxide equivalents, or CO<sub>2</sub>e. In the year to 31 December 2012, Verco calculated that the GHG emissions arising from the operations associated with IP Group gave rise to 169 tonnes of CO<sub>2</sub>e, a limited increase on the equivalent figure for 2011 of 160 tonnes.

**"The direct environmental impact of the Group and its subsidiary companies is relatively low."**

Breakdown of emissions by source (%)  
for the year ended 31 December 2012



● Premises      ● Commuting  
● Business travel

The chart above depicts the Group's emissions by activity. The largest source of emissions was from premises activities, predominantly as a result of electricity consumption. The second largest source of emissions arose from business travel, predominantly trains. Verco also calculated the Group's average level of GHG emissions at 5.0 t/CO<sub>2</sub>e per employee (2011: 4.7 t/CO<sub>2</sub>e), which remains at the lower end of the range expected by Verco for a group carrying out similar activities to the Group (expected range 4 to 8 tonnes of CO<sub>2</sub>e per employee).

In addition, Verco again gathered information on the Group's waste usage in 2012. Across its three offices, estimated total waste of 6.3 tonnes was identified during the year, comprising 4.1 tonnes of landfill waste and 2.2 tonnes of recycled waste (2011: 4.6, 3.7 and 0.9 tonnes respectively).

Given the comparatively low GHG impact of the Group's operations, the Group's objective is to maintain or reduce its GHG per person each year and will report each year whether it has been successful in this regard.

#### Minimising our direct impact on the environment

In addition to the GHG analysis set out above, we are committed to:

- promoting resource efficiency and the management of waste generated from our business operations according to the principles of the waste management hierarchy. We prioritise the management of our waste in the following order: prevention, preparing for reuse, recycling, other recovery and, finally, disposal. Recycling facilities and waste awareness materials are present in all of our office locations;
- maximising the use of public transport for business travel and minimising business airline travel;

- working in partnership with our staff, suppliers, landlords and their agents to promote improved energy performance and energy efficiency; and
- wherever appropriate, making use of recycled and recyclable consumables and materials, including promotional and marketing documentation.

#### Understanding the indirect environmental impacts of our business activities

As described above, the Group's day-to-day operational activities have a limited impact on the environment. We do, however, recognise that the more significant impact occurs indirectly, through the investment decisions we make and the operation of the companies we choose to invest in. The Group therefore considers it important to establish and invest in businesses that comply with existing applicable environmental, ethical and social legislation. It is also important that these businesses can demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these businesses can operate to specific industry standards, striving for best practice.

Major investment themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. The following case study has been included to highlight how our investment decisions are linked to the global environmental and sustainability agenda.

Further qualitative and quantitative details of the Group's investments in companies in Medical Equipment & Supplies, Pharma & Biotech, Energy & Renewables and Chemicals & Materials sectors are detailed in the Portfolio review, on pages 12 to 20.

**“The Group's objective is to maintain or reduce its GHG per person and will report each year whether it has been successful in this regard.”**

 Business review

## Corporate social responsibility continued



Revise was formed by sustainability experts with the simple aim of utilising best available technologies which will allow people and businesses to better understand the concept of sustainability from a technical, operational and business perspective.

In 2012, Revise launched Waste Expert 1.0, the world's first virtual waste management expert.

Waste management is a key sustainability priority that often lacks effective management control. Traditionally, detailed operational understanding and considerable staff or consultancy resource has been required to manage complex issues that are governed by widespread and onerous legislation. The waste expert's key function is to overcome these limitations and enable the user to quickly and easily improve the waste management performance of their organisation, embedding improved skills and knowledge along the way.

Revise is a subsidiary of Sustainable Resource Solutions Limited, in which the Group has a 43.6% undiluted beneficial holding.



Further details on the Group's portfolio companies can be found on our website: [www.ipgroupplc.com](http://www.ipgroupplc.com)

### Our business ethics and social responsibility

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and, in all such activities, for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses.

### Employment policies

Copies of the Group's policies in relation to equal opportunities and diversity, health and safety, and anti-corruption and bribery can be found on the Group's website, [www.ipgroupplc.com/csr/company-policies](http://www.ipgroupplc.com/csr/company-policies).

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

It is the Group's policy to conduct all of our business in an honest and ethical manner. We take a zero tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter bribery. The Group is bound by the laws of the UK, including the Bribery Act 2010, and has implemented policies and procedures based on such laws.

The Group's management and employees are fundamental to our success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coaches and mentors. The Group has continued to employ regular all-staff update meetings as the main source of employee communication.

#### Health and safety

Promotion of health and safety at work is an essential responsibility of staff and management at all levels. The Chief Executive has overall responsibility for the implementation of the Group's health and safety policies and procedures.

The primary purpose of the Group's health and safety policy, which is summarised below, is to enable all members of the Group's staff to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. High standards of health and safety are applied to staff and subcontractors and we endeavour to ensure that the health, safety and welfare of our employees, visitors, customers, contractors' staff and the general public are not compromised.

The key policy objectives of our health and safety policy are:

- to prevent accidents and cases of work-related ill health and provide adequate control of health and safety risks arising from work activities;
- to provide adequate training to ensure employees are competent to do their work;

- to engage and consult with employees on day-to-day health and safety conditions and provide advice and supervision on occupational health;
- to implement emergency procedures, for example, evacuation in case of fire or other significant incident; and
- to maintain safe and healthy working conditions, provide and maintain plant, equipment and machinery, and ensure safe storage/use of substances.

During the year to 31 December 2012, no reportable accidents occurred under UK Health and Safety regulations.

#### Community investment

Our employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations.

IP Group and its members of staff have a long history of supporting charities and remain committed to making charitable donations. The Group aims to donate 1% of the previous year's realised profits<sup>1</sup> to one or more charities which have a particular relevance to IP Group's activities or to members of our team. The charities are selected each year by the Group's charitable donations committee which consists of representatives from senior management and our wider team. Members of staff are also encouraged to supplement the donations made by IP Group through "give as you earn" salary sacrifice donations and fundraising challenges.

The Group's three chosen charities during 2012 were Lend with Care, a website allowing benefactors to lend entrepreneurs in developing countries funds to help build their business which they then repay over time, Vauxhall City Farm, an inner-city farm providing the local community with education, activities and riding therapy, and Young Enterprise, which works with young people between the ages of 4 and 25 to inspire and equip them to succeed through enterprise. Further details of the activities of these charities are set out on the Group's website at <http://www.ipgroupplc.com/csr/community>.

Members of IP Group staff raised a total of £5,200 through "donate a day" salary sacrifice and sponsorship of the Group's 2012 Way of the Roses cycling challenge. In line with its stated policy, the Group made no charitable donations during 2012 (2011: £9,000 each to two charities).

<sup>1</sup> "Realised profits" is defined as the lower of profit after tax or portfolio realisations. The Group's directors reserve the right to limit any donation in a year of exceptional profits or realisations or the case of other exceptional circumstances.

 Corporate governance

## Board of Directors



**Dr Bruce Smith, CBE (aged 73)**

**Non-executive Chairman** ■

Bruce is chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering. He was the chairman and majority shareholder of Smith System Engineering Limited until 1997. Bruce is a fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology ("IET") and the Institute of Physics. Bruce became a director of IP Group in September 2002.



**Alan Aubrey, FCA (aged 51)**

**Chief Executive Officer**

Alan co-founded Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience in helping them raise money and prepare for sale or flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive on 1 January 2006 and has overall responsibility for the operational management of the Group. Alan is also chairman of the Department for Business, Innovation & Skills ("BIS") audit and risk committee.



**Greg Smith, ACA (aged 34)**

**Chief Financial Officer**

Greg joined IP Group in January 2008 and was appointed Chief Financial Officer in June 2011. Previously Greg spent three years at Tarchon Capital Management, a multi-billion dollar fund of hedge funds business where he had day-to-day responsibility for building and managing the operations and accounting team as well as external operational due diligence on investee hedge funds. Prior to Tarchon, Greg spent four years in KPMG's London Financial Services practice working with asset management, insurance and banking clients. Greg is a Chartered Accountant and holds a degree in mathematics from the University of Warwick.



**Dr Alison Fielding (aged 48)**

**Chief Operating Officer**

Alison co-founded Techtran Group Limited and was the chief operating officer of Techtran when it was acquired by IP Group in January 2005. Previously, she spent five years at McKinsey & Co where she consulted primarily to the pharmaceutical and healthcare sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions. Alison holds an MBA from Manchester Business School, a PhD in organic chemistry and a first-class degree in chemistry from the University of Glasgow.



**Mike Townend (aged 50)**

**Chief Investment Officer**

Mike was formerly managing director within the European Equities business of Lehman Brothers with responsibility for equity sales to hedge funds. Mike has over 17 years of experience in all aspects of equity capital markets. Mike was appointed a director of IP Group in March 2007.



**Charles Winward (aged 43)**

**Managing Director, Top Technology**

Charles joined IP Group in April 2007 to manage investments in Top Technology Ventures, the Group's venture capital fund management subsidiary. Previously Charles was vice president technology infrastructure at JPMorgan Chase & Co, where he worked in a variety of roles in London, New York and Brussels, and investment manager at Axiomlab, an AIM-listed early-stage investment specialist. Charles is a CFA charterholder, has an MBA from the University of California at Berkeley and a bachelor's degree in mechanical engineering from the University of Bristol. Charles was appointed to the IP Group Board in 2011.





**Mike Humphrey (aged 61)**  
**Senior Independent Director** ■ ■ ■

Mike Humphrey is the former CEO of Croda International plc. He was appointed to the board of Croda in 1995 and became group chief executive at the beginning of 1999. He joined Croda in 1969 as a management trainee and was appointed managing director of Croda Singapore in 1988, Croda Application Chemicals in 1990 and Croda Chemicals in 1991. He retired from Croda at the end of 2011. Mike joined IP Group's Board in 2011.



**Professor Graham Richards, CBE (aged 73)**  
**Non-executive Director** ■

Graham was the scientific founder of Oxford Molecular Group plc and was for 20 years a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham was chairman of chemistry in the University of Oxford until 30 June 2006. Graham became a non-executive director of IP Group in December 2001 and has previously held the positions of Chairman and Senior Non-executive Director.

**Key**

- Audit Committee
- Remuneration Committee
- Nomination Committee



**Francis Carpenter (aged 70)**  
**Non-executive Director** ■ ■ ■

Francis was chief executive officer of the European Investment Fund, holding that role for nearly six years until he stepped down at the end of February 2008. Francis joined the European Investment Bank in 1975 and held a variety of roles including secretary general, director of credit risk management and director of lending in the UK, Ireland, North Sea and Portugal. Francis became a director of IP Group in April 2008 and is also Chairman of the Remuneration Committee.



**Jonathan Brooks, FCMA (aged 57)**  
**Non-executive Director** ■ ■ ■

Jonathan was the chief financial officer of ARM Holdings plc from 1995 until 2002 where he was responsible for finance, investor relations, legal and IT, and where he managed the dual-listed IPO process of ARM on the London Stock Exchange and Nasdaq in 1998. He is a non-executive director of Aveva Group plc, a provider of engineering data and design IT systems, and chairman of Nasdaq-listed Xyratex Ltd, a provider of data storage systems. He joined IP Group's Board in 2011 and is also Chairman of the Group's Audit Committee.

 Corporate governance

## Corporate Governance



Dr Bruce Smith  
Chairman

**“The Board continues to recognise the importance of a strong focus on corporate governance.”**

2012 has been an encouraging year for IP Group with good overall progress across the business being reflected in strong growth in the value of the Group’s portfolio and its net assets.

The Board remains focused on the execution of the Group’s strategy, working with its partners to develop outstanding businesses, and it continues to recognise the importance of a strong focus on corporate governance.

Corporate governance at IP Group is more than just compliance with rules and regulations. It is an integral part of all of our activities, especially those of the Board and its committees.

Our approach to corporate governance, including an explanation of the various committees of the Board, is set out in the following section.

Dr Bruce Smith  
Chairman



### Committee reports

Read more about the performance from each committee on pages

**p.40-49**

The Company and its Board are committed to a high standard of corporate governance and to compliance with the best practice provisions of the UK Corporate Governance Code (the “Code”) which was issued by the Financial Reporting Council in 2010. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

The Board is accountable to the Company’s shareholders for good governance and this report, together with the Remuneration Report of the Directors set out on pages 42 to 49, describes how the Company has applied the main principles of good governance set out in the Code during the year under review. The Board considers that the Company has been in compliance with the provisions set out in the Code throughout the twelve months ended 31 December 2012.

#### The Board

##### Role and responsibilities of the Board

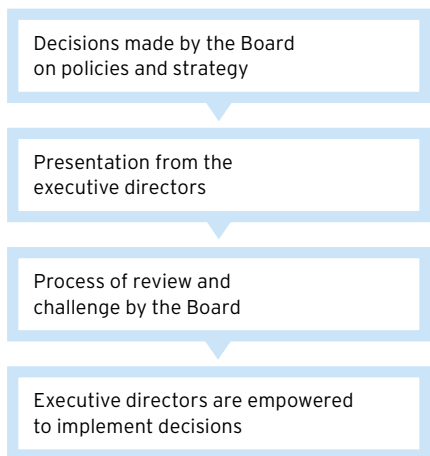
The Board is responsible to shareholders for the overall management of the Group, providing entrepreneurial leadership within a framework of controls for assessing and managing risk, defining, challenging and interrogating the Group’s strategic aims and direction, maintaining the policy and decision-making framework in which such strategic aims are implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management, setting values and standards in governance matters and monitoring policies and performance on corporate social responsibility. The directors are also responsible for ensuring that obligations to shareholders and other stakeholders are

understood and met and a satisfactory dialogue with shareholders is maintained. All directors are equally accountable to the Company's shareholders for the proper stewardship of its affairs and the success of the Company.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors. The Board is collectively responsible for the success of the Group. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for constructively challenging proposals on strategy, scrutinising the performance of management, determining levels of remuneration and for succession planning for the executive directors. The non-executive directors must also satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust.

The Board reviews strategic issues on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. The Board has overall responsibility for the Group's system of internal controls and risk management, as described on pages 38 and 39. Any decisions made by the Board on policies and strategy to be adopted by the Group or changes to current policies and strategy are made following presentations by the executive directors and a detailed process of review and challenge by the Board. Once made, the executive directors are fully empowered to implement those decisions.

**Board decision process**



**Responsibilities of the Board**

The Board is responsible to the Group's stakeholders for the overall management of the Group:

- providing entrepreneurial leadership within a framework of controls for assessing and managing risk;
- defining, challenging and interrogating the Group's strategic aims and direction;
- maintaining the policy and decision-making framework in which such strategic aims are implemented;
- ensuring that the necessary financial and human resources are in place to meet strategic aims;
- monitoring performance against key financial and non-financial indicators;
- overseeing the system of risk management;
- setting values and standards in governance matters;
- monitoring policies and performance on corporate social responsibility; and
- ensuring effective dialogue with the Group's stakeholders.

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group to the Chief Executive Officer who is supported by the executive directors and other members of the internal management team. The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial or reputational implications. This schedule is reviewed and updated regularly and includes:

- approval of the annual report, interim statement and the quarterly interim management statements;
- maintenance of a system of internal control and risk management;
- strategic acquisitions by the Group;
- major portfolio capital allocation decisions, being those in excess of £1.5m per investment;
- the entry into by the Group of strategic partnerships and collaborations with universities and other research institutions;
- major disposals from the Group's portfolio;
- approval of and monitoring of the Group's strategic plans;

**Responsibilities of the executive directors**

The executive directors are responsible for the day-to-day running of the Group's operations.

**Responsibilities of the non-executive directors**

The non-executive directors are responsible for constructively challenging the executive directors, as well as:

- scrutinising the performance of management;
- determining levels of remuneration and for succession planning for the executive directors; and
- satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust.

- approval of the annual budget;
- accounting policies and procedures or any matter having a material impact on future financial performance of the Group;
- considering and, where appropriate, approving director's conflicts of interest;
- approving Board appointments and removals and approving policies relating to directors' remuneration;
- approval of terms of reference and membership of Board committees;
- approval of the division of responsibility between the Chairman and Chief Executive;
- appointment of the auditors and determination of the audit fee;
- approval of all circulars, prospectuses and other documents issued to shareholders governed by the FSA's Listing Rules, Disclosure Rules or Transparency Rules or the City Code on Takeovers and Mergers;
- major changes in employee share schemes; and
- litigation.

 Corporate governance

## Corporate Governance continued

### The Board continued

#### Role and responsibilities of the Board continued

The Board delegates specific responsibilities to certain committees that assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management. The three principal Board committees (Audit, Remuneration and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board. These are available on request from the Company Secretary or are available at the Corporate Governance section of the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com).

The Remuneration Committee and the Nomination Committee are currently reviewing their own terms of reference with a view to recommending to the full Board the approval of revised terms of reference for adoption which are fully compliant with the provisions of the Code and which reflect the recommendations arising from the external evaluation process undergone by the Board and its committees in early 2013 (as detailed further below), as appropriate. Once approved and adopted by the Board, these revised terms of reference will replace the current versions in their entirety and will be available from the Company Secretary or on the Group's website as detailed above.

