



ipgroup

# **Evolving GREAT IDEAS** into **WORLD-CHANGING BUSINESSES**

**IP Group plc**  
**Annual Report and Accounts**  
for the year ended 31 December 2016

Stock Code: IPO

# The purpose of IP Group is to evolve great ideas into world-changing businesses.

The IP Group team has spent many years developing its approach to identifying attractive intellectual property (“IP”), nurturing and building businesses around such IP and then providing capital and support along the journey from “cradle to maturity”. We are pioneering in our approach, including the concept of forming long-term partnerships with leading research universities, passionate about what we do, principled in how we work and committed to delivering results for all of our stakeholders.

We have a strong track record of success and are proud to have helped create and build some truly exciting businesses based on cutting-edge science. Since inception in 2001, the Group has generated a gross realised and unrealised internal rate of return (IRR) on its direct portfolio of approximately 19% and an annualised return on Hard NAV per share of approximately 14% since 2003, the year in which the Group was admitted to AIM. Our portfolio currently comprises holdings in 90 companies that we have helped create and build across the four sectors in which we operate.



iphealthcare



Oxford Nanopore Technologies Limited (“Oxford Nanopore”) – the world’s first and only pocket-sized nanopore DNA sequencer. Its SmidgION device, which is currently in development, will be the smallest sequencing device so far, designed to plug into a smartphone. The company has just launched the GridION X5, its new mid-sized benchtop sequencing device.

Read more on pages 24 – 27



iptech

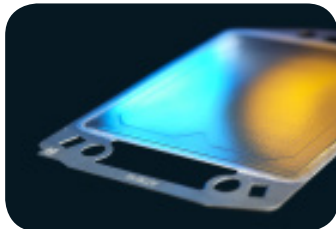


The accolades continued to roll in for our touchless haptic technology company, Ultrahaptics Holdings Ltd (“Ultrahaptics”), including “Start Up of the Year” at the British Engineering Excellence Awards. Billed as one of the top 10 companies to look out for at the CES 2017 show in Las Vegas, Ultrahaptics announced that its technology had been integrated into a new concept car being exhibited by a major tier 1 supplier into the automotive industry.

Read more on pages 28 – 29



ipcleantech



Fuel cell company Ceres Power plc made outstanding commercial progress in the year. The company now has four partners with a fifth expected by the end of 2017. Ceres also has three new evaluation agreements and a strong pipeline with a series of international prospective partners.

Read more on pages 30 – 31



ipbiotech

Diurnal Group plc has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency, respectively. Excellent progress was made during 2016 and regulatory approval of Infacort and potential first sales are expected in 2017.



Read more on pages 32 – 33

# Highlights

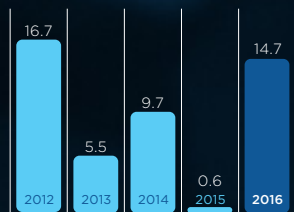
## Hard NAV (£m)

**£706.5m**  
(2015: £714.3m)



## Proceeds from sales of equity investments (£m)

**£14.7m**  
(2015: £0.6m)



## Portfolio highlights

- Overall net increase in fair value of portfolio, excluding net investment, of £6.5m (2015: £86.2m)
- Strong second half portfolio fair value increase of £31.4m follows £24.9m reduction in first half
- Fair value of portfolio: £614.0m (2015: £552.2m)
- Capital provided to portfolio companies and projects: £69.7m (2015: £115.9m)
- Portfolio cash realisations: £14.7m (2015: £0.6m)
- Group's portfolio companies raised approximately £230m of new capital during the year
- Oxford Nanopore completed £100m private financing
- Diurnal reports positive headline data from European Infacort® Phase III pivotal study

## Financial and operational highlights

- Net assets £768.7m (2015: £781.9m)
- Hard NAV £706.5m (2015: £714.3m)
- Return on Hard NAV of negative £7.6m (2015: positive £84.0m)
- Loss for the year £14.8m (2015: profit £75.1m)
- Gross cash and deposits £112.3m (2015: £178.8m)
- Acquisition of Parkwalk Advisors Ltd, the UK's largest EIS growth fund manager focused on university spin-outs

**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. Further details can be found in the Risk management section on pages 38 to 45.

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

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#### Company information

IBC

# Group at a Glance

## IP GROUP'S PORTFOLIO

**£614.0m**

Fair Value

**90**

Companies in total

Of which: Top ten<sup>1</sup> worth

**£418.2m**

**£473.3m**

Focus

= **19** companies

**£57.0m**

Development

= **32** companies

**£20.3m**

Early-Stage

= **39** companies

**£62.5m**

multi-sector platform

= **3** companies

Largest:

Oxford Nanopore

**£246.3m**

**>£230m**

Total funds raised by portfolio companies in 2016

## Portfolio overview

### Sectors

#### Healthcare



Read more on pages 24-27

**£328.0m (60%)**

#### Technology



Read more on pages 28-29

**£93.6m (17%)**

#### Cleantech



Read more on pages 30-31

**£76.9m (14%)**

#### Biotech



Read more on pages 32-33

**£52.1m (9%)**

Multi-sector platform businesses



**£62.5m**

*de minimis* holdings

£0.9m

**TOTAL**

**£614.0m**

2016 net fair value change <sup>ii</sup>	Focus	Stage	Development	Early stage
£27.0 m	 6	 9	 12	<b>UK Partners</b>
£(0.1)m	 6	 11	 14	<ul style="list-style-type: none"> <li>University of Bath</li> <li>University of Bristol</li> <li>University of Cardiff</li> <li>University of Glasgow</li> <li>University of Leeds</li> <li>King's College London</li> <li>Queen Mary, University of London</li> <li>University of Manchester</li> <li>University of Nottingham</li> <li>University of Sheffield</li> <li>University of Southampton</li> <li>University of Surrey</li> <li>Swansea University</li> <li>University of York</li> </ul>
£(5.8)m	 5	 6	 9	<b>UK Platform Access</b>
£(20.4)m	 2	 6	 4	<ul style="list-style-type: none"> <li>University of Oxford<sup>iii</sup></li> <li>University of Cambridge<sup>iv</sup></li> </ul>
£6.7m				<b>US agreements</b>
£7.4m	19	32	39	<ul style="list-style-type: none"> <li>Columbia University</li> <li>University of Pennsylvania</li> <li>Princeton University</li> <li>University of Washington</li> </ul>

KEY  UK  USA

**Notes**

- i. Excluding the £40.0m holding in Oxford Sciences Innovation plc which is classified in multiple sectors
- ii. Unrealised increase/(decrease) in value excluding investments and divestments in the period, including fees settled in equity £0.4m



# Create

To build and maintain a pipeline  
of compelling intellectual property-  
based opportunities

### Our Business & Strategy

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### Our Performance

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## Creavo Medical Technologies

A new cardiac scanning device that could save the NHS £200m a year is being trialled at four of the UK's largest emergency departments (Bristol, Nottingham, Leicester and Sheffield).



# Chairman's summary



“2016 was another extremely productive year for the group”

Mike Humphrey Chairman

IP Group enjoyed an extremely productive year in 2016. The first half of the year saw major commercial developments in our key assets across all four of the sectors in which we operate and we recorded successful exits from three companies. That strong operational performance continued in the second half of the year which also saw significant fundraisings from three of our largest portfolio companies as well as a corporate acquisition. These achievements took place against a backdrop of general uncertainty following the outcomes of both the UK's referendum on its membership of the EU and the US presidential election.

Since the publication of our half-year report, it has been pleasing to see the UK Government, and other governments around the world, acknowledge the continued importance of supporting scientific innovation. IP Group was founded on the belief that modern economies need to not only support fundamental scientific research but also to commercially leverage this innovation through the creation of significant businesses that contribute to employment and economic growth. As such, in today's increasingly dynamic world, the fundamental driver of our business – the need for the commercialisation of science – remains as strong as ever.

As we begin 2017, it is worth noting that the Group remains well-capitalised with a strong balance sheet and that our portfolio is well diversified with a broad range of early to mature businesses across four sectors. Geographically, we also have a burgeoning operation in the US and a healthy pipeline of new opportunities. I would like to stress that our most valuable portfolio company holdings are making excellent commercial progress. We are fortunate to be able to call on an extremely experienced management team who have weathered a number of business cycles. All of these factors combine to ensure that the Group remains well positioned for the future.

## HIGHLIGHTS

Portfolio companies raise  
c.£230m of new capital in 2016

Sale of entire holding in Tracsis  
plc for £13.1m

Acquisition of  
Parkwalk Advisors Ltd

## Key events

Of the many highlights in 2016, I would like to draw your attention to both exits and fundraisings. On the former, the Group recorded the second largest cash exit in its history with the sale of its entire holding in Tracsis plc in March 2016. The Group was a founder shareholder in Tracsis, which was spun out of the University of Leeds in 2004 and, following eight successful acquisitions, is now a profitable business with turnover in excess of £30m, employing more than 600 people. The sale resulted in net cash proceeds of £13.1m, bringing total proceeds from Tracsis to date to £14.3m and representing a multiple of approximately 38 times the Group's investment of £0.4m.

On the point of fundraisings, it is noteworthy that our portfolio companies raised over £230m of new capital this year with almost £200m of that falling into the second half of the year, a remarkable achievement given the prevailing economic climate. Our most valuable spin-out company, Oxford Nanopore, raised £100m. Other significant fund raisings including AIM-quoted Ceres Power's £20m placing.





## Acquisition

In December, the Group announced that it had agreed to acquire Parkwalk Advisors Ltd, the UK's leading university spin-out focused EIS fund manager, for an initial consideration of £10m (up to a maximum of £20m over three years, subject to the achievement of certain business performance targets). Parkwalk has been a long-term co-investment partner of IP Group, having co-invested over £17m in 14 investment rounds during 2015/2016 alone. The primary reason for the Group's acquisition of Parkwalk was to further secure access to this increasingly important source of financing for early-stage technology companies and we believe Parkwalk's strong links to leading institutional wealth managers and university partners will be beneficial to the Group. In addition, it is a profitable business and is immediately accretive to IP Group's operating results. The acquisition completed on 31 January 2017 and I'm delighted to welcome the Parkwalk team to the Group.

## Financial performance

In terms of financial performance, the Group's objective is to generate long-term value for its stakeholders and the Group's portfolio has delivered strong growth to date. Since inception in 2001, the Group has generated a gross realised and unrealised internal rate of return (IRR) on its portfolio of approximately 19% and an annualised return on Hard NAV per share of approximately 14% since the end of 2003, the year in which the Group was admitted to AIM. However, it remains important to consider that portfolio company valuations and therefore results can fluctuate from year to year and this was the case in 2016. The Group's net assets excluding goodwill and intangibles ("Hard NAV") were broadly unchanged at £706.5m (2015: £714.3m) with the fair value of the portfolio increasing to £614.0m (2015: £552.2m) although the Group recorded an overall loss for the year of £14.8m (2015: profit of £75.1m). The Group ended the year with gross cash of £112.3m (2015: £178.8m).

## Summary

In summary, 2016 was another extremely productive year for the Group despite challenging circumstances of external uncertainty, particularly in the second half of the year. As ever, we are grateful for the continued hard work and commitment from our staff, academic partners and portfolio companies. I would also like to extend the Board's thanks to all of our stakeholders for their continued support. IP Group remains as excited as ever about evolving great ideas into world-changing businesses and we look forward to further developing the Group, its partnerships and its spin-out companies in 2017 and beyond.

**Mike Humphrey**  
Chairman

# Market

## The purpose of IP Group is to evolve great ideas into world-changing businesses.

The Directors consider that the Group is operating and competing in two major areas. Firstly, the Group competes for access to great ideas with significant commercial potential. The Group primarily sources these ideas from world-leading academic research institutions, frequently those with which it has a long-term partnership arrangement. Secondly, the Group competes for risk capital to develop these great ideas into viable businesses against other investment opportunities. While the market for capital is very broad and deep, the Group's companies are typically seeking earlier-stage and development risk capital.

### Economic backdrop

The overall economic backdrop has a significant bearing on the Group's ability to pursue its strategic objectives. In the shorter term, financial market volatility and investor risk appetite impacts the Group's ability to access capital for the development of its spin-out companies, could affect the likelihood of achieving exits and impacts the periodic valuations of its holdings in portfolio companies. Over the longer-term, government spending on fundamental R&D and indeed policy support towards the commercialisation of generated IP are key areas affecting the Group's business model.

In this context, it is worth noting that these are, of course, very uncertain times both economically and politically, particularly following events such as the UK's vote in favour of leaving the European Union and the outcome of the US presidential election. From an economic perspective, last year, for example, the International Monetary Fund predicted global growth would slow to 3.1% in 2016 before recovering to 3.4% in 2017. The forecast had been revised down by 0.1 percentage point for 2016 and 2017. More recently, however, the World Bank predicted a moderate improvement in global economic growth in 2017.

Its Global Economic Prospects report is forecasting 2.7% growth compared with the 2.3% seen last year. Nonetheless, it also flagged heightened uncertainty after the US Presidential election in particular. These factors may have an impact on the Group this year.

### Accessing great ideas/quality research

There are considered to be a number of common challenges facing the developed and developing world today, including issues such as ageing population, climate change, resource scarcity, energy availability and storage, rapid urbanisation, health challenges and increasing digitisation. The Group believes that overcoming many of these intractable problems will require one or more scientific solutions. Further, historically, many such scientific solutions have come from fundamental R&D carried out in the world's leading research universities and institutions, a trend that we do not see materially changing in the near term. As a result, IP Group partners with leading research institutions in countries where leading research is produced. The Group's two current areas of geographic focus are the UK and the US, which lead the world in the production of top rated science, with its core activities continuing to remain in the UK. The Group does, of course, continually assess potential opportunities in other territories that satisfy its criteria including long-term partnerships with leading research institutions and good access to both capital and entrepreneurial talent.

## Global research landscape

From a global perspective, the US remains the world's largest R&D performer with nearly \$433bn of domestic R&D expenditures in 2013 according to the G20 Innovation Report 2016. This exceeded by about one-quarter the amount of R&D performed in the People's Republic of China, the second-largest performer, which is broadly on par with the combined EU28 area. Among the G20, South Korea has the highest ratio of R&D expenditures to gross domestic product owing to rapid increases in recent years.

Yet there are concerns that a decline in government funding of science and technology research in some countries could pose a threat to innovation. The OECD Science, Technology and Innovation Outlook 2016, published in December, noted expenditure on R&D by universities and public research institutes in OECD countries began flattening out in 2010 following three decades of growth as other policy priorities, such as state pensions, health and social care, absorbed a growing share of public resources. It indicated that public spending on R&D may plateau at current levels or decline even further as a result of continued pressure on public finances in many countries and sluggish economic growth.

## UK landscape

In the UK, where IP Group is predominantly based and where it has partnerships with 14 leading UK universities and access to innovation from both Oxford and Cambridge, the Government has announced a package of measures designed to support innovation and drive economic growth.

A stimulus package that will see an extra £4.7bn flowing into science and innovation over the next four years was unveiled last Autumn on the back of the outcome of the UK's referendum on its membership of the EU and the expectation of lower growth.

The Office for Budget Responsibility forecast then that GDP growth will slow to 1.4% in 2017 before recovering to 1.7% in 2018, 2.1% in both 2019 and 2020, and 2% in 2021.

Stressing that research and development is a key driver of economic growth and a vital part of the Government's 'Industrial Strategy', the UK Government also announced that it would review the tax environment for R&D to ensure the system is strongly pro-innovation to make the UK an even more competitive place to carry out R&D. Funding of £100m has also been earmarked to incentivise university collaboration in tech transfer and in working with business.

The UK Government also began a review of long term investment into British firms. The 'Patient Capital' review, led by the Treasury, will look at how to remove the obstacles to getting long term investment into innovative firms. It has also pledged to invest £400m into venture capital funds via the British Business Bank, aimed at enabling small companies to scale up and ward off foreign purchases of promising companies.

## Competitive landscape

The number of companies and organisations seeking to commercialise intellectual property, and/or provide capital to spin-out companies from universities and research intensive institutions in the UK has increased in recent years. Further, the Group continues to face the risk of competition in new geographies in which it seeks to operate, for example as a result of its recent expansion into the US.

When approaching new opportunities, potential funders including the Group will often act in a collaborative manner through syndication of investment. However, there are also occasions when IP Group may need to participate in a competitive process to obtain an interest in a particular technology.

The Group and its portfolio companies regularly compete with a range of technology, and other, businesses when seeking capital for the development of their business models. The competition for capital, and for opportunities on occasion, can come from a wide variety of entities, including:

- specialist traditional venture capital investors;
- large private institutional investors;
- privately managed schemes based on government funding;
- private individuals, both acting individually or collectively as groups such as business angel networks, crowdfunding platforms or through beneficial tax mechanisms such as SEIS, EIS and VCTs;
- direct public funding, for example the EU level JEREMIE fund and other national and local schemes; and
- universities and research intensive institutions seeking to raise private sector funding themselves to support their in-house technology commercialisation activities.

IP Group's approach to building businesses is one of the ways in which it differentiates itself from more traditional venture funds. The Group actively supports the development of its portfolio companies through access to early-stage business-building expertise, interim executive support, technical and commercial networks and senior team recruitment and development in addition to the provision of capital.

In addition, the Group provides operational, legal, business and company secretarial support to its companies, with a view to minimising the most common administrative factors that can contribute to early-stage company failure. The Group has also successfully carried out a number of instances of two innovative programmes to accelerate company growth, working with CEOs and company boards to improve performance.

It is also worth noting that IP Group announced the acquisition of Parkwalk Advisors Ltd, the UK's leading university spin-out focused EIS fund manager, in December 2016. The Group considers EIS funds to be an increasingly important source of financing for early-stage technology companies and believes Parkwalk's strong links to leading institutional wealth managers and university partners will be beneficial to the Group.

These factors have helped us create a solid track record. Since inception in 2001, the Group has generated a gross realised and unrealised internal rate of return (IRR) on its portfolio of approximately 19% and an annualised return on Hard NAV per share of approximately 14% since 2003, the year in which the Group was admitted to AIM.



## IP GROUP'S COMPETITIVE ADVANTAGE

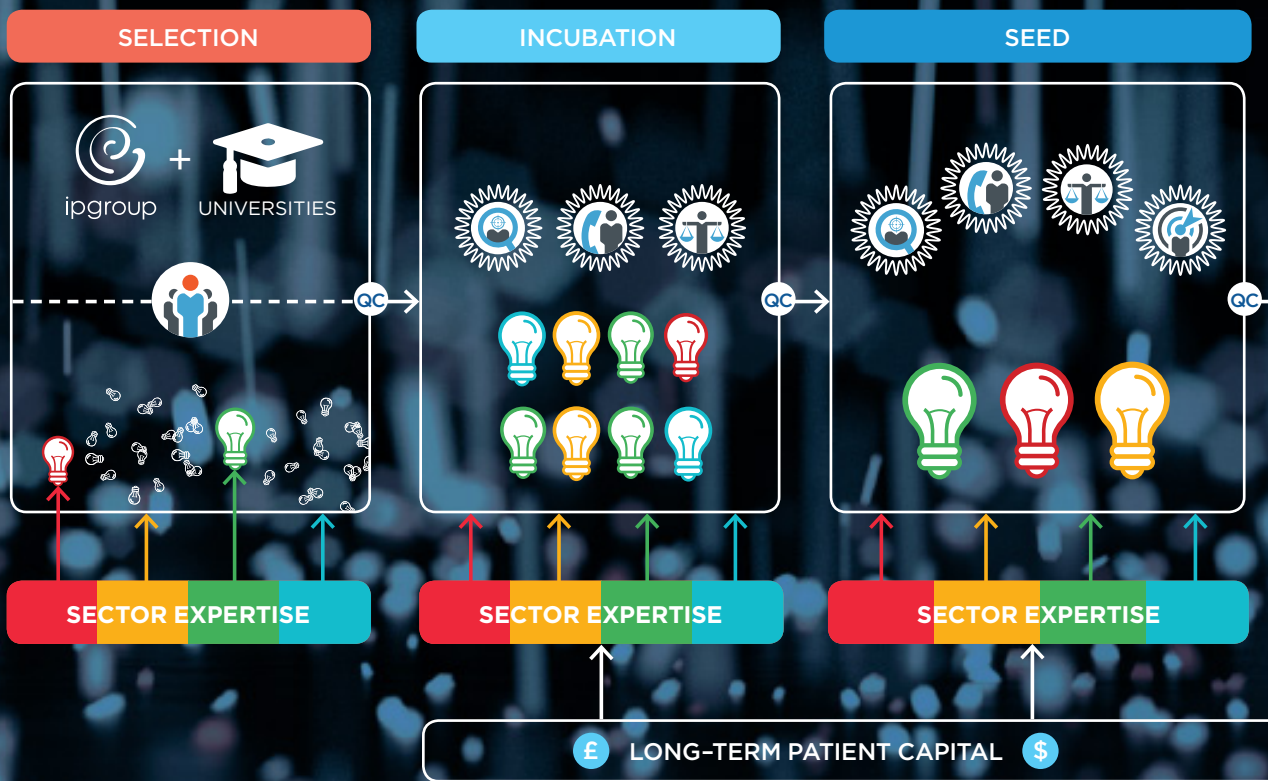
### IP GROUP'S KEY DIFFERENTIATORS

- Strength of partnerships with leading research institutions, giving access to potentially disruptive IP
- Technology transfer capability to identify disruptive IP and to enable its transfer from research lab to commercial entity
- Business-building expertise, including executive search, administrative support, capital sourcing and innovative portfolio board and CEO programmes
- “Patient capital” approach, enabling the provision of funding from ‘cradle to maturity’ unconstrained by artificiality of fixed life funds
- Strong track record built over 15+ years

# Business model

## Evolving great ideas into world-changing businesses.

The Group pioneered the concept of the long-term partnership model with UK universities and has spent many years honing a unique approach to building businesses and providing support along the journey from “cradle to maturity”.



Our sector experts take a hands-on role in business-building, working closely with founders to shape strategic direction and frequently taking an interim commercial management role.

### ippartners

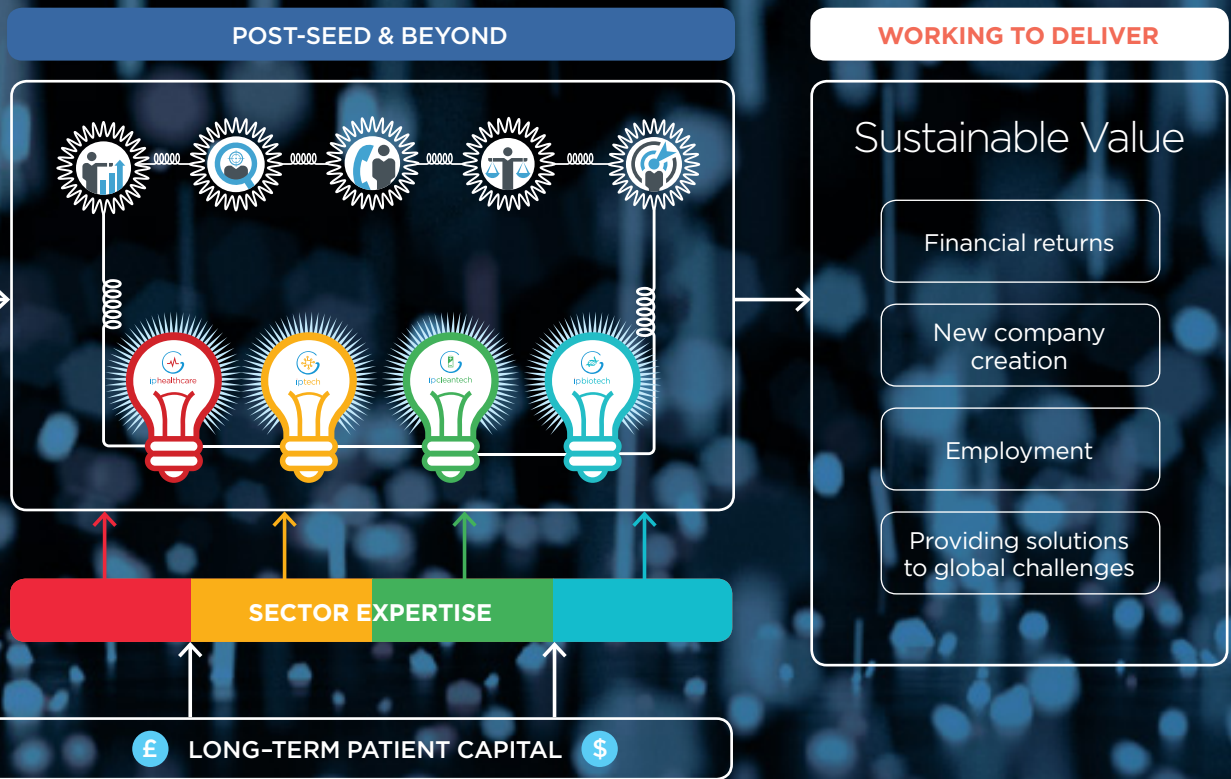
The team is the primary interface between the Group and the universities and focuses on ‘mining’ and evaluating very early-stage opportunities and then developing and shaping them into businesses.

### ipexec

Our specialist early-stage in-house executive search team recruits experienced and high calibre individuals to lead our businesses alongside founders and IP Group team members.



We systematically help create, build and support outstanding intellectual property-based companies in order to provide attractive returns for all our stakeholders.



### ipassist

We provide operational, legal and business support, including company secretarial, to our portfolio companies with a view to minimising the most common administrative factors that can contribute to early stage company failure.



### iplegal

### ipcapital

Our specialist fund management and corporate advisory business seeks to create value for the Group's portfolio companies primarily by supporting their access to capital as well as providing advice on corporate finance matters including M&A.



### ipimpact

IP Impact has created two innovative programmes to accelerate company growth, working with CEOs and company boards to improve performance.



# Our strategy

## Systematically building businesses

### OUR STRATEGIC AIMS



To **create** and maintain a pipeline of compelling intellectual property-based opportunities



To **develop** and support these opportunities into a diversified portfolio of robust businesses



To **deliver** attractive financial returns on our assets and third party funds

### WHAT WE DID IN 2016 TO ADDRESS OUR OBJECTIVES

- Provided capital for the first time to 20 companies or projects (2015: 14)
  - New US pilot agreements with the University of Washington and The Johns Hopkins University
  - Created new spin-out companies with Oxford Sciences Innovation and Cambridge Innovation Capital, demonstrating the value of these strategic holdings
  - First full year of operation for New Business & Partnerships team focused on developing and expanding interaction with UK University partners
- 
- Maintained board representation on approximately 80% of companies by number
  - IP Exec team placed 19 senior executives with portfolio companies, of which four were chair appointments and two were non-executive director appointments
  - IP Capital completed five successful portfolio company financing engagements
  - Completed the first significant follow on funding round in US portfolio
  - Continued to provide other support services including business support and legal advice to 38 spin-out companies
  - Portfolio fair value increased to £614.0m, a net fair value gain of £6.5m
  - Portfolio excluding *de minimis* holdings of 90 companies (79 UK, 11 US)
- 
- Increased the net fair value of our portfolio holdings, excluding net investment, by £6.5m
  - Provided £69.7m of capital to 55 distinct portfolio companies and two multi-sector investments
  - Generated proceeds from sale of equity and debt of £14.7m
  - Portfolio now stands at 90 companies and three multi-sector investments with a combined total value of approximately £3.3bn
  - Total funds under management of approximately £80.3m



## OBJECTIVES FOR 2017


- Increase the number of new opportunities evaluated and created in the US, whilst maintaining a similar level of new opportunities in the UK
- Maintain existing US and UK partnerships. Continue to explore potential partnerships with further world-class universities on a case by case basis

- Increase value of portfolio company holdings through hands-on support and development
- Replicate our successful UK support model in the US through the provision of local business support, IP Exec and IP Capital offerings
- Seek to maintain approach of direct IP Group representation on spin-out company boards
- Maintain the number of executive search mandates within IP Exec and assist portfolio companies to increase diversity of boards
- Complete capital raising mandates for certain portfolio companies requiring finance from non-Group sources
- Continue to provide specialist support services such as IP Exec, IP Impact, IP Assist and corporate finance advice


- Seek to continue net long-term increase in portfolio value and net assets
- Complete the acquisition of Parkwalk Advisors
- Assist, directly or indirectly, portfolio companies to access public and private markets to raise development capital
- Where appropriate, generate cash realisations from portfolio
- Generate attractive performance in Group's managed funds

## LINK TO KPIS


- Number of new portfolio companies

 [Read more on pages 16 and 17](#)

- Purchase of equity and debt investments
- Change in fair value of equity and debt investments

 [Read more on pages 16 and 17](#)

- Total equity
- Profit/(loss) attributable to equity holders
- Proceeds from sale of equity investments
- Change in fair value of equity and debt investments

 [Read more on pages 16 and 17](#)

# Key performance indicators

## Measuring our performance: focusing on delivery against our strategy


FINANCIAL KPIS	FURTHER DESCRIPTION	2016 PERFORMANCE
Total equity (“net assets”)	The value of the Group’s assets less the value of its liabilities, including minority interest	<b>£768.7m</b> (2015: £781.9m)
Profit/loss attributable to equity holders	Profit/loss after tax for the year, attributable to owners of the parent	<b>£(13.5)m</b> (2015: £73.9m)
Purchase of equity and debt investments	The total level of capital deployed from the Group’s balance sheet into portfolio companies during the year	<b>£69.7m</b> (2015: £115.9m)
Net change in fair value of equity and debt investments	Movement in the value of holdings in the portfolio due to share price movements or impairments in value and realisations	<b>£6.5m</b> (2015: £86.2m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	<b>£14.7m</b> (2015: £0.6m)
NON-FINANCIAL KPIS		
Number of new portfolio companies	The number of portfolio companies that received initial capital from the Group during the year	<b>20</b> (2015: 14)


### KEY


- 1 Access to capital
- 2 Early-stage company returns
- 3 University partnerships
- 4 Personnel
- 5 Macroeconomic conditions
- 6 Legislation and regulation



STRATEGIC ELEMENT	RISKS POTENTIALLY IMPACTING KPI	LINK TO PERFORMANCE-RELATED DIRECTOR REMUNERATION
To grow the value of our assets (and those we manage on behalf of third parties) and deliver attractive financial returns from these assets	1 2 5 6	LTIP 2013 - 2015 2015 annual incentive
Portfolio fair value movement has the most material impact on this figure which also reflects corporate expenses. Measures the development of portfolio companies and return on our assets	1 2 5 6	2015 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	2 3 4 6	Indirectly impacts both net assets and Group profit/loss (See above)
To develop IP-based businesses and grow their value	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Cash from proceeds can be used for redeployment into the portfolio or for new opportunities	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	3 4 5 6	Indirectly impacts both net assets and Group profit/loss (See above)

 For more information on our strategy see pages 14 and 15

 For more information on our risk management see pages 38 to 45

 For more information on our remuneration see pages 69 to 87

# Operational review



“ The strength of IP Group’s portfolio, combined with the opportunities we continue to see, give us confidence for 2017 and beyond ”

Alan Aubrey Chief Executive Officer

2016 was another productive year for the Group that saw our portfolio companies record impressive commercial progress but also raise a total of approximately £230m (2015: approximately £300m). In addition, Oxford Sciences Innovation plc (“OSI”) and Cambridge Innovation Capital plc (“CIC”), the dedicated university commercialisation vehicles in which the Group has a strategic holding, completed significant capital raises of £230m and £75m respectively.

The total fair value of the Group’s portfolio, which now comprises holdings in 90 companies, increased by 11.3% in 2016 to £614.0m (2015: £552.2m), representing a net fair value increase, excluding net investment, of £6.5m (2015: £86.2m). This increase was driven primarily by a number of larger private company transactions towards the end of 2016, which were partially offset by reductions in the share prices of a number of our quoted portfolio companies. The latter were impacted by a generally weaker appetite for listed small-cap and biotech assets despite generally reporting positive commercial and technical progress during the year.

The key positive contributors to the increase in fair value in 2016 were Oxford Nanopore Technologies Limited (£33.8m), OSI (£8.0m), Tissue Regenix Group plc (£5.2m) and Mirriad Advertising Limited (£4.9m).

The most significant fair value reductions were seen in the Group’s AIM-quoted portfolio companies including Diurnal Group plc (£10.3m), Avacta Group plc (£9.9m), hVivo plc (£7.2m) and Xeros Technology Group plc (£3.2m). In addition, six private companies each saw fair value reductions of £1-2m as a result of financing rounds, anticipated financing rounds or progress towards milestones that was not in line with the Group’s expectations, totalling £7.9m.

During 2016, the Group provided £58.8m of incubation, seed and development capital to 55 portfolio companies (2015: £75.9m capital; 53 companies) as well participating in significant financings for its strategic holdings OSI (£7.5m) and CIC (£3.4m).

Cash realisations from the portfolio increased significantly during 2016 to £14.7m (2015: £0.6m) largely as a result of the second largest exit in the Group’s history with the sale of our entire holding in Tracsis plc.

## Significant portfolio company transactions and developments

Notable highlights in the portfolio in 2016 included:

In Healthcare, Oxford Nanopore Technologies Limited announced a £100m fundraising in December, led by new investor GT Healthcare, a pan-Asian fund with special reach in China. Nanopore, which has designed and sells the world’s only portable DNA/ RNA sequencer, plans to use the funds to expand its commercial operations across a range of territories, including in Asia. It also announced a number of key developments including announcing a new pipeline product, SmidgION, the smallest ever sequencing device that can be plugged into a smartphone and is expected in 2017.

In Technology, we exited Tracsis plc, as noted above, while the division’s most valuable company holding, Actual Experience plc, announced a five-year framework agreement with Vodafone, adding to the contract wins announced during 2015 which included a major three-year partnership with Verizon.

In Cleantech, Ceres Power Holdings plc completed a £20m fundraising and secured development agreements with a number of leading OEMs including Honda, Nissan and Cummins.



In Biotech, there was excellent commercial progress from Diurnal Group plc which now has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency, respectively. Modern Biosciences plc, a drug discovery and development operation, continued to make good progress during 2016 and expects the outcome of ongoing Phase 1a studies for MBS2320, a novel agent for the treatment of rheumatoid arthritis, during 2017.

More detail on the performance of the assets in our four sectors, Healthcare, Technology, Cleantech and Biotech, is contained in the portfolio review.

## The US

In the US, the Group signed agreements with the University of Washington and The Johns Hopkins University. Both universities have consistently ranked in the top ten of all US universities with regards to the quantum of their annual R&D budgets (2016: \$1.1bn and \$2.1bn, respectively) and are known for the quality and breadth of their technical output. Having now moved beyond the initial pilot phase agreements with our existing university partners, Columbia University, University of Pennsylvania and Princeton University, the Group continues to focus on building on the progress achieved with them to date.

Our US team, which comprised eleven FTEs at the end of 2016, continues to develop an exciting portfolio of companies. IP Group's first two portfolio companies from US university partners, Exyn Technologies (University of Pennsylvania) and Uniformity Labs (Princeton University), raised a combined £5.4m<sup>3</sup> (\$6.8m) in new post seed financing rounds via private placement of ordinary shares. The Uniformity Labs transaction completed at the end of 2016 while the Exyn transaction closed in early 2017. Following completion of the financing rounds, IP Group's combined undiluted beneficial holdings in Exyn Technologies and Uniformity Labs were valued

at £7.9m (\$9.9m). The Group committed a further £2.9m (\$3.7m) to Exyn Technologies and Uniformity Labs as part of these funding rounds which included both new and existing US and UK based investors.

During the year, notable incubation financings were also completed for two spin-out companies from the University of Pennsylvania, two spin-out companies from Princeton University and one spin-out company from Columbia University. The Group has also provided further incubation funding to pursue additional opportunities from our Federal Lab initiative through FedImpact LLC, including the spin-out of MobilION Systems, Inc. from the Pacific Northwest National Laboratory.

## Outlook

The Board continues to believe the fundamentals of the business remain strong although, as ever, it is important to consider the Group as a long-term business where results can fluctuate from year to year. The strength of IP Group's portfolio, however, combined with the opportunities we continue to see, give us continued confidence for the current year and beyond.

