



IP Group plc

Annual Report and Accounts 2009

IP Group plc **develops intellectual property (“IP”) based businesses.**

We invest from our balance sheet and also from funds that we manage on behalf of others.

Our aims

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

How we work

Proprietary deal flow

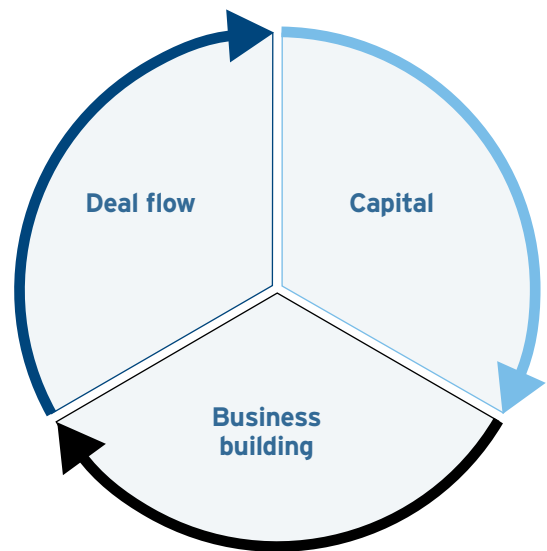
IP Group plc partnerships

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

Fusion IP plc partnerships

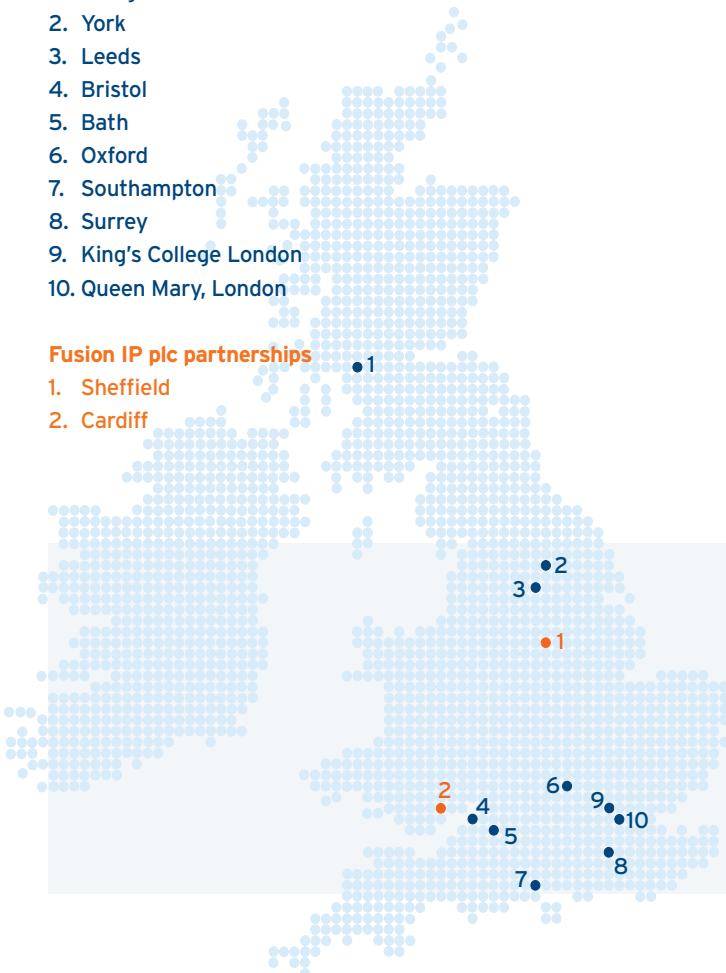
1. Sheffield
2. Cardiff

IP Group's core elements

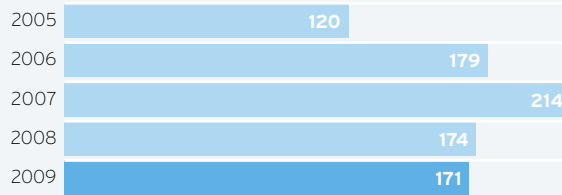


Capital

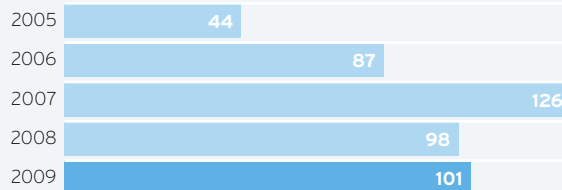
- » IP Group balance sheet
- » IP Venture Fund
- » North East Technology Fund
- » Top Technology Ventures IV