#### Board size and composition

As at 31 December 2012, there were ten Directors on the Board: the Chairman, five executive directors and four non-executive directors. The biographies of all of the directors are provided on pages 30 and 31. The Company's policy relating to the terms of appointment and the remuneration of both executive and non-executive directors is detailed in the Directors' Remuneration Report on pages 42 to 49.

The size and composition of the Board is regularly reviewed by the Board and, in particular, the Nomination Committee to ensure there is an appropriate and diverse mix of skills and experience on the Board.

In accordance with the Code, the Company is currently deemed to be a "smaller company" since it has been below the FTSE350 throughout the year immediately prior to the reporting year. Accordingly the Company has been

in compliance with provision B.1.2 of the Code throughout the twelve months to 31 December 2012. As the Company moved into the FTSE350 during the twelve months to 31 December 2012, the requirements of the provisions of B.1.2 of the Code to ensure that at least half of the Board, excluding the Chairman, should comprise independent non-executive directors will apply to the Company for the forthcoming year. Accordingly, the Nomination Committee will keep the fact that this requirement is not currently satisfied under review as part of its ongoing work and succession planning during 2013, including in any recommendations which may be made by it for the appointment of a new non-executive director to replace the vacancy which will be left by Professor Graham Richards, who will be retiring from the Board at the Company's forthcoming AGM.

The Company's Articles, adopted at the Company's 2010 Annual General Meeting, require all directors to submit themselves for re-election by the shareholders at the Company's Annual General Meeting following their first appointment and thereafter at each Annual General Meeting in respect of which they have held office for the two preceding Annual General Meetings and did not retire at either of them. In addition, each director who has held office with the Company for a continuous period of nine years or more must retire and offer themselves up for re-election at every Annual General Meeting.

Notwithstanding the requirements of the Articles and whilst not currently required under the Code by reason of the Company being a "smaller company", the Company adopted the principle of annual re-election by its shareholders of the full Board with effect from its 2011 Annual General Meeting. Accordingly, all of the directors will offer themselves up for re-election at the Annual General Meeting of the Company to be held on 14 May 2013 other than Professor Graham Richards who will be retiring from the Board at this meeting and, accordingly, will not be offering himself for re-election. The Board recommends to shareholders the re-appointment of all directors retiring at the meeting and offering themselves for re-election on the basis that all independent performance reviews demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles.

### Diversity

The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Company. In that culture, diversity across a range of criteria is valued, primarily in relation to skills, knowledge and experience and also in other criteria such as gender and ethnicity. The Company will give careful consideration to issues of overall board balance and diversity in making new appointments to the Board and, in identifying suitable candidates, the Nomination Committee will seek candidates from a range of backgrounds, with the final decision being based on merit against objective criteria. The Company has one female director on its Board, being the Chief Operating Officer, and will aim to maintain female representation on the Board at least at this current level and give due consideration to increasing the level if appropriate candidates are available when board vacancies arise. In addition, as part of the review of the Nomination Committee's terms of reference referred to above, it has been agreed that one of the revisions to the terms will be to include a requirement for the Committee to consider diversity, including gender, in evaluating the composition of the Board and in identifying suitable candidates for board appointments.

#### Non-executive directors

The non-executive directors provide a wide range of skills and experience to the Group. They bring their own senior level of experience in each of their own fields, robust opinions and an independent judgement on issues of strategy, performance, risk and people through their contribution and constructive challenge at Board and committee meetings. The Code sets out the circumstances that should be relevant to the Board in determining whether each non-executive director is independent. The Board considers non-executive director independence on an annual basis as part of each non-executive director's performance evaluation. Having undertaken this review and with due regard to provision B.1.1 of the Code, the Board has concluded this year that all of the non-executive directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Having served on the Board for eleven years, including periods as Chairman and Senior Non-executive Director, and been a valuable and challenging Board member throughout this period, Professor Graham Richards has decided to retire from the Board at the Company's 2013 AGM.

In a limited number of cases, non-executive directors have in the past made de minimis investments in spin-out companies formed under the Group's university partnerships. Such investments were made on arms' length terms, on comparable terms to other third party angel investors participating in the same financing rounds and always represented minority participations in the relevant financing rounds. The Board does not therefore consider that such legacy personal investments act in any way to influence the non-executive directors' oversight of the Board. In any event, all potential conflicts of interest are disclosed by the directors at the beginning of each Board meeting and the relevant non-executive director may be required by the Board to abstain from voting on a particular matter. Details of these investments are set out in note 24 to the financial statements. The Board's policy throughout 2012 and going forward is to prohibit any new investments by non-executive directors in any new portfolio companies and/or any

existing portfolio companies in which the relevant non-executive director does not already have a holding.

Non-executive directors are required to obtain the approval of the Chairman before taking on any further appointments and the Chairman requires the approval of the Board before adding to his commitments. In all cases, the directors must ensure that their external appointments do not involve excessive time commitment or cause a conflict of interest.

#### The roles of Chairman and Chief Executive

Bruce Smith is the Chairman. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board, its conduct of the Group's affairs and strategy and in ensuring effective communication with shareholders. The Chairman facilitates the full and effective contribution of non-executive directors at Board and committee meetings, ensures that they are kept well informed and ensures a constructive relationship between the executive directors and non-executive directors. The Chairman also ensures that the membership of the Board is appropriate to the needs of the business and that the Board committees carry out their duties, including reporting back to the Board.

The role of the Chief Executive is to lead the delivery of the strategy and the executive management of the Group and its operating businesses. He is responsible, amongst other things, for the development and implementation of strategy and processes which enable the Group to meet the requirements of shareholders, for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board and for providing the appropriate environment to recruit, engage, retain and develop the personnel needed to deliver the Group's strategy.

#### Senior Independent Director

Mike Humphrey was the Senior Independent Director throughout 2012. A key responsibility of the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition, the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman where necessary and takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new chairman is considered.

#### Responsibilities of the Chairman

The Chairman is responsible for the leadership and conduct of the Board. Amongst other things the Chairman:

- Oversees the Board's conduct of the Group's affairs and strategy, and in ensuring effective communication with shareholders.
- Facilitates the full and effective contribution of non-executive directors at Board and committee meetings.
- Ensures that the Board is kept well informed and ensures a constructive relationship between the executive directors and non-executive directors.
- Ensures that the membership of the Board is appropriate to the needs of the business and that the Board committees carry out their duties, including reporting back to the Board.

#### Division of responsibilities between the Chairman and Chief Executive Officer

#### Responsibilities of the Chief Executive Officer

The role of the Chief Executive is to lead the delivery of the strategy and the executive management of the Group and its operations. He is responsible, amongst other things, for:

- The development and implementation of strategy and processes which enable the Group to meet the requirements of shareholders.
- Delivering the Group's operating plan and budget.
- Monitoring business performance and reporting on this to the Board.
- Providing the appropriate environment to recruit, engage, retain and develop the personnel needed to deliver the Group's strategy.

## Corporate governance

### Corporate Governance continued

#### The Board continued

##### Board support

The Company Secretary is responsible to the Board for ensuring Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance matters and relevant regulatory matters. All directors have access to the impartial advice and services of the Company Secretary. There is also an agreed procedure for directors to take independent professional advice at the Company's expense. In accordance with the Company's Articles of Association, directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage where a director is proved to have acted fraudulently or dishonestly. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

##### Board meetings and decisions

The Board meets regularly during the year, as well as on an ad hoc basis as required by business need. The Board had seven scheduled Board meetings in 2012. In addition to these scheduled Board meetings, the Board also had a day together in July 2012 devoted entirely to the Group's strategic objectives, which provided an opportunity for all directors and particularly the non-executive directors to ensure the Group's strategy is on course, to review the Group's KPIs and to analyse and challenge its objectives. The Chairman and non-executive directors also met without the presence of the executive directors twice during the year.

The schedule of Board and committee meetings each year is determined before the commencement of that year and all directors or, if appropriate, all committee members are expected to attend each meeting. Each member of the Board receives in advance of each meeting detailed board packs, which include an agenda based upon the schedule of matters reserved for its approval and appropriate reports and briefing papers. If a director is unable to attend a meeting due to exceptional circumstances, he or she will still receive the supporting papers and will usually discuss any matters he or she wishes to raise with the Chairman in advance of the meeting. The Chairman,

#### Board structure

##### Board of Directors

##### Audit Committee

The Audit Committee is responsible for overseeing the Group's financial reporting, internal and external audit, internal control and risk management systems, and compliance, whistleblowing and fraud policies

Jonathan Brooks  
(Chairman)

Francis Carpenter  
Mike Humphrey

##### Remuneration Committee

The Remuneration Committee has responsibility for advising the Board on the remuneration of executive directors and setting an overall policy for remunerating the Group's employees

Francis Carpenter  
(Chairman)

Jonathan Brooks  
Mike Humphrey

##### Nomination Committee

The Nomination Committee leads the process for Board appointments, re-election and succession of the directors and the Chairman

Bruce Smith  
(Chairman)

Francis Carpenter  
Jonathan Brooks  
Mike Humphrey



#### Board biographies

Read the Board biographies in full on

p.30-31



#### Committee reports

Read the reports from the committees on

p.40-49

Chief Executive, Chief Financial Officer and Company Secretary work together to ensure that the directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes monthly management accounts containing analysis of performance against budget and other forecasts. Additional information is provided as appropriate or if requested. At each meeting, the Board receives information, reports and presentations from the Chief Executive, the other executive directors and, by invitation, other members of senior management as required. This ensures that all directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy and its management of risk.

Any matter requiring a decision by the Board is supported by a paper analysing the relevant aspects of the proposal including costs, benefits,

potential risks involved and proposed executive management action and recommendation.

The majority of Board meetings are held at the Group's offices in London, which gives members of the Group's client service team the opportunity to formally present to the Board on new spin-out opportunities or early-stage portfolio companies on which they are working. This assists the Board in gaining a deeper understanding of the breadth, stage of development and diversity of the Group's portfolio. The Board also aims to have at least one of its scheduled meetings or its annual strategy day at either the Company's offices in Leeds, Newcastle or Oxford or at the location of one of the Group's partner universities in order to encourage further interaction with the Group's stakeholders. Meetings between the Chairman and non-executive directors, both with and without the presence of the Chief Executive, are also held as the need arises.



View the terms of reference for each committee at the Corporate Governance section of the Group's website

[www.ipgroupplc.com](http://www.ipgroupplc.com)

### Directors' conflicts of interest

Each director has a statutory duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty is in addition to the continuing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which he is interested. The Company's Articles of Association permit the Board to authorise conflicts or potential conflicts of interest. The Board has established procedures for managing and, where appropriate, authorising any such conflicts or potential conflicts of interest. It is a recurring agenda item at all Board meetings and this gives the directors the opportunity to raise any actual or potential conflict of interests that they may have on the matters to be discussed, or to update the Board on any change to a previous conflict of interest already declared. In deciding whether to authorise any conflict, the directors must have regard to their general duties under the CA 2006 and their overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors are able to impose limits or conditions when giving authorisation to a conflict or potential conflict of interest if they think this is appropriate. The authorisation of any conflict matter, and the terms of any authorisation, may be reviewed by the Board at any time. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

### Induction, awareness and development

A comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her so that he or she can gain a better understanding of the Group and its businesses. This will generally include an overview of the Group, its businesses, functions and strategic aims and site visits to the Group's offices including those in Leeds, Newcastle and Oxford and to a number of the Group's portfolio companies, particularly those within the Group's top ten holdings (by value), which will include meeting with such companies' management and a presentation from them on their businesses.

In order to ensure that directors continue to further their understanding of the issues facing the Group, the Chairman and non-executive directors are encouraged to continue to visit the Group's offices other than the main corporate office in London, its portfolio companies and its partner universities. In addition, at least one of the Group's Board meetings or its strategy day will be offsite to facilitate this through 2013 and, as detailed above, the Board is also exposed to the early-stage opportunities in which the Group has invested through presentations at Board meetings by relevant members of the Group's staff.

As a further aspect of their ongoing development, each director also receives feedback on his or her performance following the Board's performance evaluation in each year and, through the Company Secretary, access is facilitated to relevant training and

development opportunities including those relevant to the non-executive directors' membership on the Board's committees.

### Board effectiveness and performance evaluation

The Code recommends that a formal and rigorous evaluation of the effectiveness and performance of the Board, its committees and the individual directors is conducted annually. Further, the Code requires FTSE350 companies to ensure that this evaluation is externally facilitated every three years. Whilst the Company is still deemed to be a "smaller company" since it has been below the FTSE350 throughout the year immediately prior to the reporting year, in line with its stated intent, the Board appointed an external third-party provider, Deloitte LLP, to facilitate its performance review during January/February 2013. Deloitte LLP has no connection with the Group other than its evaluation of the Board and the provision of ad hoc remuneration and taxation advice. The evaluation process involved a detailed online questionnaire completed by each of the directors and the Company Secretary, with each respondent being asked to place a score against a variety of questions and being able to make additional comments where appropriate. This was followed by interviews with each respondent either face to face or by telephone. Deloitte LLP then provided the Board with a written report summarising the findings and making various recommendations for improvement including, amongst other things, an increased focus on succession planning and the need for a Code

### Board and committee attendance

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nomination Committees during the year:

	Board		Audit		Nomination		Remuneration	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Alan Aubrey	8	8	-	-	-	-	-	-
Alison Fielding	8	7	-	-	-	-	-	-
Mike Townend	8	8	-	-	-	-	-	-
Greg Smith	8	8	-	-	-	-	-	-
Charles Winward	8	8	-	-	-	-	-	-
Graham Richards	8	8	-	-	-	-	-	-
Bruce Smith	8	8	-	-	1	1	-	-
Francis Carpenter	8	8	3	3	1	1	7	7
Jonathan Brooks	8	7	3	3	1	1	7	7
Mike Humphrey	8	8	3	3	1	1	7	7

## Corporate Governance continued

### Induction processes

The programme is tailored to the needs of each individual director and agreed with them so they can gain a better understanding of the Group and its businesses.

#### On appointment

- a presentation by the Chief Executive including an overview of the Group, its businesses, functions and strategic aims;
- site visits to the Group's offices including those in Leeds, Newcastle and Oxford and to a number of the Group's portfolio companies; and
- meetings with portfolio companies' management teams and receiving presentations from them on their businesses.

#### After appointment

In order to ensure that directors continue to further their understanding of the issues facing the Group, the non-executive directors are encouraged to:

- continue to visit the Group's offices other than the main corporate office in London, its portfolio companies and its partner universities, and at least one of the Group's Board Meetings is held offsite to facilitate this; and
- meet with portfolio companies' management teams and receive presentations from them on their businesses.

#### Ongoing

As a further aspect of their ongoing development, each director also receives feedback on his or her performance following the Board's performance evaluation in each year and has access to relevant training and development activities through the Company Secretary.

### The Board continued

#### Board effectiveness

##### and performance evaluation continued

compliant Board structure (as described above). The report acknowledged that the Board exhibits a number of positive features in terms of skills and behaviours, including a good balance of academic and commercial skills, positive levels of Board engagement with internal and external stakeholders and an effective audit committee.

In addition, it is intended that Deloitte LLP will undertake a second phase of its Board effectiveness review in September/October 2013 to, amongst other things, review the progress made in implementing the recommendations from its report and assist the Board in building a framework for its future internal Board evaluation.

In addition to the above, the non-executive directors, led by the Senior Independent Director, appraised the Chairman's performance, following which the Senior Independent Director provided feedback to the Chairman. The performance of the non-executive directors and the Chief Executive was reviewed by the Chairman and the performance of the other executive directors was reviewed by the Chief Executive, in each case following the submission of individual appraisal forms from the relevant director. In addition to the aforementioned annual reviews, the performance of executive directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the executive director under review.

#### Committees of the Board

The composition and structure of the three committees of the Board are set out in the diagram on page 36.

#### Audit and Remuneration Committees

Separate reports on the role, composition, responsibilities and operation of the Audit Committee and the Remuneration Committee are set out on pages 40 and 41 and 42 to 49 respectively.

#### Nomination Committee

The Nomination Committee leads the process for Board appointments, re-election and succession of directors and the Chairman. It is responsible for making recommendations to the Board concerning the composition and skills of the Board including proposed appointees to the Board, whether to fill any vacancies or to change the number of Board members. The Committee is chaired by Bruce Smith and its other members as at 31 December 2012 were Francis Carpenter, Jonathan Brooks and Mike Humphrey, being a majority of independent non-executive directors as prescribed by the Code.

The Nomination Committee meets as and when required or requested by the Board and met once during 2013 to review the structure, size and composition of the Board, following which it discussed the conclusions with the Chief Executive and work is ongoing before any formal recommendations are to be made to the full Board. The attendance by each member of the Committee is set out on page 37.