3. Calculated using an exchange rate of £1 to \$1.26

# Portfolio review

## Our portfolio: Continuing to develop and mature

### Overview

At 31 December 2016 the value of the Group's portfolio had increased to £614.0m, from £552.2m in 2015, reflecting a net investment of £55.0m and the fair value movements set out below. The portfolio consists of interests in 90 companies (79 UK and 11 US), strategic holdings in three multi-sector platform businesses as well as a further 20 *de minimis* holdings (2015: 82,3,15). Of these 90 holdings, the ten most valuable portfolio companies account for 76% of the total value (2015: 75%).

During the year to 31 December 2016, the Group provided pre-seed, seed and post-seed capital totalling approximately £69.7m to its portfolio companies, including investments in two of its multi-sector platform holdings Oxford Sciences Innovation plc (£7.5m) as part of its recent £230m financing and Cambridge Innovations Capital plc (£3.4m) as part of its £75m financing round. Excluding multi-sector platform investments, this £58.8m represents a 23% decrease on the equivalent £75.9m provided to portfolio companies in 2015 and results from fewer of the Group's largest holdings seeking finance in 2016. The Directors continue to believe that the Group's ability to utilise its capital to maintain its equity interests in its most promising companies will contribute to significant potential fair value increases in the portfolio over the medium to long term.

In contrast to the decreased level of capital deployed into portfolio company opportunities, the Group increased the rate of new spin-out opportunity formation. The Group deployed capital for the first time into 20 companies or projects during the year (2015: 14). With 13 of the opportunities being sourced from the UK (2015: 10), and seven from the US (2015: four), both geographies demonstrated a consistent pipeline of opportunities. Three companies were sold during the period (2015: four), while a further four companies, with a total historic cost of £4.8m, were closed or fully provided against.

During the year, cash proceeds from the realisation of investments increased to £14.7m (2015: £0.6m). The proceeds were primarily driven by the disposal of interests in Tracsis plc, Gold Standard Simulations Limited and Summit Therapeutics plc, as well as deferred consideration from the 2014 disposal of Rock Deformation Research Limited, whilst prior year realisations predominantly arose from the cash received on the wind-up of CH4e Limited.

### Performance summary

A summary of the Income Statement gains and losses which are directly attributable to the portfolio is as follows:

	2016 £m	2015 £m
Unrealised gains on the revaluation of investments	56.6	115.3
Unrealised losses on the revaluation of investments	(50.3)	(29.0)
Effects of movement in exchange rates	0.7	0.1
<b>Change in fair value of equity and debt investments</b>	<b>7.0</b>	86.4
Loss on disposals of equity investments	(0.5)	(0.2)
<b>Net portfolio gains</b>	<b>6.5</b>	86.2

The most significant contributors to unrealised gains on the revaluation of investments comprised Oxford Nanopore Technologies Limited (£33.8m), Oxford Sciences Innovation Plc (£8.0m), Tissue Regenix plc (£5.2m), and Mirriad Advertising Limited (£4.9m). The major contributors to the unrealised losses on the revaluation of investments were Diurnal Group plc (£10.3m), Avacta Group plc (£9.9m), and hVivo plc (£7.2m).

The performance of the Group's holdings in companies quoted on AIM saw a net unrealised fair value decrease of £36.1m while the Group's holdings in unquoted companies experienced a net fair value increase of £43.1m. Excluding the net amount invested during the year, the Group's listed portfolio decreased in fair value by 18.0%, versus an increase in the FTSE AIM All Share index of 14.3%.

Since the year end, i.e. between 31 December 2016 and 3 March 2017, the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value increase of £9.9m.

## Investments and realisations

The Group's overall rate of capital deployment decreased during 2016, with a total of £58.8m being deployed across 55 new and existing projects (2015: £75.9m; 53 projects), excluding the £7.5m and £3.4m strategic investments into OSI and CIC (2015: £40.0m; Enil).

The average level of capital deployed per company decreased from £2.1m to £1.2m in 2016. Excluding the Group's participation in Oxford Nanopore Technologies Limited's 2015 and 2016 financing rounds, as well as the Group's participation in the Oxford Sciences Innovation plc's 2015 and 2016 financing rounds, the average investment per company was £0.7m in 2016 (2015: £1.2m).

Cash invested by company stage was as follows:

	2016 £m	2015 £m
Focus	39.0	60.0
Development	10.8	10.7
Early stage	9.0	5.2
<b>Total</b>	<b>58.8</b>	75.9
Multi-sector platforms	10.9	40.0
<b>Total purchase of equity and debt investments</b>	<b>69.7</b>	115.9
<b>Cash proceeds from sales of equity investments</b>	<b>14.7</b>	0.6
<b>Net investment</b>	<b>55.0</b>	115.3

Early-stage companies include both incubation and seed opportunities. Incubation opportunities comprise businesses or pre-incorporation projects that are generally at a very early stage of development, at most within three years since

the Group's first financing, and have received at least one stage of funding. Opportunities at this stage usually involve capital of less than £0.2m from IP Group, predominantly allowing for proof of concept work to be carried out. Seed businesses are those that have typically received financing of up to £1m in total, primarily from the Group, in order to continue towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement.

Portfolio companies which are classed as being in the Focus stage are those portfolio companies (excluding multi-sector platform companies) in which the Group's holding has a fair value in excess of £4.0m.

The Development stage group includes other businesses to which the Group has provided in excess of £0.5m as principal investor, or in excess of £1.0m of funding in conjunction with other significant investors. Although each business can vary significantly in its rate and manner of development, such additional funding is generally used to progress towards key milestones and commercial validation, to build senior level capability in the business and to attract experienced non-executive directors to their boards.

The multi-sector platform companies in which the Group has taken a strategic stake operate a similar business model of sourcing and developing university spin-outs, typically from a single institution.

Those companies which either do not progress beyond the incubation stage within three years of the Group's initial funding and/or whose value has subsequently fallen to below £0.1m but remain as an operating business are classed as *de minimis* holdings.

The Group has continued to contribute to the development of its post-seed businesses with a number announcing further financings supported by the Group and/or IP Venture Fund ("IPVF"), the dedicated follow-on venture capital fund managed by the Group. With IPVF approaching the end of

## Portfolio review CONTINUED

its term, the amount the fund invested into existing Group portfolio businesses during the year was £0.2m (2015: £nil).

Since its inception in May 2013, IP Venture Fund II (“IPVFII”), the £30m venture capital successor fund to IP Venture Fund, has invested alongside the Group in 27 companies spun-out from IP Group’s university partnerships and other collaborations. At 31 December 2016, IPVFII had invested £10.6m into spin-out companies from incubation stage through seed and post-seed stage (2015: £8.2m), with an investment ratio of 30:70 (IP Venture Fund II: IP Group). Further, IP Group holds a 33% interest in IP Venture Fund II. In complying with IFRS 10, the Group consolidates the assets, liabilities and results of IPVFII. In order to reflect meaningful information to its shareholders, the detailed sectoral analysis tables included in this Portfolio review reflect the Group’s economic interest in portfolio company holdings, including an estimate of its “look through” interest via IPVFII, which as noted above is calculated as one third of IPVFII’s holdings in such companies. The minority interest ownership, i.e. that element of IPVFII’s holdings that is attributable to external limited partners, is reflected in a separate section within those tables.

During the year, 19 opportunities received initial incubation or seed funding (2015: 13) and one company received initial post-seed funding (2015: one), while the Group received founder equity in one further new spin-out company under the terms of its university agreements. During the period six existing incubation projects progressed to seed or post-seed stage (2015: five).

The 20 new opportunities included the following, and some further discussion of new opportunities is included in portfolio analysis — by sector below:

- Microbiotica Limited is a newly formed spin-out company from the Wellcome Trust Sanger Institute (“the Sanger Institute”) established to commercialise the Sanger Institute’s ground-breaking research into the role of the human microbiome in disease.
- Heliochrome Limited (University of Cambridge) is developing perovskite-based light-emitting devices for next generation displays. They enhance the colour quality and enable flexible design of displays, bringing visual experience to the next level;
- Lumiod Inc (Columbia University) is a New York City-based semiconductor start-up building the next generation of microdisplay technologies for head-worn, high brightness, augmented reality systems.

### Portfolio analysis by stage of company maturity

At 31 December 2016, the Group’s portfolio fair value of £614.0m was distributed across stages of company maturity as follows:

Stage	As at 31 December 2016				As at 31 December 2015			
	Fair value £m	%	Number	%	Fair value £m	%	Number	%
Focus	473.3	86%	19	21%	435.8	86%	18	22%
Development	57.0	10%	32	36%	57.6	11%	34	41%
Early-stage	20.3	4%	39	43%	13.2	3%	30	37%
<b>Total</b>	<b>550.6<sup>1</sup></b>	<b>100%</b>	<b>90</b>	<b>100%</b>	<b>506.6<sup>1</sup></b>	<b>100%</b>	<b>82</b>	<b>100%</b>
Multi-sector platforms	62.5	-	3	-	45.2	-	3	-
<i>De minimis</i> holdings	0.9	-	20	-	0.4	-	15	-
<b>Total Portfolio</b>	<b>614.0</b>	<b>-</b>	<b>113</b>	<b>-</b>	<b>552.2</b>	<b>-</b>	<b>100</b>	<b>-</b>

1. Total fair value includes £9.2m (2015: £8.5m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII





Of the 90 companies in the Group's portfolio, 76% (2015: 75%) 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 £418.2m (2015: £414.0m).

The total value of the Group's 90 portfolio companies (excluding multi-sector platforms and *de minimis* holdings), calculated by reference to the Group's holding in such companies and grossed up to reflect their total value, is now in excess of £2.7bn, or approximately £3.3bn including the Group's three holdings in multi-sector platform companies (Oxford Sciences Innovation plc, Cambridge Innovation Capital plc and Frontier IP Group plc).

## Portfolio analysis by sector

The Group funds spin-out companies based on a wide variety of scientific research emerging from leading research intensive institutions and does not limit itself to funding companies from particular areas of science. The Group splits its core opportunity evaluation and business building team into four specialist divisions, Biotech, Cleantech, Healthcare and Technology. Where the Group invests in businesses that cannot be classified within these divisions, primarily those portfolio companies which also invest in other opportunities, they are recorded in a separate sector as shown below. Together these five sectors make up the university partnership business segment. An update on the other two operating segments is included in the financial review on pages 34 to 37.

Sector	As at 31 December 2016				As at 31 December 2015			
	Fair value		Number		Fair value		Number	
	£m	%		%	£m	%		%
Healthcare	328.0	60%	27	29%	277.6	55%	27	33%
Technology	93.6	17%	31	36%	91.6	18%	27	33%
Cleantech	76.9	14%	20	22%	69.0	14%	19	23%
Biotech	52.1	9%	12	13%	68.4	13%	9	11%
<b>Total</b>	<b>550.6<sup>1</sup></b>	<b>100%</b>	<b>90</b>	<b>100%</b>	<b>506.6<sup>1</sup></b>	<b>100%</b>	<b>82</b>	<b>100%</b>
Multi-sector platforms	62.5	-	3	-	45.2	-	3	-
<i>De minimis</i> holdings	0.9	-	20	-	0.4	-	15	-
<b>Total Portfolio</b>	<b>614.0</b>	<b>-</b>	<b>113</b>	<b>-</b>	<b>552.2</b>	<b>-</b>	<b>100</b>	<b>-</b>

1. Total fair value includes £9.2m (2015: £8.5m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII

As can be seen from the table, the Group's portfolio by number of companies is well diversified across its four main sectors. By fair value, however, the portfolio is currently more concentrated in the healthcare sector, largely as a result of the relative valuations of the Group's holdings in Oxford Nanopore Technologies Limited, hVIVO plc and Tissue Regenix Group plc.

A more detailed analysis of each sector follows.

## Portfolio review **Healthcare**



“Oxford Nanopore completed a £100m private financing, valuing the business at £1.25bn”

Mark Warne Head, Healthcare

### Purpose

IP Healthcare finds and supports innovations to improve health outcomes and that are sustainable in a world where the funding of healthcare is subject to fundamental change.

### Review of the year

#### Oxford Nanopore

As in 2015, the largest amount of capital, £19.5m, was contributed to Oxford Nanopore, the Group's most valuable portfolio company holding. Oxford Nanopore has developed the world's first and only nanopore DNA/RNA sequencer and has a goal to enable the analysis of any living thing, by any person, in any environment. The company's first product is a portable, real time device, the MinION. With 512 nanopores available for sequencing in each consumable Flow Cell, the MinION is complemented by the larger PromethION (144,000 pores presented as 48 Flow Cells for modular, on-demand sequencing). PromethION is currently being released into early access. In a market whose traditional technologies are notable for being expensive, large instruments where read lengths may be very short or data only available after some days, nanopore sequencing stands to disrupt the market with its unique combination of long read lengths, portability/scalability, real-time data, low-cost and ease of use.

To date, more than 110 publications describing various applications of nanopore sequencing have been released. The rate of publication increased in late 2016 as newly released versions of the technology yielded increasing amounts of high-fidelity data. The release of 'R9.4', the company's newest nanopore, in the autumn, delivered higher yields and higher accuracy data to users of its technology. This led to the release, in December, of the first set of human genomes and the first large plant genome datasets created using MinION. These are considered a landmark in terms of new market possibilities and potential customer bases for the company. In 2017, the Company's CTO

reported achieving 20 Gb of data from a single MinION Flow Cell in internal use, following the release of software updates that optimise performance. This has significant implications for the competitive position of the MinION, progressing it from an emerging, disruptive technology to one that has novel properties and can outperform many existing systems in terms of throughput.

The majority of current users of Oxford Nanopore's technology are scientific researchers, using devices for research into areas such as pathogens/antimicrobial resistance, environment, cancer research, human genetics research or a broad range of aspects of general genome research. The DNA sequencing market for this research market has been estimated at approximately \$2-3 billion per annum based on relatively low penetration of potential users; Oxford Nanopore management has always stated that it aims to establish its technology in a very broad user base.

As research markets become more established for the company, it is now preparing to access 'applied markets'. Instead of being interested in performing experiments, applied users may want an answer to a biological question that is either actionable or has inherent value. Potential applied markets include healthcare (diagnostics/oncology/reproductive health), industrial supply chain monitoring (food/water), industrial inspection (pest control/environmental/customs) or agricultural (surveillance of livestock/fish/crops) and many of these are potentially billion dollar markets in their own right. Oxford Nanopore believes that different products, commercial structures and mechanisms are required to open up and develop sales in these markets. The company has created a fully owned company, Metrichor Ltd, to provide end to end analysis solutions for applied markets.



Oxford Nanopore has just launched the GridION X5, a new sequencing system that can drive up to five MinION Flow Cells and process all the data produced within a single benchtop device.



Further, DNA extraction and preparation for sequencing has traditionally been a barrier to wider adoption, as it has been time consuming, complex and expensive. Having already reduced library preparation (extracted DNA to instrument) to a 10-minute process with minimal skill or consumables required, Oxford Nanopore has recently released VoITRAX, a USB-powered, automated library preparation device to early users. It is designed to offer consistent, hands-off processes in any environment that would normally be performed by a person in a lab, facilitating wider adoption.

In terms of the competitive landscape, during 2016, US-based Pacific Biosciences of California, Inc. filed a complaint with the US International Trade Commission alleging that the company is infringing a granted US patent. This followed a similar action by Illumina that was settled by the parties earlier in 2016. On 3 November, the Company issued a statement that said, in its opinion, the action by Pacific Biosciences was "...without merit". Oxford Nanopore has an intellectual property portfolio of more than 500 issued patents and patent applications, in

over 120 patent families. These cover all aspects of nanopore sensing including fundamental patents for nanopore sensing, and patents relating to DNA-sequencing.

The company has a product pipeline that is designed not only to extend existing customer usage but to create new markets for biological analysis technology. For example Oxford Nanopore is developing an ultra-portable smartphone sequencer SmidgION, as well as Project Zumbador, the development of a universal, low-cost, integrated sample and library preparation device for inexpert users.

The company intends to use the proceeds from its £100m December private financing, which valued the business at £1.25bn, to expand its commercial operations across a range of territories, including in Asia.

# Portfolio review **Healthcare**

## **Other significant portfolio company updates**

Looking to our larger publicly listed holdings, the year was mixed. Tissue Regenix has made good commercial progress with US sales, the announcement of Group Purchasing Organisation contracts with US healthcare providers and ongoing success in its clinical development programmes, and the company's share price increased during the year. Meanwhile the hVIVO plc share price performed disappointingly. The company carried out three exploratory studies on the drug PrEP-001, with the results published in January 2017 showing mixed success. While two of the exploratory studies did not meet their primary endpoints, they provided valuable insights for PrEP-001 and build on the profile of the drug following the previously reported positive proof of concept trials in flu and the common cold.

For the smaller publicly listed holdings, the year was equally mixed. A patent litigation, which was settled in December, for Medaphor Group plc put severe downward pressure on the share price following its successful acquisition and placing early in the year, resulting in a net fair value decrease of £2.5m for the year. Ixico plc's share price, however, performed reasonably well following board changes and disclosure of its income generating patient stratification programme in partnership with Biogen.

During the year, Oxford Nanopore aside, highlights in the private portfolio included:

- Creavo Medical Technologies Limited (previously Quantum Imaging Limited) – successful product development leading to award of VitalScan CE Mark in November 2016. The successful receipt of the CE mark means that the device has started a large scale, multi-centre clinical trial at four of the UK's major A&E departments, followed by second stage trials at three centres in the US.
- Oxehealth Limited – completion of a £2.5m financing concurrent with strengthening its board and the executive as the company entered into its first material commercial engagement with Hanwha Techwin and the successful completion of a trial of its Oxecam patient safety monitoring software at Broadmoor Mental Health Hospital. Oxehealth was also one of five finalists competing for the TechCrunch Startup Battlefield finals at TechCrunch Disrupt London, having been shortlisted from over 500 entries and successfully making it through the preliminary round.
- Genomics plc – Appointed as Analysis Partner for the Genomics England GENE consortium and, working alongside the Wellcome Trust Centre for Human Genetics, was the first to Sequence Multiple Human Genomes using hand-held Nanopore Technology demonstrating the potential for wide-scale whole-genome sequencing in humans using nanopore approaches.

Working with the New Business and Partnerships team, IP Healthcare also completed or approved five new grub investments, ensuring a steady pipeline of high-growth opportunities as we head into 2017 and beyond.

Company name	Description	Quoted/ Unquoted %	Group stake at 31 Dec 2016 %	Fair value of Group holding at 31 Dec 2015 £m	Year to 31 December 2016			Fair value of Group holding at 31 Dec 2016 £m
					Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m		
Oxford Nanopore Technologies Limited	Enabling the analysis of any living thing, by any person, in any environment. Developer of the portable, real time, long-read, low cost MinION nanopore DNA/RNA sequencer	Unquoted	19.6%	193.0	19.5	33.8	<b>246.3</b>	
hVIVO plc	World leader in human models of viral disease	Quoted	16.7%	29.0	—	(7.2)	<b>21.8</b>	
Tissue Regenix Group plc	Regenerative dCELL® soft tissue body parts	Quoted	13.6%	15.5	—	5.2	<b>20.7</b>	
Creavo Medical Technologies Limited <sup>(i)</sup>	Quantum cardiac imaging technology	Unquoted	48.1%	6.5	—	—	<b>6.5</b>	
Alesi Surgical Limited	Medical devices to improve the safety and efficiency of laparoscopic surgery	Unquoted	58.8% <sup>(ii)</sup>	6.5	—	(1.2)	<b>5.3</b>	
Genomics plc	Platform for analysis and interpretation of genomic sequence data	Unquoted	19.0%	4.9	—	—	<b>4.9</b>	
Other companies (21 companies)				17.3	3.3	(2.9)	<b>17.7</b>	
Value not attributable to equity holders				4.9	0.6	(0.7)	<b>4.8</b>	
<b>Total<sup>(iii)</sup></b>				<b>277.6</b>	<b>23.4</b>	<b>27.0</b>	<b>328.0</b>	

<sup>(i)</sup> Represents the Group's undiluted beneficial economic equity interest (excluding debt) including the portion of IPVFI's stake attributable to the Group. Voting interest is below 50%.

<sup>(ii)</sup> Formerly known as Quantum Imaging Limited.

<sup>(iii)</sup> Total now excludes investments classified as *de minimis* holdings; 2015 comparatives have been restated.

## Portfolio review **Technology**



“The technology division was responsible for the second largest exit in the Group’s history”

**Mark Reilly** Head, Technology

### **Purpose**

The aim of the Technology division is to “shape the future” by commercialising innovative technologies derived from our partner research institutions. The division covers a broad spectrum of scientific fields from advanced materials, through the various disciplines of chemical, mechanical, electrical and electronic engineering, to information and communications technologies, including both hardware and software.

### **Review of the year**

In March 2016, the Technology division was responsible for the second largest exit in the history of IP Group. The sale of the Group’s stake in Tracsis plc yielded proceeds of £13.1m after fees, which, when taken with dividends and other proceeds received to date, reflects a multiple of approximately 38 times the £0.4m that IP Group had historically invested in the company. IP Group was the first investor in Tracsis when it originally spun-out from the University of Leeds and supported the company throughout its early stages of growth. We are proud of all that has been achieved in building a successful company that we believe will continue to return value to shareholders.

Elsewhere in the portfolio, the division’s most valuable asset, Actual Experience plc, announced two new major partnership deals. The first, a 5-year framework agreement with Vodafone, was signed in March, followed by a 3-year framework agreement with Proquire, the procurement arm of Accenture plc, in November. Whilst it takes time to gather momentum with such huge partner organisations, the agreements announced so far represent major milestones and we believe that they will yield significant financial benefit for Actual Experience in the medium term.

Positive developments continue apace at remote haptic feedback pioneer Ultrahaptics. The University of Bristol spin-out is increasingly being considered as one of the UK’s most promising early-stage technology start-ups. A list of prestigious industry awards has accompanied growing revenue as customers pay for integration of the Ultrahaptics technology into cars and consumer electronics devices. We expect more significant commercial progress in 2017 and are optimistic that early royalty revenue will begin to flow during the year.

We are also pleased with the commercial progress made during the year at Mirriad, an exciting company with an innovative, patented computer vision technology that can retrospectively insert advertising and branded products into existing video content. The company has begun to see encouraging levels of adoption with some key, high-value customers and anticipates rapid growth in 2017.

It has been a challenging year for some of the division’s quoted assets, with both Revolymer plc and Applied Graphene Materials plc in particular suffering from considerable share price headwinds. We do not believe that the price movement in the year necessarily reflects the underlying progress over the same period at either company, and, indeed, both have seen worthwhile commercial developments during the year, so we are hopeful that both businesses will become more valuable in 2017 and beyond.



Company name	Description	Quoted/ Unquoted %	Group stake at 31 Dec 2016 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2015 £m	Year to 31 December 2016			Fair value of Group holding at 31 Dec 2016 £m
					Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m		
Actual Experience plc	Optimising the human experience of networked applications	Quoted	24.9%	23.8	—	(0.4)	<b>23.4</b>	
Tracsis plc	Resource optimisation software for the transport industry	Quoted	—	14.6	(14.6)	—	<b>—</b>	
Mirriad Advertising Limited	Native in-video advertising allowing post-production ad placement	Unquoted	38.9%	4.5	4.0	4.9	<b>13.4</b>	
Ultrahaptics Holdings Limited <sup>(ii)</sup>	Contactless haptic technology "feeling without touching"	Unquoted	33.8%	7.9	—	—	<b>7.9</b>	
Applied Graphene Materials plc	Producer of speciality graphene materials	Quoted	20.8%	6.0	2.0	(2.2)	<b>5.8</b>	
Uniformity Labs Inc	Equipment, materials and software for additive manufacturing	Unquoted	25.1%	0.2	2.5	2.4	<b>5.1</b>	
Perpetuum Limited	Self-powered, wireless sensing technology	Unquoted	29.2%	3.4	0.7	—	<b>4.1</b>	
Other companies (24 companies)					28.8	7.5	(4.8)	<b>31.5</b>
Value not attributable to equity holders					2.4	—	—	<b>2.4</b>
<b>Total<sup>(iii)</sup></b>					<b>91.6</b>	<b>2.1</b>	<b>(0.1)</b>	<b>93.6</b>

<sup>(i)</sup> Represents the Group's undiluted beneficial economic equity interest (excluding debt) including the portion of IPVFI's stake attributable to the Group.

<sup>(ii)</sup> Formerly known as Ultrahaptics Limited.

<sup>(iii)</sup> Total now excludes investments classified as *de minimis* holdings; 2015 comparatives have been restated.

## Portfolio review **Cleantech**



“Ceres Power made strong commercial progress and completed a £20m fundraising”

**Robert Trezona** Head, Cleantech

### Purpose

IP Cleantech finds, funds and builds outstanding, science-based businesses that mitigate the impacts of climate change and other environmental challenges.

### Review of the year

2016 has been a mixed year, with commercial progress in key assets offset by challenging capital market conditions; public capital markets in particular were affected at various times by political uncertainty. Most notably, the outcome of the US presidential election impacted sentiment towards the prospects for many cleantech companies around the world. However, against this backdrop, IP Cleantech completed several funding rounds, which is testament to the strength of our portfolio and reputation.

Ceres Power Holdings plc, our fuel cell company, has had a successful year. Its strategy is to provide technology to leading corporate OEMs who have the brands and balance sheets to take the Ceres technology to mass markets. The company's key objective for the year was to secure development agreements and it exceeded expectations in signing up 3 leading OEMs: Honda, Nissan and Cummins.

The Honda agreement was announced in January. Honda produces over six million power products a year and is a world leader in small generators and engines. Ceres was then approached by Nissan, which was looking for a robust, flexible fuel cell technology as a range extender for electric vehicles. In June the two companies announced an agreement to develop Ceres's first automotive system. In September Ceres secured the third contract, with global power systems company Cummins, to develop a power system for use in data centres, a rapidly-growing market that already accounts for around 2% of global electricity consumption. Following this strong commercial progress, the company raised £20.0m in October. This

new capital will provide the financial strength to move from development to commercial programmes while maintaining technology leadership.

Our off-grid solar business, Azuri had a successful 2016 and has now deployed over 40,000 home systems in Africa. The company raised £8.0m in November and continues to innovate. In April Azuri launched Homesmart, using machine-learning algorithms to maximise the duration of light output from its products in response to customer behaviour and climatic conditions. In December, it launched the first complete pay-as-you-go solar satellite TV system in Kenya.

Xeros Technology Group plc also made strong commercial progress; this progress did not appear to have been reflected in the company's share price during the year, which remains relatively volatile. The company continued to expand its commercial laundry business, broadening its product offerings and partnering with eLaundry to launch a laundry-as-a-service offer. Beyond laundry, Xeros is making strides in the leather industry, completing a successful full-scale trial with a leading leather tannery.

However, despite the strong commercial performance of Ceres and Xeros in particular, the overall Cleantech portfolio performance for the year from a fair value perspective has been disappointing. We are, nonetheless, confident about the portfolio and the sector in the long term. The sector received a boost in December, with the announcement of Breakthrough Energy Ventures (“BEV”). BEV is a \$1bn Cleantech fund backed by 20 of the world's richest entrepreneurs, including Bill Gates, Jeff Bezos, Vinod Khosla and Jack Ma. This commitment from high profile figures is a vote of confidence and IP Cleantech is planning to collaborate with BEV and other recently-formed Cleantech funds in Europe in 2017.





## Year to 31 December 2016

Company name	Description	Quoted/ Unquoted	Group stake at 31 Dec 2016 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2015 £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2016 £m	
Xeros Technology Group plc	Polymer bead, near-waterless cleaning for commercial laundry	Quoted	11.5%	23.4	—	(3.2)	20.2	
Ceres Power Holdings plc	World leading developer of next generation fuel cell technology	Quoted	25.5%	12.2	6.6	(0.8)	18.0	
First Light Fusion Limited	New methodology for achieving extreme intensity cavity collapse	Unquoted	34.9%	13.9	—	—	13.9	
Azuri Technologies Limited	Pay-as-you-go solar power for off-grid customers in rural emerging markets	Unquoted	34.6%	1.6	2.9	1.0	5.5	
Other companies (16 companies)					16.6	3.3	(3.0)	16.9
Value not attributable to equity holders					1.3	0.9	0.2	2.4
<b>Total<sup>(iii)</sup></b>					69.0	13.7	(5.8)	76.9

<sup>(i)</sup> Represents the Group's undiluted beneficial economic equity interest (excluding debt) including the portion of IPVFI's stake attributable to the Group.

<sup>(ii)</sup> Total now excludes investments classified as *de minimis* holdings; 2015 comparatives have been restated.

## Portfolio review **Biotech**



“Diurnal made excellent progress during 2016 and regulatory approval of Infacort and potential first sales are expected in 2017”

**Dr Sam Williams** Head, Biotech

### **Purpose**

The aim of the Biotech division is to support the discovery and development of breakthrough therapeutics, achieved either by in-house development of proprietary products licensed directly into the Group or via the more conventional development and financing of portfolio companies.

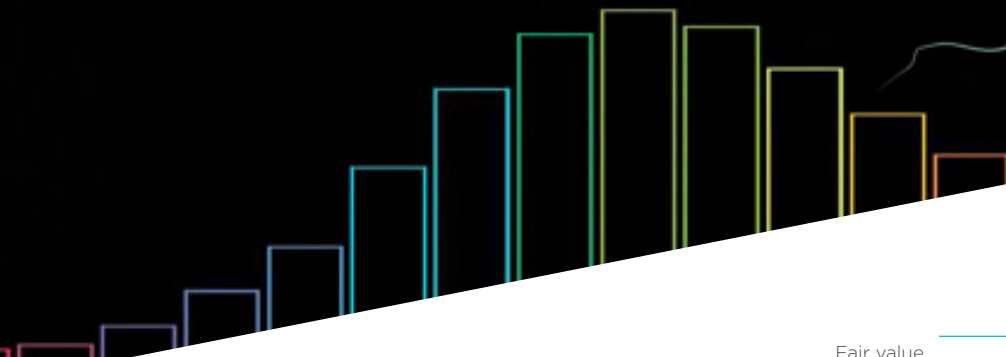
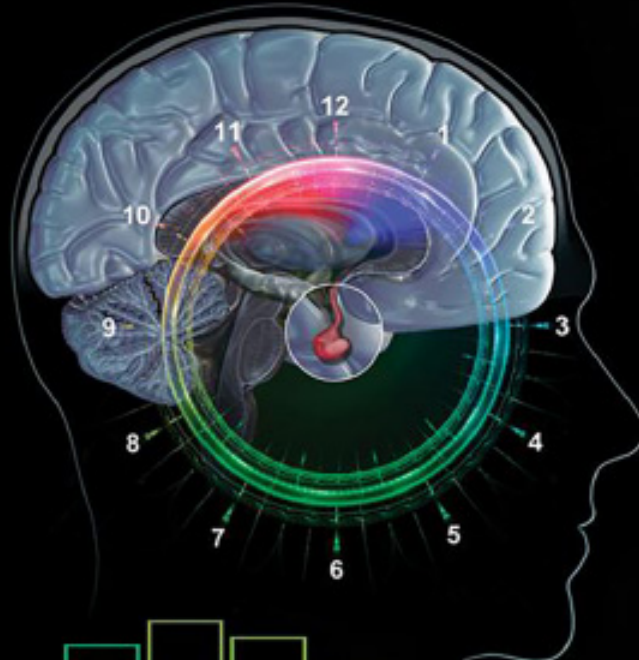
### **Review of the year**

The most valuable and advanced of the Group's biotech assets is Diurnal Group plc, which was floated successfully on AIM towards the very end of 2015. A spin-out from the University of Sheffield, Diurnal has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency, respectively. During 2016, the company made excellent progress, initiating a pivotal European Phase 3 for Chronocort, announcing positive results from its European Phase 3 Infacort study and moving its next product, a native oral testosterone product for testosterone deficiency, into Phase 1. Unfortunately, due in our view to low trading volumes and selling by minority shareholders, the shares have not performed as well as the company, but we remain confident of the company's fundamental positioning, with regulatory approval of Infacort and potential first sales expected in 2017, along with the initiation of Phase 3 studies for both products in the US.

Avacta Group plc, the Biotech division's other listed biotech asset, continues to develop its Affimer platform in the therapeutic space, demonstrating that the technology has the ability to create high-affinity binders for a range of therapeutically important targets, including the checkpoint proteins in cancer. The company's poor share price performance during the year did not appear to be consistent with a number of strong commercial updates.

The Group's other key biotech asset is Modern Biosciences plc (“MBS”), a drug discovery and development operation. MBS has continued to make good progress during 2016 with MBS2320, a novel agent for the treatment of rheumatoid arthritis (“RA”). MBS2320 is unique amongst RA drugs in its mechanism of action which appears to not only reduce the inflammation associated with RA, but to also potentially reverse some of the bone damage that this inflammation causes. MBS2320 is partnered with Janssen Biotech Inc. and MBS expects the outcome of ongoing Phase 1a studies during 2017. MBS is a majority-owned subsidiary of the Group and, hence, its results are consolidated in the Group financials rather than being included in the portfolio valuation.

Elsewhere, Asterion Limited continues to develop its recombinant growth hormone fusion for the treatment of acromegaly-related growth disorder towards clinical trials, helped by a £2.4m Medical Research Council grant. Asterion represents the Group's second majority-controlled drug discovery asset. Glythera Limited continues to make headway in the area of antibody-drug conjugates (“ADCs”), demonstrating that its Permalink technology has significant safety advantages over current methods of making ADCs for the treatment of cancer.



## Year to 31 December 2016

Company name	Description	Quoted/ Unquoted	Group stake at 31 Dec 2016 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2015 £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2016 £m	
Diurnal Group plc	Novel treatments of hormone deficiency	Quoted	45.0%	39.6	—	(10.3)	<b>29.3</b>	
Avacta Group plc	Bio-therapeutic affimer technology	Quoted	23.1%	21.1	—	(9.9)	<b>11.2</b>	
Other companies <sup>(ii)</sup> (10 companies)					7.7	4.1	(0.2)	<b>11.6</b>
Value not attributable to equity holders				—	—	—	<b>—</b>	
<b>Total<sup>(iii)</sup></b>					68.4	4.1	(20.4)	<b>52.1</b>

<sup>(i)</sup> Represents the Group's undiluted beneficial economic equity interest (excluding debt) including the portion of IPVFI's stake attributable to the Group.

<sup>(ii)</sup> Simm Investments Limited has been reclassified from Multi-sector platforms to Biotech; 2015 comparatives have been restated.

<sup>(iii)</sup> Total now excludes investments classified as *de minimis* holdings; 2015 comparatives have been restated.

# Financial review



“A strong balance sheet position: £112.3m of gross cash and a diversified portfolio of investments worth £614.0m”

Greg Smith Chief Financial Officer

## Statement of comprehensive income

Overall the Group recorded a loss for the year of £14.8m (2015: profit of £75.1m) and a Return on Hard NAV, i.e. on the Group's net assets excluding goodwill and intangible assets, of negative £7.6m (2015: positive £84.0m).