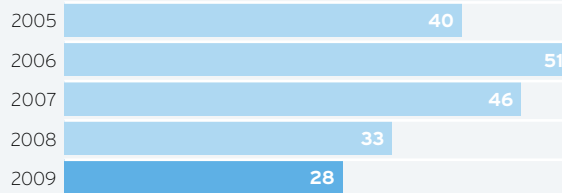
Net assets (£m)



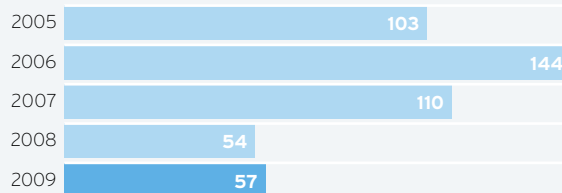
Portfolio value (£m)



Cash (£m)



Share price (p)



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We are committed to communicating with all of our stakeholders.

This year we have produced an online version of our Annual Report and Accounts which can be easily viewed and bookmarked at:

www.ipgroupplc.com/reports



Energy & Renewables



Fair value: £16.8m
(2008: £13.0m)
Number of companies: 10
(2008: 9)

The Energy & Renewables sector experienced the most significant increase in fair value during the period (c. 28%) largely as a result of the recovery in the share price of Modern Water plc. This was partially offset by a reduction in Oxford Catalysts Group plc's ("Oxford Catalysts") share price.

Modern Water plc announced fresh water production had begun at its desalination plant in Oman. Its first plant, in Gibraltar, has been successfully supplying water directly into Gibraltar's potable water distribution system since May 2009. The fall in the share price of Oxford Catalysts came despite it having been awarded development grants totalling in excess of \$7.7m as well as new agreements with PTT Public Company Limited, Thailand's largest listed company, and Petrobras, the largest company in Latin America, for a further GTL demonstrator.

The Group also made a seed investment into Encos Limited which aims to replace concrete as a structural material with fully sustainable construction products made from 100% recycled and industrial waste materials.

Chemicals & Materials



Fair value: £20.3m
(2008: £23.9m)
Number of companies: 16
(2008: 18)

Decrease in the fair value of the Chemicals & Materials portfolio can be largely attributed to the negative share price movement of Green Chemicals plc which was offset, to some degree, by an unrealised fair value gain in the Group's holding in Oxford Advances Surfaces Group plc ("OAS").

Green Chemicals' share price fell despite the unveiling of an ammonia-free, breakthrough hair bleaching and colouring system which is considered safer and simpler than other permanent dye products currently on the market. Meanwhile, OAS, an advanced materials company, announced in June that its Onto[®] surface modification technology had facilitated a breakthrough in adhesion for inert and low-surface energy materials including PET and polyimide polymers.

Elsewhere in the Chemicals & Materials portfolio, Xeros Limited, the company behind the world's first "virtually waterless" washing machine technology, successfully completed a Series A financing while Surrey NanoSystems Limited secured a £2.5m financing.

Medical Equipment & Supplies



Fair value: £31.0m
(2008: £30.2m)
Number of companies: 15
(2008: 23)

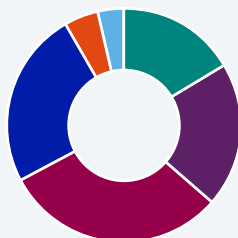
The fair value of the Group's portfolio of Medical Equipment & Supplies or "med tech" companies remained stable during the period.

The most significant transaction of 2009 for the sector was Oxford Nanopore Technologies Limited's worldwide strategic alliance with NASDAQ-quoted Illumina Inc. for the development and commercialisation of its BASE[™] Technology for super-fast DNA sequencing. As part of the agreement, Illumina invested \$18m in Oxford Nanopore. Following the period end, Oxford Nanopore announced a further £17.4m equity financing.