Before selecting new appointees to the Board, the Nomination Committee considers the balance, skill, knowledge and independence, diversity (including gender) and experience on the Board to ensure that a suitable balance is maintained. The Nomination Committee adopts a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Consideration is always given as to whether identified candidates have enough time available to devote to the role. When searching for appropriate candidates, the committee will give consideration to using an external search company but, given the in depth skill, knowledge and experience of the Group's internal executive search function, IP Exec, may elect to use this function and will also consider candidates who are proposed by existing Board members.

As part of its work through 2013, the Nomination Committee will be specifically mandated to consider the appointment of a new non-executive director to fill the vacancy which will be left by Professor Graham Richards' retirement from the Board at the Company's AGM to be held on 14 May 2013.

#### Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for Directors on the Code ("Turnbull"). The Group's internal controls, which were Group-wide, were in place during the whole of 2012 and were reviewed by the Board and considered to be effective throughout the year ended 31 December 2012.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group; however it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date these financial statements were approved, are as follows:



### Control environment and procedures

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are documented and communicated clearly throughout the whole organisation.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2012.

### Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business, and ensures that appropriate controls and procedures are in place to manage these risks. Specifically, all decisions relating to strategic partnerships and other collaborations and acquisitions entered into by the Group are reserved for the Board's review and approval. The Board formally reviews the performance of the Group's university partnerships and other strategic collaborations and relationships and equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate. The Board maintains an up to date Register of Risks setting out mitigations in place in each case.

### Information and financial reporting systems

The Group evaluates and manages significant risks associated with the process for preparing consolidated accounts by having in place systems and controls that ensure adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS. The Board approves the annual operating budgets and each month receives details of actual performance measured against the budget.

### Principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are formally reviewed by the Board on at least an annual basis and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out on pages 24 and 25.

### Relations with stakeholders

The Company is committed to a continuous dialogue with shareholders as it believes that it is essential to ensure a greater understanding of and confidence amongst its shareholders in the medium and longer-term strategy of

the Group and in the Board's ability to oversee its implementation. It is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place.

The Board's primary shareholder contact is through the Chairman, Chief Executive Officer, Chief Investment Officer, Chief Financial Officer and the Chief Operating Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Managing Director of Top Technology and the Chief Executive Officer. The Senior Independent Director and other directors, as appropriate, make themselves available for contact with major shareholders and other stakeholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the structure of the executive directors' remuneration, including on performance conditions to attach to any variable incentive awards.

The Company uses the Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held at 2.00pm on 14 May 2013 at IP Group plc, 24 Cornhill, London EC3V 3ND, is enclosed with this report. In line with the Code, the Notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against or to withhold their vote on each resolution. The results of all proxy voting is published on the Group's website (detailed below) after the meeting and at the meeting itself to those shareholders who attend. Shareholders who attend the AGM will have the opportunity to ask questions and all directors are expected to be available to take questions.

The Group's website [www.ipgroupplc.com](http://www.ipgroupplc.com) is the primary source of information on the Group. The website includes an overview of the activities of the Group, details of its portfolio companies and its key university partnerships and details of all recent Group and portfolio announcements.

### Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board is concerned that it may include activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 2 May 2012, the shareholders passed a resolution on a precautionary basis to authorise

the Group to incur political expenditure (as defined in Section 365 of CA 2006) not exceeding £50,000 in total at any time from 2 May 2012 up to the conclusion of the 2013 AGM. The Board intends to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's AGM, to be held on 14 May 2013, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

### Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

### Going concern

The directors confirm that they have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

ON BEHALF OF THE BOARD

**Bruce Smith**  
Chairman  
4 March 2013

**Alan Aubrey**  
Chief Executive Officer

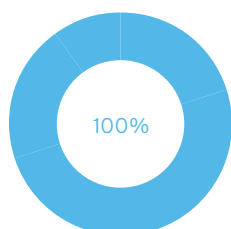
## Corporate governance

# Report of the Audit Committee



Jonathan Brooks  
Chairman of the Audit Committee

### Committee composition



● Non-executive director

### Membership and attendance

Name of director	Number of meetings held	Number of meetings attended
Jonathan Brooks (Chairman)	3	3
Francis Carpenter	3	3
Mike Humphrey	3	3

### Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the non-executive directors of the Company. The Audit Committee has written terms of reference that are considered by the Audit Committee before being referred to the Board for approval annually.

The Audit Committee is responsible for:

- monitoring the integrity of the Group's financial statements and any formal announcement relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Group's internal financial controls and the Group's internal control systems;
- considering the need for an internal audit function on an annual basis;
- reviewing the Company's procedures for handling allegations from whistleblowers and for detecting fraud;
- making recommendations to the Board for the resolutions to be put to shareholders on the appointment and remuneration of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process; and
- maintaining and reviewing the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations on any steps to be taken.

### Composition and meetings of the Audit Committee

The members of the Audit Committee are Jonathan Brooks (Chairman), Mike Humphrey and Francis Carpenter. The external auditor, Chief Executive, Chief Financial Officer and other members of management attend meetings by invitation. The Audit Committee also meets with the external auditor in the absence of executive directors and management at least twice per year. The number of meetings and attendance in 2012 were as shown to the left.

The Board has identified Jonathan Brooks, a fellow of the Chartered Institute of Management Accountants, as having the recent and relevant financial experience as required by the Code and the Board considers that collectively the members have the requisite financial literacy, skills and attributes to enable the Committee to properly discharge its responsibilities.

### Overview of the actions taken by the Audit Committee to discharge its duties

During the year, the Audit Committee discharged its responsibilities under its terms of reference by undertaking the following actions:

- reviewed and recommended to the Board the approval and publication of the Half-yearly Report and Annual Report and financial statements of the Group. This included reviewing the significant accounting policies, financial reporting issues and judgements set out therein and receiving reports from the external auditor on their audit of the Annual Report and financial statements and review of the Half-yearly Report;
- oversaw the Group's relations with its external auditor, including reviewing and monitoring the scope, effectiveness and results of the audit and half-yearly review;

- reviewed the effectiveness of the Group's internal controls, with specific focus on investment process and the Group's treasury, insurance and IT/data security policies, and disclosures made in the Annual Report and financial statements in this regard; and
- reviewed the need to establish an internal audit function but continued to believe that in a group of this size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function. It will continue to review the requirement for such a function on at least an annual basis.

#### External auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's external audit policy. During the year the Audit Committee implemented the policy, which sets out the categories of audit and non-audit services that the external auditor is allowed to undertake and sets out an approval process for the provision of any non-audit services. The policy is available on the Corporate Governance section of the Group's website. The Group uses the external auditor for audit and related services and for limited non-audit services provided there are appropriate reasons and it is in the Group's best interests to do so and the nature and scale of the services is not considered likely to impair the external auditor's independence. An analysis of the fees paid to the external auditor during the year is set out in note 6 to the consolidated financial statements.

#### To fulfil its responsibilities regarding the independence of the external auditor, during the year the Audit Committee reviewed:

- the external auditor's plan for the 2012 audit, noting the role of the senior statutory audit partner who signs the audit report and has not held office for more than five years;
- the external auditor's consideration of its own independence, including its policies and processes for maintaining independence, managing conflicts of interest and the typical use of separate teams for non-audit services;
- the individual items and overall level of non-audit services provided by the external auditor; and
- the length of tenure of the external auditor, noting its original appointment in August 2004 and the fact that the audit relationship moved from the auditor's Southampton office to its London office during 2010.

The Audit Committee is responsible for recommending to the Board the appointment of the external auditor. Following the release of the updated UK Corporate Governance Code in 2010, the Audit Committee intends to ordinarily undertake a formal review and tender process for the external audit at least every ten years. There are no contractual obligations that have acted to restrict the Audit Committee's choice of external auditor during the period.

A review of the effectiveness of the external audit is undertaken by the Audit Committee annually. The review this year took into consideration:

- that the auditor met its original audit plan with no significant changes;
- the external auditor's procedures for safeguarding independence;
- the robustness and perceptiveness of the auditor in handling key accounting and audit judgements and responses to questions raised during the Audit Committee meetings; and
- feedback from the individuals involved in the audit, including the Chief Financial Officer and Group Financial Controller.

Based on this review, the Audit Committee recommended to the Board it should propose a resolution to shareholders to re-appoint BDO LLP at the 2013 AGM.

I will be available at the AGM to answer any questions about the Audit Committee's work.

**Jonathan Brooks**  
Chairman of the Audit Committee  
4 March 2013

 Corporate governance

## Directors' Remuneration Report



Francis Carpenter  
Chairman of the  
Remuneration Committee

On behalf of your Board, I am pleased to present our Remuneration Report for the year ended 31 December 2012. Shareholders will be invited to approve the report at the Group's AGM to be held on 14 May 2013.

As outlined earlier in this Annual Report, the Group's performance this year has been strong, with progress across many of the Group's portfolio businesses contributing to a significant increase in net assets. The Group's share price increased by more than 50% during the year, from 78.25p to 119.9p, adding circa £150m of value for shareholders.

The Remuneration Committee considers that the remuneration for the executives for the year appropriately reflects the Group's performance over the year and the most recent three-year period. The long-term incentive awards granted in 2010 will vest for the first time in the Group's history, with NAV performance vesting above threshold and TSR performance vesting in full.

During 2012, the Committee determined that, having consulted at length with the Group's major shareholders during 2011, the 2012 awards under the Group's LTIP scheme would be made at the same multiples of salary and subject to the same vesting criteria as the 2011 awards. In addition, the Committee approved increases in the executive directors'

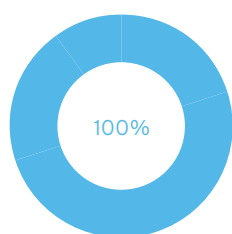
fixed salaries of 2.5%, in line with all of the Group's staff, and made no other changes to the remuneration policy.

During the year, and into 2013, the Committee has continued its review of executive remuneration and will consult with the Group's major shareholders should it determine that, following the conclusion of its work, any material changes to the Group's executive remuneration policy are recommended.

Our 2011 Directors' Remuneration Report received 96% of votes in favour at the AGM in May 2012 and, while this indicated a strong level of support, the Group is committed to transparency and, mindful of incoming revised government guidelines, this year has sought to further improve its reporting on executive pay.

**Francis Carpenter**  
Chairman, Remuneration Committee

Committee composition



● Non-executive director

Membership and attendance

Name of director	Number of meetings held	Number of meetings attended
Francis Carpenter (Chairman)	7	7
Mike Humphrey	7	7
Jonathan Brooks	7	7

The Directors' Remuneration Report for the year ended 31 December 2012 has been prepared in accordance with requirements of the Companies Act 2006, the UK Corporate Governance Code and the UK Listing Rules.

**The Remuneration Committee**

The Remuneration Committee consists of Chairman Francis Carpenter as well as Mike Humphrey and Jonathan Brooks. Throughout 2012, the Remuneration Committee consisted exclusively of non-executive directors who the Board considers to be independent. Details of each member's background and experience are provided within their biography on pages 30 and 31.

**Role of the Remuneration Committee**

The full terms of reference of the Remuneration Committee, which are reviewed annually, are available on the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com). In summary, the Remuneration Committee has specific responsibility for advising the Group's Board on the remuneration and other benefits of executive directors, an overall policy in respect of remuneration of other employees of the Group and establishing the Group's policy with respect to employee incentivisation schemes. The Company's remuneration policy is the responsibility of the Board of Directors. The remuneration of the non-executive directors is a matter for the Chairman and the executive directors.

**Advisers to the Remuneration Committee**

The Remuneration Committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense. During the year the Remuneration Committee continued its review of executive remuneration and took professional advice from Hay Group in respect of remuneration policy, typical levels of remuneration for the industry and sector, and on the mix of salary and long-term incentives. In 2011, the Committee also utilised the services of Deloitte LLP to assist in the development of the vesting criteria for the

Group's 2011 LTIP scheme. Hay Group did not provide any other advice or services to the Group during the year. Deloitte provided a limited level of other tax advisory services to the Group during the year. The Chief Executive, Chief Financial Officer and Company Secretary have attended meetings and provided advice to the Remuneration Committee during the year. They are not in attendance when matters relating to their own compensation or contracts are discussed.

**Remuneration policy**

The Company aims to attract, retain and motivate high-calibre executive directors, to align their remuneration with the interests of shareholders and, where possible, to do this in the most cost-effective way. Remuneration structures are designed to support the Group's strategic objectives and, given that these are predominantly long-term in nature, the Remuneration Committee considers that a bias towards long-term incentives is appropriate, alongside appropriate levels of fixed cash remuneration. It is on this basis that the Remuneration Committee determined that growth in net asset value and total shareholder return ("TSR") were appropriate performance measures for long-term incentives. In the future, the Committee may introduce appropriate short-term incentives, similarly linked to business strategy, but considers that a significant proportion of variable remuneration will remain long-term in nature and paid in the form of shares.

In advising the Group's Board on executive remuneration packages of individual directors, the Remuneration Committee takes account the levels of experience, performance and responsibility of each executive director and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole seeking always to treat directors and members of staff equitably (for example, through the application of consistent annual increases to fixed salary).

## Corporate governance

# Directors' Remuneration Report continued

### Components of remuneration

The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the long-term incentive plan are as follows.

### Bonuses

Whilst the Company has always had an annual discretionary cash bonus scheme in place, no cash bonuses have been paid to directors since the Company's shares became traded on the Main Market of the London Stock Exchange. The Remuneration Committee does not currently envisage the payment of cash bonuses to its directors in 2013 but may do so in future years following consultation with major shareholders.

Performance is evaluated in the context of the achievements of both the individuals and the Group. The Group's performance is measured against TSR and its net asset value excluding intangible assets and the Oxford Equity Rights asset ("Hard NAV"). The individual's performance is measured against their professional objectives, management of risk and contribution to achievement of the Group's strategy.

### Carried interest

The Group allocates carried interest in funds managed by the Group to executive directors and other key staff based on the level of involvement and contribution of the relevant members of the team to the management of the fund. Details of allocations made to the executive directors are set out below. No new allocations of carried interest have been made during the years ended 31 December 2012 or 31 December 2011.

### Pensions

The executive directors are entitled to a contribution of annual base salary, which is capped at 10% and paid directly into personal money purchase pension plans.

### Share options

It is the policy of the Group not to issue options over ordinary shares in the Company. No new options over shares were issued during the years ended 31 December 2012 or 31 December 2011.

### Long Term Incentive Plan ("LTIP")

The LTIP and employee share ownership trust were adopted by shareholders at the Annual General Meeting in 2007. Following extensive consultation in respect of certain changes which were proposed to be made with the Group's ten largest shareholders as well as the proxy advisory groups, RREV and PIRC, in advance of the general meeting, certain amendments to the rules of the LTIP were approved by shareholders at the Company's general meeting held on 21 June 2011 and remain in force.

Currently, all employees, including executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards under the LTIP take the form of provisional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these will be set taking into consideration the guidance of the Group's institutional shareholders and published proxy advisory group guidelines from time to time.

### Vesting criteria: 2012 and 2011 LTIP awards

The 2012 and 2011 LTIP awards will ordinarily vest on 31 March 2015 and 31 March 2014, respectively, to the extent that the performance conditions have been met. As noted above, Deloitte LLP provided independent external advice to the Remuneration Committee on the appropriate performance conditions to attach to the 2011 LTIP awards based on their experience of current market practice and the same vesting criteria were again used for the 2012 LTIP awards.

The awards are based on the performance of Group's Hard NAV for the three financial years ending on the 31 December immediately prior to the ordinary vesting date of the awards and TSR from date of award to the ordinary vesting date. Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the table below.

The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE Small Cap index, which can reduce the awards by up to 50%.

The matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis over the relevant three-year period and TSR increasing by 15% per year on a cumulative basis from the date of award to the vesting date, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

### Vesting criteria: 2010 LTIP awards

The 2010 LTIP awards will ordinarily vest on 31 March 2013, to the extent that the performance conditions have been met. 50% of the awards are based on the performance of Group's Hard NAV and 50% are based on the Group's share price performance. The portion subject to Hard NAV performance shall vest in full in the event of Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this time period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012, whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale is applied for performance between the vesting targets detailed above.

Performance measures in a matrix format\*

TSR (p.a.)	15%	60%	75%	90%	100%
	10%	30%	45%	60%	90%
	8%	15%	30%	45%	75%
	<8%	0%	15%	30%	60%
		<8%	8%	10%	15%
Growth in NAV (p.a.)					

\* Prior to the impact of the relative performance underpin

### Components of remuneration continued

#### Long Term Incentive Plan ("LTIP") continued

#### LTIP performance: 2010 LTIP awards

The following table sets out the outcomes of the performance measures relating to the 2010 LTIP awards against the vesting criteria.

Performance condition	Vesting criteria	Actual performance	Anticipated vesting
Hard NAV <sup>(i)</sup>	£226.8m: 25% £267.4m: 50%	£236.6m	31%
TSR performance (share price)	60p: 25% 67p: 50%	119.9p	50%
<b>Total</b>			<b>81%</b>

(i) Hard NAV target increased by the net proceeds of the Group's 2011 placing plus 8%-15% growth from the date of completion of the placing.