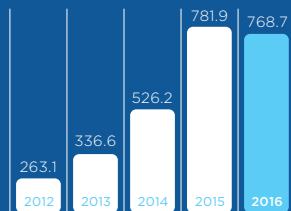
A summary analysis of the Group's financial performance is provided below:

	2016 £m	2015 £m	
Net portfolio gains <sup>1</sup>	6.5	86.2	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. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 20 to 33.
Change in fair value of limited and limited liability partnership interests	(0.3)	0.4	
Fair value loss on contingent value rights	(1.4)	—	Other income comprises fund management fees, corporate finance fee income and other fees typically chargeable to its portfolio companies for services including executive search and selection, legal and administrative support. Other income for the year decreased to £2.6m (2015: £3.6m). The decrease was primarily due to lower fund management fees due to the end of the investment period for North East Technology Fund (“NETF”) in December 2015, resulting in a lower management fee being charged in the current year. Additionally, there was a lower level of corporate finance fee income, reflecting the lower level of investment into the portfolio in 2016. In 2016 we settled approximately half of these fees via the receipt of equity in portfolio companies, which we believe aligns IP Capital with value creation in the portfolio companies that are the subject of its mandates.
Licensing income	0.2	8.1	
Other income	2.6	3.6	
Amortisation of intangible assets	(5.6)	(7.3)	
Administrative expenses – Modern Biosciences	(1.4)	(2.5)	
Administrative expenses – other consolidated portfolio companies	(1.1)	(0.3)	
Administrative expenses – performance based staff incentives and share based payments charge	(1.5)	(3.4)	
Administrative expenses – all other expenses	(13.0)	(11.0)	
Acquisition costs	(0.4)	—	
Net finance income	0.6	1.3	
<b>(Loss)/profit for the year</b>	<b>(14.8)</b>	75.1	
Other comprehensive income	0.1	0.1	
<b>Total comprehensive (loss)/income for the period</b>	<b>(14.7)</b>	75.2	
Exclude:			
Amortisation of intangible assets and amortisation of Oxford Equity Rights asset	5.6	7.3	
Share based payment charge	1.5	1.5	
<b>Return on Hard NAV</b>	<b>(7.6)</b>	84.0	

<sup>1</sup> Defined in the Portfolio review section

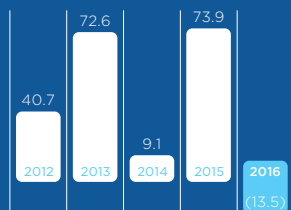


### Total Equity (“Net Assets”) (£m)



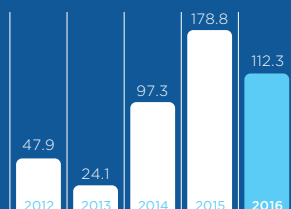
**£768.7m**  
(2015: £781.9m)

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



**£(13.5)m**  
(2015: £73.9m)

### Cash, cash equivalents and deposits (£m)



**£112.3m**  
(2015: £178.8m)

As described in the portfolio review, the results of the Group’s drug development subsidiary, MBS, are consolidated into those of the Group. MBS continues to make good progress in its lead MBS2320 programme, partnered with Janssen Biotech, Inc. The timing of payments under this partnership are linked to the development of the programme and none were scheduled or paid during the year. All development costs are expensed to the income statement as they are incurred. MBS continued to benefit from the recovery of a proportion of the OsteoRx costs through a Biomedical Catalyst grant, with the net expense being reflected in the statement of comprehensive income. The Group intends to continue developing a small number of early-stage therapeutic assets.

Included within the Group’s administrative expenses are costs in respect of a small number of other portfolio companies. Typically, the Group owns a non-controlling interest in its portfolio companies however, in certain circumstances the Group will take a controlling stake and hence consolidate the results of a portfolio company into the Group’s financial statements. The administrative expenses included in the Group’s results for such companies primarily comprise staff costs, R&D and other operating expenses.

Other central administrative expenses, excluding performance-based staff incentives and share based payments charges, have increased to £13.0m during the period (2015: £11.0m), as a result of increases in staffing costs and other overhead costs as we continue to build our teams, most notably in the US.

Administrative expenses resulting from performance-based staff incentives and share-based payment charges decreased significantly to £1.5m during the period (2015: £3.4m), as the Group’s return on Hard NAV during the period is below the minimum threshold for any payments to be awarded under the Group’s Annual Incentive Scheme. The full current year cost therefore relates to the IFRS 2 share-based payments charge attributable to the Group’s Long-Term Incentive Plan and Deferred Bonus Share Plan awards schemes. 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”.

## Financial review CONTINUED

### Statement of financial position

The Group ended the period with net assets attributable to shareholders of £768.4m, representing a decrease of £12.0m from the position at 1 January 2016 (£780.4m). As described above, this decrease in net assets resulted from the £14.8m loss in the year. "Hard" net assets, i.e. those excluding goodwill and other intangible assets, totalled £706.5m at 31 December 2016 (2015: £714.3m). Based on the Group's shares in issue at 31 December 2016 of 565,221,967, this represents 125.0p per share (2015: 564,648,168 shares; 126.5p).

	2016 £m	2015 £m
<b>Total Equity or Net Assets</b>	<b>768.7</b>	781.9
Exclude:		
Goodwill	(57.1)	(57.1)
Other intangible assets	(5.1)	(10.5)
<b>Hard NAV</b>	<b>706.5</b>	714.3
<b>Hard NAV per share</b>	<b>125.0p</b>	126.5p

At 31 December 2016, the Group held gross cash and deposits of £112.3m (2015: £178.8m) and a diversified portfolio of equity and debt investments in 90 private and publicly listed technology companies (2015: 82).

The value of the Group's holdings in portfolio companies increased to £614.0m at year end (2015: £552.2m) after net fair value gains of £6.5m (2015: £86.2m) and net investment of £55.0m (2015: £115.3m). The Portfolio review on pages 20 to 33 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 £57.1m (2015: £57.1m) and acquired intangible assets of £5.1m (2015: £10.5m). £38.7m (2015: £38.7m) of the goodwill and substantially all of the acquired intangible asset value arose as a result of the Group's acquisition of Fusion IP in 2014. The remainder of the goodwill balance arose from historical acquisitions of IP Assist Services Limited (university partnership business, £16.3m; 2015: £16.3m) and Top Technology Ventures Limited (venture capital fund management business, £2.1m; 2015: £2.1m). Goodwill is tested at least annually for impairment, as described in note 11. The intangible assets are separately identifiable assets resulting from Fusion IP's agreements with its partner universities.

The fair value of the intangible assets is amortised on a straight line basis over each partnership's useful economic life.

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:

	2016 £m	2015 £m
Net Cash (used)/generated by operating activities (excluding cash flows from deposits)	(11.4)	2.3
Net Cash used in investing activities	(55.2)	(114.6)
Issue of share capital	—	178.8
Drawdown of debt facility	—	14.9
Effect of foreign exchange rate changes	0.1	0.1
<b>Movement during period</b>	<b>(66.5)</b>	81.5

At 31 December 2016, the Group's Cash totalled £112.3m, a decrease of £66.5m from a total of £178.8m at 31 December 2015 predominantly due to net investment in the Group's spin-out companies and operating expenses.

Cash used in operations has increased from the comparable period in 2015, most significantly due to the receipt of £11m of payments under MBS's agreement with Janssen Biotech in 2015 (£3m of which had been recognised in debtors as at 31 December 2014).

The Group's net cash used in investing activities decreased during 2016, reflecting a reduction in the level of investment (2016: £69.7m; 2015: £115.9m) and significant realisations in the year, most notably the disposal of Tracsis plc for £13.1m bringing total cash realisations to £14.7m (2015: £0.6m). As described in the Portfolio review on pages 20 to 33, the Group allocated a total of £58.8m across 55 portfolio companies during the period (2015: £75.9m; 53 companies) and £10.9m across two multi-sector

platform investments (2015: £40m; one multi-sector platform investments).

The Group made a £0.1m contribution to IP Venture Fund during 2016 (2015: £nil), which made its final investment during the year (2015: none). The Group received no distributions during the year (2015: £0.6m).

In 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank ("the EIB"). The facility is to be disbursed in two tranches, with the first tranche of £15m having been drawn down in December 2015 and the second tranche is anticipated to be drawn in 2017. The facility provides IP Group with an additional source of long-term capital and represents an evolution in the Group's capital structure to support its future growth and development.

It remains the Group's policy to place cash that 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 or in low-risk treasury funds rated "A" 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.

At 31 December 2016, the Group recognised £9.8m of loans (2015: £7.1m) from the Limited Partners of IPVFII, a fund raised during 2013 that is consolidated by the Group. These loans are repayable only upon IPVFII generating sufficient returns to repay the Limited Partners. A further £15.0m of non-current liabilities are recognised which arise from the Group's use of the EIB debt facility described above.

At 31 December 2016, the Group had a total of £1.1m (2015: £1.3m) held in US Dollars to meet the short-term working capital requirements of its US operations, including capital anticipated to be required by new and existing spin-out company opportunities.

## Taxation

The Group's business model seeks to deliver long-term value to its stakeholders through the commercialisation of fundamental research carried out at its partner universities. To date, this has been largely achieved through the formation of, and provision of services and development capital to, spin-out companies formed around the output of such research. The Group primarily seeks to generate capital gains from its holdings in spin-out

companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings, however, since the Group's activities, including its activities in the US, are substantially trading in nature, the Directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying holdings are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity holdings that meet the qualifying criteria. Gains arising on sales of non-qualifying holdings would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time. The Group's unrecognised deferred tax assets and liabilities are set out in note 9 to the financial statements.

In the Autumn Statement 2016, the UK Government announced its intention to make certain changes to the SSE regime, principally from the Group's perspective, to remove the requirement for the investing entity (in this case, IP Group) to be a sole trading entity or member of a trading group and extending the minimum 10% holding period to any 12-month period in the six years prior to disposal. These changes are anticipated to be substantively enacted in the Finance Bill 2017 to apply from 1 April 2017. The Group welcomed these changes and the directors anticipate that they will have a favourable impact on the Group, giving greater certainty over the exemption of qualifying gains under SSE, and increasing the Group's flexibility over the timing of future portfolio company disposals.

The Autumn Statement also included proposals to restrict companies' use of brought forward losses. Under the proposed plan, the amount of profit that can be mitigated by brought forward losses will be restricted to 50% of the amount of profits in excess of £5m. The Directors do not currently consider that these proposed changes will result in the recognition of a deferred tax liability in respect of any unrealised gains that do not qualify for SSE, but note that such liabilities may arise in the future.

# Risk management

## Managing risk: our framework for balancing risk and reward

“A robust and effective risk management framework is essential for the Group to achieve its strategic objectives and to ensure that the directors are able to manage the business in a sustainable manner, which protects its employees, partners, shareholders and other stakeholders. Ongoing consideration of, and regular updates to, the policies intended to mitigate risk enable the effective balancing of risk and reward.”

### Governance

Overall responsibility for the risk framework and definition of risk appetite rests with the Board, who through regular review of risks ensure that risk exposure is matched with an ability to achieve the Group's strategic objectives. Risk identification, using a structured risk framework, is carried out primarily by the management team with non-executive review being carried out by the audit and risk committee.

### Risk management process

Ranking of the Group's risks is carried out by combining the economic, operational or environmental impact of risks and the likelihood that they may occur. Those risks that are considered to pose the greatest threat to the Group and score the highest are identified as 'principal risks'. The operations of the Group, and the implementation of its objectives and strategy, are subject to a number of principal risks and uncertainties. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

The design and ongoing effectiveness of the key controls over the Group's principal risks are documented using an 'assurance map', which includes an assessment of the net risk impact and likelihood post mitigating controls. The key controls over the Group's identified principal risks are reviewed by management, the audit and risk committee and the Board at least twice a year. However, the Group's risk management programme can only provide reasonable, not absolute, assurance that principal risks are managed to an acceptable level.

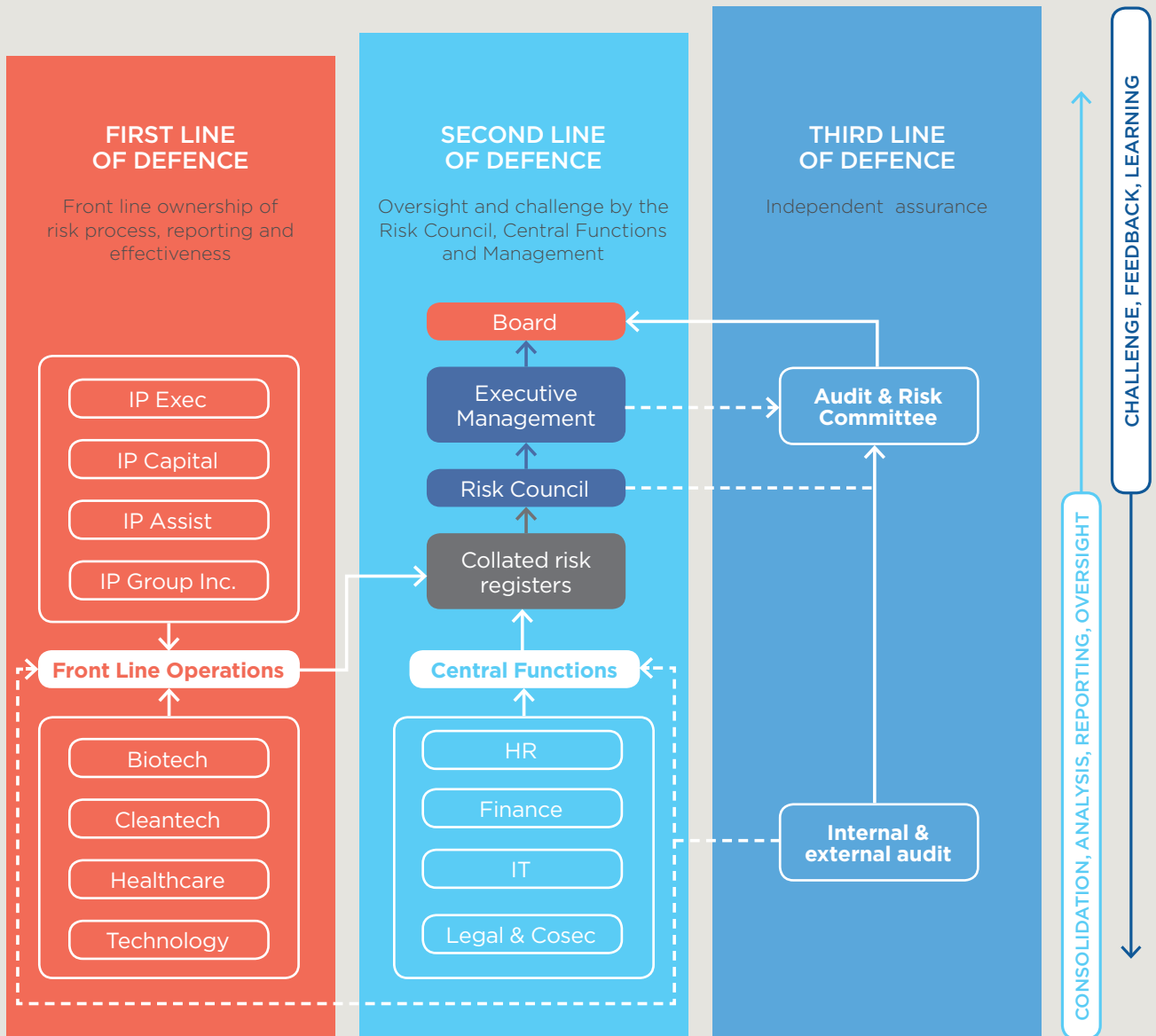
During 2016 we have continued to build on our existing risk management framework, enhancing risk management and internal control processes. This included the creation on a Risk Council in the latter part of the year, to support the Executive Committee and Board in their risk management responsibilities. In addition to our permanent risk management activities, our priority for 2017 is to enhance risk management within our front line operations, supported by a programme of activity including an external risk review of the group's US operations.

#### KEY





## IP Group risk management framework



# Risk management CONTINUED






## Summary of principal risks and mitigants

A summary of the principal risks affecting the Group and the steps taken to manage these is set out below. Further discussion of the Group's approach to principal risks and uncertainties are given on page 67 of the Corporate Governance Report and pages 90 and 91 of the Report of the Audit and Risk Committee, while further disclosure of the Group's financial risks are set out in note 2 to the consolidated financial statements on pages 113 and 115.

RISK AND DESCRIPTION	IMPACT	MITIGATION
<p><b>1 It may be difficult for the Group and its early-stage companies to attract capital.</b></p> <p>The Group's operations are reliant on 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.</p>	<ul style="list-style-type: none"> <li>The success of those portfolio companies which require significant funding in the future may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient.</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 corporate finance function which carries out fundraising mandates for portfolio companies.</li> <li>The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development.</li> <li>The Group frequently forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary limits, treasury policy guidelines and transaction authorisation controls.</li> </ul>
<p><b>2 The returns and cash proceeds from the Group's early-stage companies can be very uncertain.</b></p> <p>The following risks are typically associated with early-stage companies:</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;</li> <li>IP may be infringed, copied or stolen;</li> <li>may be more susceptible to cyber crime; and</li> <li>other administrative, taxation or compliance issues may lead 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, companies, which could exacerbate the impact of any impairment or failure of one or more of these companies. Oxford Nanopore is an example of such a portfolio company that has the potential to materially impact the Group's results.</li> <li>The value of the Group's in-house drug discovery company MBS may be significantly impacted by a negative clinical trial result.</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 have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including use of the Group's systematic opportunity evaluation and business building methodologies within delegated board authorities.</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>Support on operational, legal and company secretarial matters is offered to minimise failures due to common administrative factors.</li> <li>The Group has spin-out company holdings across different sectors managed by experienced sector-specialist teams 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>

KEY
↑ Increase
↓ Decrease
= No change
 Create
 Develop
 Deliver



RISK TREND	DEVELOPMENTS DURING THE YEAR	STRATEGY	KPI
	<ul style="list-style-type: none"> <li>The Group announced the proposed acquisition of Parkwalk Advisors Ltd, the UK's leading university spinout focused EIS fund manager. The acquisition reinforces IP Group's access to a diversified pool of capital for co-funding the earlier stages of the portfolio.</li> <li>The Group hosted investor relations roadshows in the UK and US.</li> </ul>	 	<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Total equity ("net assets").</li> <li>Profit/loss attributable to equity holders.</li> </ul>
	<ul style="list-style-type: none"> <li>The Group's portfolio companies raised approximately £230m of capital.</li> <li>The Group maintained board representation on more than 80% of companies by number.</li> <li>2016 saw significant volatility in equity markets, particularly around the timing of the Brexit referendum.</li> </ul>		<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Purchase of equity and debt investments.</li> <li>Proceeds from the sale of equity investments.</li> </ul>

# Risk management CONTINUED

RISK AND DESCRIPTION	IMPACT	MITIGATION
<p><b>3 Universities or other research-intensive institutions may terminate their partnerships or other collaborative relationships with the Group.</b></p> <p>The Group's business, results of operations and prospects are at least partially dependent on competitive advantage gained from access to leading scientific research through partnerships and other collaborative arrangements with research-intensive institutions and commercial partners such as Oxford Sciences Innovation plc, Technikos LLP and Cambridge Innovation Capital. The Group may be unable to recreate these elements of its competitive advantage in other geographies in which it may seek to operate (such as the US).</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> <li>With several new entrants to our market, this may reduce our opportunities to create new spin-out businesses.</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated New Business &amp; Partnerships team to service existing partnerships and source new opportunities.</li> <li>The Group continues to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research institutions.</li> <li>The Group has been able to source opportunities through non-exclusive relationships and other sources.</li> <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's track record in IP commercialisation may make the Group a partner of choice for other institutions, acting as a barrier to entry to competitors.</li> </ul>
<p><b>4 The Group may lose key personnel or fail to attract and integrate new personnel.</b></p> <p>The industry in which the Group operates is a specialised area and the Group 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, or could otherwise choose to leave the Group. Given the relatively small size of the Group, its operations are reliant on a small number of key individuals. Scaling the team, particularly into foreign jurisdictions such as the US, presents an additional potential risk.</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 competitive advantage, business, financial condition, operational results and/or future prospects.</li> </ul>	<ul style="list-style-type: none"> <li>Senior team succession plans are in place and updated regularly.</li> <li>The Group's corporate culture and values are well-articulated and consistently promoted.</li> <li>The Group carries out regular market comparisons for staff and executive remuneration and seeks to offer a balanced incentive package comprising a mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working and salary sacrifice arrangements.</li> <li>The Group encourages staff development and inclusion through coaching and mentoring, and carries out regular objective setting and appraisal.</li> </ul>
<p><b>5 Macroeconomic conditions may negatively impact the Group's ability to achieve its strategic objectives.</b></p> <p>Adverse macroeconomic conditions could reduce the opportunity to deploy capital into opportunities or may limit the ability of such portfolio companies to raise third party funds, develop profitable businesses or achieve increases in value or exits.</p> <p>Political uncertainty, including impacts from Brexit or similar scenarios, could have a number of potential impacts, including changes to the labour market available to the Group for recruitment or regulatory environment in which the Group operates.</p>	<ul style="list-style-type: none"> <li>The UK's recession has had (and may continue to have) an adverse effect on trading conditions and availability of capital in the UK, particularly for smaller businesses.</li> <li>The success of those portfolio companies which require significant external funding may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient.</li> <li>A significant proportion of the Group's portfolio value is held in companies quoted on the AIM market and decreases in values to this market could result in a material fair value impact to the portfolio as a whole.</li> </ul>	<ul style="list-style-type: none"> <li>Management team receives regular capital market and economic updates from the Group's capital markets team and its brokers.</li> <li>Six-monthly budget and capital allocation process and monitoring against agreed budget.</li> <li>Regular oversight of upcoming capital requirements of portfolio from both the Group and third parties.</li> </ul>

KEY  Increase  Decrease  No change



Create



Develop



Deliver

RISK TREND	DEVELOPMENTS DURING THE YEAR	STRATEGY	KPI
	<ul style="list-style-type: none"> <li>Completed agreements with two additional US university partners.</li> <li>The Group announced the proposed acquisition of Parkwalk Advisors Ltd. Parkwalk's investment vehicles include the University of Cambridge Enterprise Funds, the University of Oxford Innovation Funds and the University of Bristol Enterprise Funds. The Directors believe that Parkwalk's strong links to university partners will be beneficial to the Group.</li> <li>Completed seed investments with both Oxford Sciences Innovation and Cambridge Innovation Capital as co-investors, demonstrating the value of our strategic stakes in these partners.</li> </ul>		<ul style="list-style-type: none"> <li>Number of new portfolio companies.</li> </ul>
	<ul style="list-style-type: none"> <li>The Group continues to promote an open culture of communication and provides an inspiring and challenging workplace where people are given autonomy to do their jobs. We are fully supportive of flexible working and have enabled employees with technology to work flexibly. The Group also continues to dedicate resources to remuneration and incentivisation.</li> <li>Staff attrition increased slightly during the year, albeit at 4%, it remained at low absolute levels. Approximately 45% of staff have been with the Company for at least five years.</li> </ul>		<ul style="list-style-type: none"> <li>Total equity</li> <li>"Net assets".</li> <li>Number of new portfolio companies.</li> </ul>
	<ul style="list-style-type: none"> <li>Macroeconomic and geopolitical conditions remain uncertain in the UK, Europe and the rest of the world.</li> <li>Both the Brexit referendum and the US presidential election were a source of uncertainty in the year, with negotiations around the exit from the EU likely to be a source of volatility through 2017 and 2018.</li> </ul>		<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Total equity</li> <li>"Net assets".</li> <li>Profit/loss attributable to equity holders.</li> </ul>

# Risk management CONTINUED

RISK AND DESCRIPTION	IMPACT	MITIGATION
<p><b>6</b> There may be changes to, impacts from, or failure to comply with, legislation, government policy and regulation.</p> <p>There may be unforeseen changes in, or impacts from, government policy, regulation or legislation (including taxation legislation). This could include changes to funding levels or to the terms upon which public monies are made available to universities and research institutions and the ownership of any resulting intellectual property.</p>	<ul style="list-style-type: none"> <li>• Changes could result in universities and researchers no longer being able to own, exploit or protect intellectual property on attractive terms.</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>• Regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions for the Group's FCA-authorized subsidiary resulting in loss of fund management contracts, reputational damage or fines.</li> <li>• A material adverse event could occur during an MBS clinical trial.</li> <li>• A data security or cyber breach could occur or the Group could otherwise fail to adhere to data protection regulations.</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 utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax, insurance or other legislation.</li> <li>• The Group has internal policies and procedures to ensure its compliance with applicable FCA regulations and these are subject to external review.</li> <li>• MBS utilises an experienced specialist advisory panel covering all aspects of clinical trial design and delivery.</li> <li>• The Group maintains D&amp;O, professional indemnity and clinical trial insurance policies.</li> <li>• The Group reviews its data and cyber-security processes with its external outsourced IT provider and applies the UK Government's 'ten steps' framework.</li> </ul>

KEY
↑ Increase
 ↓ Decrease
 = No change
  Create
  Develop
  Deliver

## RISK TREND

## DEVELOPMENTS DURING THE YEAR

## STRATEGY

## KPI



- Proposed changes to UK Substantial Shareholding Exemption rules reduce the level of uncertainty around the exemption of disposal gains.
- Ongoing focus on regulatory compliance including third party reviews.
- UK Government has committed to university funding and has emphasised the importance of science and innovation.
- Specialist therapeutics advisory panel continually consulted.
- Increased focus on cyber security including further development of the Group's controls using the UK Government's 'ten steps' approach and review of the Cyber Essentials regime and how this applies to the Group.



- Total equity ("net assets").

## Viability statement

The Directors have carried out a robust assessment of the viability of the Group over a three-year period to December 2019, considering its strategy, its current financial position and its principal risks.

The strategy and associated principal risks underpin the Group's three-year financial plan and scenario testing, which the Directors review at least annually. The three-year plan is built using a bottom up model. The three-year plan makes certain assumptions about the level of capital deployed into, and realisations from, its portfolio of companies, the financial performance (and valuation) of the underlying portfolio companies, the Group's utilisation of its debt finance facility and ability to raise further capital, and the level of the Group's net overheads.

To assess the impact of the Group's principal risks on the prospects of the Group, the plan is stress-tested by modelling several severe but plausible downside scenarios as part of the Board's review of the principal risks of the business. These scenarios envisage the impact of adverse outcomes in the Group's principal risk areas, primarily through reducing the fair value of the Group's portfolio company interests, reducing the amount of capital that the Group can raise, lowering the deployment of capital and decreasing portfolio company divestment proceeds. The scenarios also consider the impact of available mitigating actions.

Based on this assessment, the Directors have a reasonable expectation that the Group will continue to operate and meets its liabilities, as they fall due, up to December 2019.

# Our business ethics and social responsibility

## Our business ethics and social responsibility

Our goal is to build a sustainable and viable business. The Group therefore seeks to conduct all of its operating and business activities in an honest, ethical and socially responsible manner and these values underpin our business model and strategy. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships with consideration for the needs of all of our stakeholders including university partners, investors, suppliers, employees, and the businesses in which the Group has holdings.

The Group is committed to 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.

The Group works with a variety of suppliers and seeks to ensure that there is diversity in the supply chain, working with SMEs as well as larger organisations. Where possible, we work with local suppliers therefore impacting positively on the communities where we operate. The Group is a signatory to the Prompt Payment Code.

The Group complies with all laws, regulations and rules applicable to its business, such as the Market Abuse Regulation and the Bribery Act 2010. We take a zero tolerance approach to bribery and corruption and have effective systems in place. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses. As a publicly traded entity, IP Group actively seeks to engage and maintain an open dialogue with both institutional and private shareholders through its investor relations programme.

## The 'indirect' impact of our model

IP Group's day-to-day activities have limited adverse social and environmental impact. There can, however, be a more significant impact indirectly through the nature and operations of the companies that we support.

Our portfolio companies, which are primarily focused on the healthcare, technology, clean technology and biotechnology sectors, are developing solutions to some of the world's most significant social, environmental and health challenges. Consequently, the Group recognises the importance of ensuring that the businesses it establishes and nurtures comply with all applicable environmental, ethical and social legislation. Our involvement in these companies allows greater scope to engage with their management teams and offer guidance.

Our support of early-stage businesses also demonstrates our alignment with government initiatives in science and innovation and contributes to employment growth in the communities in which our portfolio companies operate. We estimate that in excess of 2,000 jobs have been created as a result of new businesses created and/or supported by the Group.

## Community engagement

The Group seeks to have a positive impact on the communities in which it operates and one of the ways in which it achieves this is through charitable support at both a Group level and by staff. To date, the Group has aimed to donate up to 1% of the previous year's realised profits to one or more charities which have a particular relevance to IP Group's activities or to members of our team. The Group's chosen charities in 2016 were St Gemma's hospice, the largest hospice in Yorkshire, and the Royal Voluntary Service, which runs a network of volunteers to support older people with initiatives such as the befriending service. A list of charities the Group has supported to date can be found on the Group's website: [www.ipgroupplc.com](http://www.ipgroupplc.com).

In 2016, the Group donated a total of £17k to charitable causes, with £16k going to the charities named above and £1k being donated to other charities for employee match funding or discretionary donations. Employee initiatives included a lunchtime feast, several bake off events and a 'race the sun' cycle raising a total of £2k in addition to Group donations.

Following several years of ad-hoc charity initiatives, the Group made a commitment to investigate the viability of a 3-year strategic partnership with one charity which will allow the Group to make a more significant contribution to the work provided by the charity selected. The Group's charity committee is currently liaising with several charities on this initiative with a decision expected in late April 2017.



## Employee diversity and employment policies

IP Group is an equal opportunities employer. Diversity is key to how we work and we believe that great ideas can come from anyone. As such, we believe in equal opportunity for all people when it comes to recruitment, selection and career development. For the year ended 31 December 2016, the Group employed an average of 70 employees and had five non-executive directors. A breakdown of our people by gender can be seen in the table below. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and, insofar as it is able to, ensures that all transactions the Group enters into uphold these principles.

Total Staff: 76 <sup>(i)</sup>	Male	Female
Board <sup>(ii)</sup>	70%	30%
Senior Management <sup>(i)</sup>	69%	31%
All Employees <sup>(i)</sup>	47%	53%

i. Excludes non-executive directors

ii. Includes Company Secretary

## Talent management

We believe in recruiting exceptional people to do exceptional things and we know how important our unique culture is to attracting and retaining talent. Our values – passionate, principled, pioneering – truly describe how it feels to work within IP Group. People are given an unusual degree of freedom and authority to accomplish the extraordinary things we do and we are highly supportive of ‘flexible working’. We consider our flexibility to be important in our approach to turning ground-breaking science into world-changing businesses.

Because we operate in a specialised segment of our industry, we recruit talent with a combination of rare skills such as scientists with commercial and entrepreneurial backgrounds, who can operate with equal confidence in both academia and fast-paced start-ups while speaking the language of the City. Development comes from the experience our people gain from working with a significant number of start-up enterprises and seeing first-hand how they are operated. Sharing knowledge and discussing these experiences as well as structured training is key to leveraging this learning across the Group. To this end, we encourage employees to build strong relationships with all their colleagues by keeping everyone updated regularly and often in person on the Group’s objectives and progress.

Exceptional people doing exceptional things should be well-rewarded for achieving exceptional results. While heavily weighted to successful performance over the medium to long-term, we consider that the Group offers an attractive overall remuneration package to all our employees with both short and longer-term components. We benchmark remuneration and benefits regularly against the industry. Our remuneration and benefits package focuses on supporting health (through private medical and Ride-to-Work) and family (insurance and through inclusion of families in some of our other benefit options and Childcare Vouchers) while also offering opportunities for longer term financial security through investment and savings opportunities

## Health and safety

All our people are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The Chief Operating Officer 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 is to enable all of the Group’s people to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the years ended 31 December 2016 and 31 December 2015, no reportable accidents occurred under UK Health and Safety regulations.

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

## Environmental policy

While we believe the direct environmental impact of IP Group plc and its subsidiary companies is relatively small, the Group is committed to ensuring the environmental impacts of our business operations remain as low as possible. We recognise our responsibility to ensure that the business operates in an environmentally responsible and sustainable manner. Employees are encouraged to reduce their impact on the environment by hosting meetings via video conference where possible, thereby only engaging in business travel when necessary, using public transport and by minimising the usage of paper by using the recycling facilities provided in our offices. While the Board as a whole has primary

# Our business ethics and social responsibility

## CONTINUED

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.

In addition, major investment themes for IP Group have included, and will continue to include, areas which have the potential to develop technologies which could result in significant environmental benefits.

### Organisation boundary and scope of emissions

The following section includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial year. We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1 and 2 emissions for which the Group is responsible.

For avoidance of doubt, this excludes any emissions from our investment subsidiary companies. Management believe the approach taken best captures the emissions for which the Group is directly responsible and has control over.

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that IP Group Plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

### GHG Reporting

The section below includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial year.

### Organisation boundary and scope of emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement.

An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1, 2 and 3 emissions for which the Group is responsible.

For avoidance of doubt, this excludes any emissions from our investment subsidiary companies. Management believe the approach taken best captures the emissions for which the Group is directly responsible and has control over.

### Methodology

The Group has employed the services of a specialist adviser, Verco, to quantify the GHG emissions associated with the Group's operations.

The following methodology was applied by Verco in the preparation and presentation of this data:

- the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol");
- application of Defra emission factors to the Group's activities to calculate GHG emissions;
- implementation of the new scope 2 reporting methods – application of location-based and market-based emission factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO<sub>2</sub>e;
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents).

### Absolute emissions

The total greenhouse emissions from IP Group plc's operations in the financial year 2016 (year ending 31 December 2016) were:

Location-based:

**3,180.6 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e)**

Market-based:

**3,130.3 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e)**

The growth in emissions is due to a substantial increase in business travel activity, which are classed as scope 3. It should be noted that, over the same period, there has been a decrease in Scope 1 (refrigerant gas losses) and Scope 2 (electricity) emissions.

## Intensity ratio

As well as reporting the absolute emissions, the Group's GHG emissions are reported below on the metric of tonnes per square metre of occupied office space. This is considered the most appropriate metric given that the majority of emissions result from the operation of the Group's offices and the day-to-day activities of the employees.

## Target and baselines

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

For 2016, the intensity metric has decreased from 0.27 tCO<sub>2</sub>e per m<sup>2</sup> to 0.09 tCO<sub>2</sub>e per m<sup>2</sup>. This is based

on using the location-based method for Scope 2 emissions which uses the same emissions factor source as in 2015. The main source of this decrease is from Scope 2 emissions. This is due to two factors: a reduction in the electricity consumption and a reduction in the carbon intensity of the electricity grid in the United Kingdom.

The 2016 intensity metric using the market-based method is 0.04 tCO<sub>2</sub>e per m<sup>2</sup>. This method was not applicable for 2015.

## Key figures

	2016 Tonnes CO <sub>2</sub> e	2015 Tonnes CO <sub>2</sub> e	2014 Tonnes CO <sub>2</sub> e	2016 Tonnes CO <sub>2</sub> e per m <sup>2</sup>	2015 Tonnes CO <sub>2</sub> e per m <sup>2</sup>	2014 Tonnes CO <sub>2</sub> e per m <sup>2</sup>
<b>GHG emissions</b>						
Scope 1 <sup>1</sup>	4.7	127.6	6.9	0.01	0.15	0.01
Scope 2 (location-based) <sup>2</sup>	74.9	97.7	103.9	0.09	0.12	0.13
Subtotal (location-based)	79.6	225.3	110.8	0.09	0.27	0.13
Scope 3 <sup>3</sup>	3,101.0	235.2	177.6			
<b>Total GHG emissions (Location-based Scope 2)<sup>4</sup></b>	<b>3,180.6</b>	<b>460.5</b>	<b>288.4</b>			

1. Scope 1 being emissions from the Group's combustion of fuel and operation of facilities.

2. Scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use.

3. Scope 3 being all indirect emissions (not in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions 2016 (59 employees & 860.23 m<sup>2</sup> office space)

4. Emissions calculated using a market-based approach were: Scope 2: 24.6 Tonnes CO<sub>2</sub>e, Total GHG emissions: 3,130.3 Tonnes CO<sub>2</sub>e

	2016 Tonnes	2015 Tonnes	2014 Tonnes
<b>Waste production</b>			
Landfill waste	1.2	6.7	4.5
Recycled waste	2.1	2.1	1.8
<b>Total Waste</b>	<b>3.3</b>	<b>8.8</b>	<b>6.3</b>

## Board approval

The Strategic Report as set out on pages 6 to 49 has been approved by the Board.

ON BEHALF OF THE BOARD

**Mike Humphrey**

Chairman

6 March 2017



# Develop

To develop and support these opportunities into a diversified portfolio of robust businesses

## Tissue Regenix Group

Making good commercial progress with US sales with DermaPure® gaining commercial traction within the US wound care market.