Avacta Group plc announced a number of acquisitions in the period and also the first sale of its flagship Optim diagnostic product while the technology behind Tissue Regenix Limited was highlighted in October 2009 as being at the centre of a £50m "50 active years after 50" research initiative. Elsewhere, Retroscreen Virology Limited announced a successful £2.6m financing. Its sales have grown by over 66% in the last three years, generating over £5m in revenue in the year to 31 July 2009, and resulting in the company being included in the Sunday Times 2009 Tech Track 100.

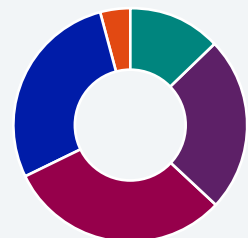
Portfolio analysis by fair value (%) 2009

- 17 Energy & Renewables
- 20 Chemicals & Materials
- 31 Medical Equipment & Supplies
- 24 Pharma & Biotech
- 5 IT & Communications
- 3 Multiple sectors



Portfolio analysis by fair value (%) 2008

- 13 Energy & Renewables
- 24 Chemicals & Materials
- 31 Medical Equipment & Supplies
- 28 Pharma & Biotech
- 4 IT & Communications



Pharma & Biotech



Fair value: £24.8m
(2008: £27.0m)
Number of companies: 10
(2008: 12)

The Group's Pharma & Biotech portfolio saw a limited level of unrealised fair value losses during 2009 predominantly due to a reduction in Proximagen Neuroscience plc's share price over the period despite that company having significantly strengthened its business with a £50m financing.

Photopharmica Holdings Limited received MHRA regulatory approval for its repeat dose Phase II leg ulcer trial for its lead compound PPA904 in late 2008 and recruited its first patients during the second quarter of 2009. The company received further external validation during April 2009 that no bacterial resistance to PPA904 photodynamic therapy developed even under sustained conditions.

Having successfully raised £6.3m through an AIM placing in May 2009, Synairgen continued development of its respiratory drug programmes with the second half of 2009 seeing the patent for the company's lead compound, interferon-beta, being granted in the US, positive Phase I safety results being achieved and anti-viral proof of mechanism being confirmed. Syntopix, meanwhile, continued to progress the commercial applications of its topical antimicrobial innovations adding a second twelve month exclusive evaluation agreement with a major consumer healthcare company to that signed with Procter & Gamble during 2008.

IT & Communications



Fair value: £4.9m
(2008: £4.3m)
Number of companies: 11
(2008: 12)

The increase in the Group's holdings in IT & Communications portfolio companies was largely attributable to an increase in the share price of AIM-listed CCTV and surveillance technology company, Coe Group plc.

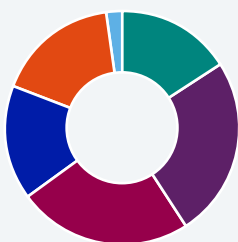
In the latter part of 2008, Coe rationalised its cost base and raised almost £1m. During 2009, the company announced a number of commercial partnerships and contract awards, including a £1m contract to provide the video surveillance solution for the Seoul Metropolitan Subway network.

Tracsis plc, the scheduling software company for the transportation industry, continued to grow revenues and operating profits in 2009 and further consolidated its market position through two strategic acquisitions.

Our portfolio is **diversified and maturing** with companies in five main sectors <<

Portfolio analysis by number (%) 2009

16	Energy & Renewables
25	Chemicals & Materials
24	Medical Equipment & Supplies
16	Pharma & Biotech
17	IT & Communications
2	Multiple sectors



Portfolio analysis by number (%) 2008

12	Energy & Renewables
25	Chemicals & Materials
31	Medical Equipment & Supplies
16	Pharma & Biotech
16	IT & Communications



In summary

Strong financial position with cash balances of £28.1m and no borrowings

—

Funds managed on behalf of third parties now £63m

—

Portfolio made strong technical and commercial progress



Dr Bruce Smith
Chairman

While the global economic environment in 2009 remained challenging and the funding environment for early stage companies continued to be constrained, I was encouraged by the Group's overall performance during the period.

The Group's total net assets stood at £171.0m at the end of 2009 (2008: £173.8m) and we finished the year in a strong financial position with a portfolio valued at £101.3m (2008: £98.4m) and cash balances of £28.1m (2008: £33.3m) and no borrowings. The funds that we manage on behalf of third parties have now increased to £63m after the Group successfully won the mandate to manage the £25m North East Technology Fund, a venture capital fund dedicated to investing in technology businesses based in the North East of England.