As the performance measures were achieved in part, the relevant proportion of the 2010 LTIP awards will ordinarily vest on 31 March 2013. Shares will be delivered to individuals following this date and will appear as released in the LTIP table of next year's report.

Further details relating to the LTIP awards that have been made to the executive directors are set out below.

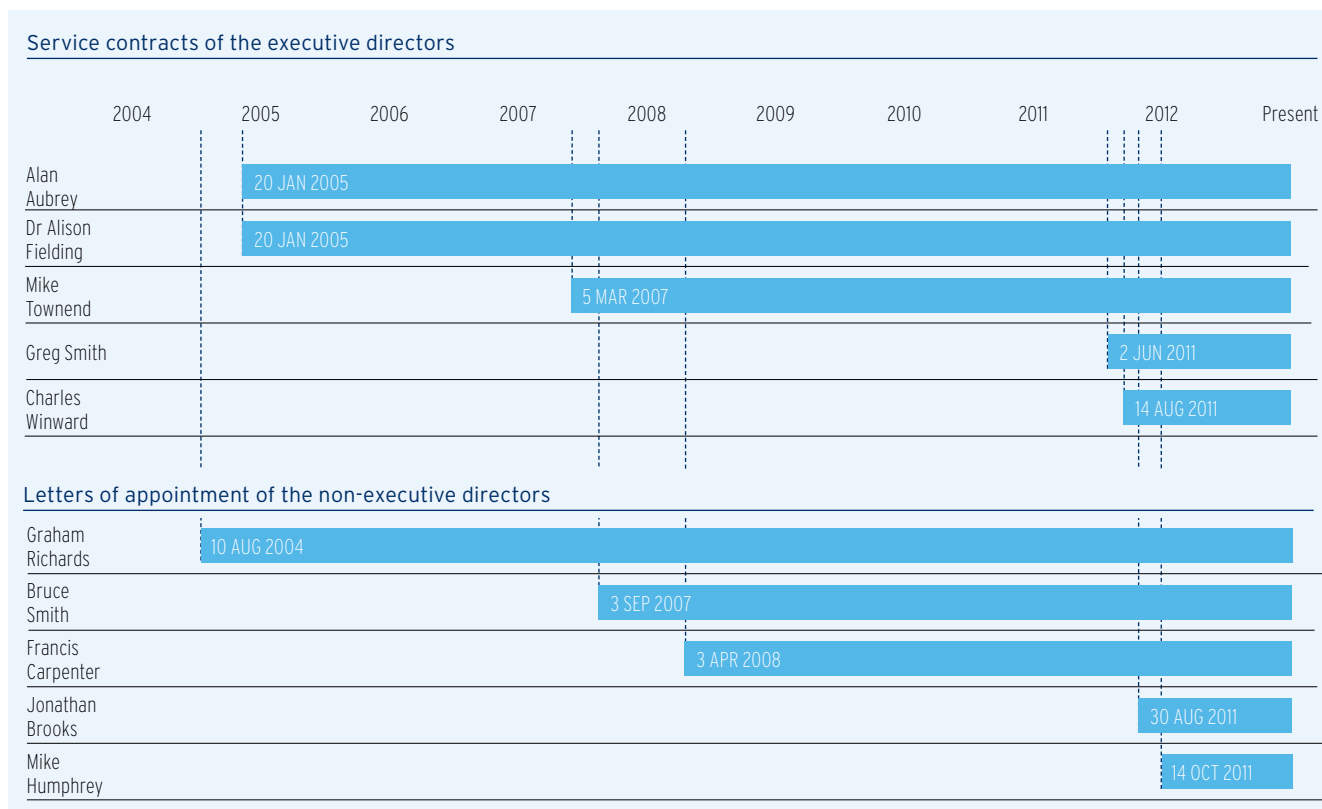
#### Non-executive remuneration

Each of the non-executive directors receives a fixed fee for service, which covers preparation for and attendance at meetings of the Board and its committees. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending these meetings. Non-executive directors are not entitled to participate in any of the Group's incentive schemes, including the LTIP. The Chairman and executive directors are responsible for setting the level of non-executive remuneration.

#### Service contracts

Each of the executive directors have service contracts that commenced on the dates set out in the below chart and each contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Each of the non-executive directors have letters of appointment which commenced on the dates set out in the below chart. In line with best practice as set out in the Code, the Company adopted the policy of annual re-election by shareholders of the full Board with effect from the 2011 AGM and these letters of appointment have been amended accordingly. The non-executive letters of appointment are terminable on three months' notice by either party.



 Corporate governance

## Directors' Remuneration Report continued

### Outside appointments for executive directors

Any proposed external directorships are considered by the Board to ensure they do not cause a conflict of interest but, subject to this, executive directors may accept other outside non-executive appointments and indeed the Board believes that it is part of their ongoing development to do so. Where an executive director accepts an appointment to the board of a company in which the Group is a shareholder, the Group generally retains the related fees. In the limited circumstances where the executive directors receive such fees directly, such sums are deducted from their base salary. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the relevant director.

### Executive directors' remuneration during the year

During both the year under review and the previous year, executive directors were remunerated through fixed pay packages which included base salary, pension contributions and private medical and similar benefits. A variable element, the LTIP, was utilised in 2010, 2011 and 2012 in respect of executive directors and employees. The performance criteria attached to these schemes are considered to best align directors' and employees' remuneration interests with the interests of shareholders. Should the LTIP performance criteria be met, the conditional shares will ordinarily vest on 31 March 2013, 31 March 2014 and 31 March 2015 respectively. The Remuneration Committee encourages the executive directors to hold a proportion of any conditional shares that vest as aforementioned for a further period following vesting, subject to the need to finance associated tax liabilities.

### Directors' emoluments (audited)

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, was as follows:

	Base salary £000	Fees £000	Benefits <sup>(v)</sup> £000	Total (exc. pension) 2012 £000	Pension £000	Total (inc. pension) 2012 <sup>(v)</sup> £000	Total (exc. pension) 2011 £000	Pension £000	Total (inc. pension) 2011 <sup>(v)</sup> £000
<b>Executive</b>									
Alan Aubrey <sup>(i)</sup>	182	–	5	187	24	211	186	23	209
Alison Fielding <sup>(ii)</sup>	213	–	5	218	21	239	212	21	233
Mike Townend	214	–	4	218	21	239	213	21	234
Greg Smith	132	–	2	134	13	147	77	8	85
Charles Winward <sup>(iii)</sup>	131	–	3	134	14	148	28	3	31
<b>Non-executive</b>									
Bruce Smith	–	60	–	60	–	60	60	–	60
Graham Richards	–	37	–	37	–	37	36	–	36
Francis Carpenter	–	37	–	37	–	37	36	–	36
Jonathan Brooks	–	40	–	40	–	40	13	–	13
Mike Humphrey	–	40	–	40	–	40	9	–	9
<b>Total</b>	<b>872</b>	<b>214</b>	<b>19</b>	<b>1,105</b>	<b>93</b>	<b>1,198</b>	<b>870</b>	<b>76</b>	<b>946</b>

(i) In addition to the above, during the period Alan Aubrey retained fees totalling £58,750 in respect of non-executive director services provided to companies in which the Group is a shareholder and which were deducted from the base salary during the year (2011: £59,083).

(ii) In addition to the above, during the period Alison Fielding retained fees totalling £1,250 in respect of non-executive director services provided to a company in which the Group is a shareholder and which were deducted from the base salary during the year (2011: £nil).

(iii) In addition to the amounts listed above, Charles Winward retained fees totalling £12,000 in respect of non-executive director services provided to a company in which the Group is a shareholder and which were deducted from his base salary during the year (2011: £2,500).

(iv) Benefits represent the provision of private medical insurance, travel insurance, life assurance and income protection.

(v) Including those non-executive director fees retained by him and deducted from this base salary, Alan Aubrey was the highest paid director during the year (2011: Alan Aubrey). Excluding these fees, Mike Townend was the highest paid director (2011: Mike Townend).



**Directors' long-term incentives (audited)****a) Long Term Incentive Plan**

The directors' participations in the Group's LTIP are as follows:

	Number of shares conditionally held at 1 January 2012	Conditional shares notionally awarded in the year	Potential conditional interest in shares at 31 December 2012	Share price at date of conditional award (p)	Earliest vesting date(s)
<b>Alan Aubrey</b>					
2010 LTIP	2,556,818	–	<b>2,556,818</b>	29	31 March 2013
2011 LTIP	879,654	–	<b>879,654</b>	54	31 March 2014
2012 LTIP	–	302,695	<b>302,695</b>	135.5	31 March 2015
	<b>3,436,472</b>	<b>302,695</b>	<b>3,739,167</b>		
<b>Alison Fielding</b>					
2010 LTIP	2,090,909	–	<b>2,090,909</b>	29	31 March 2013
2011 LTIP	670,213	–	<b>670,213</b>	54	31 March 2014
2012 LTIP	–	230,625	<b>230,625</b>	135.5	31 March 2015
	<b>2,761,122</b>	<b>230,625</b>	<b>2,991,747</b>		
<b>Mike Townend</b>					
2010 LTIP	2,090,909	–	<b>2,090,909</b>	29	31 March 2013
2011 LTIP	670,213	–	<b>670,213</b>	54	31 March 2014
2012 LTIP	–	230,625	<b>230,625</b>	135.5	31 March 2015
	<b>2,761,122</b>	<b>230,625</b>	<b>2,991,747</b>		
<b>Greg Smith</b>					
2010 LTIP	575,758	–	<b>575,758</b>	29	31 March 2013
2011 LTIP	414,894	–	<b>414,894</b>	54	31 March 2014
2012 LTIP	–	142,768	<b>142,768</b>	135.5	31 March 2015
	<b>990,652</b>	<b>142,768</b>	<b>1,133,420</b>		
<b>Charles Winward</b>					
2010 LTIP	709,091	–	<b>709,091</b>	29	31 March 2013
2011 LTIP	446,809	–	<b>446,809</b>	54	31 March 2014
2012 LTIP	–	153,750	<b>153,750</b>	135.5	31 March 2015
	<b>1,155,900</b>	<b>153,750</b>	<b>1,309,650</b>		

No conditionally awarded shares vested during the year; however, as described above, approximately 81% of the 2010 LTIP awards are currently anticipated to vest on 31 March 2013.

The fair value charge recognised in the consolidated statement of comprehensive income in respect of LTIP share awards granted to directors was £585,267 (2011: £434,742).

The performance criteria relating to the LTIP awards are set out on page 44.

 Corporate governance

## Directors' Remuneration Report continued

### Co-investment and carried interest schemes (audited)

In addition to the directors' remuneration arrangements, the Group also operates co-investment and carried interest schemes relating to certain venture capital funds that are under its management. Under the co-investment scheme, executive directors make minority capital and loan commitments to IP Venture Fund ("IPVF") alongside the Group. Executives are entitled to participate in a carried interest scheme in respect of the partnership alongside the Group. Carried interest commonly provides a preferential return to participants once the partnership has returned all funds contributed by limited partners together with a pre-agreed rate of return. The carried interest and co-investment schemes will generally contain forfeiture provisions in respect of leavers over the investment period of the partnership.

#### a) Co-investment scheme

The executive directors' commitments to IPVF are set out below. Commitments are made indirectly through the IP Venture Fund (FP) LP which is the founder partner of IPVF.

	Total commitment £000	Limited partnership interest of IPVF	Total capital contributed to 1 January 2012 or date of appointment, if later £000	Capital contributions during the year £000	Total capital contributions at 31 December 2012 £000
<b>Executive directors</b>					
Alan Aubrey	56	0.18%	37	7	44
Alison Fielding	56	0.18%	37	7	44
Mike Townend	56	0.18%	37	7	44
Greg Smith	35	0.11%	16	7	23
Charles Winward	56	0.18%	37	7	44
<b>Total</b>	<b>259</b>	<b>0.83%</b>	<b>164</b>	<b>35</b>	<b>199</b>

#### b) Carried interest scheme

The directors' interests in carried interest schemes are set out below:

	Scheme <sup>(i)</sup>	Scheme interest <sup>(ii)</sup> at 1 January 2012 or date of appointment if later	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme interest at 31 December 2012 <sup>(iii)</sup>	Accrued value <sup>(iv)</sup> of scheme interest at 31 December 2012
<b>Executive directors</b>							
Alan Aubrey	IPVF	1.81%	–	–	–	1.81%	–
	NETF	1.55%	–	–	–	1.55%	–
Alison Fielding	IPVF	1.81%	–	–	–	1.81%	–
	NETF	1.15%	–	–	–	1.15%	–
Mike Townend	IPVF	1.81%	–	–	–	1.81%	–
	NETF	1.15%	–	–	–	1.15%	–
Greg Smith	IPVF	1.14%	–	–	–	1.14%	–
	NETF	0.85%	–	–	–	0.85%	–
Charles Winward	IPVF	1.81%	–	–	–	1.81%	–
	NETF	0.45%	–	–	–	0.45%	–

(i) Under the IPVF scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the North East Technology Fund ("NETF") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 3.5% compound interest.

(ii) Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits.

(iii) The schemes contain forfeiture provisions over the investment period of the fund which may reduce the scheme interest accruing to any participant. The table reflects the maximum scheme interest receivable should no forfeiture occur.

(iv) Accrued value of scheme interests is calculated based upon the current value of the limited partnership in excess of the capital contributed together with the hurdle rate of return.

**Directors' interests in ordinary shares (unaudited)**

The directors who held office at 31 December 2012 had the following beneficial interests in the ordinary shares of the Company:

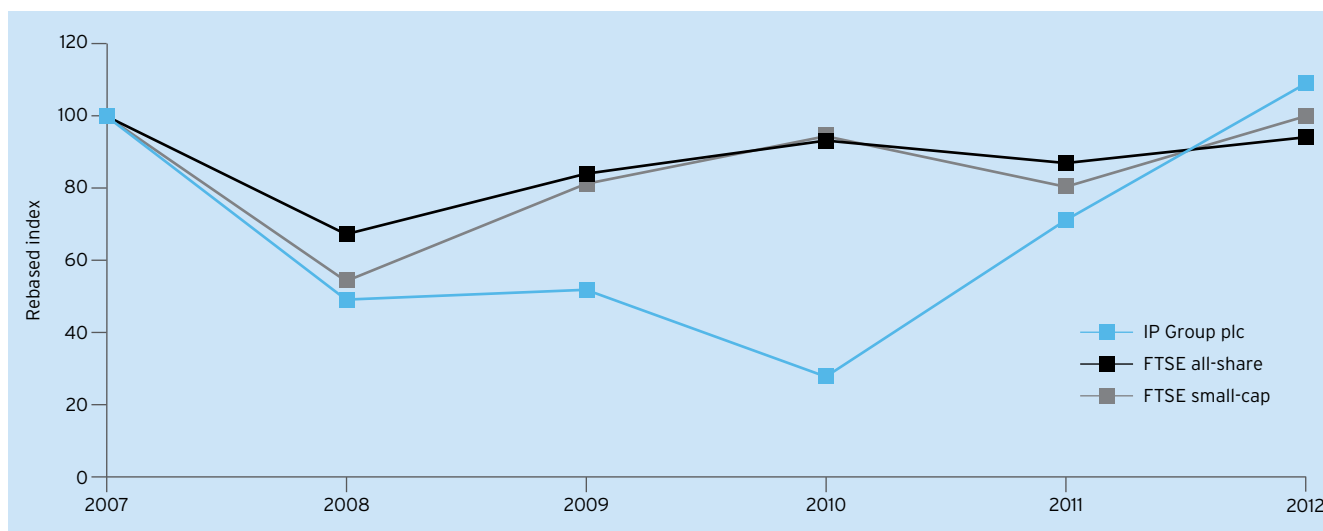
	31 December 2012 Number of shares	1 January 2012 Number of shares
Alan Aubrey	1,312,170	1,312,170
Alison Fielding	494,630	494,630
Mike Townend	304,340	304,340
Greg Smith	19,407	19,407
Charles Winward	5,935	5,935
Bruce Smith	236,592	236,592
Graham Richards	29,250	29,250
Francis Carpenter	239,151	239,151
Jonathan Brooks	60,000	60,000
Mike Humphrey	80,000	80,000

There has been no change in the interests set out above between 31 December 2012 and 4 March 2013.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2012 in the share capital of the Company. However, certain directors hold interests in the shares of spin-out companies in which the Group also has an equity interest, some of which may be subsidiaries of the Group. Details of these interests are disclosed in note 24 of the financial statements.

**Performance graph (unaudited)**

The chart below shows the Group's TSR performance against the performance of the FTSE All Share and FTSE Small Cap indices over the five-year period to 31 December 2012. The directors have selected the FTSE All Share and FTSE Small Cap indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which total shareholder return of IP Group plc should be measured.



ON BEHALF OF THE BOARD

**Francis Carpenter**  
 Chairman of the Remuneration Committee  
 4 March 2013

## Corporate governance

# Directors' report

### Report of the directors

The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2012.

### Principal activities

The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the Company's financial statements. The business of the Group is: (i) the commercialisation and exploitation of intellectual property via the formation of long-term partnerships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of therapeutic intellectual property from research intensive institutions.