## Our Governance

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# Board of Directors



## Mike Humphrey Non-executive Chairman

**Effective date of current letter of appointment**

24 March 2015

**Age:** 65

**Independent:** N/A<sup>1</sup>

**Tenure:** 5 years

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

Formerly 40+ years at Croda plc including 13 years as CEO

**Current external appointments<sup>2</sup>**

None

**Committee memberships**

Nomination (chair) and Remuneration



## Alan Aubrey Chief Executive Officer

**Effective date of current letter of appointment**

20 January 2005

**Age:** 55

**Independent:** No

**Tenure:** 12 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

Founder of Techtran Group, 7 years as partner at KPMG, FCA 20+ Years

**Current external appointments<sup>2</sup>**

Non-executive Chairman Proactis Holdings plc

**Committee memberships**

Executive, Disclosure



## Mike Townend Chief Investment Officer

**Effective date of current letter of appointment**

5 March 2007

**Age:** 54

**Independent:** No

**Tenure:** 10 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

17+ years equity capital markets experience at

Lehman Brothers, Donaldson, Lufkin and Jenrette.

**Current external appointments<sup>2</sup>**

None

**Committee memberships**

Executive



## Greg Smith Chief Financial Officer

**Effective date of current letter of appointment**

2 June 2011

**Age:** 38

**Independent:** No

**Tenure:** 5 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

KPMG background, FCA 10+ years

**Current external appointments<sup>2</sup>**

None

**Committee memberships**

Executive, Disclosure



## David Baynes Chief Operating Officer

**Effective date of current letter of appointment**

20 March 2014

**Age:** 53

**Independent:** No

**Tenure:** 3 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

10 years as CEO at Fusion IP plc, previous experience taking companies from start-up to full listing on the London Stock Exchange

**Current external appointments<sup>2</sup>**

None

**Committee memberships**

Executive



### Doug Liversidge, CBE Non-executive Director

**Effective date of current letter of appointment:**

20 March 2014

**Age:** 80

**Independent:** Yes

**Tenure:** 3 years

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

10 years as Chairman at Fusion IP plc, 20+ years at British Steel

**Current external appointments**

None

**Committee memberships**

Nomination, Audit and Remuneration



### Jonathan Brooks Non-executive Director

**Effective date of current letter of appointment**

31 August 2011

**Age:** 61

**Independent:** Yes

**Tenure:** 5 years

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

Formerly CFO ARM Holdings plc, 20+ years technology sector experience, FCMA

**Current external appointments**

None

**Committee memberships**

Nomination, Audit (chair) and Remuneration (chair)



### Professor Lynn Gladden, CBE Non-executive Director

**Effective date of current letter of appointment**

26 March 2014

**Age:** 55

**Independent:** Yes

**Tenure:** 3 years

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

Fellow of the Royal Society, Royal Academy of Engineering, Institution of Chemical Engineers, Royal Society of Chemistry and Institute of Physics, Shell Professor of Chemical Engineering

**Current external appointments**

The British Land Company PLC

**Committee memberships**

Nomination, Audit and Remuneration



### Dr Elaine Sullivan Non-executive Director

**Effective date of current letter of appointment**

30 July 2015

**Age:** 56

**Independent:** Yes

**Tenure:** 1 year

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

25+ years pharmaceutical industry experience, senior management teams of Eli Lilly and Astra Zeneca, currently CEO of Carrick Therapeutics

**Current external appointments**

Supervisory Board of Evotec AG

**Committee memberships**

Nomination, Audit and Remuneration

1. Mr Humphrey was considered by the Board to be independent on appointment.
2. Excludes appointments to Group portfolio company boards.

# Corporate Governance Statement



“Further development of the Group’s corporate governance framework against a general backdrop of UK and US volatility”

**Mike Humphrey** Chairman

In light of the growth of the Group’s business and operations set against a backdrop of socio-political developments affecting world markets in 2016 and which are expected to further influence the ways in which companies are able to conduct their business in the future, the Board has placed an added focus on developing a robust corporate governance strategy alongside promoting an enhanced culture of risk identification, reporting and mitigation. The latter being most prominent in the establishment of the Group’s new Risk Council which supports the Executive Committee and Board in their risk management responsibilities. The Board remains focused on the execution of the Group’s strategy, working with its partners to develop outstanding businesses based on unique intellectual property and in doing so, it continues to recognise the importance of a top-down focus on corporate governance as an integral part of all of Group activities.

The Board is accountable to the Group’s shareholders for good governance and this report, together with the Reports of the Remuneration, Nomination and Audit and Risk Committees of the Board describes the Group’s detailed approach to corporate governance and further information on the key developments in these areas during the year.

The Board looks forward to being able to discuss these matters with shareholders at the Group’s forthcoming AGM in May 2017 or indeed at any other point during the year.

**Mike Humphrey**  
Chairman

## Compliance with the UK Corporate Governance Code

The Directors are committed to a high standard of corporate governance and to compliance with the best practice of the UK Corporate Governance Code (the “Code”). The version of the Code applicable to reporting periods beginning before 17 June 2016 was the version issued by the Financial Reporting Council in September 2014. The Directors consider that the Group has been and continues to be in compliance with the provisions set out in the Code.

Further explanation as to how the provisions set out in the Code have been applied by the Group is set out in the following statement, the Directors’ Remuneration Report, the Audit and Risk Committee Report and the Strategic Report.

## The Board

### Role and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group as a whole. Whilst seeking to support entrepreneurial behaviour in its partner institutions through the identification of compelling intellectual property with the potential to grow into robust and unique business propositions, the Board also seeks to provide entrepreneurial leadership within a framework of controls for assessing and managing risk; defining, challenging and interrogating the Group’s strategic aims and direction.



The Board recognises that in doing so it is necessary to support the maintenance and evolution of a 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 those aims; monitoring performance against key financial and non-financial indicators; succession planning; overseeing the system of risk management; setting values and standards in governance matters; monitoring policies and performance on corporate social responsibility and helping to shape and embed the Group's corporate culture and values.

The Directors recognise that the long term nature of the business of the Group in evolving great ideas into world changing businesses presents novel and unique challenges from both an operational and strategic standpoint. In supporting the evolution of novel technologies into outstanding intellectual based companies the Board acknowledges the key roles of Group functions in the fields of executive search, capital raising, company secretarial and legal support alongside the delivery of in-house mentoring and development of portfolio company management teams. The Directors believe that the Group's approach to supporting the portfolio companies it develops in this way is unique and serves not only to build sustainable businesses with longevity, but also to provide attractive returns for stakeholders by creating value over the longer term.

The robustness of the Group's portfolio, supported in this way, has been borne out over the course of the year in review. The impact of Brexit and other political transitions has been a volatile backdrop to what has proven to be a year of great commercial success for the Group's portfolio, as evidenced by key commercial and corporate milestones being achieved across the portfolio in all Group sectors.

The Directors are responsible for promoting the long-term success of the Group, taking into account the interests of shareholders and other key stakeholders including employees, suppliers, customers, universities and other partners, the community and the environment; for ensuring that obligations to shareholders and other stakeholders are understood and met; and in maintaining a satisfactory dialogue with shareholders. All Directors are equally accountable to the Group's shareholders for the proper stewardship of its affairs and the long-term success of the Group. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-executive Directors. The Executive Directors are directly responsible for running the business operations, and developing and implementing strategy, and the Non-executive Directors are responsible for constructively challenging and contributing to 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 and comprehensive. Further details in relation to the Group's approach to the management of its business risks, and the establishment, function and ongoing roles and responsibilities of the newly created Risk Council are set out on pages 38 to 45 and on pages 88 to 92.

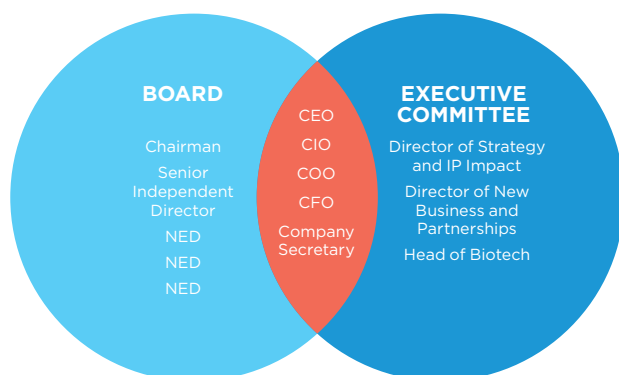
# Corporate Governance Statement CONTINUED

## Strategy

The Board reviews the strategy of the Group and any issues arising from it on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. 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, discussion and constructive challenge by the Board as a whole. Once made, the Executive Directors are fully empowered to implement those decisions.

## Schedule of Matters

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's operations to the Executive Committee. The composition of the Group's Executive Committee is more particularly set out below as well as on the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com). 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. The current schedule was adopted by the Board in August 2014 and reviewed by the Board in 2015. It is the intention of the Board that this be reviewed again in 2017 in order to ensure a regular refreshing of Board practices and procedures. This schedule of matters reserved for the Board includes, without limitation, those matters more particularly set out in the box in the table on page 57 and the full schedule can be found within the Corporate Governance section of the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com).



## Committees and Oversight

In addition to the Executive Committee, the Board delegates specific responsibilities to certain additional committees that assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management.

The three principal Board Committees (Audit and Risk, 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.

The current terms of reference for the Audit and Risk Committee, which were updated in December 2015, are fully compliant with the provisions of the Code and reflect best practice. The terms of reference were reviewed by the Audit and Risk Committee throughout the year and no amendments were considered necessary.

A review of the terms of reference of each of the Remuneration Committee and Nomination Committee during 2016 concluded that, whilst compliant with the provisions of the Code, certain amendments were desirable to reflect current best and market practice and the actual workings of the relevant Committee. The terms of reference for the Remuneration Committee and Nomination Committee were updated, recommended for approval and adopted by the Board in February 2016 and May 2016 respectively.

Each Committee will continue to review its own terms of reference at least annually and update these where necessary. All of the current Committee terms of reference are available on request from the Company Secretary or within the Corporate Governance section of the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com).

<b>Matters Reserved for the Board</b>	<ul style="list-style-type: none"> <li>• Approval of the Annual Report and accounts and half-year results statement, accounting policies and procedures or any matter having a material impact on future financial performance of the Group.</li> <li>• Strategic acquisitions or disposals by the Group.</li> <li>• Major portfolio capital allocation decisions, being those in excess of £5m per investment or 10% of the Group's cash, whichever is the lower.</li> <li>• Entry by the Group into strategic partnerships and collaborations with universities and other research institutions.</li> <li>• Major disposals from the Group's portfolio.</li> <li>• Approval and monitoring of the Group's strategic aims and objectives.</li> <li>• Approval of the annual budget and any material changes to it.</li> <li>• Considering and, where appropriate, approving Directors' conflicts of interest where permitted by the Group's Articles of Association.</li> <li>• Approving appointments to the Board and, subject to shareholder approval, determining and approving policies relating to Directors' remuneration and any changes in relation to the same.</li> <li>• Approval of terms of reference and membership of Board committees.</li> <li>• Approval, subject to shareholder approval, of the appointment and remuneration of the external auditors.</li> <li>• Approval of all circulars, prospectuses and other documents issued to shareholders governed by the FCA's Listing Rules, Disclosure Guidance and Transparency Rules or the City Code on Takeovers and Mergers.</li> <li>• Changes to the Group's capital structure, the issue of any securities and material borrowing of the Group.</li> <li>• The division of responsibility between the Chairman and the Chief Executive Officer.</li> <li>• The introduction of new share incentive plans or major changes to existing plans.</li> <li>• Material borrowings by the Group.</li> <li>• Litigation.</li> </ul>	<p>Available from the Company Secretary or on our corporate website</p> <p><a href="http://www.ipgroupplc.com">www.ipgroupplc.com</a></p>
<b>Board Committees</b>	<p>The terms of reference of each Committee establish its responsibilities and are available from the Company Secretary and on the Group's corporate website: <a href="http://www.ipgroupplc.com">www.ipgroupplc.com</a>.</p>	
<b>Executive Committee</b>	<p>Day-to-day decisions are delegated to the Executive Committee, which operates under agreed terms of reference. These are available from the Company Secretary.</p>	

# Corporate Governance Statement CONTINUED

In 2016, a Disclosure Committee was established to assist the Group to make timely and accurate disclosure of all information that is required to be disclosed to meet its legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange. It also enables to Group to meet its obligations under the Market Abuse Regulations and takes responsibility for the assessment and control of inside information.

## Board size and composition

As at 31 December 2016, there were nine Directors on the Board: The Chairman, four Executive Directors and four Non-executive Directors. The biographies of all Directors are provided on pages 52 and 53. During the year, there were no changes to the Board nor the composition of its Committees.

In accordance with the Code, all Directors will submit themselves for annual re-election by shareholders at the Annual General Meeting on 10 May 2017.

The Board unanimously recommends to shareholders the reappointment of all Directors retiring at the meeting and offering themselves for re-election, on the basis that the annual Board evaluation demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles. New directors may be appointed by the Board from time to time but the appointee is always subject to election by shareholders at the first Annual General Meeting following their appointment. In addition, it remains the Board's policy that all Directors be subject to re-election at each Annual General Meeting.

An extract of the Group's Policy relating to the terms of appointment and the remuneration of both Executive Directors and Non-executive Directors is detailed in the Directors' Remuneration Report on pages 72 to 75.

## 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 Group. In that culture, diversity across a range of criteria is valued. The Board recognises that diversity, in all its aspects, is key for introducing different perspectives into board debate and decision making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, knowledge, experiences and backgrounds, as well as representing differences in nationality, race and gender.

The Board's policy is to make appointments to the Board based upon merit against objective criteria. In addition, the Board agrees that diversity (including gender, ethnic and cultural diversity) remains a key aspect in creating an optimal board in terms of balance and composition.

In relation to gender diversity, the Nomination Committee gave further consideration throughout the year as to whether to set a target in relation to the number of women on the Board and in particular with reference to the Women on Boards Report by Lord Davies issued in March 2015 and the Hampton-Alexander Review issued in November 2016. Whilst the Group endorses Lord Davies' recommendations, it did not consider it appropriate nor in its best interests to set either Board or Group-wide targets at this stage and prefers instead to continue to consider all aspects of diversity (including, but not limited to gender) when assessing the overall Board composition and in making further new appointments. Notwithstanding that it does not have a fixed target in relation to the number of women on the Board, the Company does currently have two female directors on its Board and will aim to maintain female representation on the Board at least at this current level. In addition, the terms of reference of the Nomination Committee include a requirement for the Nomination Committee to consider diversity including but not limited to gender, nationality and race in evaluating the composition of the Board and in identifying suitable candidates for Board appointments.

In relation to ethnic diversity, the Nomination Committee has reviewed the Parker Review Committee Report on the ethnic diversity of boards issued in November 2016 and is aware of the recommendation that each FTSE 250 board should have a 'director of colour' by 2024. Similar to the approach adopted by the Committee with respect to

gender diversity, the Committee does not consider it appropriate to set Board or Group-wide targets at this stage with respect to ethnic diversity.

The Group will continue to consider all aspects of diversity when making further appointments. When Board vacancies arise, the Group's Nomination Committee will require the Group's in-house executive search function and/or external search consultants (as appropriate) to identify and present qualified people of a range of diverse backgrounds, colour, gender and nationality to be considered for appointment. The Group's commitment to diversity at the senior management level is also very strong and it actively works to increase the number of women, ethnic and other cultural diversities in leadership positions within the Group. A breakdown of employee diversity showing the number of persons who were Directors of the Company and senior managers at the date of this report can be found on page 47.

## Non-executive Directors

The Non-executive Directors provide a wide range of unique skills and experience to the Group. By virtue of such a diverse mix of skills and experience, the Non-executive Directors are and continue to be well placed to constructively challenge and scrutinise the performance of executive management at both 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 or circumstance which could materially influence or interfere with, or affect, or appear to affect, the exercise of their independent judgement.

Since 2009, the Board's policy has been to prohibit personal investments by the Non-executive Directors in any of the Group's portfolio companies, whether new or existing. This policy remains unchanged and accordingly, none of the Non-executive Directors presenting themselves for election or re-election at the Annual General Meeting in 2017 have holdings in any of the Group's portfolio companies.

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

## The roles of Chairman and Chief Executive Officer

Mike Humphrey is the Group's 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, the conduct of the Group's affairs and strategy and for 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 fosters 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 following their meetings, either orally or in writing, at the next Board meeting depending on its proximity to the meeting of the relevant committee.

The role of the Chief Executive Officer is to lead the delivery of the strategy and the executive management of the Group and its operating businesses. The Chief Executive Officer 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 business sectors, monitoring business performance against key performance indicators (KPIs) and reporting on these to the Board, and for providing the appropriate environment to recruit, engage, retain and develop the high quality personnel needed to deliver the Group's strategy.

# Corporate Governance Statement CONTINUED

## Senior Independent Director

Doug Liversidge is the current Senior Independent Director. 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 Officer. 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 (other than where the Senior Independent Director himself or herself wishes to be considered for the role). Further, the Senior Independent Director will lead the Board in their deliberations on any matters on which the Chairman is conflicted.

## Board support

The Company Secretary is responsible to the Board for ensuring that 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. The Company Secretary acts as a key point of contact for the Chairman and has a crucial role in the quality of information that flows between the Executive Directors and the Non-executive Directors and the Company Secretary is responsible for ensuring agreed actions are completed. The Company Secretary supports the Chairman on performance evaluation, the induction of new directors and the continuing development of current directors including ensuring directors receive suitable training to enable them to comply with their duties and effectively carry out their roles.

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. A copy of the indemnity is available for inspection as required by the Companies Act 2006. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

## Board meetings, provision of information and decisions

The Board meets regularly during the year as well as on an ad hoc basis, as required in response to the needs of the Group's business.

The Board had six scheduled Board meetings in 2016 with seven Board meetings scheduled for 2017 to ensure that the meeting schedule is sufficient to meet the needs of the business. The requirement for additional scheduled meetings shall be kept under review by the Company Secretary. In response to the findings of the externally conducted Board Effectiveness Review in 2015/2016 (the "2015/2016 Effectiveness Review") and following feedback from the Non-executive Directors, the Heads of the Group's four Sector teams (Healthcare, Biotech, Technology and Cleantech) presented to the Board throughout the year to allow the Board to review the progress, performance and objectives (for the next twelve to eighteen months) of each Sector. The Board also received presentations from the New Business and Partnerships Team, IP Capital, IP Exec and the US team in response to feedback from the Non-executive Directors for additional exposure to these operational teams. Further, this method of interaction assists the Board in gaining a deeper understanding of the breadth, stage of development and diversity of the Group's portfolio.

The majority of Board meetings are held at the Group's offices in London. The Board also aims to have at least one of its scheduled meetings, or its annual strategy day(s), at either the Company's offices in Leeds, Oxford, Sheffield, Cardiff or Newcastle 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 the Non-executive Directors, both with and without the presence of the Chief Executive Officer, are also held as the need arises.

In addition to the six scheduled Board meetings, the Board held a two-day strategy meeting in October 2016 devoted entirely to the consideration and development of the Group's strategic objectives. This provided an opportunity for all Directors, and particularly the Non-executive Directors, to ensure the Group's strategy is on course; to discuss medium and longer term strategic objectives, and the key drivers underpinning these; to review the Group's KPIs; to analyse and challenge the Group's objectives; and to review the Group's risk framework and risk appetite, including considering the major risks facing the Group and its strategy and how to assess, manage, mitigate and/or monitor the same. The Board undertook its strategy review in Glasgow, in line with its practice of holding off-site strategy meetings annually at a location of one of its partner universities in the UK or one of its nationwide offices. At that meeting the Board welcomed presentations from two Group portfolio companies in the Healthcare and Cleantech Sectors which evolved from intellectual property created at the University of Glasgow, one of the Group's partner universities.

The schedule of Board and Committee meetings each year is, so far as is possible, determined before the commencement of that year and all Directors or, if appropriate, all Committee members are expected to attend each meeting. In following the recommendations of the 2015/2016 Effectiveness Review the Committee and Board meetings are often split over two days to ensure sufficient time is allocated for the business of the Committees and the Board and that full engagement and attendance is possible across all meetings from those in attendance. Further, such scheduling allows for more in-depth engagement between the Non-executive Directors and the Executive Directors and the heads of each of the Sectors outside of the formally scheduled meetings.

Supplementary meetings of the Board and/or the Committees are held as and when necessary in response to business needs. In addition, the Board (including both Executive and Non-executive Directors) met for three formal dinners and the Chairman and the Non-executive Directors met without the presence of the Executive Directors once during the year.

Not less than five business days prior to each scheduled Board meeting, every member of the Board receives detailed Board packs, which include an agenda based upon the schedule of matters reserved for its approval along with appropriate reports and briefing papers, save in respect of meetings called on short notice or where late papers are permitted to be included with the consent of the Chairman. 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 Company Secretary will at all times facilitate access to Board meetings by electronic means (videoconference, telephone conference or other equivalent methods) to ensure maximum attendance at Board meetings throughout the year for all Executive and Non-executive Directors.

The Chairman, Chief Executive Officer, Chief Financial Officer, Company Secretary and Heads of each of the four Sectors 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 an analysis of performance against budget and other forecasts, as well as monthly reports from each of the Heads of each of the four Sectors. Additional information is provided as appropriate or if requested. At each meeting, the Board receives information, reports and presentations from the Chief Executive Officer, the other Executive Directors and, by invitation, other members of senior management or the Group's Sector Teams 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.

# Corporate Governance Statement CONTINUED

## Board and committee attendance

The following table shows the attendance of Directors at meetings of the Board, Audit and Risk, Remuneration and Nomination Committees which they were eligible to attend during the year:

	Scheduled Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Mike Humphrey				
Alan Aubrey				
Mike Townend <sup>1</sup>				
Greg Smith				
David Baynes <sup>1</sup>				
Jonathan Brooks				
Doug Liversidge				
Prof. Lynn Gladden				
Dr Elaine Sullivan				

1. Including one attendance by telephone.

### KEY

 Attended

 Did not attend



## 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 or she 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 at the beginning of every Board meeting 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 process includes an overview of the Group and its businesses, structure, functions and strategic aims; training on key legal matters relevant to the Group and its policies (such as matters relevant to Anti-Bribery and Whistleblowing policies and procedures), site visits to the Group's head office in London and to one or more of its nationwide offices in Leeds, Oxford, Sheffield, Cardiff and Newcastle, and site visits to a number of the Group's portfolio companies, including, where possible, at least one or

more within the Group's top ten holdings (by value), which will include (as a minimum) meeting with such companies' management and a presentation from them on their businesses.

The content of the induction process is regularly re-evaluated by the Board to ensure it remains tailored to the needs of the business of the Group and the specific profile of any incoming candidate. Following the completion of an induction process for a new director, the Company Secretary will seek feedback from the relevant incoming director to assist with this refreshing of induction processes.

In addition, the Company facilitates sessions as appropriate with the Group's advisers, in particular its sponsor Numis Securities Limited, as well as with appropriate external governance specialists, to ensure that any new directors are fully aware of and understand their responsibilities and obligations as a director of a FTSE 250 company and of the governance framework within which they must operate, including most recently, presentations on the impact of the Market Abuse Regulations introduced in July 2016 and directors' duties.

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 all of the Group's offices, its portfolio companies and its partner universities. Throughout 2017, it is anticipated that at least one of the Group's Board meetings or its strategy day(s) will be held off-site to further this objective. 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 and Sector teams. In 2017 it is intended that further presentations will be provided on a rolling basis and incorporated into the Board agenda in order to continue to update the Board on progress, to enhance the awareness of the Board as to how the Group operates on a day-to-day basis and explain how such functions assist in the execution of the Group's core strategy of systematically helping create, build and support outstanding intellectual property-based businesses.

# Corporate Governance Statement CONTINUED

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 access to relevant training and development opportunities, including those relevant to the Non-executive Directors' membership on the Board's Committees, is facilitated through the Company Secretary. Details relevant to the assessment of the Board's performance are set out at page 64.

## Board effectiveness and performance evaluation

In line with best practice under the Code a performance evaluation of the Board, its Committees and individual directors is conducted annually to ensure that Board performance continues to be effective, that each of the directors demonstrates commitment to his or her respective role and has sufficient time to meet their commitment to the Group. Further, the Code requires FTSE 350 companies to have an externally facilitated evaluation at least every three years.

In line with the provisions of the Code the Group undertook an externally facilitated process of review in 2016 whereby the Group appointed Deloitte LLP to externally facilitate the evaluation during January/February 2016. Following the 2015/2016 Effectiveness Review, and whilst not strictly required by the Code, the Board felt that it would be in the best interests of the Group to again appoint Deloitte LLP to assist the Company Secretary with the facilitation of the effectiveness review of the Board on a limited scope basis (the "2016/2017 Effectiveness Review"). Deloitte LLP has no connection to the Group other than the provision of ad-hoc advice to the Remuneration Committee and the undertaking of prior Board evaluation activities. In light of the same the Board was satisfied that Deloitte LLP was sufficiently independent to be able to facilitate the 2015/2016 Effectiveness Review and assist with the more limited scope of the 2016/2017 Effectiveness Review.

This limited scope of engagement with Deloitte LLP for the 2016/2017 Effectiveness Review comprised:

- The distribution of an on-line internal survey for the purposes of assessing Board and Committee effectiveness; and
- The completion of an analysis of the online survey data and collation of those results, reporting to the Company Secretary on the top-line findings.

The anonymity of all respondents was ensured throughout the process in order to encourage an open and frank exchange of views. The results were analysed by Deloitte and a short form summary of the findings was prepared by Deloitte and shared with the Board by the Company Secretary in February 2016. Overall it was concluded that the Board continues to work effectively, with demonstrable improvements being identified from the implementation of the findings of the 2015/2016 Effectiveness Review.

## Director performance assessment and review

In addition to the 2016/2017 Effectiveness Review, 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.

Further, the performance of each of the Non-executive Directors on the Board is reviewed by the Chairman with support from the Company Secretary, the performance of the Chief Executive Officer is reviewed by the Chairman and the operational performance of the other Executive Directors is reviewed by the Chief Executive Officer as part of the annual appraisal process. In addition to the aforementioned annual reviews, the performance of the Executive Directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review, in order to avoid a conflict of interest.

## Director rotation and independence

Following the outcome of the 2015/2016 Effectiveness Review, the Nomination Committee and the Company Secretary have agreed a standardised rotation schedule relevant to each of its Non-executive Directors reflecting that each Non-executive Director's appointment (including that of the Chairman) shall be for a three year term pursuant to the terms of each relevant letter of appointment, subject to renewal for subsequent three year term(s), and the term permitted for each Non-executive Director (excluding the Chairman) shall be a maximum of three rolling three year terms in order to maintain his or her independence from a governance perspective in accordance with the Code.

Once a Non-executive Director's appointment (or re-appointment) has been confirmed for a further three years (approved by the Board following a recommendation by the Nomination Committee) in line with the above, the Company Secretary will issue a formal letter to the relevant Non-executive Director confirming this arrangement in the form of a side letter to the existing letter of appointment which shall remain in full force and effect unless other amendments are required.

The Nomination Committee shall apply the same approach regarding rotation to the Chairman's term of appointment.

## Committees of the Board

The composition of the three Committees of the Board and the attendance of the members throughout the year is set out in the table on page 62.

## Remuneration and Audit and Risk Committees

Separate reports on the role, composition, responsibilities and operation of the Remuneration Committee and the Audit and Risk Committee are set out on pages 69 to 87 and pages 88 to 92 respectively.

## Nomination Committee

The Nomination Committee leads the process for Board appointments and the re-election and succession of directors and the Chairman. Its key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that the Board is effective in discharging its duties.

It is responsible for making recommendations to the Board concerning the composition and skills of the Board including any changes considered necessary in the identification and nomination of new directors, the reappointment of existing directors and the appointment of members to the Board's Committees. It also assesses the roles of the existing directors in office to ensure there continues to be a balanced Board in terms of skills, knowledge, experience and diversity. The Nomination Committee reviews the senior leadership needs of the Group which will enable it to compete effectively in the marketplace. The Nomination Committee also advises the Board on succession planning for Executive Director appointments although the Board as a whole is responsible for succession generally.

The Committee is chaired by Mike Humphrey. Its other members, as at 31 December 2016, were Jonathan Brooks, Professor Lynn Gladden, Douglas Liversidge and Dr Elaine Sullivan, ensuring a majority of independent Non-executive Directors as prescribed by the Code. To ensure compliance with the provisions of the Code, the independence of the Committee and to avoid any potential conflicts of interest, the Committee has agreed that Mike Humphrey will not chair any meetings of the Committee dealing with the appointment of a successor to the chairmanship of the Group.

The Nomination Committee meets as and when required, or as requested by the Board, and met three times during 2016. The attendance by each member of the Committee at the meetings during 2016 is set out on page 62.

In line with and in consideration of the recommendations provided by Deloitte LLP in the 2015/16 Effectiveness Review, and following the approach adopted by the Group in identifying and appointing Lynn Gladden and Elaine Sullivan to the Board in March 2014 and July 2015 respectively, it was agreed that Stuart Thompson, Director of IP Exec, the Group's in-house executive search function, be appointed to run the search and recruitment process for a new Non-executive Director as a replacement for Mr Liversidge on behalf of the Nomination Committee so as to capitalise on the in-depth skill, knowledge and experience of IP Exec in recruiting Non-executive Directors with relevant expertise.

Ahead of commencing the search and in order to enable the job specification to be framed accurately, an updated gaps analysis on the Board's composition was initiated in which the following matters were considered: the current balance, skills, knowledge, diversity and experience of the Board as it presently stands with regards both Executive Directors and Non-executive Directors, in order to identify what will be the main skills, experience and attributes required of the new Non-executive Director taking the additional role of Senior Independent Director presently occupied by Mr Liversidge. Furthermore, Mr Thompson conducted one-on-one interviews with each of the Directors (both Executive and Non-executive) in order to determine their views on the composition of the Board in light of the appointment of this new candidate.

# Corporate Governance Statement CONTINUED

On completion of this scoping exercise, Mr Thompson reported his findings to the Nomination Committee at the Board meeting in July 2016 in relation to his consideration of and findings relevant to the composition of the Board as a whole. The findings of this exercise were reviewed by the Committee and approved, thereafter the preparation of a detailed job specification was undertaken and the recruitment search commenced.

The recruitment search is ongoing at the time of this report. A longlist of candidates has been carefully considered by the Committee in conjunction with Mr Thompson and a shortlist of candidates has been prepared, with one-on-one interviews being conducted with the Chairman and other Directors (both Executive and Non-executive) in January and February 2017 with a view to a formal appointment being made in March or April 2017 to allow for a transition period between the incoming candidate and Mr Liversidge as the Board's outgoing Senior Independent Director.

In connection with any future appointments to the Board, the Committee will continue to adopt a formal, rigorous and transparent procedure, including giving full consideration to the balance, skills, knowledge, independence and diversity (including gender) on the Board in advance of any new search for a director to ensure a suitable balance is maintained (see paragraph headed "Diversity" on page 58 for further explanation of the considerations made by the Committee in this regard). Consideration will also always be given to whether identified candidates have enough time available to devote to the role.

## Succession Planning

During 2016, the Group's HR Director has worked with the Nomination Committee to further formalise and advance the Group's approach to succession planning, recognising that succession planning is a key factor of sound corporate governance practice and in ensuring the ongoing, long term success of the business of the Group. In parallel to succession planning at the Board and senior executive level, developing internal talent at all levels within the Group is a continuous process. The Committee is responsible for overseeing that suitable leadership and talent development plans and processes are in place to maximise the potential of the Group's employees and that the Group has effective recruitment policies to continue to attract and retain talented employees.

The Committee recognises that there is a need for a robust succession planning framework to be in place to mitigate the risk of any unforeseen circumstances and ensure that changes in Board or senior executive positions are effectively managed and do not cause significant disruption to the Group. In particular, the following specific steps were taken in 2016 in respect of succession planning for all Directors, members of the Executive Committee (who are not Board Directors) and other key senior management positions:

- A formalised succession plan was prepared by the Group's HR Director in consultation with the Chairman, the Group's Chief Executive Officer, and Company Secretary.
- In consideration of the requirements of the Code for the Board to satisfy themselves that plans are in place for orderly succession at Board and senior management level, this formalised plan was circulated to the Nomination Committee and the Chief Executive Officer and the Chief Operating Officer, with the latter Executives receiving a partly redacted version of the planning document in order to avoid a possible conflict of interest with regards their own succession arrangements.

The Committee carefully considered the succession plan in detail at its meeting in May 2016, confirming at that time that no further changes were required to be made to the plan but that regular reviews of the same would be required and that this process be led by the Group's HR Director in consultation with the Chairman and others as necessary subject to the succession matter in question.

The Committee together with the HR Director retains responsibility for the maintenance and where appropriate, updating of the succession plan in consultation with the Executive Directors to the extent the Committee deems this to be appropriate. Where the succession plan addresses matters relevant to the succession of an Executive Director, the Executive Director in question shall not be consulted, so as to avoid issues arising relevant to conflicts of interests.

In addition, the Committee together with the Group's HR Director is responsible for developing and monitoring the Group's own internal talent pipeline. Whilst it is the opinion of the Committee that sound systems and procedures are already in place to ensure the development of the Group's employees at all levels of the organisation, the Committee along with the Executive Directors will continue to oversee further enhancement of the same during 2017 with support from the HR Director.

## Internal control

The Board fully recognises the importance of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Group's internal controls, which are Group-wide and were in place during the whole of 2016, were reviewed by the Board and were considered to be effective throughout the year ended 31 December 2016.

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 are up to the date when 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 2016.

## Identification and evaluation of 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. The Board actively identifies and evaluates the risks inherent in the business, formally reviews these on at least an annual basis (or as market or business developments require) and ensures that appropriate controls and procedures are in place to monitor and, where possible, mitigate 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. In order to ensure the effective facilitation of this review the Board receives a formal presentation and update from the Group's Managing Director, New Business and Partnerships Team annually alongside regular reporting within the regular Board papers on a rolling agenda basis.

The Board also reviews equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate dependent on their relative size as regards the aggregate portfolio as a whole.

The Board maintains an up-to-date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 38 to 45. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

## 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 receives details of actual performance measured against the budget each month.

# Corporate Governance Statement CONTINUED

## Relations with stakeholders

The Company is committed to a continuous dialogue with shareholders as it believes that it is essential to ensure amongst its shareholders a greater understanding of, and confidence in, the short, 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 takes place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer, Chief Investment Officer, Chief Operating Officer and the Chief Financial Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Chief Investment Officer and the Chief Executive Officer. The Senior Independent Director and other Directors make themselves available, as appropriate, 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 Board and the structure of the Executive Directors' remuneration.

The Company uses the Annual General Meeting ("AGM") as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 2.00pm on 10 May 2017 at IP Group plc, 9th Floor, The Walbrook Building, 25 Walbrook, London, EC4N 8AF 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 are published on the Group's website after the meeting and declared 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 other strategic collaborations; 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 has raised a concern 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 12 May 2016 as per previous Annual General Meetings, 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 12 May 2016 up to the conclusion of the 2017 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 2017 AGM, to be held on 10 May 2017, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

## 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

**Mike Humphrey**  
Chairman  
6 March 2017

**Alan Aubrey**  
Chief Executive Officer

# Directors' Remuneration Report

## Remuneration Statement



“Implementing our agreed Policy against the backdrop of a challenging and changing environment”

**Jonathan Brooks** Chairman of the Remuneration Committee

On behalf of your Board, I am pleased to present our Directors' Remuneration Report (“DRR”) for the year ended 31 December 2016.

### 2016 Performance and incentive out-turns

Like many businesses, 2016 has presented the Group and its portfolio companies with a number of challenges, particularly in the equity financial markets and, while we remain confident that the underlying commercial progress in many of our spin-out companies will be reflected in their value over the medium to long term, the fair value of our portfolio has not increased by the levels required in order to attain our incentive targets. The performance objectives for the Annual Incentive Scheme (“AIS”) and the Long Term Incentive Plan (“LTIP”) are both strongly aligned with the Group's financial performance and, as a result of 2016's performance, neither scheme will vest this year.

The Group's Return on Hard NAV for 2016 was negative £7.6m, a significant contrast to the Group's record positive return of £84.0m in 2015. This means that the threshold target for the 2016 AIS was not met and, as a consequence, neither the Executive Directors nor any of the Group's employees will receive any annual incentive awards this year. We provide transparent disclosure of our annual bonus performance targets on both a retrospective and prospective basis. Full details of annual bonus targets for 2016 and forward looking targets for 2017 are contained in this report.

Similarly, the cumulative three-year return on the Group's Hard net assets has not met the 8% per annum threshold target for the Group's 2014 LTIP awards that were scheduled to vest in March 2017. Further, while the actual absolute Total Shareholder Return (“TSR”) performance period for the 2014 LTIP awards runs until 31 March 2017, based on the Group's share price at the date of this report, the minimum

8% annualised return has not been met. As a result, it is currently anticipated that none of the 2014 awards will vest.

The Committee considers that these outcomes are appropriate in light of the Group's financial performance and reflect the Committee's 'pay for performance' principles and the stretching, objective incentive targets.

### Remuneration Principles

IP Group's recruitment mantra is to hire extraordinary people to do extraordinary things and we believe that our people should be well rewarded when they achieve the challenging performance expectations required to maintain the Group's success. We believe the remuneration packages should reflect a 'low base/ high long-term variable' mix which aligns to this 'pay for performance' principle.

We also believe rewards should be market competitive to ensure we attract and retain people of the highest calibre. We achieve this through periodically benchmarking against companies of a similar size and complexity and those most likely to be a competitor for our talent. In this context, the Committee is also cognisant that the sector in which the Group operates, the commercialisation of science, has continued to see an increase in both the number of companies and the level of investor interest in recent years.

The Committee also ensures the framework aligns to investor expectations and best practice.

Finally, we continue to place significant emphasis on the fair and consistent application of our remuneration principles across the Group, with a number of components of pay cascaded to all employees throughout our business.

# Directors' Remuneration Report CONTINUED

## Remuneration Statement

The remuneration framework for our executive directors reflects the application of these principles, and is summarised below:

Salary	Typically, salaries approach the bottom end of a market competitive range for similar sized companies
Pension	<ul style="list-style-type: none"> <li>10% of salary contribution to Company defined contribution plan, personal pension plan or cash equivalent</li> </ul>
AIS	<ul style="list-style-type: none"> <li>Maximum 100% of salary</li> <li>Based on stretching return on Hard NAV targets disclosed retrospectively and prospectively</li> <li>Half of any bonus deferred into equity over two-year period</li> <li>AIS arrangements cascade to all employees in the business</li> </ul>
LTIP	<ul style="list-style-type: none"> <li>Annual awards of 300% of salary (CEO) and 200% of salary (other executive directors)</li> <li>Based on stretching Hard NAV and TSR growth targets (with a relative TSR underpin)</li> <li>Includes a two-year post-vesting holding period</li> <li>LTIP arrangements cascade to all employees in the business</li> </ul>
Shareholding guidelines	<ul style="list-style-type: none"> <li>200% of salary (CEO) and 150% (other executive directors)</li> </ul>
Clawback	<ul style="list-style-type: none"> <li>Comprehensive clawback provisions on all variable elements</li> </ul>

### Implementing phased increases approved at 2016 AGM

In our 2015 Annual Report, we outlined the proposal to increase the total remuneration opportunity for the Group's Chief Executive Officer and Executive Directors using a phased approach over a number of years. The changes, which were overwhelmingly approved by 99.95% of shareholders at the Group's 2016 AGM, are intended to position Executive Director salaries near to the lower quartile of executives at companies of a similar size and complexity and to align executive remuneration with the Group's long-term business model to an even greater extent by further shifting the balance of the overall mix of Directors' remuneration towards the longer term. As outlined during the shareholder consultation process, these changes sought to address the fact that the total remuneration of the executives, and the CEO in particular, had been historically considerably lower than comparator companies and that this issue was considered to present an unacceptable risk to the Group if left unaddressed. The Committee's proposal was approved at the Annual General Meeting on 12 May 2016.

The changes set out below were all disclosed in the 2015 Directors' Remuneration Report and were approved by shareholders as described above. No additional changes are proposed.

### Executive Directors' base salaries for 2017

As described in the 2015 Remuneration Report and approved last year, the following changes to Executive Directors' salaries to reflect the agreed phased schedule of long-term increases will be implemented in April this year:

- The CEO's base salary will be increased by 15.9% to £400,000;
- The CFO's base salary will be increased by 10.9% to £265,000;
- The base salary for the Chief Operating Officer and Chief Investment Officer will increase by 3.9% to £265,000

With these increases, the Committee considers that the salaries of the executive directors will be around the lower quartile when compared to a peer group of companies of similar size and complexity. These increases represent the final stage of the phased increases agreed last year. For next year, the Committee currently anticipates reverting to the approach set out in the Remuneration Policy whereby any increases will not normally exceed the average increase awarded to other UK-based employees.



We have approached the general increases for employees with the same principles of benchmarking and calibration as in previous years. Following two years of more significant base salary adjustments to more closely align with comparable roles in comparable companies, the average increase across the employee base has been agreed at 4.5%.

More detail on the executive director salary increases is set out on page 76.

### Executive Directors' AIS and LTIP opportunities

There will be no change to AIS or LTIP opportunities for 2017.

### Long Term Incentive Carry Scheme ("LTICS")

The Committee considers that, in order to align its employees with its core strategic objectives, the Group's remuneration structure requires incentive levers covering the short term, the longer term and, in common with many of our comparator companies, incentives directly aligned with the returns achieved on the specific assets, potentially over a much longer term of 10 years or more.

Following the shareholder consultation described above, the Group has introduced a new LTICS for all employees other than executive directors. This new scheme reinforces the link between the performance, development and ultimately the profitable disposal of underlying portfolio company holdings and the Group's employee reward. This very long term scheme (8-10+ years) represents the third lever in our remuneration framework and its objective is to give staff the equivalent of a 'founder's stake' in the portfolio companies that they help find, create and build.

The LTICS works by offering staff the opportunity to participate in the eventual returns from the Group's portfolio that are in excess of the original capital invested by the Group and after taking account of an annualised hurdle return. Portfolio companies are grouped into biennial vintage years with each company being allocated to one carry vintage and all capital invested and returns from that company will be included in that single carry vintage. The scheme contains well-defined good/bad leaver provisions, and malus and claw-back provisions. The scheme was launched towards the end of 2016 with strong take-up by employees.

### Committee Chairmanship

I am currently the Chairman of the Group's Remuneration Committee and its Audit and Risk Committee, the former being a position that I assumed on a non-permanent basis from Mike Humphrey when he became the Group's Chairman in 2015. In the past year, I have overseen the implementation of the Group's new Remuneration Policy having undertaken an extensive consultation with our major shareholders during 2015 and early 2016. As I intimated in last year's report, it is now my intention to hand over the chairperson role for the Remuneration Committee in the forthcoming twelve months and the Nominations Committee will consider the most appropriate candidate for the role during this period.

### Approval of updated Remuneration Policy and Report in 2016

Our updated Remuneration Policy and 2015 Directors' Remuneration Report each received 99.95% of votes cast in favour at our AGM in May 2016 and, while this indicated a strong level of support, the Group remains as committed as ever to engagement and transparency and I welcome the opportunity for continued discussion of the Group's remuneration with any shareholder, either at our AGM or at any other time during the year.

### Structure of this report

The following pages contain an extract of our Remuneration Policy (as approved by shareholders), a summary of how we intend to implement the policy during 2017, and the detailed disclosure of outcomes in respect of 2016.

ON BEHALF OF THE BOARD

**Jonathan Brooks**  
Chairman of the Remuneration Committee  
6 March 2017

# Directors' Remuneration Report CONTINUED

## Remuneration policy and components

### Remuneration policy extract

The Remuneration Policy was approved at the AGM held on 12 May 2016 and was effective as of that date. An extract of the policy table for executive directors contained in that policy is re-produced below for information only. The full Remuneration Policy is contained on pages 65 to 74 of the 2015 annual report which is available in the investor relations section of the Group's website.

Where relevant, references previously to 2015 and 2016 have been updated to reflect the application in 2016 and 2017.

### Remuneration Policy table

The table below sets out the key components of the Policy for Executive Directors' remuneration:

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Salary	To provide an appropriate level of fixed cash income to attract and retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	<p>Generally reviewed annually with increases currently effective from 1 April.</p> <p>Base salaries will be set by the Committee taking into account:</p> <ul style="list-style-type: none"> <li>• scale, scope and responsibility of the role;</li> <li>• skills and experience of the individual;</li> <li>• retention risk;</li> <li>• base salary of other employees;</li> <li>• base salary of individuals undertaking similar roles in companies of comparable size and complexity; and</li> <li>• appropriate market benchmarks.</li> </ul>	<p>There is no prescribed maximum annual salary.</p> <p>Annual salary increases for executive directors will not normally exceed the average increase awarded to other UK-based employees.</p> <p>Increases may be above this level in circumstances where the Committee considers it appropriate, for example if there is an increase in the scale, scope or responsibility of the role or to allow the base salary of recently appointed executives who are appointed on initially lower levels of base salary to move towards market norms as their experience and contribution increase.</p> <p>Where a significant discrepancy exists between an executive director's current salary and market levels, the Committee will normally phase any increases over a number of years. Following shareholder consultation in 2015, the Committee is implementing a number of phased salary increases to executive directors over 2015 - 2018.</p>	None, although performance of the individual is considered by the Committee when setting and reviewing salaries annually.

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Pension	Provide a competitive post-retirement benefit in a way that manages the overall cost to the Group in order to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	<p>Contribution to Group Pension Plan (defined contribution scheme) or to personal pension plan of the relevant executive's choosing or an equivalent cash alternative.</p> <p>No element other than base salary is pensionable.</p>	Maximum pension is 15% of base salary, however current operation is 10% of base salary for all executive directors.	Not applicable
Benefits	Provide a competitive and appropriate benefits package to assist individuals in carrying out their duties effectively and to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	<p>Ongoing benefits typically comprise, but are not limited to, health and travel insurance, income protection and life assurance and may also comprise a car benefit (or cash equivalent) and telecommunications such as broadband.</p> <p>The Group also offers certain salary sacrifice schemes including childcare vouchers, purchase of additional holiday and Ride to Work.</p> <p>Executive directors may also participate in any all-employee share plans that may be operated by the Group from time to time on the same terms as other employees.</p> <p>Additional benefits, which may include relocation expenses, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, including as may be required on recruitment.</p>	<p>The cost of benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits under the Policy. There is therefore no overall maximum opportunity under this component of the Policy.</p> <p>One-off benefits, e.g. relocation, shall not ordinarily exceed 25% of base salary other than in exceptional circumstances at the discretion of the Committee.</p> <p>Maximum awards under all employee share plans would be subject to prevailing statutory limit.</p>	Not applicable

# Directors' Remuneration Report CONTINUED

## Remuneration policy and components

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
<b>Annual Incentive Scheme ("AIS")</b>	<p>To provide a simple, competitive, performance-linked annual incentive mechanism that will:</p> <ul style="list-style-type: none"> <li>attract, retain and motivate individuals with the required personal attributes, skills and experience;</li> <li>provide a real incentive to achieve our strategic objectives; and</li> <li>align the interests of management and shareholders.</li> </ul>	<p>The AIS is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year.</p> <p>Actual AIS amounts are determined via a two-stage process. Firstly, performance against the agreed metrics is assessed. Secondly, the Committee reviews these results in the context of underlying business performance and the Group's financial position and may adjust the stage one outcome at its discretion.</p> <p>Subject to a suitable minimum amount, set by the Committee at the start of each year, awards will typically be payable 50% in cash and 50% in IP Group shares. The share element is in the form of conditional awards of shares or nil-cost options (or equivalent at the Committee's discretion) and is subject to further time-based vesting over two years (50% after year 1 and 50% after year 2) although the Committee may adjust the % split between cash and shares based on the financial position of the Group. The IP Group shares element shall be satisfied by awards of options under the deferred bonus share plan ("DBSP").</p> <p>In the case of intended fraud or misconduct by a participant that contributes to a significant error in financial information, the Company will be entitled to claw back the value of any cash amount paid under the AIS for that year and to cancel the vesting of any deferred share element, for a period of up to three years following the date of award or payment.</p>	<p>The maximum annual level of award is 100% of salary.</p> <p>Given the Group's salary year currently runs from 1 April to 31 March, the base salary used will normally be that which is in effect at the end of the annual financial year to which the award relates.</p>	<p>Specific targets and weightings will vary from year to year in accordance with strategic priorities but may include targets relating to:</p> <ul style="list-style-type: none"> <li>Relative or absolute TSR;</li> <li>Hard net assets;</li> <li>Financial performance;</li> <li>Appropriate non-financial measures; and</li> <li>Attainment of personal objectives.</li> <li>Weighting will be primarily towards Group financial performance.</li> <li>Performance will typically be measured over one year.</li> </ul>

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
<p><b>Long-term incentive plan (“LTIP”)</b></p>	<p>To provide a competitive, performance-linked long-term incentive mechanism that will:</p> <ul style="list-style-type: none"> <li>attract, retain and motivate individuals with the required personal attributes, skills and experience;</li> <li>provide a real incentive to achieve our strategic objectives; and</li> <li>align the interests of management and shareholders.</li> </ul>	<p>The LTIP is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year.</p> <p>Awards under the LTIP typically comprise conditional awards of shares in IP Group (although instruments with similar economic effect may be used if considered appropriate).</p> <p>From the 2013 LTIP awards onwards any share awards that vest, net of any tax and NICs liabilities, are subject to a further holding period. The holding period is one year for the 2013 LTIP and two years for subsequent awards.</p> <p>In the case of intended fraud or misconduct by a participant that contributes to a significant error in financial information the Company will be entitled to reduce the number of shares in respect of an unvested award and/or claw back any shares subject to the post vesting holding period.</p> <p>Calculations of the achievement of the vesting targets are reviewed and approved by the Committee.</p>	<p>The maximum annual level of award is:</p> <p>300% of salary for the Chief executive officer; and</p> <p>A lower percentage for other Executive Directors</p> <p>Each year the Committee determines the annual award for each executive director within the above Policy limits.</p> <p>The award level for 2017 shall continue to be 300% of the 2017/18 base salary for the Chief Executive Officer and 200% for all other executive directors.</p> <p>The overall maximum under the LTIP approved by shareholders is 400% of salary. However, the policy limits set out above will apply and this plan limit will only be used in exceptional circumstances (such as a buyout on recruitment or where an award could not be made in the relevant year and needs to be made in a subsequent year).</p>	<p>Specific targets may vary from year to year in accordance with strategic priorities but shall be based on:</p> <p>Relative or absolute TSR and</p> <p>Hard net assets.</p> <p>These performance criteria shall be presented in a matrix format similar to that set out in the Annual Remuneration Report.</p> <p>The level of vesting for threshold performance is 30% of the maximum.</p> <p>Where absolute TSR is used as a performance metric, awards may be subject to a relative performance underpin against an appropriate benchmark index or comparator group.</p> <p>Performance will ordinarily be measured based on a performance period of at least three years.</p>

# Directors' Remuneration Report

## Annual Remuneration Report

### Statement of implementation of remuneration policy in the following financial year

During 2015 and early 2016, we consulted extensively with shareholders as part of a comprehensive review of executive director remuneration. As a result of the review and subsequent approval of the updated Policy by 99.95% of shareholders at the 2016 AGM, the Committee has implemented the following two primary changes to the operation of the Group's remuneration arrangements for 2016 and beyond:

Increases to Executive Directors' base salaries. In particular, we are making increases, on a phased basis, to the salaries of the CEO and the CFO. Positioning of salaries following the increases will be around lower quartile of a peer group of companies of a similar size and complexity to the Group.

Increase in Executive Directors' LTIP opportunities. This reflects our performance based philosophy with a focus on the long term. The levels also reflect a 'low base/high variable' approach.

These changes to both salaries and LTIP are addressing issues which have confronted the Committee for several years. An important principle is that we are introducing salary increases on a phased basis as approved by the Group's shareholders at the 2016 AGM following an extensive consultation.

The changes set out below were all disclosed in the 2015 Directors' Remuneration Report and were approved by shareholders as described above. No additional changes are proposed.

### Salary and fixed components

With effect from 1 April 2017, the base salaries of the Executive Directors will be:

	2017/18 base salary	% change
Alan Aubrey (CEO)	£400,000	15.9% (£55,000)
Mike Townend (CIO)	£265,000	3.9% (£10,000)
Greg Smith (CFO)	£265,000	10.9% (£26,000)
David Baynes (COO)	£265,000	3.9% (£10,000)

As has been the case for a number of years, the Committee considers that, as part of a competitive overall package, base salaries should be within a market-competitive range. Given IP Group's business model and stage of development, this is currently considered to be within lower quartile to median of companies of a similar size and complexity.

As described in the Group's 2015 Directors' Remuneration Report, the Committee recognised that the situation where the salaries for a number of its Executive Directors, and most particularly its CEO, remained significantly below this market-competitive range could not be left unaddressed indefinitely without posing a major potential risk to the Group. As a result, the Committee engaged in a major consultation process and, having received input from shareholders representing approximately 70% of the total register, the Committee determined that, the salary of the Group's CEO would be £345,000 with effect from 1 April 2016 and would be increased to £400,000 with effect from 1 April 2017.

The increase for the CFO from £239,000 to £265,000 with effect from 1 April 2017 reflects an increase that is being phased over a number of years to bring him closer to a lower-quartile salary commensurate with his increased experience having initially joined the Board on a lower base salary.

Following the increases set out in the above table, the Committee considers that the salaries of the Executive Directors will be around the lower quartile when compared to a peer group of companies of similar size and complexity. These increases represent the final stage of the phased increases agreed last year. For next year, the Committee currently anticipates reverting to the approach set out in the Remuneration Policy whereby any increases will not normally exceed the average increase awarded to other UK-based employees.

For context, the average increase across all staff in the UK business, excluding executive directors and new joiners, was 6.6% in 2016 and is anticipated to be approximately 4.5% for 2017.

Pension and benefits will continue to be in line with the levels stated in the policy table.

### Incentives

As described above, in 2016 the Committee implemented a change in the variable earning opportunity for the executive directors consistent with our 'pay for performance' and 'low base/high long-term variable' approach to executive remuneration and intends to continue to apply the same approach in 2017.

Consistent with the maximum opportunity for the 2016 LTIP awards, the 2017 LTIP awards will be made at 300% of base salary for the CEO and 200% of base salary for all other Executive Directors. Performance will continue to be assessed against growth in hard

NAV and TSR performance (with the underpin based on relative TSR against the FTSE 250) as per the vesting tables for the 2013 LTIP set out on page 79. Any awards that vest, net of any tax and NICs liabilities, will continue to be subject to a further two-year holding period.

The maximum AIS opportunity will remain at 100% of base salary for all Executive Directors. As with the 2016 AIS, the sole performance measure remains the annual return achieved on the Group's Hard NAV. The Committee determines the AIS target return level each year taking into consideration the blend of assets that constitute the Group hard NAV, particularly the relative level of cash on which it is not currently possible to achieve a return in excess of approximately 1%. Reflecting our commitment to full transparency, we are again disclosing the AIS targets on a prospective basis. For 2017, the Committee has determined that threshold vesting of 25% of the maximum award will be available provided a minimum return of 6% is achieved while the maximum awards pool will be available should a return of 16% or greater be achieved. In absolute terms, this requires the achievement of a return on hard NAV in excess of £42m before any AIS may be awarded and a return in excess of £113m in order for full awards to be made. To put this into context, in order to achieve the upper target, the Group would need to achieve a return

on NAV more than 30% greater than the £84.0m achieved in 2015, itself the highest return on Hard NAV achieved by the Group in its history to date. The targets are therefore considered by the Committee to be appropriately stretching, particularly in light of the 2016 performance out-turns and the current economic climate including equity markets in the UK and other relevant major economies.

## Chairman and Non-Executive Directors

The fees for the Chairman for 2017/18 shall be £150,000, unchanged from the annual fee on his appointment in 2015. The fees of the Non-Executive Directors will be £42,000 reflecting a 5% increase compared to 2016/17. Additional fees for chairmanship of a board committee, or for being senior independent director, shall remain £7,500. These fees are considered to be at or around the lower quartile for equivalent roles in companies of similar size and complexity to the Group.

## Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for Directors for the financial years ended 31 December 2016 and 2015.

All £000s	Base salary/fees		Benefits		Pension <sup>1</sup>		Annual Bonus (AIS) <sup>2</sup>		LTIP <sup>3</sup>		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Executive Directors</b>												
Alan Aubrey <sup>4</sup>	232	202	4	4	29	25	—	300	—	138	265	669
Mike Townend	254	239	7	8	23	24	—	182	—	110	284	563
Greg Smith	232	206	5	5	23	21	—	159	—	78	260	469
David Baynes <sup>5</sup>	254	239	17	12	25	24	—	182	—	—	296	457
<b>Non-executive directors</b>												
Mike Humphrey	150	126	3 <sup>6</sup>	—	—	—	—	—	—	—	153	126
Jonathan Brooks	55	52	—	—	—	—	—	—	—	—	55	52
Doug Liversidge	47	44	1 <sup>6</sup>	—	—	—	—	—	—	—	48	44
Lynn Gladden	40	39	—	—	—	—	—	—	—	—	40	39
Elaine Sullivan	40	16	1 <sup>6</sup>	—	—	—	—	—	—	—	41	16

- Pension includes payments made to defined contribution schemes on behalf of the Directors or the value of any cash equivalent if applicable.
- The Group did not achieve the threshold performance level required for there to be an AIS bonus pool in 2016. AIS Bonus reflects total award value however any awards are payable 50% in cash and 50% in IP Group shares, with the share element subject to time-based vesting over two years.
- The LTIP value for 2016 is based on the fact that none of the 2014 LTIP awards are expected by the Committee to vest in March 2017 based on the performance conditions at 3 March 2017. The LTIP value for the 2015 comparative has been updated to reflect the actual share price on vesting, being 170p per share. Further information about the level of vesting for both of these awards is provided in the additional disclosures section pages 78 and 79.
- In addition, Alan Aubrey retained board fees in 2016 totalling £101,667 (2015: £88,333) from portfolio companies in which the Group is a shareholder and that were deducted from his base salary, as described further under "Outside appointments for executive directors" on page 86.
- David Baynes received reimbursement of certain travel costs considered commensurate with a car allowance, which were subject to PAYE/N.I.
- Commuting costs for Non-Executive Directors are reimbursed and are subject to PAYE/N.I.

# Directors' Remuneration Report CONTINUED

## Annual Remuneration Report

### Additional disclosures for single figure for total remuneration table (audited)

#### Annual incentive scheme

The targets for the 2016 AIS were solely financial in nature and were based on the annual return on hard net assets (i.e. excluding intangible assets) which were £714.3m at 31 December 2015. The targets for 2016 and the outturn against these were as follows:

Performance condition	Vesting criteria	Actual Performance
Return on Hard NAV	6% return (£42m): 25% of maximum opportunity ("threshold") 17% return (£121m): 100% of maximum opportunity	-1% return (£7.6m)

As shown in the table, and as noted previously, the financial performance of the Group in 2016 was a -1% actual return on hard NAV. Therefore, the Committee did not allocate any of the award pool.

#### Long-term incentive scheme

##### 2014 LTIP awards due to vest in March 2017

The 2014 LTIP awards are based on the performance of the Group's Hard NAV (the Group's net assets excluding intangibles and the Oxford Equity Rights asset) for the three financial years ending on 31 December 2016 and Total Shareholder Return ("TSR") from March 2014 to the ordinary vesting date, being 31 March 2017, using a one-month average. Both performance measures are combined into a matrix format as per the vesting 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 250 index, which can reduce the awards by up to 50%.

Vesting matrix: estimated 2014 LTIP out-turn

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.)					

Performance condition	Target Performance	Actual/forecast Performance
Hard NAV <sup>1</sup> (at 31 Dec 2016)	8%: £750m 15%: £885m	£706m (6% p.a. growth)
Annual TSR <sup>2</sup> (share price)	8%: 226p 15%: 321p	172p (-7% p.a. growth)
Comparative TSR	FTSE 250 +26%	IP Group -19%

<sup>1</sup> Hard NAV target increased by Committee to reflect £21.7m Fusion IP net assets acquired in 2014 and £276.1m net proceeds of the Group's placings in 2014 and 2015.

<sup>2</sup> TSR performance shown reflects the Group's one-month average share price to 3 March 2017. Actual performance period is the one-month average to 31 March 2017.

The actual performance of the Group in terms of Hard NAV growth was below threshold and based on the 1-month average share price to 3 March 2017, was below the lower TSR target and that of the FTSE 250 TSR performance. On this basis, the 2014 LTIP award is not expected to meet the minimum performance criteria required for vesting. The amounts disclosed above in the single remuneration figure table are based on this performance and resulting expected outcome. Actual vesting will be based on TSR performance to 31 March 2017.



## 2013 LTIP awards that vested in March 2016

The following table sets out the outcomes of the performance measures relating to the 2013 LTIP awards against the vesting criteria.

Vesting matrix: actual 2013 LTIP out-turn

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.)					

Performance condition	Target Performance	Actual Performance
Hard NAV <sup>1</sup> (at 31 Dec 2015)	8%: £624m 15%: £712m	£714.3m (15.2% p.a. growth)
Annual TSR <sup>2</sup> (share price)	8%: 180p 15%: 217p	170p (5.6% p.a. growth)
Comparative TSR <sup>2</sup>	FTSE 250 +30%	IP Group +23%

- Hard NAV target increased by Committee to reflect £21.7m Fusion IP net assets acquired in 2014 and £276.1m net proceeds of the Group's placings in 2014 and 2015.
- Group TSR performance based on one-month average prior to date of award and prior to 31 March 2017.

Executive Director	Type of interest	Basis of award (% salary)	Face value <sup>1</sup> (000s)	Threshold vesting <sup>2</sup>	End of performance period
Alan Aubrey	2016 LTIP	300%	£1,035	30%	31 Dec 2018 (NAV) / 31 Mar 2019 (TSR)
Mike Townend	2016 LTIP	200%	£510	30%	31 Dec 2018 (NAV) / 31 Mar 2019 (TSR)
Greg Smith	2016 LTIP	200%	£478	30%	31 Dec 2018 (NAV) / 31 Mar 2019 (TSR)
David Baynes	2016 LTIP	200%	£510	30%	31 Dec 2018 (NAV) / 31 Mar 2019 (TSR)

- The face value is calculated using the share price used to determine the number of shares awarded, being 155.8p, the closing price of the Group's shares on the date of award.
- Represents threshold vesting against both elements of the performance matrix. Lower vesting is possible if only one element of the matrix is partially met or as a result of the application of the relative performance underpin.

As can be seen from the performance outcomes table, the Hard NAV growth performance measure was achieved in full while the Group's Annual TSR did not meet the minimum threshold performance. Based on the vesting matrix, this would have resulted in awards vesting at 60% of maximum, however the Group's TSR was below that of the FTSE 250 index. This meant that the relative performance underpin applied and the Committee therefore applied the performance underpin framework which resulted in 56.7% of the 2013 LTIP awards vesting on 31 March 2016.

## 2016 LTIP awards

The 2016 LTIP awards were made based on 16 May 2016 with a face value of 300% of salary for the CEO and 200% of salary for other Executive Directors, based on the share price at date of grant and vesting subject to performance. Awards are calculated by reference to the salary effective for the 2016/17 salary year. Any conditionally-awarded shares that vest (net of tax) shall be subject to a two-year holding period.

The performance conditions that apply to both of these awards will follow the same matrix structure with the same vesting parameters as that set out above for the previous awards. Hard NAV growth will be measured over the three-year period to 31 December 2018 (starting point: £714.3m) and TSR shall be measured from 31 March 2016 to 31 March 2019 with a one-month average (starting point: 176.4p). The underpin will be with reference to TSR performance against the FTSE 250 over this same period.

# Directors' Remuneration Report CONTINUED

## Annual Remuneration Report

### Loss of office payments or payments to former directors (audited information)

No payments for loss of office were made to past directors during the year nor were any payments made to former directors for director duties that have not already been included in their historic single figures of remuneration.

### Change in remuneration of the Chief Executive Officer compared to Group employees

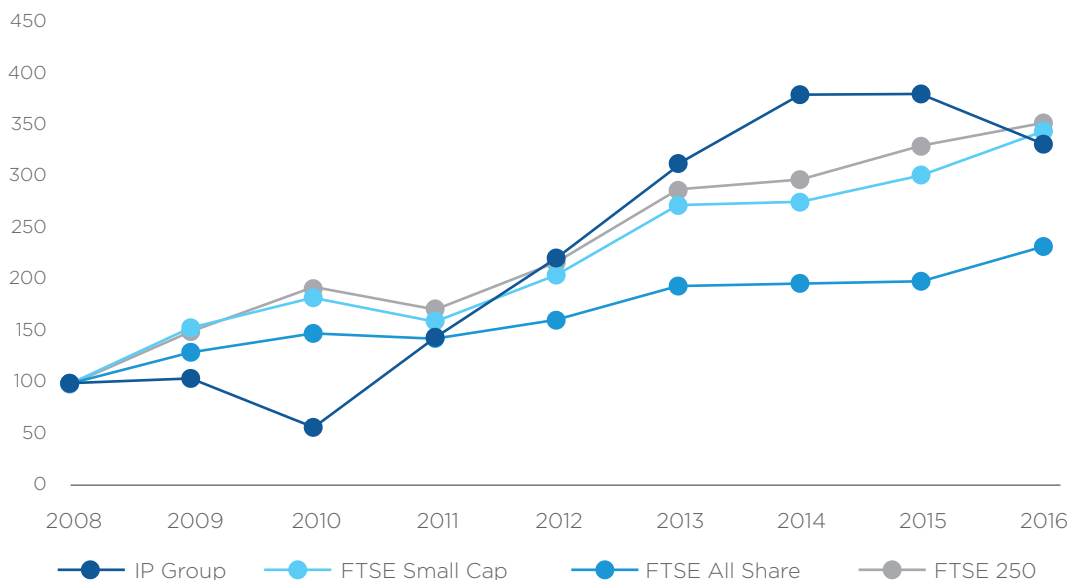
The table below sets out the increase in the remuneration of the CEO and that of our UK employees (excluding Directors and new joiners/leavers):

	% change in base salary 2015 to 2016	% change in bonus 2015 to 2016	% change in benefits (exc. pensions) 2015 to 2016
CEO	14.9%	-100%	-4.1%
UK employees	6.9%	-100%	-3.0%

### Historical executive pay and Group performance

The table and graph below allow comparison of the Total Shareholder Return ("TSR") of the Group and the Chief Executive Officer remuneration outcomes over the last eight years.

The chart below shows the Group's TSR performance against the performance of the FTSE All-Share, FTSE SmallCap and FTSE 250 indices over the eight-year period to 31 December 2016. The Directors have selected these indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during a significant proportion of the period in question and against which total shareholder return of IP Group plc should be measured.



## Historical Chief Executive Officer remuneration outcomes

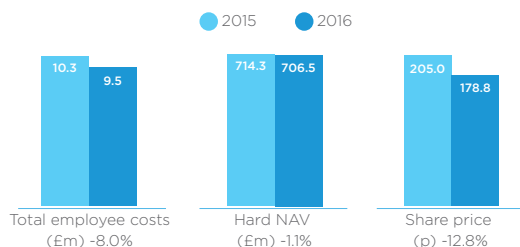
The table below summarises the Chief Executive Officer single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity for the current year and previous seven years.

Chief Executive Officer: Alan Aubrey	2009	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
CEO single figure of remuneration (£000s)	223	193	209	3,257	2,231	902	669	265
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%	0%	100%	0%
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%	100%	57%	0%

<sup>1</sup> LTIP vesting is based on the current expectations of the performance against the 2014 LTIP targets as discussed on page 78.

## Relative spend on pay

The chart below shows the total employee costs, change in "hard" NAV and change in share price from 2015 to 2016.



The information shown in this chart is based on the following:

**Total employee pay:** Total staff costs from note 8 on page 118, including wages and salaries, social security costs, pension and share-based payments.

**Change in "hard" NAV:** change in the Group's net assets excluding goodwill, intangibles and the Oxford Equity Rights asset taken from the statement of financial position on page 102.

**Returns to shareholders:** since the Group does not currently pay a dividend, returns to shareholders are represented by the change in the Group's share price over the period from 31 December 2015 to 31 December 2016.

## Directors' shareholdings and share interests (audited information)

The Group's Remuneration Policy contains minimum shareholding requirements for each of its Executive Directors.

The Committee has set the current limits at 2.0x salary for the Chief Executive Officer, and 1.5x salary for all other Executive Directors.

This level of shareholding is required to be met within four years of 1 July 2013 or date of appointment, if later. If the guideline is not met within this timeframe, then the Committee will discuss with the relevant executive director a plan to ensure that the guideline can be met within a reasonable timeframe. The Committee will ordinarily require executive directors to retain all shares received under the AIS or LTIP, other than as required to meet tax and NIC liabilities, until the guideline is met.

At the end of the year, all the Executive Directors met this requirement.

## Interests in shares

The Directors who held office during 2016 had the following beneficial interests in the ordinary shares of the Company:

Current directors	31 December 2016	
	Number of shares	% of share capital
Alan Aubrey	2,490,651	0.44%
Mike Townend	1,103,825	0.20%
Greg Smith	260,989	0.05%
David Baynes	226,066	0.04%
Jonathan Brooks	60,000	0.01%
Mike Humphrey	80,000	0.01%
Doug Liversidge	75,297	0.01%
Lynn Gladden	-	-
Elaine Sullivan	-	-

There have been no changes in the interests of the directors set out above between 31 December 2016 and 6 March 2017.

# Directors' Remuneration Report CONTINUED

## Annual Remuneration Report

### Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2016	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2016	Share price at date of conditional award (p)	Earliest vesting date(s)
<b>Alan Aubrey</b>							
2013 LTIP	143,239	—	(81,217)	(62,022)	—	177.5	31-Mar-16
2014 LTIP	147,042	—	—	—	147,042	177.5	31-Mar-17
2015 LTIP	124,751	—	—	—	124,751	214.5	31-Mar-18
2016 LTIP	—	664,313	—	—	664,313	155.8	31-Mar-19
	<b>415,032</b>	<b>664,313</b>	<b>(81,217)</b>	<b>(62,022)</b>	<b>936,106</b>		
<b>Mike Townend</b>							
2013 LTIP	114,592	—	(64,974)	(49,618)	—	177.5	31-Mar-16
2014 LTIP	117,634	—	—	—	117,634	177.5	31-Mar-17
2015 LTIP	99,801	—	—	—	99,801	214.5	31-Mar-18
2016 LTIP	—	327,342	—	—	327,342	155.8	31-Mar-19
	<b>332,027</b>	<b>327,342</b>	<b>(64,974)</b>	<b>(49,618)</b>	<b>544,777</b>		
<b>Greg Smith</b>							
2013 LTIP	81,127	—	(45,999)	(35,128)	—	177.5	31-Mar-16
2014 LTIP	94,310	—	—	—	94,310	177.5	31-Mar-17
2015 LTIP	89,409	—	—	—	89,409	214.5	31-Mar-18
2016 LTIP	—	306,803	—	—	306,803	155.8	31-Mar-19
	<b>264,846</b>	<b>306,803</b>	<b>(45,999)</b>	<b>(35,128)</b>	<b>490,522</b>		
<b>David Baynes</b>							
2014 LTIP	117,634	—	—	—	117,634	177.5	31-Mar-17
2015 LTIP	99,801	—	—	—	99,801	214.5	31-Mar-18
2016 LTIP	—	327,342	—	—	327,342	155.8	31-Mar-19
	<b>217,435</b>	<b>327,342</b>	<b>—</b>	<b>—</b>	<b>544,777</b>		

## Deferred bonus share plan (“DBSP”)

Directors’ interests in nil-cost options under the Group’s DBSP that have been granted in order to defer AIS bonuses in accordance with our Policy are as follows:

	Options held at 1 January 2016	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2016	Share price at date of award (p)	Earliest vesting date(s)
<b>Alan Aubrey</b>							
Deferral from 2013 AIS	33,037	—	—	—	33,037	192.4	15-Apr-16
Deferral from 2015 AIS	—	42,710	—	—	42,710	175.6	31-Mar-17
Deferral from 2015 AIS	—	42,710	—	—	42,710	175.6	31-Mar-18
	<b>33,037</b>	<b>85,420</b>	<b>—</b>	<b>—</b>	<b>118,457</b>		
<b>Mike Townend</b>							
Deferral from 2013 AIS	22,024	—	—	—	22,024	192.4	15-Apr-16
Deferral from 2015 AIS	—	25,981	—	—	25,981	175.6	31-Mar-17
Deferral from 2015 AIS	—	25,981	—	—	25,981	175.6	31-Mar-18
	<b>22,024</b>	<b>51,962</b>	<b>—</b>	<b>—</b>	<b>73,986</b>		
<b>Greg Smith</b>							
Deferral from 2013 AIS	15,593	—	—	—	15,593	192.4	15-Apr-16
Deferral from 2015 AIS	—	22,637	—	—	22,637	175.6	31-Mar-17
Deferral from 2015 AIS	—	22,637	—	—	22,637	175.6	31-Mar-18
	<b>15,593</b>	<b>45,274</b>	<b>—</b>	<b>—</b>	<b>60,867</b>		
<b>David Baynes</b>							
Deferral from 2015 AIS	—	25,981	—	—	25,981	175.6	31-Mar-17
Deferral from 2015 AIS	—	25,981	—	—	25,981	175.6	31-Mar-18
	<b>—</b>	<b>51,962</b>	<b>—</b>	<b>—</b>	<b>51,962</b>		

## Save-as-You-Earn (“SAYE”)

The Group operates an HMRC-registered SAYE share save scheme for all UK employees in which two Executive Directors are current participants. Their currently outstanding option contracts under the SAYE and the respective maturity dates are listed in the table below.