### Results and dividends

During the period the Group made an overall profit after taxation for the year ended 31 December 2012 of £40.7m (2011: £5.5m loss). The directors do not recommend the payment of a dividend (2011: £nil).

### Directors

The names of directors who held office during 2012 are as follows:

#### Executive directors

Alan Aubrey  
Alison Fielding  
Mike Townend  
Greg Smith  
Charles Winward

#### Non-executive directors

Bruce Smith (Chairman)  
Graham Richards  
Francis Carpenter  
Jonathan Brooks  
Mike Humphrey

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 49.

### Business review

The information that fulfils the requirements of the Business review, as required by the Companies Act 2006 and which should be treated as forming part of this report by reference, is included in the following sections of the Annual Report:

- Chairman's statement on pages 8 to 9;
- Business review on pages 10 to 23, which includes a review of the Group's external environment, key strategic aims, main trends and factors likely to affect the future development, performance and position of the Group's business;
- Risk management on pages 24 to 25;

- Corporate social responsibility on pages 26 to 29, which includes information about environmental matters, employees and social and community issues;
- Corporate Governance report on pages 32 to 39 including details of the Company's

rules relating to the appointment and replacement of directors; and

- details of the principal operating subsidiaries are set out in note 2 to the Company's financial statements.

Key performance indicators and a description of principal risks and uncertainties facing the Group are set out below:

Key performance indicator	2012	2011
Total equity ("net assets") (£m)	263.1	221.6
Profit/(loss) attributable to equity holders (£m)	40.7	(5.5)
Change in fair value of equity and debt investments (£m)	38.0	0.9
Cash, cash equivalents and deposits (£m)	47.9	60.5
Proceeds from sale of equity investments (£m)	16.7	3.7
Purchase of equity and debt investments (£m)	26.3	14.3
Number of new portfolio companies (number)	11	5
IP Group plc share price performance (% change)	53	157

### Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described on pages 24 to 25 and in the Corporate Governance report on pages 32 to 39. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

### Significant agreements

The Group has entered into various agreements to form partnerships with eleven UK universities, granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to three limited partnerships, as detailed in note 1, Basis of consolidation (iii), to the consolidated financial statements. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

There are a number of other agreements that may alter or terminate upon a change of control of the Group following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

### Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 20 to the consolidated financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the "Articles") and prevailing legislation.

At the last Annual General Meeting of the Company, held on 2 May 2012, authority was given to the directors pursuant to the relevant provisions of the Companies Act 2006 to allot unissued relevant securities in the Company up to a maximum amount equivalent to approximately one-third of the total ordinary share capital in issue on 29 March 2012 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2013. Further, the directors were given authority effective for the same period to allot relevant securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 29 March 2012 in connection with an offer by way of a fully pre-emptive rights issue. No shares have been issued pursuant to either authority during the year. The directors propose to renew these authorities at the Company's next AGM to be held on 14 May 2013. The authorities being sought are in accordance with guidance issued by the Association of British Insurers.

A further special resolution passed at the 2012 AGM granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006, both: (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 29 March 2012 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 29 March 2012, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 1 August 2013. Neither of these authorities have been used during the year. The directors will seek to renew these authorities for a similar period at the next AGM to be held on 14 May 2013.

Under the Companies Act 2006, the Company has the power to purchase its own shares in accordance with Part 18, Chapter 5 of the Companies Act 2006. At the 2012 Annual General Meeting, a special resolution was passed which granted the directors authority to make market purchases of the Company's shares pursuant to these provisions of the Companies Act 2006 up to a maximum of approximately 10% of the Company's issued share capital on 29 March 2012 provided that the authority granted set a minimum and maximum price at which purchases can be made and is exercisable at any time up to the earlier of the conclusion of the next AGM and 1 August 2013. This authority has not been used during the year. The directors will seek to renew the authority within similar parameters and for a similar period at the next AGM to be held on 14 May 2013.

#### Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders. As at the date of this report the Company's Articles include a qualifying third party indemnity provision ("QTPIP") within the meaning of Section 234 of the Companies Act 2006.

#### Substantial shareholders

As at 4 March 2013, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Limited	29.5
Lansdowne Partners	16.1
Baillie Gifford & Co	12.6
Sand Aire Limited	8.5
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	6.2

#### Payment of trade payables

It is the Group's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment and to adhere to those terms. The Group's average trade payable payment period at 31 December 2012 was 15 days (2011: 17 days). The Company had trade payables of £0.1m at 31 December 2012 (2011: £0.2m).

#### Charitable and political donations

During 2012, the Group made no charitable donations (2011: £18,000). Further detail on the Group's policies in connection with charitable donations is included in the Corporate and Social Responsibility section on pages 26 to 29. The Group did not make any political donations in either year.

#### Directors' indemnity and liability insurance

During the year, the Company has maintained liability insurance in respect of its directors. Subject to the provisions of the Companies Act 2006, the Company's Articles of Association provide that, to the extent that the proceeds of any liability insurance are insufficient to meet any liability in full, every director is entitled to be indemnified out of the funds of the Company against any liabilities incurred in the execution or discharge of his or her powers or duties.

#### Regulation

Top Technology Ventures Limited, a 100%-owned subsidiary of the Company, is authorised and regulated by the FSA under the Financial Services and Markets Act 2000.

#### Post-balance sheet events

A new flagship intellectual property commercialisation agreement was signed with the University of Manchester in February 2013.

There has been a net unrealised fair value increase in the Group's holdings in quoted portfolio companies of £16.0m between 31 December 2012 and 1 March 2013.

#### Financial statements

Information regarding the Group and Company financial statements, including applicable accounting standards and going concern, is set out in the Corporate Governance report on page 39.

#### Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information 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 Section 418 of the Companies Act 2006.

#### Appointment of auditor

BDO LLP offers itself for re-appointment as auditor and an appropriate resolution will be put to the shareholders at the AGM.

ON BEHALF OF THE BOARD

**Alan Aubrey**  
Chief Executive Officer  
4 March 2013

 Corporate governance

## Directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss for the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

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

### Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

ON BEHALF OF THE BOARD

**Bruce Smith**  
Chairman  
4 March 2013

**Alan Aubrey**  
Chief Executive Officer

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**Financial statements**

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## Independent auditor's report

To the members of IP Group plc

We have audited the financial statements of IP Group plc for the year ended 31 December 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 statement of directors' responsibilities, 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 ("APB's") Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance report set out on pages 32 to 39 and on pages 24 and 25 of the Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

Under the Companies Act 2006 we are required 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 and the part of the Directors' Remuneration Report to be audited 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; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 39, in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Neil Fung-On (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

4 March 2013

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



 Financial statements

## Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	15	38.0	0.9
Profit on disposal of equity investments		11.8	2.3
Change in fair value of limited and limited liability partnership interests		0.4	0.6
Revenue from services	4	2.3	2.1
		<b>52.5</b>	5.9
<b>Administrative expenses</b>			
Research and development costs		(0.3)	(0.2)
Share-based payment charge	22	(0.8)	(0.7)
Change in fair value of Oxford Equity Rights asset		(6.0)	(6.0)
Other administrative expenses		(5.6)	(5.1)
		<b>(12.7)</b>	(12.0)
<b>Operating profit/(loss)</b>			
	7	39.8	(6.1)
Finance income - interest receivable		0.9	0.6
<b>Profit/(loss) before taxation</b>			
		40.7	(5.5)
Taxation	9	-	-
<b>Profit/(loss) and total comprehensive income for the year attributable to owners of the parent</b>			
		40.7	(5.5)
<b>Basic earnings/(loss) per ordinary share (p)</b>			
	10	11.13	(1.76)
<b>Diluted earnings/(loss) per ordinary share (p)</b>			
	10	10.71	(1.76)

 Financial statements

## Consolidated statement of financial position

As at 31 December 2012

	Note	2012 £m	2011 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
- goodwill	11	18.4	18.4
Property, plant and equipment	12	0.3	0.2
Oxford Equity Rights asset and related contract costs	14	8.1	14.1
Portfolio:			
- equity investments	15	177.9	120.4
- debt investments	15	3.9	3.4
Limited and limited liability partnership interests	23	4.0	3.3
Other financial asset	17	0.7	0.7
Contingent value rights	18	1.4	-
<b>Total non-current assets</b>		<b>214.7</b>	160.5
<b>Current assets</b>			
Trade and other receivables	16	0.9	1.2
Deposits		32.5	50.0
Cash and cash equivalents		15.4	10.5
<b>Total current assets</b>		<b>48.8</b>	61.7
<b>Total assets</b>		<b>263.5</b>	222.2
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	7.3	7.3
Share premium account		150.4	150.4
Merger reserve		12.8	12.8
Retained earnings		92.6	51.1
<b>Total equity attributable to owners of the parent</b>		<b>263.1</b>	221.6
<b>Current liabilities</b>			
Trade and other payables	19	0.4	0.6
<b>Total equity and liabilities</b>		<b>263.5</b>	222.2

Registered number: 4204490

The financial statements on pages 55 to 80 were approved by the Board of Directors and authorised for issue on 4 March 2013 and were signed on its behalf by:

**Bruce Smith**  
Chairman

**Alan Aubrey**  
Chief Executive Officer

 Financial statements

## Consolidated statement of cash flows

For the year ended 31 December 2012

	2012 £m	2011 £m
<b>Operating activities</b>		
Profit/(loss) before taxation	40.7	(5.5)
<b>Adjusted for:</b>		
Finance income - interest receivable	(0.9)	(0.6)
Change in fair value of equity and debt investments	(38.0)	(0.9)
Change in fair value of limited and limited liability partnership interests	(0.4)	(0.6)
Depreciation of property, plant and equipment	0.1	0.1
Profit on disposal of equity investments	(11.8)	(2.3)
Change in fair value of Oxford Equity Rights asset	6.0	6.0
Share-based payment charge	0.8	0.7
<b>Changes in working capital</b>		
Decrease/(increase) in trade and other receivables	0.1	(0.1)
Decrease in trade and other payables	(0.3)	(0.1)
Net cash flow from/(to) deposits	17.5	(42.5)
<b>Other operating cash flows</b>		
Interest received	1.1	0.3
<b>Net cash inflow/(outflow) from operating activities</b>	<b>14.9</b>	<b>(45.5)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(0.1)	-
Purchase of equity and debt investments	(26.3)	(14.3)
Investment in limited and limited liability partnerships	(0.4)	(0.8)
Proceeds from sale of equity investments	16.7	3.7
Distributions from limited and limited liability partnerships	0.1	-
Repayments of borrowings	-	0.1
<b>Net cash outflow from investing activities</b>	<b>(10.0)</b>	<b>(11.3)</b>
<b>Financing activities</b>		
Proceeds from the issue of share capital	-	53.3
<b>Net cash inflow from financing activities</b>	<b>-</b>	<b>53.3</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4.9</b>	<b>(3.5)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10.5</b>	<b>14.0</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>15.4</b>	<b>10.5</b>

 Financial statements

## Consolidated statement of changes in equity

For the year ended 31 December 2012

Attributable to owners of the parent

	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	Total equity £m
At 1 January 2011	5.1	99.3	12.8	55.9	173.1
Loss and total comprehensive income for the year	–	–	–	(5.5)	(5.5)
Issue of equity	2.2	51.1	–	–	53.3
Share-based payment charge	–	–	–	0.7	0.7
At 1 January 2012	7.3	150.4	12.8	51.1	221.6
Profit and total comprehensive income for the year	–	–	–	40.7	40.7
Share-based payment charge	–	–	–	0.8	0.8
<b>At 31 December 2012</b>	<b>7.3</b>	<b>150.4</b>	<b>12.8</b>	<b>92.6</b>	<b>263.1</b>

(i) **Share premium**

Amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

(ii) **Merger reserve**

Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings.

(iii) **Retained earnings**

Cumulative net gains and losses recognised in the consolidated statement of comprehensive income net of associated share-based payments credits.

 Financial statements

## Notes to the consolidated financial statements

### 1. Accounting policies

#### Basis of preparation

The Annual Report and Accounts of IP Group plc (the "Group") are for the year ended 31 December 2012. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs").

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in the most appropriate application in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

#### Changes in accounting policies

##### (i) New standards, interpretations and amendments effective from 1 January 2012

No new standards, interpretations and amendments effective for the first time from 1 January 2012 have had a material effect on the Group's financial statements.

##### (ii) New standards, interpretations and amendments not yet effective

The following new standards, which have not been applied in these financial statements, will or may have an effect on the Group's future financial statements:

- **IFRS 9 Financial Instruments:** IFRS 9 will eventually replace IAS 39 in its entirety. The process has been divided into three main components, being classification and measurement; impairment; and hedge accounting. In December 2011, the new standard's mandatory effective date was deferred to periods beginning on or after 1 January 2015 and, in November 2012, further "limited" amendments were proposed to the classification and measurement requirements. The Group provisionally assesses the potential effect to be immaterial given the majority of its financial assets are currently held at fair value through profit or loss.
- **IFRS 10 Consolidated Financial Statements:** IFRS 10 establishes principles for the preparation and presentation of consolidated financial statements when a reporting entity controls one or more other entities. The new standard replaces the consolidation requirements in SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The Group, after a provisional examination of the potential impact, considers that the standard is unlikely to result in changes to the preparation and presentation of the Group's subsidiaries, associates or limited partnerships. IFRS 10 is effective for periods beginning on or after 1 January 2013.
- **IFRS 13 Fair Value Measurement:** IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The new standard does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value, and as such the Group provisionally anticipates the impact to be immaterial. IFRS 13 is effective prospectively for annual periods beginning on or after 1 January 2013.

None of the other new standards, interpretations and amendments not yet effective is expected to have a material effect on the Group's future financial statements.

#### Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group until the date control ceases.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the transaction are expensed in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

##### (ii) Associates

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights.

Investments in associates are held at fair value in the statement of financial position. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by entities that are akin to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

 Financial statements

## Notes to the consolidated financial statements continued

### 1. Accounting policies continued

#### Basis of consolidation continued

#### (iii) Limited partnerships and limited liability partnerships ("Limited Partnerships")

##### Limited partnerships

Group entities act as general partner and investment manager to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund ("IPVF")	10.0
Top Technology Ventures IV LP ("TTV IV")	1.0
The North East Technology Fund L.P. ("NETF")	–

The Group receives compensation for its role as investment manager to these limited partnerships including fixed fees and performance fees. The directors consider that these amounts are in substance and form "normal market rate" compensation for its role as investment manager. In the case of IPVF and TTV IV, the directors consider that the minority limited partnership interests do not create an exposure of such significance that it indicates that the Group acts as anything other than agent for the other limited partners in the arrangement. Where appropriate the directors also refer to the guidance set out in SIC-12 Consolidation – Special Purpose Entities, for example where there is a narrow and well-defined scope of limited partnership operation. As a result, the directors consider that the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities and accordingly none meet the definition of a subsidiary under IAS 27 Consolidated and Separate Financial Statements.

The Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

##### Limited liability partnerships

The Group has a 16.7% interest in the total capital commitments of Technikos LLP ("Technikos"). The general partner and investment manager of Technikos are parties external to the Group.

##### Portfolio return and revenue

Change in fair value of equity and debt investments represents revaluation gains and losses on the Group's portfolio of investments. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the start of the accounting period on the disposal of equity investments. Change in fair value of limited partnership investments represents revaluation gains and losses on the Group's investments in limited partnership funds. Dividends receivable from equity shares are included within other portfolio income and recognised on the ex-dividend date or, where no ex-dividend date is quoted, are recognised when the Group's right to receive payment is established.

**Revenue from services:** All revenue from services is generated within the United Kingdom and is stated exclusive of value added tax. Revenue from services comprises:

**Advisory fees:** Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded.

**Fund management services:** Fiduciary fund management fees are generally earned as a fixed percentage of total funds under management and are recognised as the related services are provided.

##### Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Fixtures and fittings	- Over three to five years
Computer equipment	- Over three to five years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

##### Intangible assets

###### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets and allocated from the acquisition date to each of the Group's cash-generating units ("CGUs") that are expected to benefit from the business combination. Goodwill may be allocated to CGUs in both the acquired business and in the existing business.

## 1. Accounting policies continued

### Impairment of intangible assets (including goodwill)

Goodwill is not subject to amortisation but is tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (i.e. CGUs).

### Financial assets

In respect of regular way purchases or sales, the Group uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's financial assets are categorised as held to maturity or available for sale.

#### (i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

This category includes equity investments, debt investments, equity rights, contingent value rights and investments in limited partnerships. Investments in associated undertakings which are held by the Group with a view to the ultimate realisation of capital gains are also categorised as at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of investments in equity investments, limited partnerships and associated undertakings is evaluated on a fair value basis in accordance with an established investment strategy.

Financial assets at fair value through profit or loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in profit or loss in the statement of comprehensive income in the period which they arise.

The fair values of quoted investments are based on bid prices in an active market at the reporting date.