	Options held at 1 January 2016	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2016	Option exercise price (p)	Share price at date of award (p)	Earliest vesting date(s)
<b>Greg Smith</b>								
2014 SAYE	4,105	—	—	—	4,105	144.7p	198.3p	01-Aug-17
2015 SAYE	3,459	—	—	—	3,459	171.7p	235.6p	01-Oct-18
	<b>7,564</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>7,564</b>			
<b>David Baynes</b>								
2014 SAYE	4,975	—	—	—	4,975	144.7p	198.3p	01-Aug-17
2015 SAYE	4,193	—	—	—	4,193	171.7p	235.6p	01-Oct-18
	<b>9,168</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,168</b>			

# Directors' Remuneration Report CONTINUED

## Annual Remuneration Report

### Other long-term interests – legacy arrangements (audited information)

In addition to the Executive Directors' remuneration arrangements, the Group also operates co-investment and carried interest arrangements relating to certain venture capital funds that are under its management. Under the co-investment arrangements, 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 IPVF and The North East Technology Fund LP alongside the Group. Carried interest provides a preferential return to participants once the partnership in question has returned all funds contributed by limited partners together with a pre-agreed rate of return. The carried interest and co-investment arrangements will generally contain forfeiture provisions in respect of leavers over the investment period of the relevant partnership (typically 5-6 years).

As described in the Policy, no new allocations of this kind will be made to executive directors in future however the current outstanding interests in co-investment and carried interest schemes in connection with the Group's managed funds are as follows:

#### IPVF co-investment arrangements

The Executive Directors' commitments to, and returns from, 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 2016 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2016 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2016 £000
<b>Executive Directors</b>							
Alan Aubrey	56	0.18%	54	1	55	—	34
Mike Townend	56	0.18%	54	1	55	—	34
Greg Smith	35	0.11%	34	1	35	—	21
<b>Total</b>	<b>147</b>	<b>0.47%</b>	<b>142</b>	<b>3</b>	<b>145</b>	<b>—</b>	<b>89</b>

#### Carried interest arrangements

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

	Fund <sup>(i)</sup>	Carried interest <sup>(ii)</sup> at 1 January 2016	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme Interest at 31 December 2016 <sup>(iii)</sup>	Accrued value <sup>(iv)</sup> of scheme interest at 31 December 2016 £000
<b>Executive Directors</b>							
Alan Aubrey	IPVF	1.81%	—	—	—	1.81%	381
	NETF	1.55%	—	—	—	1.55%	—
Mike Townend	IPVF	1.81%	—	—	—	1.81%	381
	NETF	1.15%	—	—	—	1.15%	—
Greg Smith	IPVF	1.14%	—	—	—	1.14%	240
	NETF	0.85%	—	—	—	0.85%	—

i. Under the IPVF fund LPA, 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 assuming the relevant hurdle return has been met.

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 fair value of the relevant limited partnership's assets in excess of the capital contributed and the hurdle rate of return. Any payments will only be made following full repayment of limited partners' loan commitments and the hurdle return and accordingly actual payments under the scheme, if any, may be materially different to those set out above.

## Former Fusion IP LTIP

While serving as an executive director of Fusion IP plc, which was acquired by the Group in 2015, Mr Baynes was conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, Mr Baynes' Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards will vest on 31 December 2017 provided certain performance conditions are met which relate to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. In summary, if Fusion NAV growth of 10% per annum is achieved then 30% of an award shall vest. Maximum vesting will occur if Fusion NAV growth of 20% per annum is achieved with straight-line vesting between 30 and 100% if Fusion NAV growth of 10%-20% per annum is achieved. No vesting shall occur if Fusion NAV growth of less than 10% is achieved. Mr Baynes' entitlements under the Former Fusion IP LTIP are set out in the following table:

	Number of shares conditionally held at 1 January 2016	Conditional shares notional awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2016	Share price at date of conditional award (p)	Earliest vesting date(s)
David Baynes	446,000	—	—	—	446,000	n/a	31 December 2017
<b>Total</b>	<b>446,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>446,000</b>		

## 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 a maximum of two 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 circumstances where the executive director receives such fees directly, such sums are generally deducted from their base salary from the Group. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the relevant director.

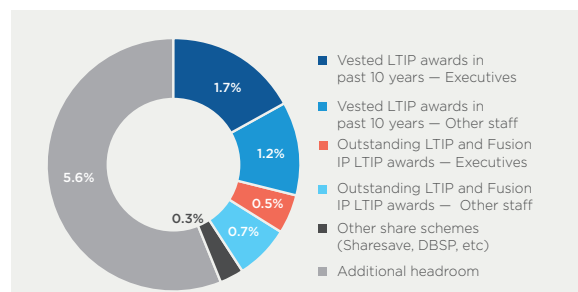
Any outside appointments (i.e. excluding those companies in which the Group is a shareholder) held by executive directors are set out on pages 52 and 53.

## Limits on the number of shares used to satisfy share awards (dilution limits)

All of the Group's incentive schemes that contain an element that may be satisfied in IP Group shares incorporate provisions that in any ten-year period (ending on the relevant date of grant), the maximum number of the Shares that may be issued or issuable under all such schemes shall not exceed 10% of the issued ordinary share capital of the Company from time to time.

The Committee regularly monitors the position and prior to the making of any share-based award considers the effect of potential vesting of outstanding awards to ensure that the Company remains within these limits. Any awards which are required to be satisfied by market purchased shares are excluded from such calculations. No treasury shares were held or utilised in the year ended 31 December 2016.

As at 31 December 2016, the Company's headroom position, which remains within such guidelines, was as shown in the chart to the right.



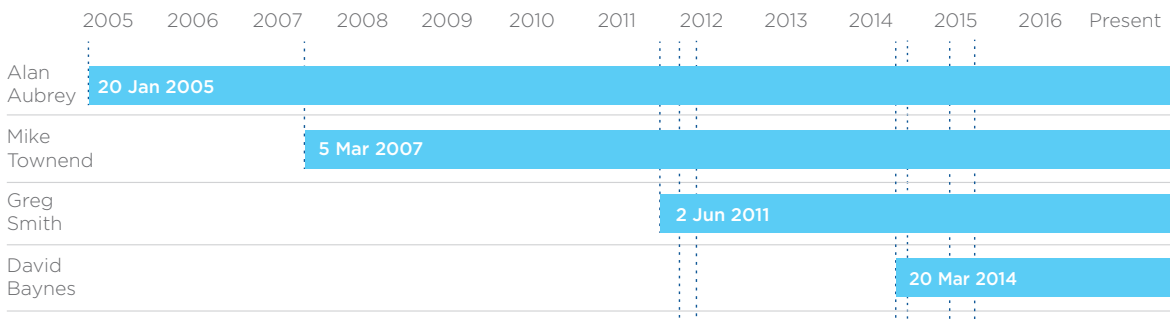
# Directors' Remuneration Report CONTINUED

## Annual Remuneration Report

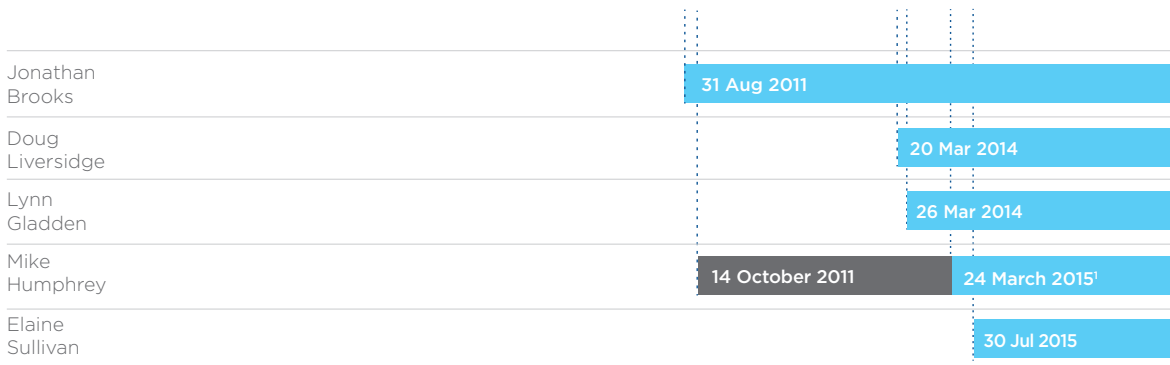
### Service agreements

The Executive Directors have service contracts that commenced on the dates set out in the chart below and contain a contractual notice period of six months by either party. The Non-Executive Directors have letters of appointment that commenced on the dates set out in the chart below are generally for an initial fixed term of three years, which is reviewed and may be extended for a further three years, and are terminable on three months' notice by either party. In accordance with the Code, all directors submit themselves for annual re-election by shareholders at each AGM.

#### Effective dates of service contracts of the Executive Directors



#### Effective dates of letters of appointment of the Non-executive Directors



1. This letter of appointment appointed Mr Humphrey as Chairman and replaced his existing Non-executive Director letter of appointment whose effective date was 14 October 2011.

### Consideration by the Directors of matters relating to directors' remuneration

The full terms of reference of the 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 Remuneration Committee currently comprises the following independent non-executive directors whose backgrounds and experience are summarised on pages 52 and 53:



Jonathan Brooks (Chair)  
Mike Humphrey  
Doug Liversidge  
Lynn Gladden  
Elaine Sullivan

Committee meetings are administered and minuted by the Company Secretary. In addition, the Committee received assistance from the HR Director, CFO, CEO and COO who attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

During the year, the key activities carried out by the Committee were:

- Consideration of the Group's overall remuneration philosophy to ensure it continues to promote the Group's strategy, including the blend of fixed and short and longer-term variable pay.
  - Consideration of the skills and experience of the Executive Directors and carrying out of benchmarking in order to determine base salaries and total remuneration opportunity for the period 1 April 2016 to 31 March 2017 and giving further consideration to base salaries and total remuneration opportunity with effect from 1 April 2017.
  - Oversight of implementation of LTICS for the Group's non-director employees including structure and key terms
  - Extensive consultation with the Group's major shareholders and proxy voting advisory firms in connection with the development and finalisation of the above matters.
  - Review of the Group's approach to non-director remuneration including base salaries and incentive scheme targets and pay-outs.
- Consideration of LTIP awards and vesting targets for 2016 and 2017 awards and outturns for the 2013 awards.
  - Consideration of AIS awards and vesting targets for 2016 and 2017 as well as outturns for 2016.
  - Review and approval of the Group's updated Remuneration Policy.
  - Approval of the Group's DRR.

## External advisers

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, including attendance at Committee meetings.

During the year the Remuneration Committee continued its review of executive remuneration and took into consideration professional advice from Deloitte LLP in respect of the development of the Group's Remuneration Policy and its application, and reporting under the revised Directors' Remuneration Reporting Regulations. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Fees paid to Deloitte LLP in connection with advice to the Committee in 2016 were £8,150. Deloitte LLP also provided advice to the Group in 2016 in connection with internal and external assessments of the effectiveness of the operation of its Board. In addition, the Committee took advice from MM&K Limited in connection with the introduction and structuring of the LTICS. Fees paid to MM&K in relation to 2016 were £110,115.

## Statement of shareholder voting

The table below sets out the proxy results of the votes on the Group's Remuneration Report at the Group's 2016 AGM.

	Votes for		Votes against		Total votes cast	Votes withheld
	Number	% of votes cast	Number	% of votes cast		
Remuneration Report	477,645,118	99.95	179,199	0.04	477,849,407	713,757
Remuneration Policy	477,647,791	99.95	207,802	0.04	477,880,683	682,481

## Remuneration disclosure

This report complies with the requirements of the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (September 2012) and the Listing Rules.

# Report of the Audit & Risk Committee



“2016 represented the first full year as an Audit and Risk Committee, with a greater emphasis being placed on the Group’s evolving risk management framework for at least two of its four meetings”

**Jonathan Brooks** Chairman of the Audit and Risk Committee

## Audit and Risk Committee (“ARC” or the “Committee”) responsibilities

The Committee monitors the integrity of the financial statements of the Group, and reviews all proposed annual and half-yearly results announcements to be made by the Group with consideration being given to any significant financial reporting judgements contained in them. The Committee also advises the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy. The Committee also considers internal controls, compliance with legal requirements, accounting standards and the Listing, Disclosure and Transparency Rules of the Financial Conduct Authority, and also reviews any proposed change in accounting policies and any recommendations from the Group’s Auditor regarding improvements to internal controls and the adequacy of resources within the Group’s finance function. Finally, the Committee takes responsibility on behalf of the Board for the review of risk management and controls within the Group, as well as conducting an annual robust assessment of these.

A full copy of the Committee’s Terms of Reference is available from the Company’s website at [www.ipgroupplc.com](http://www.ipgroupplc.com).

## Committee membership

The Committee comprises four independent non-executive directors, with myself as Chair. As the Chair of the Committee, I am deemed by the Board to have recent and relevant financial experience, being a Fellow of the Chartered Institute of Management Accountants and having held senior financial positions in my career.

The Committee met four times during the year, with all meetings attended by four independent Non-executive Directors. The members of the Committee for the entire year were Professor Lynn Gladden, Dr Elaine Sullivan and Doug Liversidge with myself as Chair.

The Group’s Chairman, Chief Financial Officer, Group Financial Controller, and the external auditor were also invited to attend all of the meetings and did so. At the end of each of the meetings, the Committee met with the auditor without any members of the executive management team being present. I also met the external auditor away from the Group’s offices.

## Activities during the year

The main activities of the Committee during 2016 can be seen by referring to the summary agenda items in the table overleaf. During 2016 this was clearly divided between matters of financial oversight and those concerned with the management of risk, reflecting the new name for the Committee. The main theme of 2016 was the development of a much greater emphasis on risk management, process and controls as well as the establishment of a Risk Council to ensure a greater assurance over the robustness of process and effectiveness of internal control, with a role to formalise and embed established practices consistently across the Group.

## Valuation of assets and liabilities

This remains the key audit risk for the Group and at each reporting event, the Audit & Risk Committee discusses with management and the auditor the approach that has been taken in assessing all key estimates.

The most material area of judgement in the financial statements relates to the valuation of the unquoted equity investments, which at year end had a carrying value of £614.0m. The Committee satisfied itself that the portfolio valuations were materially correct after considering findings from the year end valuations meeting, which was attended by KPMG, receiving periodic presentational updates from the

sector heads and business building team members, receiving regular written reports on the Group's portfolio companies, and reviewing a summary prepared by KPMG of external investor participation in portfolio company financing rounds to validate the independence of the pricing of such rounds.

At year end the fair value of the Group's intangible assets was £5.1m and goodwill was £57.1m. The majority of these balances arose from the acquisition of Fusion IP plc in 2014. The goodwill balance is tested annually for impairment. The intangible assets are reviewed for impairment indicators and impairment tests are performed if any indicators are noted.

## Summary agendas for the Audit & Risk Committee meetings in 2016

	Primarily audit-focused business	Primarily risk-focused business
<b>February 2016</b>	<ul style="list-style-type: none"> <li>• Full year financial statements and discussions with auditor</li> <li>• Fair, balanced and understandable review of Annual Report</li> <li>• Audit committee effectiveness review</li> <li>• Going concern and long-term viability review for 2016 financial statements</li> <li>• Consideration of the need for a formal internal audit function</li> </ul>	<ul style="list-style-type: none"> <li>• Principal risks, risk appetite and controls</li> <li>• Review and division of annual agenda of Committee</li> <li>• Long term viability statement</li> </ul>
<b>May 2016</b>	<ul style="list-style-type: none"> <li>• Planning of internal audit projects</li> <li>• Half year results planning</li> <li>• Auditor effectiveness review</li> </ul>	<ul style="list-style-type: none"> <li>• Review of risk register</li> <li>• Review of investment committee controls</li> <li>• MLRO/Compliance officer reports on regulated businesses</li> <li>• External review of FCA-authorised business controls</li> <li>• Review of Group Treasury Policy</li> <li>• Cyber security</li> <li>• Anti-bribery policy review</li> </ul>
<b>July 2016</b>	<ul style="list-style-type: none"> <li>• Half year financial statements and review with auditor</li> <li>• Non-audit services policy</li> </ul>	<ul style="list-style-type: none"> <li>• Review of D&amp;O and PI insurances</li> <li>• Review of Market Abuse Regime processes and controls</li> </ul>
<b>December 2016</b>	<ul style="list-style-type: none"> <li>• Review of auditor's 2016 audit planning document</li> <li>• Audit committee's terms of reference; annual review</li> <li>• Annual review of Committee rolling agenda</li> </ul>	<ul style="list-style-type: none"> <li>• Proposals to establish an executive Risk Council</li> <li>• Review of risk register including identification of strategic and principal risks</li> <li>• Risk &amp; control assessment</li> <li>• Whistleblowing policy; annual review of process</li> <li>• Related party transaction policy review</li> <li>• Cyber security update</li> </ul>

# Report of the Audit and Risk Committee CONTINUED

## Regulatory Compliance

Ensuring compliance for FCA regulated businesses also represents an important control risk from the perspective of the ARC. Ongoing internal reviews are conducted through the use of a compliance monitoring programme and an annual external evaluation is also conducted by a specialist firm. During the review in 2016, no specific issues were identified.

## Review of Annual Report and Accounts and Half-yearly Report

The Committee carried out a thorough review of the Group's 2016 Annual Report and Accounts and its 2016 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its portfolio companies during the year.

## Going Concern and Long Term Viability

Annually, the Committee considers the going concern principle on which the financial statements are prepared and also considers and approves the impairment review of goodwill prepared by management. As a business which seeks to establish and invest in new ventures as well as support existing investments with further capital, the business model is currently inherently cash-consuming. With a closing cash balance in 2016 of £112.3m the Group has sufficient cash reserves to continue to provide capital to its existing portfolio and to create and fund new businesses at a similar rate to previous years for approximately two years assuming broadly similar levels of net operating expenditure and portfolio realisations.

The Committee, as in previous years, decided that the long term viability of the Group remained principally related to five factors. These included changes in the competitive landscape, the ability to raise further capital, internationalisation of the business, scaling of the business and different outcomes following an Oxford Nanopore 'exit' event. The impact of these on

each of a series of forecast scenarios was assessed. In the scenario with significant downside, where no further funding was available to the Group for the next three years, together with a halving in value of the entire portfolio, assuming a corresponding reduction in overheads, the business remained viable for three years, but would be extremely challenged beyond that. In the light of this, both the Committee and the wider Board came to the conclusion that the viability period should not be greater than three years.

## Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on pages 38 and 39. The principal risks the Group faces are set out on pages 40 to 45. During the year, the Audit Committee devoted part of each meeting to items concerning risk and its management and as in prior years the Board devoted part of its annual strategy off-site meeting had a lengthy assessment of risk and its risk appetite towards its strategic priorities at the annual strategy off-site meeting in October. During that meeting, a heat map of risks assessed in 2016 was compared to a similar exercise for 2015 to see what had changed. Increased competition, an equity market downturn, insufficient returns from investments, excessive portfolio concentration and difficulty scaling the university partnership model were all identified as increasing in risk since 2015 and mitigation plans to cope with each of these as well as with all of the other identified risks were discussed in the December Audit and Risk Committee. Managing the university partnership model was seen as becoming potentially more difficult as it expands and the university partnership model was reviewed at the December meeting. The Committee also discussed the impact of the potential departure of the UK from the European Union following the Referendum on June 23rd ("Brexit"). While Brexit was not considered to have much direct impact on the business per se, it was recognised that its impact on the university sector could ultimately adversely affect the number of new investments available for the Group.

One important change in the management of risk was the decision in 2016 to establish a Risk Council, whose permanent members would be the Chief Financial Officer, Company Secretary and Group Financial Controller, with other executives and management from across the business attending periodically during the year as necessary. The purpose of the Risk Council is to further formalise management's processes for identifying group-wide risks, the controls in place to mitigate such risks and to assess the design and effectiveness of such internal controls, with one of its primary roles being to disseminate and embed established practices consistently across the Group. The Risk Council will meet at least four times a year and reports to the Executive Committee and the ARC.

## Whistleblowing Policy

There is a formal whistleblowing policy which has been communicated to employees. This policy provides information on the process to follow in the event that any employee feels it is appropriate to make a disclosure. The Audit Committee is satisfied that the policy provides an adequate basis for employees to make representations in confidence to the Group and for appropriate and proportionate investigations.

## Cyber Security

The Group continued to invest more time and effort in improving its cyber security in 2016 and recognises the increasing importance of this subject with the Group's expansion into the USA in recent years, as well as numerous well-publicised cyber-security breaches suffered by other businesses. Cyber security is now a standard agenda item for the Committee and is discussed at least twice a year. During 2016, there were a number of new initiatives: these included the tightening up administration rights on software, completing the Windows 10 upgrade across the whole Group, improving mobile device management security, introducing further cyber-monitoring software and improving the Group's back-up IT strategy with associated user training. An external review of the Group's cybersecurity practices and procedures was carried out by Nettitude Limited who concluded that "the technical and procedural aspects of security in IP Group is generally good, with many examples of good practice" although highlighted areas "where further improvements may be made" and the Group has or is currently addressing these areas. In addition, the Group worked towards certification under the UK Government's cyber essentials self-certification scheme and also set

up a working group to ensure compliance with the General Data Protection Regulation which is expected to come into force in May 2018, with PwC undertaking a third party benchmarking exercise to assist in this process.

## Internal audit

The Group does not maintain a separate internal audit function. This is principally due to the size of the Group where close control over operations is exercised by a small number of executives. The Audit Committee currently considers the outsourced provision of internal audit work as both more efficient and cost-effective than having its own central internal audit team. However, the Audit Committee does review the need to have its own separate internal audit function each year.

The Audit Committee has developed a framework to gain assurance over the system of internal financial and operational controls. This comprises:

- A risk assessment performed by operational management and the Board to identify key areas for assurance.
- An annual assessment by the Audit Committee of the whole system of internal financial and operational controls.

During 2016 and early 2017, the principal internal audit project undertaken was a review of the Group's business in the US. The Committee engaged a third party professional services firm, PwC, to examine the risk profile of the US business, ensure that it was compliant with all local laws and regulations and had appropriate financial controls and operational systems. Their full report was not completed before the end of 2016 but the Committee was given a final report in early 2017 that PwC considered the systems and processes to be at a higher level than they might have expected and that overall the business was being operated within Group policies.

# Report of the Audit and Risk Committee CONTINUED

## External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In December, the Committee discussed the Auditor's audit plan for 2016. This included a summary of the proposed audit scope and a summary of what the Auditor considered to be the most significant financial reporting risks facing the Group together with the Auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the valuation of investments in portfolio companies, with particular focus on unquoted companies, including Oxford Nanopore Technologies Limited, and the valuation of goodwill.

## Appointment and Independence

The Audit Committee advises the Board on the appointment of the external auditor and on its remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with the external auditor. The Committee keeps under review the cost-effectiveness and the independence and objectivity of the external auditor. Controls in place to ensure this include monitoring the independence and effectiveness of the audit, implementing a policy on the engagement of the external auditor to supply non-audit services, and a review of the scope of the audit and fee and performance of the external auditor.

## Non-Audit Work

The Audit Committee approves all fees paid to the auditor for non-audit work. In 2016 the Group's Auditor, KPMG LLP carried out a non-audit engagement to perform Agreed Upon Procedures to validate the Group's gross investment track record since inception. Given the natural overlap between this work and the financial audit of the group's results, the Committee judged KPMG the most effective party to perform this work. In other matters, the Committee prefers to engage other firms to perform consulting engagements to ensure that the independence of the Auditor is not compromised. An analysis of audit and non-audit fees is provided in note 6 to the financial statements on page 118.

## Auditor Independence

A formal statement of independence is received from the auditor each year and the Board and the Audit Committee are satisfied that the independence of the auditor has been maintained.

## Auditor Effectiveness

The Committee will complete its formal assessment of the effectiveness of the Group's external auditor following the completion of the 2016 audit cycle and will report on this assessment in the 2017 annual report. With respect to the 2015 audit, the Committee formally considered this at its May 2016 meeting and, as in the previous year, decided that the substantive and detailed approach taken by the auditor, Jon Mills of KPMG, was entirely appropriate and effective. As in the previous year, the vast majority of the Group's assets were reviewed as part of the audit, representing 89% of unquoted and 100% of quoted, and there was particular emphasis on the valuation of Oxford Nanopore which continued to represent such an important part of the Group's unquoted portfolio. Specialist corporate finance staff were used for some of the valuation work and overall, the auditor's risk-based approach drew on both their knowledge of the business and the wider economic and business environment.

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

**Jonathan Brooks**

Chairman of the Audit Committee

6 March 2017

# Directors' Report

## Report of the Directors

The Directors present their report together with the audited financial statements for IP Group plc and its subsidiaries for the year ended 31 December 2016.

## Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance Statement on pages 54 to 68 and is incorporated into this Directors' report by reference.

## Results and dividends

During the period, the Group made an overall loss after taxation for the year ended 31 December 2016 of £14.8m (2015: £75.1m profit). The directors do not recommend the payment of a dividend (2015: £nil).

## Directors

The names of directors who currently hold office or did so during 2016 are as follows:

### Executive Directors

Alan Aubrey  
Mike Townend  
Greg Smith  
David Baynes

### Non-executive Directors

Mike Humphrey (Chairman)  
Jonathan Brooks  
Doug Liversidge  
Prof Lynn Gladden  
Dr Elaine Sullivan

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 81.

## 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 38 to 45 and in the Corporate Governance report on page 67. 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 14 UK universities and five US universities. In addition, the Group has entered into agreements to act as general partner and investment manager to three limited partnerships. Further details can be found in the strategic report and in the notes to the financial statements.

## 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 19 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 12 May 2016 (the "2016 AGM"), authority was given to the Directors pursuant to the relevant provisions of the Companies Act 2006 to allot shares and grant rights over securities in the Company up to a maximum amount equivalent to approximately one-third of the issued ordinary share capital on 8 April 2016 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2017. In addition, at the 2016 AGM, the Directors were also given authority effective for the same period as the aforementioned authority to allot shares and grant rights over securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 8 April 2016 in connection with an offer by way of a fully pre-emptive rights issue. The Directors propose to renew both of these authorities at the Company's next AGM to be held on 10 May 2017. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2016 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 8 April 2016 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 8 April 2016, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and

# Directors' Report CONTINUED

1 August 2017. These authorities have not 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 10 May 2017.

Under Part 18, Chapter 5 of the Companies Act 2006, the Company has the power to purchase its own shares. At the 2016 AGM, 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 8 April 2016 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 2017. 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 10 May 2017.

## Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders.

## Substantial shareholders

As at 3 March 2017, 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 Asset Management Limited	25.4
Woodford Investment Management LLP	14.2
Lansdowne	12.2
Bailie Gifford	8.8
Sand Aire Limited	5.1
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	3.7

## Political donations

The Group did not make any political donations during 2016.

### Corporate and social responsibility

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including details of its greenhouse gas emissions, are included in the Sustainability section on pages 46 to 49.

## 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 Articles 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. A copy of the indemnity is available for inspection as required by the Companies Act 2006.

## Regulation

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

## Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the Strategic Report and in note 26 to the Group's financial statements.

## 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

A resolution to reappoint KPMG LLP, together with a resolution to authorise the Directors to determine their remuneration, will be proposed at the AGM to be held on 10 May 2017.

ON BEHALF OF THE BOARD

**Angela Leach**  
Company Secretary  
6 March 2017



# Statement of Directors' Responsibilities

In respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any
- material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

## Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the
- assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

ON BEHALF OF THE BOARD

**Mike Humphrey**  
Chairman  
6 March 2017



# Deliver

To deliver attractive financial returns from our assets

## Tracsis

The Group was a founder shareholder in Tracsis, which was spun out of the University of Leeds in 2004 and, following eight successful acquisitions, is now a profitable business with turnover in excess of £30m and employing more than 600 people. The sale of the Group's remaining holding in March 2016 resulted in net cash proceeds of £13.1m, bringing total proceeds from Tracsis to date to £14.3m and representing a multiple of approximately 38 times the Group's investment of £0.4m.

## Our Financials

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Tracsis plc

# Independent Auditor's Report

to the Members of IP Group plc only

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of IP Group plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the Group 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. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; 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.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows (unchanged from 2015):

#### Valuation of unquoted equity investments (£433.8m) (2015: £341.8)

Refer to page 88 (Audit and Risk Committee Report), page 110 (accounting policy) and pages 123 to 125 (financial disclosures).

- The risk – 56.4% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent investment. Due to the relatively low number of

- investors partaking in funding rounds, there is a risk that recent investments on which fair value is based are not sufficiently at arm's length to ensure an independent market valuation representative of fair value. Furthermore, due to the nature of the Group's investment portfolio, funding rounds can be more than 12 months apart. Whether it remains appropriate to use the price of the recent funding rounds depends on the specific circumstances of the investment, the stability of the external environment and the period since the last funding round occurred. There is therefore a significant risk over the valuation and inappropriate fair value hierarchy disclosure of these investments and this is one of the key judgemental areas that our audit focused on.

- Our response – In this area our audit procedures included:

- For a selection of investments, assessing whether the price of recent investment is an appropriate basis for the measurement of the fair value at the time, by evaluating the independence of the funding rounds on which this valuation is based. This assessment was based on whether external investors were allowed to take up significant investments at the same rates and the number of external investors included within the funding round. For a sample of external investors we review the directors and key management of those investors for any potential overlap with IP Group.
- Conducting independent research into publicly available information including news websites and the company's own website for indicators of fair value changes since the last funding round was set, considering the valuation techniques applied against IPEV guidelines and agreeing key elements to appropriate support including contractual agreements.
- Attending the year-end valuation meetings with the Directors and senior finance personnel to assess their discussion and review of the investment valuations.
- For investments valued based on a funding round aged greater than 12 months, seeking independent evidence to support the events since the most recent investment as communicated to us by IP Group's business building team, for example external news sources, and critically assessing these events as potential indicators of fair value adjustment. We note an inherent judgement in the use of a 12-month threshold and we assess the reasonableness of this threshold for valuation purposes and for the related level 2 disclosures included in the financial statements.

### Carrying value of goodwill (£57.1m) (2015: £57.1)

Refer to page 88 (Audit and Risk Committee Report), page 108 (accounting policy) and page 120 to 121 (financial disclosures).

- The risk – IP Group's impairment review of goodwill involved the calculation of value-in-use through a discounted cash flow model and fair-value-less-costs-to-sell, and comparison of these amounts to the carrying value of goodwill recognised in the accounts. The discounted cash flow model contained significant levels of judgement over the assumptions used including the discount rate and the assumptions to the cash flow forecasts which included the gains on future investments, the annual investment rate and the weighted average holding period of the Group's investments. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are included within the models used, and the irregular nature of the UK university spin-out company market, this is one of the key judgmental areas that our audit is concentrated on.
- Our response – In this area our audit procedures included:
  - Critically assessing the principles and integrity of the value in use discounted cash flow model.
  - Critically assessing the assumptions around IPO exit valuations and benchmarking the assumptions to historical exit valuations achieved. We assessed the reasonableness of the annual investment rate by comparing this to both historical information and Company cash flow forecasts for the upcoming year. We also assessed the weighted average holding period for reasonableness by re-calculating the holding period of previously disposed investments, those being an indicator of future holding periods.
  - Considering the sensitivity of the valuation model to the key assumptions above through a sensitivity analysis that considered the impact of each assumption on the value in use.
  - Assessing whether the Group's disclosures of the sensitivity of the outcome of the impairment reviews to changes in key assumptions

### 3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £8m (2015: £8.17m), determined with reference to a benchmark of Group total assets, of which it represents 1% (2015: 1%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements relating to the statement of financial position exceeding £400,000 (2015: £409,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 33 components (2015: 26), the Group audit team subjected 8 (2015:9) to audits to component materiality for Group audit purposes. Due to nature of the Group's operations and the audit approach, aggregation risk was deemed to be low and component materiality was set at £7.9m (2015: £8.2m). These 8 entities account for 89.3% of the Group's revenue and return (2015: 99.5%), 78.6% of total profits and losses that made up the Group's profit before tax (2015: 98.3%) and 97.4% of the Group's total assets (2015: 98.1%).

For the remaining components, we performed specified risk-focused audit procedures on specific balances and we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 54 to 68 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures ("the specified Corporate Governance information") is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report, the Directors' Report and the Corporate Governance Statement:

- we have not identified material misstatements in the Strategic Report, the Directors' Report, or the specified Corporate Governance information;
- in our opinion, the Strategic Report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and

# Independent Auditor's Report CONTINUED

to the Members of IP Group plc only

- in our opinion, the Corporate Governance Statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority.

## 5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' long term viability statement on page 45, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

## 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Report of the Audit and Risk Committee does not appropriately address matters communicated by us to the audit committee.