The fair value of unlisted securities is established using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and earnings multiples. Wherever possible the Group uses valuation techniques which make maximum use of market-based inputs. Accordingly, the valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the International Private Equity and Venture Capital Valuation Guidelines (the "IPEVCV Guidelines") endorsed by the British & European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

#### Cost

Where the investment being valued was itself made recently, its cost may provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business.

#### Price of recent investment

The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and, accordingly, where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment. During this period the Group considers whether any changes or events subsequent to the transaction would imply a change in the fair value of the investment may be required.

Given the nature of the Group's investments in seed, start-up and early-stage companies where there are often no current and no short-term future earnings or positive cash flows it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. Where the Group considers that the price of recent investment, unadjusted, is no longer relevant and there are limited or no comparable companies or transactions from which to infer value, the Group carries out an enhanced assessment based on milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Group seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment.

Where the Group considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Group; however, any adjustment is, by its very nature, subjective. Where a deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Group may consider increasing the carrying value of the investment; however, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

Factors that the Group considers include, inter alia, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

## Financial statements

# Notes to the consolidated financial statements continued

### 1. Accounting policies continued

#### Financial assets continued

##### (i) At fair value through profit or loss continued

#### Other valuation techniques

If there is no readily ascertainable value from following the "price of recent investment" methodology, or there is objective evidence that a deterioration in fair value has occurred since a relevant transaction, the Group considers alternative methodologies in the IPEVCV Guidelines, such as discounted cash flows ("DCF") or price-earnings multiples. DCF involves estimating the fair value of a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business. Given the difficulty of producing reliable cash flow forecasts for seed, start-up and early-stage companies as described above, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment.

When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level. A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy. This multiple is applied to earnings to derive an enterprise value which is then discounted by up to 60% for non-marketability and other risks inherent to businesses in early stages of operation.

#### No reliable estimate

Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

##### (ii) Loans and receivables

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

#### Fair value hierarchy

The Group classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy within which a financial asset is classified is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 - Quoted prices in active markets.

Level 2 - Inputs other than quoted prices that are observable, such as prices from market transactions.

Level 3 - One or more inputs that are not based on observable market data.

#### Equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

In return for the non-refundable, non-interest-bearing advance totalling £20.1m, the Group has the right to receive from the university the following over its 15-year term:

- 50% of the university's equity shares in any spin-out company created based on intellectual property created by academics that are considered to be part of the chemistry department (i.e. equity instruments in unlisted companies); and
- 50% of the university's share of any cash payments received by the university from parties who have licensed intellectual property created by academics that are considered to be part of the chemistry department.

The contract expires on 23 November 2015.

Since the arrangement gives the Group contractual rights only to the receipt of shares in unlisted spin-out companies or cash it is considered to be a derivative financial asset and is designated as at fair value through profit and loss.

#### Debt investments

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt investments is established by calculating the present value of expected future cash flows associated with the instrument.

#### Contingent value rights

In instances where the Group receives contingent financial consideration upon the disposal of a financial asset, the resulting asset shall be recognised and designated as at fair value through profit and loss, and treated accordingly.

#### Deposits

Deposits comprise longer-term deposits held with financial institutions with an original maturity of greater than three months.

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term deposits held with financial institutions with an original maturity of three months or less.



## 1. Accounting policies continued

### Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value.

### Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The objective of the Group is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Group considers its capital to comprise its share capital, share premium, merger reserve and retained earnings.

Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial Services Authority ("FSA") and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in the financial statements of Top Technology Ventures Limited.

### Contract costs

Contract costs comprise related costs to secure university partnership arrangements and these costs are amortised over the life of the respective partnership.

### Operating segments

An operating segment is a group of assets and operations which are identified on the basis of internal reports that are regularly reviewed by the Board, which analyse components of the Group in order to allocate resources to the segment and to assess its performance.

### Employee benefits

#### (i) Pension obligations

The Group operates a company defined-contribution pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group currently makes contributions on behalf of staff to this scheme or to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

#### (ii) Share-based payments

The Group engages in equity-settled share-based payment transactions in respect of services receivable from employees, by granting employees conditional awards of ordinary shares subject to certain vesting conditions.

Conditional awards of shares are made pursuant to the Group's Long Term Incentive Plan ("LTIP") awards. The fair value of the shares is estimated at the date of grant, taking into account the terms and conditions of the award, including market-based performance conditions.

The difference between the fair value of the employee services received in respect of the shares granted and the price payable is recognised as an expense over the appropriate performance and vesting period. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

### Deferred tax

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

### Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to administrative expenses in the statement of comprehensive income on a straight-line basis over the term of the lease.

 Financial statements

## Notes to the consolidated financial statements continued

**2. Financial risk management**

As noted in the Principal risks and uncertainties section on page 39, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

In general, risk management is carried out throughout the Group under policies approved by the Board of Directors. The following further describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

**(a) Market risk****(i) Price risk**

The Group is exposed to equity securities price risk as a result of the equity and debt investments, and investments in limited partnerships held by the Group and categorised as at fair value through profit or loss.

The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established capital markets and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

The Group holds investments which are publicly traded on AIM or ISDX and investments which are not traded on an active market.

The net increase in fair value of the Group's equity investments during 2012 of £38.0m represents a 31% change against the opening balance (2011: net increase of £0.9m, 1%) and a similar increase or decrease in the prices of quoted and unquoted investments is considered to be reasonably possible. The table below summarises the impact of a 1% increase/decrease in the price of both quoted and unquoted investments on the Group's post-tax profit for the year and on equity.

	2012			2011		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	0.8	1.0	1.8	0.5	0.8	1.3

**(ii) Interest rate risk**

As the Group has no significant borrowings it has only a limited interest rate risk. The primary impact to the Group is the impact on income and operating cash flow as a result of the interest-bearing deposits and cash and cash equivalents held by the Group.

The Group mitigates this risk, in co-ordination with liquidity risk, by managing its proportion of fixed to floating rate financial assets. The table below summarises the interest rate profile of the Group.

	2012				2011			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
<b>Financial assets</b>								
Equity rights	-	-	7.9	7.9	-	-	13.9	13.9
Equity investments	-	-	177.9	177.9	-	-	120.4	120.4
Debt investments	3.0	-	0.9	3.9	2.8	-	0.6	3.4
Contingent value rights	-	-	1.4	1.4	-	-	-	-
Deposits	32.5	-	-	32.5	50.0	-	-	50.0
Cash and cash equivalents	-	15.4	-	15.4	-	10.5	-	10.5
Other financial assets	-	-	0.7	0.7	-	-	0.7	0.7
Trade receivables	-	-	0.4	0.4	-	-	0.3	0.3
Other receivables	-	-	0.5	0.5	-	-	0.9	0.9
	35.5	15.4	189.7	240.6	52.8	10.5	136.8	200.1
<b>Financial liabilities</b>								
Trade payables	-	-	(0.1)	(0.1)	-	-	(0.1)	(0.1)
Other accruals and deferred income	-	-	(0.3)	(0.3)	-	-	(0.5)	(0.5)
	-	-	(0.4)	(0.4)	-	-	(0.6)	(0.6)

At 31 December 2012, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.2m (2011: £0.1m) higher/lower as a result of higher interest received on floating rate cash deposits.

**(b) Liquidity risk**

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

## 2. Financial risk management continued

### (c) Credit risk

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by making short-term deposits with counterparties, or by investing in treasury funds with an "AA" credit rating or above managed by institutions. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3bn and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2012 £m	2011 £m
P1	14.8	52.9
P2	30.6	5.0
AA	2.5	2.6
Total deposits and cash and cash equivalents	47.9	60.5

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks, including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2012 was £10m (2011: £10m).

The Group's exposure to credit risk on debt investments is managed in a similar way to equity price risk, as described above, through the Group's investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

The maximum exposure to credit risk for debt investments, receivables and other financial assets is represented by their carrying amount.

## 3. Significant accounting estimates and judgements

The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are discussed below.

### (i) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value-in-use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

### (ii) Equity rights

On initial recognition, the equity rights arrangement was considered in substance to be a derivative financial asset. This conclusion was reached after considering that the asset's value changes in response to a change in an "underlying", being the number and value of spin-out companies created, the net investment was considered to be smaller than would be expected for other contracts with similar response to changes in market factors and it is to be settled at a future date.

As the asset is not quoted on an active market the fair value is determined using valuation techniques, including discounted cash flows. The asset has historically been held at cost since no reliable estimate of fair value could be reached. At 31 December 2012 the information available to the directors and the time remaining in the contract produced a sufficiently accurate estimate of fair value at balance sheet date. In the discounted cash flow model the directors considered the historic asset performance, the spin-out pipeline and available economic data to estimate the unobservable inputs. Those inputs include the average spin-out rate and the projected cash flows on IPO or trade sale from anticipated spin-out opportunities. The discount rate used for valuing the equity rights asset is determined based on the Group's cost of capital.

### (iii) Valuation of unquoted equity investments

The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and marketability and other risk discounts.

Discussion of sensitivity analyses is included in the relevant note for each of the above estimates and judgements.

 Financial statements

## Notes to the consolidated financial statements continued

### 4. Revenue from services

All revenue from services is derived from the provision of advisory and venture capital fund management services.

### 5. Operating segments

For both the year ended 31 December 2012 and the year ended 31 December 2011 the Group's revenue and profit/loss before taxation were derived entirely from its principal activity within the UK and accordingly no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partnerships with universities; (ii) management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Business review on pages 10 to 29.

Year ended 31 December 2012	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	38.0	–	–	38.0
Profit on disposal of equity investments	11.8	–	–	11.8
Change in fair value of limited and limited partnership interests	0.4	–	–	0.4
Revenue from advisory services	0.5	0.4	–	0.9
Revenue from fund management services	–	1.4	–	1.4
Change in fair value of Oxford Equity Rights asset	(6.0)	–	–	(6.0)
Administrative expenses	(5.6)	(0.7)	(0.4)	(6.7)
<b>Operating profit/(loss)</b>	<b>39.1</b>	<b>1.1</b>	<b>(0.4)</b>	<b>39.8</b>
Finance income - interest receivable	0.9	–	–	0.9
Profit/(loss) before taxation	40.0	1.1	(0.4)	40.7
Taxation	–	–	–	–
Profit/(loss) and total comprehensive income for the year	40.0	1.1	(0.4)	40.7
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	257.9	5.6	–	263.5
Liabilities	(0.2)	(0.2)	–	(0.4)
Net assets	257.7	5.4	–	263.1
<b>Other segment items</b>				
Capital expenditure	0.1	–	–	0.1
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	–	–	–

**5. Operating segments** continued

Year ended 31 December 2011	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	0.9	-	-	0.9
Profit on disposal of equity investments	2.3	-	-	2.3
Change in fair value of limited and limited liability partnership interests	0.6	-	-	0.6
Revenue from advisory services	0.6	-	-	0.6
Revenue from fund management services	-	1.5	-	1.5
Change in fair value of Oxford Equity Rights asset	(6.0)	-	-	(6.0)
Administrative expenses	(4.9)	(0.7)	(0.4)	(6.0)
<b>Operating (loss)/profit</b>	<b>(6.5)</b>	<b>0.8</b>	<b>(0.4)</b>	<b>(6.1)</b>
Finance income - interest receivable	0.6	-	-	0.6
(Loss)/profit before taxation	(5.9)	0.8	(0.4)	(5.5)
Taxation	-	-	-	-
(Loss)/profit and total comprehensive income for the year	(5.9)	0.8	(0.4)	(5.5)
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	217.4	4.7	0.1	222.2
Liabilities	(0.4)	(0.1)	(0.1)	(0.6)
Net assets	217.0	4.6	-	221.6
<b>Other segment items</b>				
Capital expenditure	-	-	-	-
Depreciation	0.1	-	-	0.1
Amortisation of intangible assets	-	-	-	-

**6. Auditor's remuneration**

Details of the auditor's remuneration are set out below:

	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	64	64
The audit of the Company's subsidiaries, pursuant to legislation	34	39
<b>Total fees for audit services</b>	<b>98</b>	103
Audit-related assurance services	21	17
<b>Total assurance services</b>	<b>119</b>	120
Tax compliance services	44	38
Taxation advisory services	28	38
Corporate finance service	-	87
All other services	7	-
<b>Total non-assurance services</b>	<b>79</b>	163
	<b>198</b>	283

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## Notes to the consolidated financial statements continued

**7. Profit/(loss) from operations**

Profit/(loss) from operations has been arrived at after charging:

	2012 £m	2011 £m
Depreciation of tangible assets	0.1	0.1
Employee costs (see note 8)	4.0	3.6
Operating leases - property	0.2	0.4
Profit on disposal of equity investments	11.8	2.3

**8. Employee costs**

Employee costs (including directors) comprise:

	2012 £m	2011 £m
Salaries	2.7	2.5
Defined-contribution pension cost	0.1	0.1
Share-based payment charge (see note 21)	0.8	0.7
Social security	0.4	0.3
	4.0	3.6

The average monthly number of persons (including executive directors) employed by the Group during the year was 34, all of whom were involved in management and administration activities (2011: 34). Details of directors' remuneration can be found in the Directors' Remuneration Report on pages 42 to 49.

**9. Taxation**

	2012 £m	2011 £m
Current tax	-	-
Deferred tax	-	-

The amount for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2012 £m	2011 £m
Profit/(loss) before tax	40.7	(5.5)
Tax at the UK corporation tax rate of 24.5% (2011: 26%)	10.0	(1.4)
Non-taxable income	(7.2)	(0.3)
Movement in tax losses arising not recognised	(2.8)	1.7
Other adjustments	-	-
Tax credit	-	-

At 31 December 2012, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £22.6m (2011: £35.2m). An analysis is shown below:

	2012		2011 With rate change and prior year adjustment		2011	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs	-	-	-	-	-	-
Unused tax losses	44.7	10.7	33.8	8.1	35.2	8.8
	44.7	10.7	33.8	8.1	35.2	8.8

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

**10. Earnings per share****Earnings**

	2012 £m	2011 £m
Earnings for the purposes of basic and dilutive earnings per share	<b>40.7</b>	(5.5)

**Number of shares**

	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>365,763,664</b>	313,325,308
Effect of dilutive potential ordinary shares:		
Long Term Incentive Plan	<b>14,142,480</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>379,906,144</b>	313,325,308

The Group has only one class of potentially dilutive ordinary share. These are contingently issuable shares arising under the Group LTIP.

Had the Group made a profit in the prior year the number of potentially dilutive shares outstanding at the period ending 31 December 2011 that would have been considered when calculating the diluted earnings per share was 8,527,902 shares.

**11. Goodwill**

	£m
At 1 January 2011	18.4
At 1 January 2012	18.4
<b>At 31 December 2012</b>	<b>18.4</b>

The recoverable amount of the above goodwill has been determined from value-in-use calculations on cash flow projections from formally approved budgets in respect of the relevant CGU, covering the remaining life of the related funds under management or university partnerships.

The goodwill allocated to each CGU is summarised in the following table:

	2012 £m	2011 £m
University partnership CGU	<b>16.3</b>	16.3
Fund management CGU	<b>2.1</b>	2.1
	<b>18.4</b>	18.4

**Impairment review of venture capital fund management CGU**

The following key assumptions have been used to determine value in use:

	2012	2011
Discount rate	<b>9%-11%</b>	8%-10%
Number of funds under management	<b>3</b>	3
Management fee	<b>2%-3.5%</b>	1%-3.5%
Cost inflation	<b>4%</b>	4%

The assumptions above reflect past experience. All reasonably possible changes to key assumptions do not result in the recoverable amount being less than the carrying value of goodwill.

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## Notes to the consolidated financial statements continued

**11. Goodwill** continued**Impairment review of the university partnership CGU**

For the purposes of impairment testing, the university partnership CGU comprises those cash flows connected with the Group's university partnership business other than those that specifically relate to the Group's contract with the University of Oxford's Department of Chemistry (see note 14). The directors consider that for each of the key variables which would be relevant in determining a value in use for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2012	2011
Number of spin-out companies per year	4-8	2-10
Initial equity stake acquired by the Group under the university partnership	12%-30%	12%-30%
Proportion of spin-out companies failing	30%-45%	20%-40%
Dilution rates prior to exit as a result of financing for spin-out companies	40%-60%	35%-60%
Proportion of IPO exits	25%-35%	30%-45%
IPO exit valuations	£20m-£40m	£20m-£40m
Proportion of disposal exits	25%-35%	30%-50%
Disposal valuations	£10m-£30m	£10m-£30m
Discount rate	8%-12%	8%-12%

These key variable ranges result in a wide range of value-in-use estimates for the university partnership CGU. None of these estimates of value in use is considered more appropriate or relevant than any other and none indicate that an impairment of the goodwill allocated to the CGU is required.

**12. Property, plant and equipment**

	Total £m
<b>Cost</b>	
At 1 January 2012	0.8
Additions	0.2
<b>At 31 December 2012</b>	<b>1.0</b>
<b>Accumulated depreciation</b>	
At 1 January 2012	0.6
Charge for the year	0.1
<b>At 31 December 2012</b>	<b>0.7</b>
<b>Net book value</b>	
<b>At 31 December 2012</b>	<b>0.3</b>
At 31 December 2011	0.2
<b>Cost</b>	
At 1 January 2011	0.8
Additions	-
At 31 December 2011	0.8
<b>Accumulated depreciation</b>	
At 1 January 2011	0.5
Charge for the year	0.1
At 31 December 2011	0.6
<b>Net book value</b>	
At 31 December 2011	0.2
At 31 December 2010	0.3



### 13. Categorisation of financial instruments

	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
Financial assets				
<b>At 31 December 2012</b>				
Equity rights	7.9	–	–	7.9
Equity investments	–	177.9	–	177.9
Debt investments	–	3.9	–	3.9
Other financial assets	0.7	–	–	0.7
Contingent value rights	–	1.4	–	1.4
Limited and limited liability partnership interests	–	4.0	–	4.0
Trade and other receivables	–	–	0.9	0.9
Deposits	–	–	32.5	32.5
Cash and cash equivalents	–	–	15.4	15.4
<b>Total</b>	<b>8.6</b>	<b>187.2</b>	<b>48.8</b>	<b>244.6</b>
At 31 December 2011				
Equity rights	13.9	–	–	13.9
Equity investments	–	120.4	–	120.4
Debt investments	–	3.4	–	3.4
Other financial assets	0.7	–	–	0.7
Limited and limited liability partnership interests	–	3.3	–	3.3
Trade and other receivables	–	–	1.2	1.2
Deposits	–	–	50.0	50.0
Cash and cash equivalents	–	–	10.5	10.5
<b>Total</b>	<b>14.6</b>	<b>127.1</b>	<b>61.7</b>	<b>203.4</b>

All financial liabilities are categorised as other financial liabilities and recognised at amortised cost.

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2011: £nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2011: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

### 14. Equity rights and related contract costs

	Equity rights £m	Contract costs £m	Total £m
<b>Cost</b>			
<b>At 1 January 2012 and 31 December 2012</b>	<b>19.9</b>	<b>0.5</b>	<b>20.4</b>
<b>Aggregate amortisation and change in fair value of contract costs</b>			
At 1 January 2012	(6.0)	(0.3)	(6.3)
Change in fair value during the year	(6.0)	–	(6.0)
<b>At 31 December 2012</b>	<b>(12.0)</b>	<b>(0.3)</b>	<b>(12.3)</b>
<b>Net book value</b>			
<b>At 31 December 2012</b>	<b>7.9</b>	<b>0.2</b>	<b>8.1</b>
At 31 December 2011	13.9	0.2	14.1

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## Notes to the consolidated financial statements continued

## 14. Equity rights and related contract costs continued

	Equity rights £m	Contract costs £m	Total £m
<b>Cost</b>			
At 1 January 2011 and 31 December 2011	19.9	0.5	20.4
<b>Aggregate amortisation and change in fair value of contract costs</b>			
At 1 January 2011	–	(0.3)	(0.3)
Change in fair value during the year	(6.0)	–	(6.0)
At 31 December 2011	(6.0)	(0.3)	(6.3)
<b>Net book value</b>			
At 31 December 2011	13.9	0.2	14.1
At 31 December 2010	19.9	0.2	20.1

**Carrying amount of equity rights**

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

In return for the non-refundable, non-interest-bearing advance totalling £20.1m, the Group has the right to receive from the University the following over its 15-year term:

- 50% of the university's equity shares in any spin-out company created based on intellectual property created by academics that are considered to be part of the chemistry department (i.e. equity instruments in unlisted companies); and
- 50% of the university's share of any cash payments received by the university from parties who have licensed intellectual property created by academics that are considered to be part of the chemistry department.

The contract expires on 23 November 2015.

The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2012	2011
Number of spin-out companies per year from University of Oxford chemistry department	1-2	1-3
Initial equity stake acquired by the Group under the equity rights contract	20%-25%	20%-25%
Proportion of spin-out companies failing	30%-40%	20%-30%
Dilution rates prior to exit as a result of financing for spin-out companies	35%-60%	35%-60%
Proportion of IPO exits	30%-40%	30%-40%
IPO exit valuations	£30m-£50m	£30m-£50m
Proportion of disposal exits	25%-35%	30%-50%
Disposal valuations	£30m-£40m	£20m-£40m
Discount rate	9%-11%	8%-10%

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement, from £4.6m to £10.6m using a range of reasonably possible variables, with the number of spin-outs being the variable giving rise to the widest variation in estimated fair values. In order to calculate a more accurate valuation figure given the multitude of reliable scenarios generated when altering the discounted cash flows ("DCF") variables, a probability weighting expected return method is utilised. Having applied probabilities to the various possible scenarios, the method returned an estimated asset value of £7.9m at 31 December 2012.

## 15. Investment portfolio

Group	Level 1	Level 2		Level 3	Total £m
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	
At 1 January 2012	50.0	47.9	3.4	22.5	123.8
Investments during the year	8.5	14.5	2.6	0.7	26.3
Transaction-based reclassifications during the year	3.5	(2.6)	(1.2)	0.3	–
Other transfers between hierarchy levels during the year	–	(1.2)	–	1.2	–
Disposals	(5.4)	–	(0.1)	(0.8)	(6.3)
Change in fair value in the year	28.0	27.9	(0.8)	(17.1)	38.0
<b>At 31 December 2012</b>	<b>84.6</b>	<b>86.5</b>	<b>3.9</b>	<b>6.8</b>	<b>181.8</b>
At 1 January 2011	49.0	34.2	3.7	23.1	110.0
Investments during the year	6.3	6.5	1.5	–	14.3
Transaction-based reclassifications during the year	1.0	0.3	(1.2)	(0.1)	–
Other transfers between hierarchy levels during the year	–	0.8	(0.4)	(0.4)	–
Disposals	(1.0)	(0.4)	–	–	(1.4)
Change in fair value in the year	(5.3)	6.5	(0.2)	(0.1)	0.9
At 31 December 2011	50.0	47.9	3.4	22.5	123.8

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. Investments in 25 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions. However, if the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

The net increase in fair value for the year of £38.0m (2011: £0.9m) includes a net increase of £9.9m (2011: £6.3m) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

### Change in fair value in the year

	2012 £m	2011 £m
Fair value gains	64.5	13.6
Fair value losses	(26.5)	(12.7)
	38.0	0.9

The Company's interests in subsidiary undertakings are listed in note 2 of the Company's financial statements.

## 16. Trade and other receivables

	2012 £m	2011 £m
Trade debtors	0.4	0.3
Prepayments	0.2	0.2
Other receivables	0.3	0.7
	0.9	1.2

The directors consider the carrying amount of trade and other receivables to approximate their fair value. All receivables are interest free, repayable on demand and unsecured.

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## Notes to the consolidated financial statements continued

**17. Other financial asset**

Other financial asset comprises a zero-cost forward contract giving the Group the right to receive sale proceeds when University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £0.7m (2011: £0.7m). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the statement of comprehensive income. Fair value is determined by discounting expected cash flows at prevailing market rates of interest and accordingly, the Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

**18. Contingent value rights**

As a result of the disposal of Proximagen Group plc in August 2012, the Group received contingent consideration, in the form of contingent value rights ("CVRs"), based upon future net revenues of two associated drug programmes. In line with the Group's policies, these have been recognised as financial assets at fair value through profit and loss, and has been fair valued at £1.4m.

**19. Trade and other payables**

	2012 £m	2011 £m
Trade payables	0.1	0.2
Social security expenses	0.1	0.1
Other accruals and deferred income	0.2	0.3
	<b>0.4</b>	0.6

**20. Share capital**

	2012 £m	2011 £m
Issued and fully paid:		
365,763,664 ordinary shares of 2p each (2011: 365,763,664 ordinary shares of 2p each)	7.3	7.3

The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation or otherwise, and no right to fixed income.

**21. Operating lease arrangements**

	2012 £m	2011 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	0.4	0.4

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

	2012 £m	2011 £m
Within one year	0.3	0.3
In the second to fifth years inclusive	0.9	1.2
	<b>1.2</b>	1.5

Operating lease payments represent rentals and other charges payable by the Group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

## 22. Share-based payments

### Long Term Incentive Plan ("LTIP") awards

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report set out on pages 42 to 49.

The 2012 LTIP awards will ordinarily vest on 31 March 2015, to the extent that the performance conditions have been met. The awards are based on the performance of Group's Hard NAV and TSR. Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration report on page 44. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE Small Cap index, which can reduce the awards by up to 50%. The matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2012 to 31 December 2014 and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2015, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2011 LTIP awards will ordinarily vest on 31 March 2014, to the extent that the performance conditions have been met. Deloitte LLP provided independent external advice to the Remuneration Committee on the appropriate performance conditions to attach to the 2011 LTIP awards based on its experience of current market practice. The vesting criteria relating to the 2012 awards, as described above, were designed using the same matrix structure, together with the FTSE Small Cap index underpin, as was used for the 2011 LTIP awards.

The 2010 LTIP awards will ordinarily vest on 31 March 2013, to the extent that the performance conditions have been met. 50% of the awards are based on the performance of Group's Hard NAV and 50% are based on the Group's share price performance. The portion subject to Hard NAV performance shall vest in full in the event of Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this time period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012, whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale is applied for performance between the vesting targets detailed above. Based on the Group's share price and Hard NAV at 31 December 2012, approximately 81% of the 2010 awards are anticipated to vest during 2013.

The movement in the number of shares notionally awarded under the LTIP is set out below:

	2012	2011
At 1 January	17,055,803	13,079,059
Forfeited during the year	(767,746)	(826,293)
Notionally awarded during the year	1,712,866	4,803,037
At 31 December	18,000,923	17,055,803

The fair value of awards made during each of the following years has been calculated using a Monte-Carlo pricing model with the following key assumptions:

	2012	2011
Share price at date of award	£1.355	£0.54
Exercise price	£nil	£nil
Fair value at grant date	£0.38	£0.17
Expected volatility (median of historical 50-day moving average)	35%	35%
Expected life (years)	2.75	2.50
Expected dividend yield	0%	0%
Risk-free interest rate	1.1%	1.0%

The fair value charge recognised in the statement of comprehensive income during the year in respect of LTIP share awards was £0.8m (2011: £0.7m).

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## Notes to the consolidated financial statements continued

**23. Limited and limited liability partnership interests**

	£m
At 1 January 2011	1.9
Additions during the year	0.8
Change in fair value during the year	0.6
At 1 January 2012	3.3
Additions during the year	0.4
Realisations in the year	(0.1)
Change in fair value during the year	0.4
<b>At 31 December 2012</b>	<b>4.0</b>

The Group considers interests in limited and limited liability partnerships to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

**24. Related party transactions**

The Group has various related parties arising from its key management, subsidiaries, equity stakes in portfolio companies and management of certain limited partnership funds.

**a) Limited partnerships**

The Group manages a number of investment funds structured as limited partnerships. Group entities have a limited partnership interest (see note 1) and act as the general partners of these limited partnerships. The Group therefore has power to exert significant influence over these limited partnerships. The following amounts have been included in respect of these limited partnerships:

	2012 £m	2011 £m
<b>Statement of comprehensive income</b>		
Revenue from services	1.4	1.5
<b>Statement of financial position</b>		
Investment in limited partnerships	2.8	2.1
Amounts due from related parties	–	–

**b) Key management transactions**

The key management had investments in the following spin-out companies as at 31 December 2012:

Director	Company name	Number of shares held at 1 January 2012	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2012	%
<b>Alan Aubrey</b>	Amaethon Limited - A Ordinary Shares	104	–	104	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	–	11,966	1.0%
	Amaethon Limited - Ordinary Shares	21	–	21	0.3%
	Avacta Group plc	13,276,113	7,000,000	20,276,113	0.6%
	Capsant Neurotechnologies Limited	11,631	–	11,631	0.8%
	Chamelic Limited	26	–	26	0.4%
	Crysalin Limited	1,447	–	1,447	0.1%
	EmDot Limited	15	–	15	0.9%
	Evocutis plc	767,310	–	767,310	0.4%
	Getech Group plc	15,000	–	15,000	0.1%
	Green Chemicals plc	108,350	–	108,350	0.9%
	Icona Solutions Limited	1,674	–	1,674	0.6%
	Ilika plc	117,500	–	117,500	0.2%
	Karus Therapeutics Limited	223	–	223	0.1%
	Mode Diagnostics Limited	1,863	1,363	3,226	0.4%
	Modern Biosciences plc	1,185,150	–	1,185,150	2.1%
	Modern Water plc	519,269	–	519,269	0.9%

## 24. Related party transactions continued

### b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2012	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2012	%
<b>Alan Aubrey</b> continued	Overlay Media Limited	32	(32)	–	–
	Oxford Advanced Surfaces Group plc	2,172,809	–	<b>2,172,809</b>	1.1%
	Oxford Catalysts Group plc	122,109	–	<b>122,109</b>	0.1%
	Oxford Nanopore Technologies Limited	11,442	–	<b>11,442</b>	0.6%
	Oxford RF Sensors Limited	53,639	–	<b>53,639</b>	0.8%
	Oxtox Limited	25,363	–	<b>25,363</b>	0.3%
	Pharminox Limited	685	–	<b>685</b>	0.3%
	Photopharmica (Holdings) Limited <sup>1</sup>	37,020	–	<b>37,020</b>	1.0%
	Plexus Planning Limited	1,732	–	<b>1,732</b>	0.8%
	Retroscreen Virology Group plc	37,160	–	<b>37,160</b>	0.1%
	Revolymr plc	88,890	–	<b>88,890</b>	0.2%
	Structure Vision Limited	212	–	<b>212</b>	1.0%
	Surrey Nanosystems Limited	393	–	<b>393</b>	0.3%
	Sustainable Resource Solutions Limited	25	5	<b>30</b>	1.4%
	Tissue Regenix Group plc	2,389,259	–	<b>2,389,259</b>	0.4%
Tracsis plc	203,400	(35,390)	<b>168,010</b>	0.7%	
Xeros Limited	241	–	<b>241</b>	0.2%	
<b>Alison Fielding</b>	Amaethon Limited - A Ordinary Shares	105	–	<b>105</b>	3.2%
	Amaethon Limited - B Ordinary Shares	12,049	–	<b>12,049</b>	1.0%
	Amaethon Limited - Ordinary Shares	21	–	<b>21</b>	0.3%
	Avacta Group plc	7,664,105	–	<b>7,664,105</b>	0.2%
	Capsant Neurotechnologies Limited	7,847	–	<b>7,847</b>	0.5%
	Chamelic Limited	21	–	<b>21</b>	0.3%
	Crysalin Limited	1,447	–	<b>1,447</b>	0.1%
	EmDot Limited	14	–	<b>14</b>	0.8%
	Evocutis plc	354,770	–	<b>354,770</b>	0.2%
	Green Chemicals plc	126,181	83,333	<b>209,514</b>	1.7%
	Icona Solutions Limited	1,419	–	<b>1,419</b>	<0.1%
	Ilika plc	32,800	–	<b>32,800</b>	0.1%
	Karus Therapeutics Limited	43	–	<b>43</b>	<0.1%
	Mode Diagnostics Limited	1,632	–	<b>1,632</b>	0.2%
	Modern Biosciences plc	1,057,343	–	<b>1,057,343</b>	1.9%
	Modern Water plc	199,580	–	<b>199,580</b>	0.3%
	Overlay Media Limited	28	(28)	–	–
	Oxford Advanced Surfaces Group plc	611,042	–	<b>611,042</b>	0.3%
	Oxford Catalysts Group plc	40,357	–	<b>40,357</b>	<0.1%
	Oxford Nanopore Technologies Limited	5,721	–	<b>5,721</b>	0.3%
	Oxford RF Sensors Limited	15,085	–	<b>15,085</b>	0.2%
	Oxtox Limited	16,601	–	<b>16,601</b>	0.2%
	Pharminox Limited	274	–	<b>274</b>	0.1%
	Photopharmica (Holdings) Limited <sup>1</sup>	27,350	–	<b>27,350</b>	0.7%
	Plexus Planning Limited	480	–	<b>480</b>	0.2%
	Retroscreen Virology Group plc	24,320	–	<b>24,320</b>	0.1%
	Revolymr plc	35,940	–	<b>35,940</b>	0.1%
	Structure Vision Limited	195	–	<b>195</b>	0.9%
	Surrey Nanosystems Limited	323	–	<b>323</b>	0.2%
	Sustainable Resource Solutions Limited	25	3	<b>28</b>	1.3%
	Tissue Regenix Group plc	2,279,660	–	<b>2,279,660</b>	0.3%
	Tracsis plc	197,750	(34,407)	<b>163,343</b>	0.7%
	Xeros Limited	197	–	<b>197</b>	0.2%

<sup>1</sup> Photopharmica (Holdings) Limited was restructured in 2012 and its trade and assets were transferred to Photopharmica Limited.