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' statements, set out on pages 68 and 45, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 54 to 68 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### Jonathan Mills (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

6 March 2017

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	14	7.0	86.4
Loss on disposal of equity investments		(0.5)	(0.2)
Change in fair value of limited and limited liability partnership interests	22	(0.3)	0.4
Change in fair value of contingent value right	16	(1.4)	—
Other portfolio income		—	0.2
Licensing income		0.2	8.1
Revenue from services and other income		2.6	3.4
		7.6	98.3
<b>Administrative expenses</b>			
Research and development costs		(1.0)	(2.0)
Share-based payment charge	21	(1.5)	(1.5)
Change in fair value of Oxford Equity Rights asset		—	(1.3)
Amortisation of intangible assets	12	(5.6)	(6.0)
Acquisition costs		(0.4)	—
Other administrative expenses		(14.5)	(13.7)
		(23.0)	(24.5)
<b>Operating (loss)/profit</b>			
	7	(15.4)	73.8
Finance income – interest receivable		1.1	1.3
Finance costs – interest payable		(0.5)	—
<b>(Loss)/profit before taxation</b>			
		(14.8)	75.1
Taxation	9	—	—
<b>(Loss)/profit for the year</b>			
		(14.8)	75.1
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		0.1	0.1
<b>Total comprehensive (loss)/income for the period</b>			
		(14.7)	75.2
<b>Attributable to:</b>			
Equity holders of the parent		(13.5)	73.9
Non-controlling interest		(1.2)	1.3
		(14.7)	75.2
<b>Earnings per share</b>			
Basic (p)	10	(2.39)	13.66
Diluted (p)	10	(2.39)	13.63

# Consolidated statement of financial position

As at 31 December 2016

	Note	2016 £m	2015 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
Goodwill	11	57.1	57.1
Acquired intangible assets	12	5.1	10.5
Property, plant and equipment		0.2	0.2
Portfolio:			
Equity investments	14	594.9	543.1
Debt investments	14	19.1	9.1
Limited and limited liability partnership interests	22	4.2	4.4
Contingent value rights	16	—	1.4
<b>Total non-current assets</b>		<b>680.6</b>	<b>625.8</b>
<b>Current assets</b>			
Trade and other receivables	15	2.6	3.2
Deposits		—	70.0
Cash and cash equivalents		112.3	108.8
<b>Total current assets</b>		<b>114.9</b>	<b>182.0</b>
<b>Total assets</b>		<b>795.5</b>	<b>807.8</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the parent			
Called up share capital	19	11.3	11.3
Share premium account		504.7	504.7
Merger reserve		12.8	12.8
Retained earnings		239.6	251.6
<b>Total equity attributable to equity holders</b>		<b>768.4</b>	<b>780.4</b>
Non-controlling interest		0.3	1.5
<b>Total equity</b>		<b>768.7</b>	<b>781.9</b>
<b>Current liabilities</b>			
Trade and other payables	17	2.1	3.9
<b>Non-current liabilities</b>			
EIB debt facility	18	14.9	14.9
Loans from limited partners of consolidated funds	18	9.8	7.1
<b>Total equity and liabilities</b>		<b>795.5</b>	<b>807.8</b>

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 101 to 137 were approved by the Board of Directors and authorised for issue on 6 March 2017 and were signed on its behalf by:

**Greg Smith**  
Chief Financial Officer

**Alan Aubrey**  
Chief Executive Officer



# Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Operating activities</b>			
Operating (loss)/profit for the period		(15.4)	73.8
<b>Adjusted for:</b>			
Change in fair value of equity and debt investments	14	(7.0)	(86.4)
Change in fair value of limited and limited liability partnership interests		0.3	(0.4)
Change in fair value of contingent value right		1.4	—
Loss on disposal of equity investments		0.5	0.2
Depreciation of property, plant and equipment		0.1	0.1
Amortisation of intangible non-current assets	12	5.6	6.0
Change in fair value of Oxford equity rights asset		—	1.3
Fees settled in the form of equity		(0.4)	(0.7)
Share-based payment charge		1.5	1.5
Other portfolio income classified as investing activities cash flows		—	(0.1)
<b>Changes in working capital</b>			
Decrease in trade and other receivables		0.2	2.2
(Decrease)/Increase in trade and other payables		(1.8)	1.9
Increase in non-current liabilities		2.7	2.2
Net cash flow to deposits		70.0	(40.0)
<b>Other operating cash flows</b>			
Net interest received		0.9	0.7
<b>Net cash inflow/(outflow) from operating activities</b>		<b>58.6</b>	<b>(37.7)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(0.1)	—
Purchase of equity and debt investments	14	(69.7)	(115.9)
Investment in limited and limited liability partnerships		(0.1)	—
Proceeds from sale of equity investments		14.7	0.6
Distributions from limited and limited liability partnerships		—	0.6
Other portfolio income		—	0.1
<b>Net cash outflow from investing activities</b>		<b>(55.2)</b>	<b>(114.6)</b>
<b>Financing activities</b>			
Proceeds from the issue of share capital		—	178.8
Proceeds from drawdown of EIB facility	18	—	14.9
<b>Net cash inflow from financing activities</b>		<b>—</b>	<b>193.7</b>
<b>Net increase in cash and cash equivalents</b>		<b>3.4</b>	<b>41.4</b>
Cash and cash equivalents at the beginning of the year		108.8	67.3
Effect of foreign exchange rate changes		0.1	0.1
<b>Cash and cash equivalents at the end of the year</b>		<b>112.3</b>	<b>108.8</b>

# Consolidated statement of changes in equity

For the year ended 31 December 2016

	Attributable to equity holders of the parent					Non-controlling interest <sup>(iv)</sup> £m	Total equity £m
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	Total £m		
At 1 January 2015	9.6	327.6	12.8	176.2	526.2	—	526.2
Comprehensive income	—	—	—	73.9	73.9	1.3	75.2
Issue of equity	1.7	177.1	—	—	178.8	0.2	179.0
Equity-settled share-based payments	—	—	—	1.5	1.5	—	1.5
<b>At 1 January 2016</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>251.6</b>	<b>780.4</b>	<b>1.5</b>	<b>781.9</b>
Comprehensive income	—	—	—	(13.5)	(13.5)	(1.2)	(14.7)
Equity-settled share-based payments	—	—	—	1.5	1.5	—	1.5
<b>At 31 December 2016</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>239.6</b>	<b>768.4</b>	<b>0.3</b>	<b>768.7</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.

iv. Non-controlling interest — Share of profits attributable to the Limited Partners of IP Venture Fund II LP - a consolidated fund which was created in May 2013, as well as the equity invested in partially-owned subsidiaries that is held by third parties.

# Notes to the consolidated financial statements

## 1. Accounting Policies

### Basis of preparation

The Annual Report and Accounts of IP Group plc ("IP Group" or the "Company") and its subsidiary companies (together, the "Group") are for the year ended 31 December 2016. 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 selection of 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.

The financial statements are prepared on a going concern basis, as the directors are satisfied that the Group and parent Company have the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

### Changes in accounting policies

#### (i) New standards, interpretations and amendments effective from 1 January 2016

No new standards, interpretations and amendments effective for the first time from 1 January 2016 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 15 Revenue from Contracts with Customers:

IFRS 15 was issued on 28 May 2014 and provides a single global standard on revenue recognition which aligns the IFRS and US GAAP guidance. It replaces existing revenue recognition guidance, including IAS 18 revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Group has assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 15 and does not foresee any material effect when the Standard is applied. While early adoption is permitted, IFRS 15 has an effective date of 1 January 2018 with the year ending 31 December 2018 being the first annual financial statements to which the standard applies.

##### 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. 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. The current proposed effective date is 1 January 2018.

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

### Basis of consolidation

#### (i) Business Combinations

The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group (see (ii) Subsidiaries below). Both the identifiable net assets and the consideration transferred in the acquisition are measured at fair value at the date of acquisition and transaction costs are expensed as incurred. Goodwill arising on acquisitions is tested annually for impairment. In instances where the Group owns a non-controlling stake prior to acquisition the step acquisition method is applied, and any gain or losses on the fair value of the pre-acquisition holding is recognised in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements

## CONTINUED

### 1. Accounting Policies continued

#### (ii) Subsidiaries

Where the Group has control over an entity, it is classified as a subsidiary. As per IFRS 10, an entity is classed as under the control of the Group when all three of the following elements are present: power over the entity; exposure to variable returns from the entity; and the ability of the Group to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights, it is considered that de facto control exists. In determining whether de facto control exists the Group considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the company and by other parties;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at the acquisition date. Contingent liabilities dependent on the disposed value of an associated investment are only recognised when the fair value is above the associated threshold. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are consolidated until the date on which control ceases.

#### (iii) 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.

No associates are presented on the consolidated statement of financial position as the Group elects to hold such investments at fair value in the consolidated statement of financial position. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are akin to venture capital organisations to be excluded from its measurement methodology requirements 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.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 10 of the Company financial statements. Similarly, those investments which may not have qualified as Associate but fall within the wider scope of significant holdings and so are subject to Section 409 disclosure acts are also included in Note 10 of the Company financial statements.

#### (iv) 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 II LP ("IPVFII")	33.3
IP Venture Fund LP ("IPVF")	10.0
The North East Technology Fund LP ("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 order to determine whether these Limited Partnerships were required to be consolidated, the presence of the three elements of control noted in part (ii) was examined.

The Group’s significant stake in IPVFII creates a significant exposure to the variability of returns from those interests and the Group’s ability to direct the operations of the fund would result in IP Group obtaining the benefits of its activities. As such, IPVFII meets the criteria in IFRS 10 Consolidated Financial Statements and is consequently consolidated.

In the case of IPVF, the directors consider that the minority Limited Partnership interest does not create an exposure of such significance that it indicates that the Group acts as anything other than an agent for the other Limited Partners in the arrangement. This is further supported by the presence of a strict investment policy and the inability for the general partner to change the restrictive terms of that policy other than with agreement of 100% of IPVF’s Limited Partners.

Similarly, the lack of a stake in NETF indicates the Group’s role as an agent for the limited partner. As a result, the Directors consider that the Group does not have the power to govern the operations of these limited partnerships so as to obtain benefits from their activities and accordingly do not meet the definition of a subsidiary under IFRS 10 Consolidated Financial Statements. However, the Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group’s accounting treatment for the interest in IPVF is consistent with that of associates as described earlier in this report, 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 17.9% interest in the total capital commitments of Technikos LLP (“Technikos”). The general partner and investment manager of Technikos are parties external to the Group.

#### (v) Non-controlling interests

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

## Portfolio return and revenue

### Change in fair value

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. Changes in fair values of assets do not constitute revenue.

### Revenue from services and other income

All revenue from services is generated within the United Kingdom and is stated exclusive of value added tax. Revenue from services and other income 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. In some instances, these fees are settled via the issue of equity in the company receiving the corporate finance services at the same price per share as equity issued as part the financing round to which the advisory fees apply.

# Notes to the consolidated financial statements

CONTINUED

## 1. Accounting Policies continued

### 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.

### Licence income:

Income from licensing and similar income is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements. Income from milestone income is recognised once performance obligations are satisfied, on an accruals basis and in accordance with the terms of the relevant licensing agreements.

### Dividends:

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.

### 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 3 to 5 years
Computer equipment	Over 3 to 5 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.

#### Other intangible assets

Other intangible assets represent contractual arrangements and memorandums of understanding with four UK universities acquired through acquisition of a subsidiary. At the date of acquisition, the cost of these intangibles as a share of the larger acquisition was calculated and subsequently the assets are held at amortised cost.

### 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.

#### 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. These are mainly based on prices determined from recent investments in the last twelve months.

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

#### Equity investments

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, which 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.

# Notes to the consolidated financial statements

## CONTINUED

### 1. Accounting Policies continued

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.

#### 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 earlier, 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.



### 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 on initial recognition is measured at fair value which is equal to cost and subsequent remeasurement will be recognised as changes in fair value in the statement of comprehensive income.

### Equity rights

The equity rights asset represents consideration paid to the University of Oxford between December 2000 and June 2001 that gave the Group contractual rights to the receipt of shares in unlisted spin-out companies (or cash) based on research carried out in the university's Department of Chemistry. It is considered to be a derivative financial asset and is designated as at fair value through profit and loss. Its value has been assessed each year with any impairments being charged to the income statement. The contract expired in November 2015 and consequently the asset has been impaired to nil value.

### 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.

### (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.

### 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.

### Financial liabilities

Current financial liabilities are composed of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Non-current liabilities are composed of loans from Limited Partners of consolidated funds, and outstanding amounts drawn down from a debt facility provided by the European Investment Bank. The loans from Limited Partners of consolidated funds are repayable only upon the applicable funds generating sufficient returns to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities. Non-current liabilities are recognised initially at fair value net of transaction costs incurred, and subsequently at amortised cost.

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

# Notes to the consolidated financial statements

## CONTINUED

### 1. Accounting Policies continued

#### 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 Conduct Authority ("FCA") 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.

#### 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 and/or the Group's Annual Incentive Scheme ("AIS"). 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 fair value at the date of grant is recognised as an expense over the period that the employee provides services, generally the period between the start of the performance period and the vesting date of the shares. 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.

## 2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 40 to 44, 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 corporate finance and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

The Group holds investments which are publicly traded on AIM (17 companies) and investments which are not traded on an active market.

The net increase in fair value of the Group's equity and debt investments during 2016 of £6.5m represents a 1.4% change against the opening balance (2015: net increase of £86.2m, 25% change) 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.

	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	1.6	4.6	6.2	2.0	3.6	5.6

#### (ii) Interest rate risk

The EIB debt facility bears interest at a fixed rate of 1.98% with an additional variable spread equal to the six month GBP Libor rate as at the first date of each six-month interest period. The first £15.0m tranche was disbursed on 17 December 2015 and the average floating interest rate (including the fixed element) for 2016 was 2.66% (2015: 2.48%).

The other primary impact of interest rate risk to the Group is the impact on the income and operating cash flows as a result of the interest-bearing deposits and cash and cash equivalents held by the Group.

#### (iii) Concentrations of risk

The Group is exposed to concentration risk via the significant majority of the portfolio being UK based companies and thus subject to the performance of the UK economy. The Group is increasing its operations in the US and the determination of the associated concentrations is determined by the number of investment opportunities that management believe represent a good investment.

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

# Notes to the consolidated financial statements

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## 2. Financial Risk Management continued

	2016				2015			
	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 investments	—	—	594.9	594.9	—	—	543.1	543.1
Debt investments	0.2	—	18.9	19.1	0.2	—	8.9	9.1
Limited and limited liability partnership interests	—	—	4.2	4.2	—	—	4.4	4.4
Contingent value rights	—	—	—	—	—	—	1.4	1.4
Deposits	—	—	—	—	70.0	—	—	70.0
Cash and cash equivalents	30.0	82.3	—	112.3	—	108.8	—	108.8
Trade receivables	—	—	2.3	2.3	—	—	3.0	3.0
Other receivables	—	—	0.3	0.3	—	—	0.2	0.2
	<b>30.2</b>	<b>82.3</b>	<b>620.6</b>	<b>733.1</b>	<b>70.2</b>	<b>108.8</b>	<b>561.0</b>	<b>740.0</b>
<b>Financial liabilities</b>								
Trade payables	—	—	(0.7)	(0.7)	—	—	(0.7)	(0.7)
Other accruals and deferred income	—	—	(1.4)	(1.4)	—	—	(3.2)	(3.2)
EIB debt facility	—	(14.9)	—	(14.9)	—	(14.9)	—	(14.9)
Loans from limited partners of consolidated funds	—	—	(9.8)	(9.8)	—	—	(7.1)	(7.1)
	<b>—</b>	<b>(14.9)</b>	<b>(11.9)</b>	<b>(26.8)</b>	<b>—</b>	<b>(14.9)</b>	<b>(11.0)</b>	<b>(25.9)</b>

At 31 December 2016, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.8m (2015: £1.1m) 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. The Group's Treasury Management Policy asserts that at any one point in time no more than 60% of the Group's cash and cash equivalents will be placed in fixed-term deposits with a holding period greater than three months. 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.

### (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 £5bn 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 opposite. All other financial assets are unrated.

Credit rating	2016 £m	2015 £m
P1	76.7	126.3
P2	35.6	52.5
Total deposits and cash and cash equivalents	112.3	178.8

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 2016 was £50m (2015: £50m).

The Group's exposure to credit risk on debt investments is managed in a similar way to equity price risk, as described earlier, 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, which have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements, are discussed below.

#### (i) 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.

#### (ii) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using a number of value-in-use and fair-value-less-costs-to-sell calculations. The use of these methods 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 as well as the selection of applicable and reasonable multiples.

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

### 4. Revenue from Services

All revenue from services is derived from either the provision of advisory and venture capital fund management services or the licensing of internally developed therapeutic compounds.

# Notes to the consolidated financial statements

## CONTINUED

### 5. Operating Segments

For both the year ended 31 December 2016 and the year ended 31 December 2015, the Group's revenue and profit/loss before taxation were derived almost entirely from its principal activities within the UK. Though the Group has initiated operations in the US, the associated revenues and costs are currently immaterial 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 partner relationships with universities; (ii) the 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 Strategic report on pages 6 to 49.

Year ended 31 December 2016	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	7.0	—	—	7.0
Loss on disposal of equity investments	(0.5)	—	—	(0.5)
Change in fair value of limited and limited liability partnership interests	(0.3)	—	—	(0.3)
Change in fair value of contingent value right	(1.4)	—	—	(1.4)
Other portfolio income				
Licensing income	0.2	—	—	0.2
Revenue from services and other income	0.8	0.9	—	1.7
Revenue from fund management services	—	0.9	—	0.9
Amortisation of intangible assets	(5.6)	—	—	(5.6)
Acquisition costs	(0.4)	—	—	(0.4)
Administrative expenses	(14.9)	(0.7)	(1.4)	(16.9)
<b>Operating loss</b>	<b>(15.1)</b>	<b>1.1</b>	<b>(1.4)</b>	<b>(15.4)</b>
Finance income - interest receivable	0.6	—	—	0.6
<b>Loss before taxation</b>	<b>(14.5)</b>	<b>1.1</b>	<b>(1.4)</b>	<b>(14.8)</b>
Taxation	—	—	—	—
<b>Loss for the year</b>	<b>(14.5)</b>	<b>1.1</b>	<b>(1.4)</b>	<b>(14.8)</b>
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	778.4	10.9	6.2	795.5
Liabilities	(26.5)	(0.1)	(0.2)	(26.8)
<b>Net assets</b>	<b>751.9</b>	<b>10.8</b>	<b>6.0</b>	<b>768.7</b>
<b>Other segment items</b>				
Capital expenditure	0.1	—	—	0.1
Depreciation	(0.1)	—	—	(0.1)

Year ended 31 December 2015	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	86.4	—	—	86.4
Gain on disposal of equity investments	(0.2)	—	—	(0.2)
Change in fair value of limited and limited liability partnership interests	0.4	—	—	0.4
Other portfolio income	0.2	—	—	0.2
Licensing income	0.1	—	8.0	8.1
Revenue from services and other income	0.9	1.1	—	2.0
Revenue from fund management services	—	1.4	—	1.4
Change in fair value of Oxford Equity Rights asset	(1.3)	—	—	(1.3)
Amortisation of intangible assets	(6.0)	—	—	(6.0)
Administrative expenses	(13.9)	(0.8)	(2.5)	(17.2)
<b>Operating profit</b>	<b>66.6</b>	<b>1.7</b>	<b>5.5</b>	<b>73.8</b>
Finance income — interest receivable	1.3	—	—	1.3
Profit before taxation	67.9	1.7	5.5	75.1
Taxation	—	—	—	—
<b>Profit for the year</b>	<b>67.9</b>	<b>1.7</b>	<b>5.5</b>	<b>75.1</b>
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	788.8	11.3	7.7	807.8
Liabilities	(25.5)	(0.1)	(0.3)	(25.9)
<b>Net assets</b>	<b>763.3</b>	<b>11.2</b>	<b>7.4</b>	<b>781.9</b>
<b>Other segment items</b>				
Capital expenditure	—	—	—	—
Depreciation	(0.1)	—	—	(0.1)

# Notes to the consolidated financial statements

## CONTINUED

### 6. Auditor's Remuneration

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

	2016 £'000s	2015 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	74	73
The audit of the Company's subsidiaries, pursuant to legislation	87	87
Total fees for audit services	161	160
Audit-related assurance services	21	20
Total assurance services	182	180
Tax compliance services	—	—
Taxation advisory services	—	—
All other services	18	—
Total non-assurance services	—	—
	<b>200</b>	<b>180</b>

### 7. Operating Profit

Operating profit has been arrived at after charging:

	2016 £m	2015 £m
Amortisation of intangible assets	(5.6)	(6.0)
Depreciation of tangible assets	(0.1)	(0.1)
Employee costs (see note 8)	(9.5)	(10.3)
Operating leases — property	(0.5)	(0.4)
Loss on disposal of equity investments	(0.5)	(0.2)

### 8. Employee Costs

Employee costs (including directors) comprise:

	2016 £m	2015 £m
Salaries	7.0	5.5
Defined contribution pension cost	0.4	0.3
Share-based payment charge (see note 21)	1.5	1.5
Other bonuses accrued in the year	—	2.2
Social security	0.6	0.8
	<b>9.5</b>	<b>10.3</b>

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 70, all of whom were involved in management and administration activities (2015: 64). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 69 to 87.



## 9. Taxation

	2016 £m	2015 £m
Current tax	—	—
Deferred tax	—	—

The Group primarily seeks to generate capital gains from its holdings in spin-out companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings, however, since the Group's activities, including its activities in the US, are substantially trading in nature, the Directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying holdings are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity holdings that meet the qualifying criteria. Gains arising on sales of non-qualifying holdings would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time.

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

	2016 £m	2015 £m
Profit before tax	(14.8)	75.1
Tax at the UK corporation tax rate of 20.0% (2015: 20.3%)	(3.0)	15.2
Expenses not deductible for tax purposes	0.9	1.4
Fair value movement on investments qualifying for SSE	(1.3)	(18.8)
Movement on share-based payments	0.1	(0.6)
Unrecognised other temporary differences	—	1.3
Movement in tax losses arising not recognised	3.3	1.5
Total tax charge	—	—

At 31 December 2016, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £141.7m (2015: £105.5m). An analysis is shown below:

	2016		2015	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs and other temporary differences	14.1	2.4	6.0	1.1
Unused tax losses	127.6	21.7	99.5	17.9
	141.7	24.1	105.5	19.0

# Notes to the consolidated financial statements

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## 9. Taxation continued

At 31 December 2016, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2015: £nil). An analysis is shown below:

	2016		2015	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	2.6	0.4	(4.4)	(0.8)
Unused tax losses	(2.6)	(0.4)	4.4	0.8
	—	—	—	—

## 10. Earnings per Share

	2016 £m	2015 £m
<b>Earnings</b>		
Earnings for the purposes of basic and dilutive earnings per share	(13.5)	73.9
	2016 Number of shares	2015 Number of shares
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	565,056,171	540,681,647
Effect of dilutive potential ordinary shares:		
Options or contingently issuable shares	—	1,237,274
Weighted average number of ordinary shares for the purposes of diluted earnings per share	565,056,171	541,918,921

Potentially dilutive ordinary shares include contingently issuable shares arising under the Group's LTIP arrangements, and options issued as part of the Group's Sharesave schemes and Deferred Bonus Share Plan (for annual bonuses deferred under the terms of the Group's annual incentive scheme). As the Group made a loss for the period the potentially dilutive shares outstanding at the period end are not considered when calculating the diluted earnings per share.

## 11. Goodwill

	£m
At 1 January 2016	57.1
<b>At 31 December 2016</b>	<b>57.1</b>

The Group conducts annual impairment tests on the carrying value of goodwill, based on the recoverable amount of the CGUs to which the goodwill has been allocated. The goodwill allocated to each CGU is summarised in the table below. A number of both value-in-use and fair-value-less-costs-to-sell calculations are used to assess the recoverable values of the CGUs, details of which are specified below.

	2016 £m	2015 £m
University partnership CGU	55.0	55.0
Fund management CGU	2.1	2.1
	57.1	57.1

### Impairment review of venture capital fund management CGU

The key assumptions of the DCF model used to assess the value in use, and the range of multiples applied in calculating the fair-value-less-costs-to-sell based on a percentage of assets under management are shown below:

	2016	2015
Discount rate	9%-11%	9%-11%
Number of funds under management	4	3
Management fee	2%-3.25%	2%-3.5%
Cost inflation	1.5%	2%
Percentage of assets under management	2%-7.5%	2%-7%

A number of different value-in-use models were assessed in order to evaluate the recoverable value of the CGU, none of which resulted in an impairment being required.

### Impairment review of the university partnership CGU

The key assumptions of the DCF models used to assess the value in use are shown below.

For the purposes of impairment testing, the university partnership CGU comprises those elements connected with the Group's university partnership business. The Directors consider that for each of the key variables which would be relevant in determining a recoverable value for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2016 £m	2015 £m
Number of spin-out companies per year	10-15	10-15
Annual investment rate	£40-£75m	£40m-£60m
Rate of return achieved	15%-22%	18%-22%
Initial equity stake acquired by the Group under the university partnership	12%-30%	15%-35%
Proportion of spin-out companies failing	38%-54%	32%-45%
Weighted average holding period (years)	4-6	3-5
Dilution rates prior to exit as a result of financing for spin-out companies	40%-60%	40%-60%
Proportion of IPO exits	25%-35%	25%-35%
IPO exit valuations	£30m-£40m	£30m-£40m
Proportion of disposal exits	25%-32%	28%-32%
Disposal valuations	£25m-£35m	£25m-£35m
Discount rate	9%-11%	9%-11%

When determining the key variables, management has, where possible and appropriate, used historical performance data as a basis. In instances where the forecasted volumes and scale of activity do not align with the Group's prior performance, management applies its judgement in determining said variables. A number of different value-in-use models were assessed in order to evaluate the recoverable value of the CGU, none of which resulted in an impairment being required.

# Notes to the consolidated financial statements

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### 12. Intangible Assets

	£m
<b>Cost</b>	
At 1 January 2016	21.4
Additions	0.2
<b>At 31 December 2016</b>	<b>21.6</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	10.9
Charge for the year	5.6
<b>At 31 December 2016</b>	<b>16.5</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>5.1</b>
At 31 December 2015	10.5

The intangible assets represent contractual arrangements and memorandums of understanding with four UK universities acquired through acquisition of a subsidiary. The contractual arrangements have fixed terms and, consequently, the intangible assets have a finite life which align with the remaining terms which, at the end of the period, range from 14 months to 19 months. The individual contractual arrangements are amortised in a straight line over the remainder of their terms with the expense being presented directly on the primary statements.

### 13. Categorisation of Financial Instruments

Financial assets	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
<b>At 31 December 2016</b>				
Equity investments	—	594.9	—	594.9
Debt investments	—	19.1	—	19.1
Other financial assets	—	—	—	—
Limited and limited liability partnership interests	—	4.2	—	4.2
Trade and other receivables	—	—	2.6	2.6
Deposits	—	—	—	—
Cash and cash equivalents	—	—	112.3	112.3
<b>Total</b>	<b>—</b>	<b>618.2</b>	<b>114.9</b>	<b>733.1</b>
<b>At 31 December 2015</b>				
Equity investments	—	543.1	—	543.1
Debt investments	—	9.1	—	9.1
Other financial assets	—	—	—	—
Contingent value rights	—	1.4	—	1.4
Limited and limited liability partnership interests	—	4.4	—	4.4
Trade and other receivables	—	—	3.2	3.2
Deposits	—	—	70.0	70.0
Cash and cash equivalents	—	—	108.8	108.8
<b>Total</b>	<b>—</b>	<b>558.0</b>	<b>182.0</b>	<b>740.0</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 (2015: £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 (2015: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

All interest income is attributable to financial assets not classified as fair value through profit and loss.

# Notes to the consolidated financial statements

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## 14. Investment Portfolio

	Level 1	Level 2		Level 3	Total
	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	£m
At 1 January 2016	201.3	308.6	9.1	33.2	552.2
Investments during the year	10.9	50.9	6.2	1.7	69.7
Transaction-based reclassifications during the year	—	0.7	(0.7)	—	—
Other transfers between hierarchy levels during the year	—	(39.8)	6.7	33.1	—
Disposals	(15.0)	(0.2)	(0.1)	—	(15.3)
Fees settled via equity	—	0.4	—	—	0.4
Change in fair value in the year <sup>(i)</sup>	(36.1)	47.4	(2.1)	(2.2)	7.0
<b>At 31 December 2016</b>	<b>161.1</b>	<b>368.0</b>	<b>19.1</b>	<b>65.8</b>	<b>614.0</b>
At 1 January 2015	138.2	193.2	4.0	14.5	349.9
Investments during the year	26.2	82.3	7.1	0.3	115.9
Transaction-based reclassifications during the year	2.3	(1.4)	(0.9)	—	—
Other transfers between hierarchy levels during the year	24.6	(50.9)	0.1	26.2	—
Disposals	—	—	(0.3)	(0.5)	(0.8)
Fees settled via equity	—	0.7	—	—	0.7
Change in fair value in the year <sup>(i)</sup>	10.0	84.7	(0.9)	(7.3)	86.5
At 31 December 2015	201.3	308.6	9.1	33.2	552.2

<sup>i</sup> The change in fair value in the year includes a gain of £0.7m (2015: £0.1m) in exchange differences on translating foreign currency investments, which is entirely attributable to Level 2 equity.

The Group's policy is to classify equity investments in unquoted spin-out companies as Level 2 where prices have been determined from recent investments in the last twelve months. The impact of changing the qualifying criteria for Level 2 to be determined from recent investments in the last six months would mean 4.4% (2015: 29.9%) of the equity investments in unquoted spin-out companies would be reclassified to Level 3.

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 54 (2015: 21) 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.

Where fair values are based upon the most recent market transaction, but that transaction occurred more than twelve months prior to the balance sheet date, the investments are classified as Level 3 in the fair value hierarchy. The fair values of investments categorised as Level 3 are analysed on a monthly basis to determine business factors which may make the most recent investment rate no longer a representation of fair value.

There are no identified unobservable inputs to which the Level 3 fair values would be materially sensitive. This is represented by the fact that if the fair value of all Level 3 investments were to decrease by 10%, the net assets figure would decrease by £6.6m (2015: £3.3m), with a corresponding increase if the unobservable inputs were to increase by 10%.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Transfers between tiers are then made as if the transfer took place on the first day of the period in question, except in the cases of transfers between tiers based on an initial public offering (“IPO”) of an investment wherein the changes in value prior to the IPO are calculated and reported in tier 2, and those changes post are attributed to tier 1.

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 effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

Transfers between Level 2 and Level 1 occur when a previously unquoted investment undertakes an initial public offering, resulting in its equity becoming quoted on an active market. In the current period, transfers of this nature amounted to £nil.

Transfers between Level 1 and Level 2 would occur when a quoted investment’s market becomes inactive, or the portfolio company elects to delist. There has been one such instance in the current period which amounted to £nil (2015: £nil).

Transfers between Level 3 and Level 2 occur when an investment which previously had a most recent investment of over twelve months ago undertakes an investment, resulting in an observable market rate. In the current period, transfers of this nature amounted to £7.3m (2015: £2.1m).

Transfers between Level 2 and Level 3 occur when an investment’s recent investment becomes more than twelve months old, with the price being deemed unobservable. In the current period, transfers of this nature amounted to £45.3m (2015: £28.4m).

Fair value changes in Level 3 investments have been a loss of £4.0m (2015: £7.3m) in the period, recognised as change in fair value of equity and debt investments in the condensed consolidated statement of comprehensive income.

### Change in fair value in the year

	2016 £m	2015 £m
Fair value gains	57.3	115.4
Fair value losses	(50.3)	(29.0)
	7.0	86.4

The Company’s interests in subsidiary undertakings are listed in note 2 to the Company’s financial statements.

## 15. Trade and Other Receivables

	2016 £m	2015 £m
Trade debtors	2.3	3.0
Prepayments	0.3	0.2
Other receivables	—	—
	2.6	3.2

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.

# Notes to the consolidated financial statements

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## 16. 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 previously been recognised as financial assets at fair value through profit and loss. The Group re-evaluated the likelihood of receiving the contingent consideration in relation to the CVRs at the reporting date and no longer consider that it is realisable. The financial asset has been fair valued at £nil (2015: £1.4m) and the associated fair value movement has been charged to the consolidated statement of comprehensive income. The Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

## 17. Trade and Other Payables

Current liabilities	2016 £m	2015 £m
Trade payables	0.7	0.7
Social security expenses	0.3	0.2
Other accruals and deferred income	1.1	3.0
	2.1	3.9

## 18. Borrowings

Non-current liabilities	2016 £m	2015 £m
EIB debt facility	14.9	14.9
Loans drawn down from the Limited Partners of consolidated funds	9.8	7.1
	24.7	22.0

### Loans drawn down from the Limited Partners of consolidated funds

The loans from Limited Partners of consolidated funds are interest free and repayable only upon the applicable funds generating sufficient returns to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities.

### EIB debt facility

On 8 July 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank. The facility is to be disbursed in two tranches. The Group will use the proceeds to continue to fund UK university spin-out companies as they develop and mature. A non-utilisation fee of 0.15% is charged over the undrawn element of the facility, which in 2016 was £nil (2015: £nil).

The first tranche of £15.0m was drawn down on 16 December 2015. There were £0.1m of initial transaction costs incurred in the arrangement of the facility. This balance was set against the loan amount and is to be subsequently amortised over the term of the loan. The associated charge to the statement of comprehensive income for 2016 was £nil (2015: nil). The capital is repayable in ten equal payments over a five-year period with the first payment due on 7 January 2019.

The drawn down element of the facility bears interest at a fixed rate of 1.98% with an additional variable spread equal to the six month GBP Libor rate as at the first date of each six-month interest period. The first £15.0m tranche was disbursed on 17 December 2015 and the average floating interest rate (including the fixed element) for 2016 was 2.66% (2015: 2.48%). The interest charged in 2016 was £0.4m (2015: £nil).

The Group must ensure that the ratio between the value of the portfolio along with the value of the Group's cash net of any outstanding liabilities, and the outstanding debt facility does not fall below 6:1. The Group must maintain that the amount of unencumbered funds freely available to the Group is not less than £15.0m. The Group is also required to maintain a separate bank account which must at any date maintain a minimum balance equal to that of all payments due to the EIB in the forthcoming six months.



## 19. Share Capital

Issued and fully paid:	2016		2015	
	Number	£m	Number	£m
<b>Ordinary Shares of 2p each</b>				
At 1 January	564,648,168	11.3	479,524,397	9.6
Issued under share placings	—	—	83,388,888	1.7
Issued under employee share plans	573,799	—	1,734,883	—
<b>At 31 December</b>	<b>565,221,967</b>	<b>11.3</b>	564,648,168	11.3

The Company has one class of ordinary shares with a par value of 2p (“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.

In April 2016, the Group issued 457,877 new Ordinary Shares in order to settle the 2013 LTIP scheme for which the vesting conditions were fully achieved and consequently the resulting shares became issuable to the Group’s employees. The Group issued 101,622 new Ordinary Shares in order to settle the exercise of certain options that had been issued under the Group’s Deferred Bonus Share Plan (“DBSP”, see Note 21). Finally, in November 2016, the Group issued 14,300 new Ordinary Shares in order to settle the exercise of options by a former Group employee.

## 20. Operating Lease Arrangements

	2016 £m	2015 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	0.5	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:

	2016 £m	2015 £m
Within one year	0.6	0.3
In the second to fifth years inclusive	3.1	0.1
	3.7	0.4

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

In December 2016 the Group entered into a lease for new head office premises with an initial rent free period of twelve months and a total 5-year commitment of £3.1m in lease and service charge payments.

# Notes to the consolidated financial statements

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### 21. Share-Based Payments

In 2016, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 69 to 87.

#### Deferred Bonus Share Plan ("DBSP")

Awards made to employees under the Group's AIS above a certain threshold include 50% deferred into IP Group equity through the grant of nil-cost options under the Group's DBSP. The number of nil-cost options granted under the Group's DBSP is determined by the share price at vesting date. The DBSP options are subject to further time-based vesting over two years (typically 50% after year one and 50% after year two).

An analysis of movements in the DBSP options outstanding is as follows:

	2016	2015
At 1 January	187,869	362,608
AIS deferral shares award during the year	781,148	—
Exercised during the year	(101,622)	(174,739)
Lapsed during the year	(29,400)	—
At 31 December	837,995	187,869

No associated expense has been incurred for the 2016 AIS as the financial performance targets were not achieved.

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

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 on pages 69 to 87.

The 2016 LTIP awards were made on 16 May 2016. The awards will ordinarily vest on 31 March 2019, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("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 within the Group's 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP 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 2016 to 31 December 2018, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2019, 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 2015 LTIP awards were made on 21 May 2015. The awards will ordinarily vest on 31 March 2018, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("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 within the Group's 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP 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 2015 to 31 December 2017, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2018, 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 2014 LTIP award was made on 31 March 2014. The awards will ordinarily vest on 31 March 2017, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("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 within the Group's 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2014 LTIP 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 2014 to 31 December 2016, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2017, 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 2013 LTIP awards vested on 31 March 2016 and thereafter shares in IP Group were issued via the Group's employee benefit trust to the relevant members of the Group's staff accordingly. The table below sets out the performance measures relating to the 2013 LTIP awards and the actual performance achieved.

Performance condition	Target performance	Actual performance
Hard NAV (at 31 Dec 2015) <sup>i</sup>	8%: £624m 15%: £712m	£714.3m (15.2% p.a. growth)
Annual TSR <sup>ii</sup> (share price)	8%: 180p 15%: 217p	175.1p (7.2% p.a. growth)
Comparative TSR <sup>ii</sup>	FTSE 250 +29%	IP Group +22%

i. Hard NAV target increased by Remuneration Committee to reflect £21.7m Fusion IP net assets acquired in 2014 and £276.1m net proceeds of the Group's placings in 2014 and 2015.

ii. TSR performance shown reflects the Group's one-month average share price to 26 February 2016. Actual performance period is the one-month average to 31 March 2016.

The performance measures were achieved in full however the underpin was only partially achieved, as a result 57.6% of the 2013 LTIP awards vested on 31 March 2015.

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

	2016	2015
At 1 January	3,378,595	3,650,493
Forfeited during the year	(493,959)	(39,876)
Vested during the year	(457,877)	(1,552,144)
Notionally awarded during the year	3,188,078	1,320,122
At 31 December	5,614,837	3,378,595

# Notes to the consolidated financial statements

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### 21. Share-Based Payments continued

The fair value of LTIP shares notionally awarded during 2016 was calculated using Monte Carlo pricing models with the following key assumptions:

	2016	2015
Share price at date of award	£1.558	£2.188
Exercise price	£nil	£nil
Fair value at grant date	£0.41	£0.78
Expected volatility (median of historical 50-day moving average)	31%	32%
Expected life (years)	2.83	2.83
Expected dividend yield	0%	0%
Risk-free interest rate	1.0%	1.0%

#### Former Fusion IP LTIP

In 2014, three former employees of Fusion IP plc were each conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, the Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards will vest on 31 December 2017 provided certain performance conditions are met which relate to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. In summary, if Fusion NAV growth of 10% per annum is achieved then 30% of an award shall vest. Maximum vesting will occur if Fusion NAV growth of 20% per annum is achieved with straight-line vesting between 30% and 100% if Fusion NAV growth of 10%-20% per annum is achieved. No vesting shall occur if Fusion NAV growth of less than 10% is achieved.

The movement in the number of shares conditionally awarded under the Former Fusion IP LTIP is set out below:

	2016	2015
At 1 January	1,338,000	1,338,000
At 31 December	1,338,000	1,338,000

#### Fair value charge

The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £1.5m (2015: £1.5m).

## 22. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2015	4.6
Additions during the year	—
Realisations in the year	(0.6)
Change in fair value during the year	0.4
At 1 January 2016	4.4
Additions during the year	0.1
Realisations in the year	—
Change in fair value during the year	(0.3)
<b>At 31 December 2016</b>	<b>4.2</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. 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 effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

## 23. 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:

	2016 £m	2015 £m
<b>Statement of comprehensive income</b>		
Revenue from services	0.9	1.3
<b>Statement of financial position</b>		
Investment in limited partnerships	2.8	3.1
Amounts due from related parties	0.2	—

# Notes to the consolidated financial statements

## CONTINUED

### 23. Related Party Transactions continued

#### b) Key management personnel

##### i) Key management personnel transactions

Key management had investments in the following spin-out companies as at 31 December 2016:

Director/ Company Secretary	Company name	Shares held at 1 January 2016	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2016	%
Alan Aubrey	Accelercomm Limited	—	333	333	0.3%
	Alesi Surgical Limited	18	—	18	0.2%
	Amaethon Limited — A Shares	104	—	104	3.1%
	Amaethon Limited — B Shares	11,966	—	11,966	1.0%
	Amaethon Limited — Ordinary shares	21	—	21	0.3%
	Avacta Group plc <sup>(iv)</sup>	202,761	—	202,761	0.3%
	Boxarr Limited	1,732	—	1,732	0.3%
	Capsant Neurotechnologies Limited	11,631	—	11,631	0.8%
	Cloud Sustainability Limited	26	—	26	0.4%
	Crysalin Limited	1,447	—	1,447	0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	15	—	15	0.9%
	Empiricom Technologies Limited	—	119,965,724	119,965,724	17.3%
	Getech Group plc	15,000	—	15,000	<0.1%
	Gunsynd plc <sup>(ii)</sup>	767,310	—	767,310	<0.1%
	hVivo plc	37,160	—	37,160	<0.1%
	Ilika plc	69,290	—	69,290	<0.1%
	Karus Therapeutics Limited	223	—	223	<0.1%
	Microbiotica Limited	—	3,750	3,750	<0.1%
	Mirriad Advertising Limited	33,333	—	33,333	<0.1%
	MDL 2016 Limited — Ordinary shares	3,226	—	3,226	0.4%
	MDL 2016 Limited — A shares	229	—	229	0.5%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	519,269	—	519,269	0.7%
	Cronin Group plc	2,172,809	—	2,172,809	0.4%
	Oxford Nanopore Technologies Limited	101,208	—	101,208	0.4%
	Oxtox Limited	25,363	(25,363)	—	0.0%
Perachem Holdings plc <sup>(iv)</sup>	108,350	—	108,350	0.8%	
Revolymmer plc	88,890	—	88,890	0.1%	
Salunda Limited	53,639	—	53,639	<0.1%	
Structure Vision Limited	212	—	212	1.0%	
Surrey Nanosystems Limited	453	—	453	0.3%	
Tissue Regenix Group plc	2,389,259	—	2,389,259	0.3%	
Xeros Technology Group plc	40,166	—	40,166	<0.1%	
Zeetta Networks Limited	212	212	424	<0.1%	
Mike Townend	Amaethon Limited — A Shares	104	—	104	3.1%
	Amaethon Limited — B Shares	11,966	—	11,966	1.0%
	Amaethon Limited — Ordinary shares	21	—	21	0.3%
	Applied Graphene Materials plc	—	7,619	7,619	<0.1%
	Avacta Group plc <sup>(iv)</sup>	9,314	10,687	20,001	<0.1%
	Capsant Neurotechnologies Limited	11,282	—	11,282	0.8%
	Cloud Sustainability Limited	25	—	25	0.4%
	Creavo Technologies Limited(i)	117	—	117	<0.1%
	Crysalin Limited	1,286	—	1,286	0.1%

Director/ Company Secretary	Company name	Shares held at 1 January 2016	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2016	%
Mike Townsend continued	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	14	—	14	0.8%
	Getech Group plc	20,000	—	20,000	<0.1%
	hVivo plc	37,160	—	37,160	<0.1%
	Ilika plc	10,000	—	10,000	<0.1%
	Mirriad Advertising Limited	25,000	—	25,000	<0.1%
	Mode Diagnostics Limited	1,756	—	1,756	0.1%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	575,000	—	575,000	0.7%
	Cronin Group plc	932,944	—	932,944	0.2%
	Oxford Advanced Surfaces Limited	5,000	—	5,000	0.2%
	Oxford Nanopore Technologies Limited	30,967	—	30,967	0.1%
	Oxtox Limited	25,363	(25,363)	—	0.0%
	Perachem Holdings plc <sup>(v)</sup>	113,222	—	113,222	0.8%
	Revolymmer plc	35,940	29,000	64,940	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	404	—	404	0.2%
	Tissue Regenix Group plc	1,950,862	—	1,950,862	0.3%
	Tracsis plc	25,430	(25,430)	—	0.0%
	Ultrahaptics Holdings Limited <sup>(iii)</sup>	35	—	35	<0.1%
Xeros Technology Group plc	35,499	—	35,499	<0.1%	
Greg Smith	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc <sup>(v)</sup>	3,904	—	3,904	<0.1%
	Capsant Neurotechnologies Limited	896	—	896	<0.1%
	Cloud Sustainability Limited	8	—	8	0.1%
	Crysalin Limited	149	—	149	<0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	4	—	4	0.2%
	Encos Limited	5,671	—	5,671	0.3%
	Getech Group plc	8,000	—	8,000	<0.1%
	hVivo plc	61,340	—	61,340	<0.1%
	Perachem Holdings plc <sup>(v)</sup>	4,830	—	4,830	<0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary shares	361	—	361	<0.1%
	MDL 2016 Limited — A shares	28	—	28	<0.1%
	Modern Biosciences plc	313,425	—	313,425	0.5%
	Modern Water plc	7,250	—	7,250	<0.1%
	Oxford Nanopore Technologies Limited	1,581	—	1,581	<0.1%
	Revolymmer plc	4,500	—	4,500	<0.1%
	Summit Therapeutics plc	798	—	798	<0.1%
	Surrey Nanosystems Limited	88	—	88	<0.1%
Tissue Regenix Group plc	50,000	—	50,000	<0.1%	
Xeros Technology Group plc	1,392	—	1,392	<0.1%	
David Baynes	Alesi Surgical Limited	4	—	4	<0.1%
	Arkivum Limited	377	—	377	<0.1%
	Creavo Technologies Limited <sup>(i)</sup>	46	—	46	<0.1%
	Diurnal Group plc	73,000	—	73,000	0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	Oxford Nanopore Technologies Limited	155	19	174	<0.1%
	Ultrahaptics Holdings Limited <sup>(iii)</sup>	26	—	26	<0.1%
	Zeetta Networks Limited	212	212	424	<0.1%

# Notes to the consolidated financial statements

CONTINUED

## 23. Related Party Transactions continued

Director/ Company Secretary	Company name	Shares held at 1 January 2016	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2016	%
Angela Leach	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc <sup>(iv)</sup>	1,897	—	1,897	<0.1%
	Boxarr Limited	102	—	102	<0.1%
	Capsant Neurotechnologies Limited	1,858	—	1,858	0.1%
	Cloud Sustainability Limited	10	—	10	0.1%
	Creavo Technologies Limited <sup>(i)</sup>	23	—	23	<0.1%
	Cronin Group plc	68,101	—	68,101	<0.1%
	Diurnal Group plc	11,500	—	11,500	<0.1%
	Gunsynd plc <sup>(ii)</sup>	7,990	—	7,990	<0.1%
	First Light Fusion Limited	17	—	17	<0.1%
	Getech Group plc	2,083	—	2,083	<0.1%
	hVivo plc	25,903	—	25,903	<0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary Shares	606	—	606	<0.1%
	MDL 2016 Limited — A Shares	102	—	102	0.2%
	Modern Water plc	15,570	—	15,570	<0.1%
	Modern Biosciences plc	322,923	—	322,923	0.5%
	Oxford Nanopore Technologies Limited	1,721	61	1,782	<0.1%
	Revolmer plc	4,500	—	4,500	<0.1%
	Structure Vision Limited	21	—	21	0.1%
Surrey Nanosystems Limited	90	—	90	<0.1%	
Tissue Regenix Group plc	329,172	(52,381)	276,791	<0.1%	
Ultrahaptics Holdings Limited <sup>(iii)</sup>	5	—	5	<0.1%	
Xeros Technology Group plc	5,666	—	5,666	<0.1%	

i. Creavo Technologies Limited was formerly known as Quantum Imaging Limited.

ii. Gunsynd plc was formerly known as Evocutis plc

iii. Ultrahaptics Holdings Limited was formerly known as Ultrahaptics Limited

iv. Avacta Group plc had a share consolidation during the year 100:1

v. Perachem Holdings plc was formally known as Green Chemicals plc



## ii) Key management personnel compensation

Key management personnel compensation comprised the following:

	2016 £000s	2015 £000s
Short-term employee benefits <sup>(i)</sup>	1,489	1,890
Post-employment benefits <sup>(ii)</sup>	71	89
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments <sup>(iii)</sup>	623	550
<b>Total</b>	<b>2,183</b>	<b>2,529</b>

- i. Represents key management personnel's base salaries, benefits including cash in lieu of pension where relevant, and the cash settled element of the Annual Incentive Scheme.
- ii. Represents employer contributions to defined contribution pension and life assurance plans
- iii. Represents the accounting charge for share based payments, reflecting LTIP and DBSP options currently in issue as part of these schemes. See note 21 for a detailed description of these schemes.

## 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. Through the lack of control over portfolio companies these fees are considered arms-length transactions. The following amounts have been included in respect of these fees:

<b>Statement of comprehensive income</b>	2016 £m	2015 £m
Revenue from services	1.6	2.0

<b>Statement of financial position</b>	2016 £m	2015 £m
Trade receivables	0.7	1.5

## 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:

<b>Statement of financial position</b>	2016 £m	2015 £m
Intercompany balances with other Group companies	10.7	10.5

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

# Notes to the consolidated financial statements

## CONTINUED

### 24. 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 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 issued new shares or dispose of interests in more mature portfolio companies.

During 2016, the Group's strategy, which was unchanged from 2015, 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.

The Group has an external debt facility with associated covenants that are described in Note 18.

### 25. Capital Commitments

#### Commitments to university partnerships

A number of the Group's partnerships with research intensive universities in the UK include certain arrangements to provide seed capital to spin-out companies arising from such universities. As at 31 December 2016, the balances were as follows:

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	1.1	3.1
University of Bristol <sup>(v)</sup>	2005	5.0	1.1	3.9
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	4.5
University of York <sup>(iii)</sup>	2006	5.0	0.2	4.8
Queen Mary University of London <sup>(vii)</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	1.6	3.4
University of Manchester <sup>(x)</sup>	2013	7.5	0.2	7.3
		<b>52.5</b>	<b>11.2</b>	<b>41.3</b>

- 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 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 the University of York was amended during 2013 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 the University 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 to, amongst other things, 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, IP Assist Services Limited 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, the Group has committed to invest up to a total of £5.0m in spin-out companies based on the University of 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. The agreement was amended in January 2014, primarily to remove the Group's entitlement to licence fees save where it is involved in the development or licensing of the relevant IP and, in most cases, to replace the Group's automatic entitlement to a share of the initial equity in any spin-out company with an equivalent warrant exercisable at the seed stage of the relevant company.
- viii. In September 2006, the Group entered into an agreement with the University of Bath to invest in University of Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Bath spin-out companies. The agreement with the University of Bath was amended during 2009 so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by the University of Bath from the commercialisation of its intellectual property in the event that 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 to invest in University of Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Glasgow spin-out companies.
- x. In February 2013, the Group entered into a commercialisation agreement with the University of Manchester. Initially the Group had agreed to make available an initial facility of up to £5.0m to provide capital to new proof of principle projects (excluding graphene projects) intended for commercialisation through spin-out companies. During January 2014, the Group extended its agreement to include funding for graphene projects; increased the capital commitment by a further £2.5m, bringing the total to £7.5m; and extended the agreement to 2019.

## Commitments to limited partnerships

Pursuant to the terms of their Limited Partnership agreements, the Group has committed to invest the following amounts into Limited Partnerships as at 31 December 2016:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
IP Venture Fund	2006	3.1	3.0	0.1
IP Venture Fund II L.P.	2013	10.0	3.9	6.1
		<b>13.1</b>	<b>6.9</b>	<b>6.2</b>

## 26. Post Balance Sheet Events

Effective 31 January 2017, the Group acquired 100% of the shares of Parkwalk Advisors Limited, the UK's leading university spin-out focussed EIS fund manager. This business will be consolidated in the Group's results from the date of acquisition. The total maximum consideration payable is £20m over a three-year period. The initial consideration comprises £5m of cash, £2.5m in the form of newly-issued IP Group ordinary shares and a further £2.5m of cash payable in two equal instalments over two years, subject to certain conditions. The remaining £10m consideration is payable as £5m in cash and £5m in IP Group ordinary shares over a three-year period, subject to the acquired company achieving certain business performance targets. The Group is in the process of finalising the acquisition accounting and can therefore not provide any other reliable disclosure in line with IFRS 3 at this stage.

# Company balance sheet

As at 31 December 2016

	Note	2016 £m	2015 £m
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	127.6	127.6
Equity and debt investments	3	1.0	1.1
Other investments	4	0.6	0.6
Loans to subsidiary undertakings	5	409.0	409.8
Trade and other receivables		0.1	0.1
<b>Total assets</b>		<b>538.3</b>	539.2
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	6	11.3	11.3
Share premium account	6	504.7	504.7
Merger reserve	6	12.8	12.8
Retained earnings	6	(5.7)	(4.5)
<b>Total equity</b>		<b>523.1</b>	524.3
<b>Non-current liabilities</b>			
Trade and other payables		0.3	—
EIB debt facility		14.9	14.9
<b>Total liabilities</b>		<b>15.2</b>	14.9
<b>Total equity and liabilities</b>		<b>538.3</b>	539.2

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 138 to 146 were approved by the Board of Directors and authorised for issue on 6 March 2017 and were signed on its behalf by:

**Greg Smith**  
Chief Financial Officer

**Alan Aubrey**  
Chief Executive Officer

# Statement of changes in equity

As at 31 December 2016

	Attributable to equity holders of the parent				Total £m
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	
At 1 January 2015	9.6	327.6	12.8	(2.1)	347.9
Comprehensive income	—	—	—	(2.4)	(2.4)
Issue of equity	1.7	177.1	—	—	178.8
<b>At 1 January 2016</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>(4.5)</b>	<b>524.3</b>
Comprehensive income	—	—	—	(1.2)	(1.2)
<b>At 31 December 2016</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>(5.7)</b>	<b>523.1</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.

# Notes to the Company financial statements

## 1. Accounting Policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Cash Flow Statement and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures: IFRS 2 Share Based Payments in respect of group settled share based payments; and certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### Investments

Investments are held at fair value through profit and loss vision for impairment in value and are held for long-term investment purposes.

The valuation methods applied are the same as those at the Group level; details of which can be found in note 1 to the Group's financial accounts on page 109 to 111.

### 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.

### 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 2016	127.6
<b>At 31 December 2016</b>	<b>127.6</b>

Details of the Company's subsidiary undertakings as at 31 December 2016 are detailed in Note 9 of the Company financial statements.

### 3. Equity and debt investments

	£m
At 1 January 2016	1.1
Change in fair value of equity and debt investments	(0.1)
<b>At 31 December 2016</b>	<b>1.0</b>

Details of the Company's associated undertakings and significant holdings as at 31 December 2016 are detailed Note 10 of the Company financial statements.

### 4. Other Investments

	£m
At 1 January 2016	0.6
<b>At 31 December 2016</b>	<b>0.6</b>

### 5. Loans to Subsidiary Undertakings

	£m
At 1 January 2016	409.8
Repayment during the year	(0.8)
<b>At 31 December 2016</b>	<b>409.0</b>

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

### 6. Share Capital and Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m
At 1 January 2016	11.3	504.7	12.8	(4.5)
Loss for the year	—	—	—	(1.2)
<b>At 31 December 2016</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>(5.7)</b>

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 19 to the consolidated financial statements. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity.

### 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 £1.2m (2015: £2.4m loss).

Details of the 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 69 to 87. Full details of the share-based payments charge and related disclosures can be found in note 21 to the consolidated financial statements.

The Company had no employees during 2016 or 2015.

# Notes to the Company financial statements

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### 9. Details of subsidiary undertakings

Name of subsidiary undertakings	Proportion of ownership interest % <sup>(i)</sup>	Proportion of voting power held % <sup>(i)</sup>	Proportion of nominal value held %	Direct/Indirect
IP2IPO Limited	100.0	100.0	100.0	Direct
IP2IPO Management Limited	100.0	100.0	100.0	Indirect
IP2IPO Management II Limited	100.0	100.0	100.0	Indirect
IP2IPO Management III Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
IP2IPO Management IV Limited	100.0	100.0	100.0	Indirect
IP2IPO Management V Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
IP2IPO Management VI Limited	100.0	100.0	100.0	Indirect
IP2IPO Management VII Limited	100.0	100.0	100.0	Indirect
IP2IPO Management VIII Limited	100.0	100.0	100.0	Indirect
IP2IPO Carry Partner Limited	100.0	100.0	100.0	Indirect
IP2IPO Americas Limited	100.0	100.0	100.0	Indirect
IP2IPO FI Limited	100.0	100.0	100.0	Indirect
IP2IPO US Partners Limited	100.0	100.0	100.0	Indirect
IP2IPO (Europe) Limited	100.0	100.0	100.0	Indirect
IP2IPO Guarantee Limited <sup>(v)</sup>	100.0	100.0	100.0	Indirect
IP Group Inc.	100.0	100.0	100.0	Indirect
Top Technology Ventures Limited <sup>(iii)</sup>	100.0	100.0	100.0	Direct
Fusion IP plc <sup>(vi)</sup>	100.0	100.0	100.0	Direct
Fusion IP Sheffield Limited <sup>(vi)</sup>	100.0	100.0	100.0	Indirect
Fusion IP Cardiff Limited <sup>(vi)</sup>	100.0	100.0	100.0	Indirect
IP Venture Fund (GP) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
IP Venture Fund II (GP) LLP <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
IP Ventures (Scotland) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
North East Technology (GP) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
IP2IPO Portfolio (GP) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
IP Capital Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
IP Assist Services Limited	100.0	100.0	100.0	Direct
MOBILion, Systems Inc	63.2	63.2	63.2	Indirect
Modern Biosciences plc <sup>(iv)</sup>	61.1	74.9	84.9	Direct
PIMCO 2664 Limited <sup>(iv)</sup>	61.1	74.9	63.0	Indirect
Modern Biosciences Nominees Limited <sup>(ii)</sup>	61.1	74.9	63.0	Indirect
MBS Secretarial Limited <sup>(ii)</sup>	61.1	74.9	63.0	Indirect
MBS Director Limited <sup>(ii)</sup>	61.1	74.9	63.0	Indirect
MBS3 Limited <sup>(iv)</sup>	61.1	74.9	63.0	Indirect
MBS4 Limited <sup>(iv)</sup>	61.1	74.9	63.0	Indirect
IP2IPO Nominees Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
IP2IPO Services Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
LifeUK (IP2IPO) Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
IP Industry Partners Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct



Name of subsidiary undertakings	Proportion of ownership interest % <sup>(i)</sup>	Proportion of voting power held % <sup>(i)</sup>	Proportion of nominal value held %	Direct/ Indirect
Union Life Sciences Limited — Ordinary shares	95.0	95.0	95.0	Indirect
Union Life Sciences Limited — Preference shares <sup>(ix)</sup>	100.0	100.0	100.0	Direct
Union Life Sciences Limited — Total	95.0	95.0	99.9	Indirect
Biofusion Licensing (Sheffield) Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect
Fusion IP Nottingham Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect
Fusion IP Two Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect
Asterion Limited <sup>(vi)</sup>	66.8	66.8	66.5	Indirect
Medella Therapeutics Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
PH Therapeutics Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
Extraject Technologies Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
Progenteq Limited <sup>(vi),(viii)</sup>	60.0	60.0	60.0	Indirect
Stratium Limited	52.9	52.9	52.9	Indirect
IP Venture Fund II L.P. <sup>(vii)</sup>	33.3	33.3	33.3	Indirect

- i. All holdings are via Ordinary Shares unless separate classes are specified in the table.
- ii. Dormant/non-trading company.
- iii. Company/limited liability partnership engaged in fund management activity.
- iv. Company engaged in in-licensing of drugable intellectual property activity.
- v. Company limited by guarantee.
- vi. Acquired as part of the Fusion IP plc acquisition.
- vii. As detailed in Note 1 of the Group financial statements, though less than 33.3% of beneficial and nominal interest is held by the Group, the Group's position as fund manager to IP Venture Fund II L.P. means the Group fulfils the control criteria set out in IFRS10 and the fund is thus consolidated.
- viii. Not consolidated due to immateriality.
- ix. Shares which have no economic or voting rights attributed to them.

All companies above have their registered offices at 24 Cornhill, London, EC3V 3ND unless separately listed below:

IP Group Inc: 1105 North Market Street, Suite 1800, Wilmington, DE 19801, USA.

IP Ventures (Scotland) Limited: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ.

IP Assist Services Limited: Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF.

MOBILion Systems Inc.: 1105 N. Market St, Suite 1800, Wilmington, DE 19801, USA.

Asterion Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.

Medella Therapeutics Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.

PH Therapeutics Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.

Extraject Technologies Limited: Suite 18, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

Progenteq Limited: Suite 18, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

Stratium Limited: 15th Floor, Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB.

All companies above are incorporated in England and Wales with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland and IP Group Inc and MobillION Inc which were incorporated in Delaware, USA.

All companies above undertake the activity of commercialising intellectual property unless stated otherwise. All companies are consolidated into the Group's financial performance and position following the acquisition method bar those specified which are omitted due being immaterial.

# Notes to the Company financial statements

CONTINUED

## 10. Details of significant holdings and associated undertakings

Name of undertaking	Registered address	Proportion of nominal value held % <sup>(i)</sup>	Held by Parent/Group
IP Venture Fund <sup>(ii)</sup>	24 Cornhill, London, EC3V 3ND	10%	Group
A Ordinary		43.8%	Group
B Ordinary		100.0%	Group
Ordinary		52.0%	Group
Absynth Biologics Limited	Biohub at Alderley Park, Macclesfield, Cheshire, SK10 4TG	62.0%	Group
Accelercomm Limited	2 Venture Road, Southampton Science Park, Chilworth, Southampton, SO16 7NP	25.6%	Group
Actual Experience plc	Quay House, The Ambury, Bath, Somerset, BA1 1UA	24.9%	Group
B Shares		100.0%	Group
Ordinary shares		57.0%	Group
Preferred Ordinary shares		40.3%	Group
Alesi Surgical Limited	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	43.5%	Group
A Shares	R325 The Thompson Building, University Avenue, Glasgow, G12 8QQ	45.0%	Group
Ordinary shares		40.8%	Group
Anacail Limited		42.5%	Group
Aperio Pharma Limited	24 Cornhill, London, EC3V 3ND	46.1%	Group
Applied Graphene Materials plc	The Wilton Centre, Wilton, Redcar, Cleveland, TS10 4RF	20.8%	Group
Arkivum Limited	24 Cornhill, London, EC3V 3ND	39.4%	Group
Avacta Group plc	Unit 20 Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA	23.1%	Group
Azellon Limited	24 Cornhill, London, EC3V 3ND	32.5%	Group
Azuri Technologies Limited	St. John's Innovation Centre, Cowley Road, Cambridge, CB4 0WS	26.5%	Group
Boxarr Limited	65 London Road, St. Albans, Hertfordshire, AL1 1LJ	44.3%	Group
Capsant Neurotechnologies Limited	24 Cornhill, London, EC3V 3ND	50.0%	Group
A Shares		0.0%	Group
Ordinary shares		40.8%	Group
C-Capture Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	36.7%	Group
Celltron Networks Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	30.0%	Group
Ceres Power Holdings plc	Viking House, Foundry Lane, Horsham, RH13 5PX	25.5%	Group
A Ord shares		100.0%	Group
Ordinary shares		46.9%	Group
Cloud Sustainability Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 DF	47.2%	Group
A shares		65.2%	Group
Ordinary shares		34.5%	Group
Creavo Medical Technologies Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	34.6%	Group
Cronin Group plc	24 Cornhill, London, EC3V 3ND	22.6%	Group
A Shares		0.0%	Group
B Shares		0.0%	Group
C Ordinary shares		0.0%	Group
D Ordinary shares		0.0%	Group
Ordinary shares		27.0%	Group
Crysalin Limited	24 Cornhill, London, EC3V 3ND	25.3%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		48.5%	Group
Defenition Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	48.5%	Group
Demasq Limited	The Sheffield Bioincubator, 40 Leavy Greave Road, Sheffield, S3 7RD	47.5%	Group
Diurnal Group plc	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	45.0%	Group
Dukosi Limited	Unit 4 Bush House Cottages, Edinburgh Technopole, Milton Bridge, Penicuik, Midlothian, EH26 0BA	41.5%	Group
A Preferred Shares		31.1%	Group
Ordinary shares		0.0%	Group
Eight19 Limited	Unit 9a Cambridge Science Park, Milton Road, Cambridge, Cambridgeshire, CB4 0FE	28.1%	Group
Emdot Limited	24 Cornhill, London, EC3V 3ND	26.3%	Group

i All holdings are via Ordinary Shares unless separate classes are specified in the table.

ii A fund in which the Group is a limited partner. Proportion of nominal value stated is equivalent to capital contributed to the partnership in question.

Name of undertaking	Registered address	Proportion of nominal value held % <sup>(1)</sup>	Held by Parent/ Group
B Ordinary shares		72.1%	Group
Ordinary shares		41.4%	Group
Redeemable preference shares		100.0%	Group
Empiricom Technologies Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	45.2%	Group
A Ord shares		93.5%	Group
Ordinary shares		47.5%	Group
Encos Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	48.3%	Group
Escubed Limited	Unit 651 E-H Street 5, Thorp Arch Estate, Wetherby, LS23 7FZ	20.0%	Group
Exyn Technologies Inc	417 North Eighth Street, Suite 201, Philadelphia, PA, 19801,USA	39.5%	Group
A Shares		97.0%	Group
Ordinary shares		43.5%	Group
Fault Current Limited	The Maltings East Tyndall Street, Cardiff Bay, Cardiff, CF24 5EZ	44.0%	Group
A Shares		0.0%	Group
Ordinary shares		36.0%	Group
First Light Fusion Limited	Unit 10 Mead Road, Yarnton, Kidlington, Oxfordshire, OX5 1QU	34.9%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		43.2%	Group
Fluid Pharma Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	43.9%	Group
A Ordinary shares		50.0%	Group
Ordinary shares		23.1%	Group
Glythera Limited	Inex Herschel Annex, Kings Road, Newcastle Upon Tyne, NE1 7RU	32.2%	Group
Heliochrome Limited	24 Cornhill, London, EC3V 3ND	40.0%	Group
A Ordinary		84.0%	Group
B Ordinary		13.3%	Group
I2L Research Limited	Capital Business Park, Wentloog, Cardiff, CF3 2PX	31.0%	Group
Deferred shares		0.0%	Group
Ordinary shares		21.8%	Group
Inhibox Limited	24 Cornhill, London, EC3V 3ND	21.8%	Group
Intelligent Ultrasound Limited	Innovation Centre 99 Park Drive Milton Park, Abingdon, Oxfordshire, OX14 4RY	21.0%	Group
B Ordinary shares		70.0%	Group
Ordinary shares		34.1%	Group
Ionix Advanced Technologies Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	34.2%	Group
Ixico plc	4th Floor, Griffin Court, 15 Long Lane, London, EC1A 9PN	20.2%	Group
Lumiodie, Inc	1361 Amsterdam Ave, Suite 340, New York, NY 10027,USA	49.9%	Group
A Shares		39.5%	Group
B Shares		100.0%	Group
C Ordinary shares		70.0%	Group
Ordinary shares		33.3%	Group
Magnumatics Limited	Park House, Bernard Road, Sheffield, S2 5BQ	38.2%	Group
Marblar Limited	Unit 4 Basepoint, Andersons Road, Southampton, SO14 5FE	33.0%	Group
Medaphor Group plc	The Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	29.8%	Group
Mirriad Advertising Limited	6th Floor One London Wall, London, EC2Y 5EB	36.4%	Group
A Ords		0.0%	Group
A Prefs		37.9%	Group
Ordinary shares		45.7%	Group
MDL 2016 Limited	1 West Regent Street, Glasgow, G1 2AP	40.1%	Group
Modern Water plc	Bramley House, The Guildway, Old Portsmouth Road, Guildford, GU3 1LR	20.0%	Parent
Oxehealth Limited	24 Cornhill, London, EC3V 3ND	21.5%	Group
A Shares		70.0%	Group
Ordinary shares		39.7%	Group
OxSyBio Limited	24 Cornhill, London, EC3V 3ND	39.8%	Group
Convertible preference shares		100.0%	Group
Ordinary shares		24.1%	Group
Perachem Holdings plc		31.4%	Group
Perlemax Limited	The Sheffield Biocubator, 40 Leavygreave Road, Sheffield, S3 7RD	34.5%	Group

# Notes to the Company financial statements

CONTINUED

## 10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % <sup>(i)</sup>	Held by Parent/Group
Ordinary shares		38.5%	Group
Preference shares		0.0%	Group
Series B Shares		13.4%	Group
Series C shares		41.2%	Group
Series C1 shares		0.0%	Group
Perpetuum Limited	2 Venture, Southampton Science Park, Chilworth, Southampton, SO16 7NP	29.2%	Group
A Ordinary		26.1%	Group
Ordinary shares		52.1%	Group
Phase Focus Limited	40 Leavy Greave Road, Sheffield, S3 7RD	39.0%	Group
A Shares		55.9%	Group
Ordinary shares		32.7%	Group
POLAR OLED Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	35.0%	Group
Relitect Limited	1 West Regent Street, Glasgow, Scotland, G1 2AP	25.3%	Group
Salunda Limited	Unit 14a Oddington Grange, Weston-On-The-Green, Bicester, Oxfordshire, OX25 3QW	26.3%	Group
A Ordinary shares		57.4%	Group
B Ordinary shares		0.7%	Group
C Ordinary shares		100.0%	Group
Non-Voting Ordinary shares		100.0%	Group
Ordinary shares		56.9%	Group
Seren Photonics Limited	37b UK Technology Centre Pencoed Technology Park, Pencoed, Bridgend, Mid Glamorgan, CF35 5HZ	48.9%	Group
Spinetic Energy Limited	65-66 St. Mary Street, Chippenham, Wiltshire, SN15 3JF	24.9%	Group
Structure Vision Limited	103 Clarendon Road, Leeds, LS2 9DF	43.6%	Group
A Ordinary shares		17.4%	Group
Ordinary shares		35.4%	Group
Surrey NanoSystems Limited	24 Cornhill, London, EC3V 3ND	21.6%	Group
A Shares		100.0%	Group
Ordinary shares		43.7%	Group
TheySay Limited	24 Cornhill, London, EC3V 3ND	43.7%	Group
T-Phy Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	31.8%	Group
Ubiquigent Limited	Dundee University Incubator Dundee Technopole, James Lindsay Place, Dundee, DD1 5JJ	20.6%	Group
Ordinary shares		34.6%	Group
Preferred Shares		23.4%	Group
Ultrahaptics Holdings Ltd	The West Wing, Glass Wharf, Bristol, BS2 0EL	30.1%	Group
Ultramatis Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2	30.0%	Group
Uniformity Labs, Inc	41400 Christy Street, Fremont, CA 94538, USA	25.1%	Group
Ordinary shares		12.4%	Group
Preferred Shares		48.2%	Group
Zeetta Networks Limited	24 Cornhill, London, EC3V 3ND	31.1%	Group

(i) All holdings are via Ordinary Shares unless separate classes are specified in the table.

(ii) A fund in which the Group is a limited partner. Proportion of nominal value stated is equivalent to capital contributed to the partnership in question.

All companies above are incorporated in the United Kingdom with the exception of Exyn Technologies, Inc, Lumiod, Inc and Uniformity Labs, Inc which were incorporated in Delaware, USA. The significant influence noted above has been determined in line with IAS 28 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

# Company information

<b>Company registration number</b>	04204490
<b>Registered office</b>	24 Cornhill London EC3V 3ND
<b>Directors</b>	<b>Mike Humphrey</b> (Non-executive Chairman) <b>Alan John Aubrey</b> (Chief Executive Officer) <b>Michael Charles Nettleton Townend</b> (Chief Investment Officer) <b>Gregory Simon Smith</b> (Chief Financial Officer) <b>David Baynes</b> (Chief Operating Officer) <b>Douglas Brian Liversidge CBE</b> (Senior Independent Director) <b>Jonathan Brooks</b> (Non-executive Director) <b>Professor Lynn Gladden CBE</b> (Non-executive Director) <b>Dr Elaine Sullivan</b> (Non-executive Director)
<b>Company secretary</b>	<b>Angela Leach</b>
<b>Brokers</b>	<b>Numis Securities Limited</b> The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
<b>Registrars</b>	<b>Capita Asset Services</b> The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Bankers</b>	<b>Royal Bank of Scotland</b> PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
<b>Solicitors</b>	<b>Pinsent Masons LLP</b> 30 Crown Place Earl Street London EC2A 4ES
<b>Independent auditor</b>	<b>KPMG LLP</b> 15 Canada Square London E14 5GL



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