 Financial statements

## Notes to the consolidated financial statements continued

## 24. Related party transactions continued

## b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2012	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2012	%
<b>Mike Townsend</b>	Amaethon Limited - A Ordinary Shares	104	–	<b>104</b>	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	–	<b>11,966</b>	1.0%
	Amaethon Limited - Ordinary Shares	21	–	<b>21</b>	0.3%
	Capsant Neurotechnologies Limited	11,282	–	<b>11,282</b>	0.8%
	Chamelic Limited	23	–	<b>23</b>	0.3%
	Crysalin Limited	1,286	–	<b>1,286</b>	0.1%
	EmDot Limited	14	–	<b>14</b>	0.8%
	Green Chemicals plc	113,222	–	<b>113,222</b>	0.9%
	Icona Solutions Limited	1,515	–	<b>1,515</b>	<0.1%
	Mode Diagnostics Limited	1,756	–	<b>1,756</b>	0.2%
	Modern Biosciences plc	1,185,150	–	<b>1,185,150</b>	2.1%
	Modern Water plc	575,000	–	<b>575,000</b>	1.0%
	Overlay Media Limited	29	(29)	–	–
	Oxford Advanced Surfaces Group plc	932,994	–	<b>932,994</b>	0.5%
	Oxford Nanopore Technologies Limited	3,490	–	<b>3,490</b>	0.2%
	Oxtox Limited	25,363	–	<b>25,363</b>	0.3%
	Photopharmica (Holdings) Limited <sup>1</sup>	37,020	–	<b>37,020</b>	1.0%
	Retroscreen Virology Group plc	37,160	–	<b>37,160</b>	0.1%
	Revolmer plc	35,940	–	<b>35,940</b>	0.1%
	Structure Vision Limited	212	–	<b>212</b>	1.0%
	Surrey Nanosystems Limited	350	–	<b>350</b>	0.2%
	Sustainable Resource Solutions Limited	25	3	<b>28</b>	1.3%
	Tissue Regenix Group plc	1,950,862	–	<b>1,950,862</b>	0.3%
Tracsis plc	84,750	(14,746)	<b>70,004</b>	0.3%	
Xeros Limited	213	–	<b>213</b>	0.2%	
<b>Greg Smith</b>	Avacta Group plc	390,407	–	<b>390,407</b>	<0.1%
	Capsant Neurotechnologies Limited	895	–	<b>895</b>	0.1%
	Chamelic Limited	3	–	<b>3</b>	<0.1%
	Crysalin Limited	149	–	<b>149</b>	<0.1%
	EmDot Limited	4	–	<b>4</b>	0.2%
	Encos Limited	5,671	–	<b>5,671</b>	0.3%
	Getech Group plc	8,000	–	<b>8,000</b>	<0.1%
	Green Chemicals plc	1,500	3,330	<b>4,830</b>	<0.1%
	Icona Solutions Limited	148	–	<b>148</b>	0.1%
	Mode Diagnostics Limited	192	169	<b>361</b>	<0.1%
	Modern Biosciences plc	313,425	–	<b>313,425</b>	0.6%
	Modern Water plc	7,250	–	<b>7,250</b>	<0.1%
	Overlay Media Limited	7	(7)	–	–
	Oxford Catalysts Group plc	2,559	–	<b>2,559</b>	<0.1%
	Oxford Nanopore Technologies Limited	150	–	<b>150</b>	<0.1%
	Retroscreen Virology Group plc	61,340	–	<b>61,340</b>	0.1%
	Revolmer plc	4,500	–	<b>4,500</b>	<0.1%
	Sustainable Resource Solutions Limited	8	1	<b>9</b>	0.4%
	Surrey Nanosystems Limited	76	–	<b>76</b>	0.1%
	Tissue Regenix Group plc	175,358	–	<b>175,358</b>	<0.1%
	Xeros Limited	33	–	<b>33</b>	<0.1%

<sup>1</sup> Photopharmica (Holdings) Limited was restructured in 2012 and its trade and assets were transferred to Photopharmica Limited.



## 24. Related party transactions continued

### b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2012	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2012	%
<b>Charles Winward</b>	Amaethon Limited - A Ordinary Shares	15	–	15	0.5%
	Amaethon Limited - B Ordinary Shares	1,766	–	1,766	0.2%
	Amaethon Limited - Ordinary Shares	3	–	3	<0.1%
	Capsant Neurotechnologies Limited	2,264	–	2,264	0.2%
	Chamelic Limited	3	–	3	<0.1%
	Crysalin Limited	189	–	189	<0.1%
	EmDot Limited	5	–	5	0.3%
	Encos Limited	6,530	–	6,530	0.3%
	Icona Solutions Limited	376	–	376	0.1%
	Mode Diagnostics Limited	244	177	421	0.1%
	Modern Biosciences plc	360,914	–	360,914	0.7%
	Modern Water plc	12,400	–	12,400	0.1%
	Overlay Media Limited	8	(8)	–	–
	Oxford Advanced Surfaces Group plc	156,213	–	156,213	0.1%
	Oxford Nanopore Technologies Limited	150	–	150	<0.1%
	Oxtox Limited	3,742	–	3,742	<0.1%
	Photopharmica (Holdings) Limited <sup>1</sup>	3,590	–	3,590	0.1%
	Retroscreen Virology Group plc	66,080	–	66,080	0.2%
	Revolymr plc	4,500	–	4,500	<0.1%
	Structure Vision Limited	26	–	26	0.1%
	Sustainable Resource Solutions Limited	9	1	10	0.5%
	Surrey Nanosystems Limited	87	–	87	0.1%
	Tracsis plc	56,500	–	56,500	0.2%
Tissue Regenix Group plc	482,236	–	482,236	0.1%	
Xeros Limited	39	–	39	<0.1%	
<b>Graham Richards</b>	Getech Group plc	30,000	(30,000)	–	–
	Summit Corporation plc	662,958	–	662,958	0.1%
	Tissue Regenix Group plc	150,000	–	150,000	<0.1%
<b>Bruce Smith</b>	Capsant Neurotechnologies Limited	20,724	–	20,724	1.4%
	Evocutis plc	15,241	–	15,241	<0.1%
	Getech Group plc	15,000	–	15,000	0.1%
	iQur Limited	2,000	–	2,000	0.8%
	Nanotecture Group plc	50,000	–	50,000	0.5%
	Oxford Catalysts Group plc	10,000	–	10,000	<0.1%
	Synairgen plc	200,000	–	200,000	0.3%

<sup>1</sup> Photopharmica (Holdings) Limited was restructured in 2012 and its trade and assets were transferred to Photopharmica Limited.

Compensation to key management comprises that paid to executive and non-executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 42 to 49 and these amounts are included within the employee costs set out in note 8.

### c) Portfolio companies

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. The following amounts have been included in respect of these fees:

	2012 £m	2011 £m
<b>Statement of comprehensive income</b>		
Revenue from services	0.9	0.6
<b>Statement of financial position</b>		
Trade receivables	0.3	0.3

 Financial statements

## Notes to the consolidated financial statements continued

**24. Related party transactions** continued**d) Subsidiary companies**

Subsidiary companies that are not 100% owned either directly or indirectly by the parent company have intercompany balances with other Group companies totalling as follows:

	2012 £m	2011 £m
Intercompany balances with other Group companies	7.1	6.8

These intercompany balances represent funding loans provided by Group companies that are interest free, repayable on demand and unsecured.

**25. Capital management**

The Group's key objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of issue new shares or dispose of interests in more mature portfolio companies.

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain healthy cash and short-term deposit balances that enable it to provide capital to all portfolio companies as determined by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

**26. Capital commitments**

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton <sup>(i)</sup>	2002	5.0	3.6	1.4
King's College London <sup>(ii)</sup>	2003	5.0	1.8	3.2
University of York - CNAP <sup>(iii)</sup>	2003	0.8	0.2	0.6
University of Leeds <sup>(iv)</sup>	2005	4.2	0.4	3.8
University of Bristol <sup>(v)</sup>	2005	5.0	1.0	4.0
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	4.5
University of York <sup>(vii)</sup>	2006	5.0	0.1	4.9
Queen Mary, University of London <sup>(viii)</sup>	2006	5.0	0.7	4.3
University of Bath <sup>(viii)</sup>	2006	5.0	0.2	4.8
University of Glasgow <sup>(ix)</sup>	2006	5.0	1.1	3.9
		45.0	9.6	35.4

(i) Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies.

(ii) Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Group agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of this agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2010. Under the revised agreement, the Group has agreed to target investing the remaining commitment of £3.2m over a three-year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

(iii) In 2003 the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006 the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with York was amended during the year so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of York's proceeds from out-licensing has been removed from the agreement.

(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right with associated contractual commitment to invest up to £5.0m in University of Leeds spin-out companies. This agreement was varied in March 2011 so as to provide for a more detailed process by which the Group and the University of Leeds' commercialisation services team evaluate commercialisation opportunities and to remove the Group's entitlement to a share of out-licensing income generated by the University of Leeds except in certain specific circumstances where the Group is involved in the relevant out-licensing opportunity. Under the terms of the variation agreement, subject to quality and quantity of the investment opportunities, the Group, Techtran and the University of Leeds have agreed to target annual investments of at least £0.7m in aggregate and, subject to earlier termination or the parties otherwise agreeing alternative target, to review this target on 30 April 2017.

(v) In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.

(vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ("Surrey"), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property.

(vii) In July 2006, the Group entered into an agreement with Queen Mary, University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies.

(viii) In September 2006, the Group entered into an agreement with the University of Bath ("Bath") to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies. The agreement with Bath was amended during the year so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by Bath from the commercialisation of its intellectual property in the event the Group and its employees have not been actively involved in developing the relevant opportunity.

(ix) In October 2006, the Group entered into an agreement with the University of Glasgow ("Glasgow") to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies.

In addition, as announced on 26 February 2013, the Group has entered into a commercialisation agreement with the University of Manchester. Under the terms of the agreement, the Group will create a Proof of Principle ("PoP") funding facility for the identification and formation of new spin-out companies. The Group has agreed to make available an initial facility of up to £5m to provide capital to new proof of principle projects intended for commercialisation through spin-out companies. In return, IP Group will receive equity stakes in such spin-out companies on pre-agreed terms. IP Group has the right to invest further in these companies as they progress. In addition, IP Group will provide access to its relevant experts, business building expertise, mentoring, coaching and co-investing networks, recruitment and business support.

## Company balance sheet

As at 31 December 2012

	Note	2012 £m	2011 £m
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	25.3	25.3
Investment in associated undertakings	3	7.1	14.8
Other investments	4	0.5	0.4
Loans to subsidiary undertakings	5	123.7	123.8
<b>Total assets</b>		<b>156.6</b>	164.3
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	6	7.3	7.3
Share premium account	6	150.4	150.4
Profit and loss reserve	6	(13.9)	(6.2)
Merger reserve	6	12.8	12.8
<b>Total equity shareholders' funds and liabilities</b>		<b>156.6</b>	164.3

Registered number: 4204490

The financial statements on pages 81 to 84 were approved by the Board of Directors and authorised for issue on 4 March 2013 and were signed on its behalf by:

**Bruce Smith**  
Chairman

**Alan Aubrey**  
Chief Executive Officer

 Financial statements

## Notes to the financial statements

### 1. Accounting policies

The financial statements of the parent company have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. A summary of the more important accounting policies which have been applied consistently throughout the year are set out below.

#### Investments

Investments are stated at historic cost less any provision for impairment in value and are held for long-term investment purposes.

Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

#### Intercompany loans

All intercompany loans are initially recognised at fair value and subsequently measured at amortised cost. Where intercompany loans are intended for use on a continuing basis in the Company's activities and there is no intention of their settlement in the foreseeable future, they are presented as fixed assets.

#### Impairment

If there is an indication that an asset might be impaired, the Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows ("DCF") attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

#### Financial instruments

Currently the Company does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the Company.

### 2. Investments in subsidiary undertakings

	£m
At 1 January 2012	25.3
Additions	–
Impairment	–
Disposals	–
<b>At 31 December 2012</b>	<b>25.3</b>

Details of the Company's subsidiary undertakings at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VI Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VII Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VIII Limited <sup>1</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited <sup>1,5</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited <sup>1,6</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited <sup>3</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd <sup>1,3</sup>	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited <sup>1,3</sup>	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited <sup>1,3</sup>	Scotland	100.0	100.0	Acquisition
North East Technology (GP) Limited <sup>1,2</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited <sup>1,2</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited <sup>1,2</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited <sup>1,2</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Limited <sup>1,2</sup>	England and Wales	100.0	100.0	Acquisition

## 2. Investments in subsidiary undertakings continued

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
Modern Biosciences plc <sup>1</sup>	England and Wales	54.3	69.0	Acquisition
PIMCO 2664 Limited <sup>1,4</sup>	England and Wales	54.3	69.0	Acquisition
Modern Biosciences Nominees Limited <sup>1,2</sup>	England and Wales	54.3	69.0	Acquisition
MBS Secretarial Limited <sup>1,2</sup>	England and Wales	54.3	69.0	Acquisition
MBS Director Limited <sup>1,2</sup>	England and Wales	54.3	69.0	Acquisition
IP2IPO Nominees Limited <sup>2</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited <sup>2</sup>	England and Wales	100.0	100.0	Acquisition
LifeUK (IP2IPO) Limited <sup>2</sup>	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited <sup>2</sup>	England and Wales	100.0	100.0	Acquisition
Union Life Sciences Limited	England and Wales	80.0	80.0	Acquisition

1 Company held indirectly

2 Dormant company.

3 Company engaged in fund management activity.

4 Company engaged in in-licensing of drugable intellectual property activity.

5 Company operates a branch in Luxembourg.

6 Company limited by guarantee.

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

## 3. Investment in associated undertakings

	£m
At 1 January 2012	14.8
Additions	–
Impairment	(7.7)
Disposals	–
<b>At 31 December 2012</b>	<b>7.1</b>

The impairment during the year relates to the Company's holding in Photopharmica (Holdings) Limited, a spin-out from the University of Leeds. The company underwent a capital restructuring and limited refinancing during the period and the impairment reflects the value of the company at which the financing was carried out. The shareholding in the company was also transferred to a subsidiary of the Company during the restructuring.

At 31 December 2012 the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets £000	Profit/(loss) before tax £000	Date of financial statements
Fusion IP plc	26.0%	33,491	505	31 July 2012
Modern Water plc	20.9%	30,565	(4,543)	31 December 2011

All companies are incorporated in England and Wales.

No profit/(loss) information is presented in respect of companies that have filed abbreviated accounts.

 Financial statements

## Notes to the financial statements continued

**4. Other investments**

	£m
At 1 January 2012	0.4
Additions	0.1
Impairment	–
Disposals	–
<b>At 31 December 2012</b>	<b>0.5</b>

**5. Loans to subsidiary undertakings**

	£m
At 1 January 2012	123.8
Repayment during the year	(0.1)
<b>At 31 December 2012</b>	<b>123.7</b>

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

**6. Share capital and reserves**

	Share capital £m	Merger reserve £m	Share premium £m	Profit and loss reserve £m
At 1 January 2012	7.3	12.8	150.4	(6.2)
Profit for the year	–	–	–	(7.7)
Issue of equity	–	–	–	–
<b>At 31 December 2012</b>	<b>7.3</b>	<b>12.8</b>	<b>150.4</b>	<b>(13.9)</b>

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 74. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity on page 58.

**7. Profit and loss account**

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £7.7m (2011: £0.4m profit).

Details of auditor's remuneration are disclosed in note 6 to the consolidated financial statements.

**8. Directors' emoluments, employee information and share-based payments**

The remuneration of the directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 42 to 49. Full details of the share-based payments charge and related disclosures can be found in note 22 to the consolidated financial statements.

The Company had no employees during 2012 or 2011.

## Financial statements

# Directors, secretary and advisers to the Group

### Company registration number

4204490

### Registered office

24 Cornhill  
London  
EC3V 3ND

### Directors

**Dr Bruce Gordon Smith, CBE**

(Non-executive Chairman)

**Alan John Aubrey**

(Chief Executive Officer)

**Dr Alison Margaret Fielding**

(Chief Operating Officer)

**Michael Charles Nettleton Townend**

(Chief Investment Officer)

**Gregory Simon Smith**

(Chief Financial Officer)

**Charles Stephen Winward**

(Managing Director, Top Technology Ventures)

**Michael Humphrey**

(Senior Independent Director)

**Professor William Graham Richards, CBE**

(Non-executive Director)

**Francis Adam Wakefield Carpenter**

(Non-executive Director)

**Jonathan Brooks**

(Non-executive Director)

### Company secretary

**Angela Leach**

### Brokers

**Numis Securities**

The London Stock Exchange  
10 Paternoster Square  
London EC4M 7LT

### Registrars

**Capita IRG plc**

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Bankers

**Royal Bank of Scotland**

PO Box 333  
Silbury House  
300 Silbury Boulevard  
Milton Keynes MK9 2ZF

### Solicitors

**Pinsent Masons**

CityPoint  
One Ropemaker Street  
London EC2Y 9AH

### Independent auditor

**BDO LLP**

55 Baker Street  
London W1U 7EU



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**IP Group plc**

24 Cornhill  
London  
EC3V 3ND

T +44 (0)845 074 2929  
F +44 (0)845 074 2928

[www.ipgroupplc.com](http://www.ipgroupplc.com)