The Group has augmented its deal flow pipeline through a strategic investment in, and the signing of a co-investment agreement with, Fusion IP plc, an AIM-listed company which owns the exclusive commercialisation rights to 100% of the university-owned intellectual property generated at the University of Sheffield and Cardiff University, which are both leading research universities with a combined research spend in 2008/09 of £190m.

IP Group's portfolio remains well diversified by sector, size and maturity and in general has made strong technical and commercial progress during the period. Despite the funding environment remaining tough, the Group's portfolio companies raised in excess of £58m from public markets (2008: £25m) and over £22m (2008: £30m) by way of private financings during the year. It is also worth noting that the vast majority of our more mature portfolio companies are well funded and debt free.

The Group achieved modest realisations during the year and this trend continued in early 2010. We have maintained our conservative treasury policies and have kept a tight control on our cost base whilst continuing to support both our university partners and our portfolio companies effectively.

The strength of IP Group's business lies in our methodology of commercialising intellectual property that we have developed and deployed across our pipeline and portfolio and it is pleasing to see this method bearing fruit.

This is evidenced by the increasing maturity profile of the portfolio with a significant number of our portfolio companies signing deals in the year with major multi-national organisations. In addition, a number of our portfolio companies have taken advantage of market conditions to acquire or divest businesses as appropriate, or have attracted new investors, while others are showing solid organic growth and delivering product to customers.

In summary, IP Group is financially strong, appropriately positioned for the current economic climate with a robust and well financed portfolio, and recognised as a market leader in its sector. In addition, there is consensus amongst the major political parties that intellectual property based businesses have an important part to play in the growth of the economy which, we believe, should ensure that government policy is favourably disposed to our sector. This gives us continued confidence in our ability to deliver shareholder value over the long term.

As ever, the Group's achievements would not be possible were it not for the hard work and dedication of its staff, as well as the continued support of our shareholders, investors, university partners, portfolio company management and associates and I would therefore like to extend my thanks to each of them for their contribution and commitment.

Dr Bruce Smith

Chairman
1 March 2010

Financially strong <<

"IP Group is financially strong and appropriately positioned for the current economic climate with a robust and well financed portfolio."

In summary

Portfolio valued at £101.3m, £28.1m of cash and funds under management of £63m

–

Strengthened three key pillars of core business

–

Remain well positioned to create long-term shareholder value



Alan Aubrey
Chief Executive Officer

IP Group's core business is the creation of value for its shareholders, partners and investors through the commercialisation of intellectual property in a systematic and capital-efficient way. Our strength lies in managing this process of identifying suitable intellectual property to commercialise through the establishment of businesses and the generation of value from them.

We consider that there are three key pillars to the success of IP Group's core business:

- » proprietary access to high quality intellectual property based deal flow;
- » availability of capital to support company growth; and
- » a systematic and capital-efficient development approach.

Despite a continuation of difficult market conditions during 2009, the Group has taken steps to strengthen each of these pillars and I outline on the following pages the progress that we have made in this regard.

Proprietary deal flow

A key differentiator of the IP Group business model is our exclusive access to deal flow. Over the last ten years, we have entered into long-term agreements with ten of the UK's leading universities with a combined research income of over £1 billion. This has given us unique and unrivalled access to leading science and intellectual property in the UK and has enabled us to build a diverse portfolio of 63 companies based on groundbreaking discoveries.

In December, with support from shareholders through a vendor placing, we subscribed for a 19.8% shareholding in Fusion IP plc, an AIM-listed university intellectual property commercialisation company. The investment significantly increases the total university research income which IP Group is able to access while providing exposure to Fusion's diverse current portfolio of 20 companies.

Fusion has the exclusive commercialisation rights to 100% of university-owned intellectual property generated at two of the UK's leading universities, the University of Sheffield and Cardiff University.

Sheffield is the ninth largest and Cardiff is the thirteenth largest university in the UK, based on research income. Fusion has ten-year exclusive partnership agreements in place with these universities. In addition, the Group also entered into a co-investment agreement with Fusion under which we have the right, but not the obligation, to invest in all future portfolio companies that Fusion forms from its partner universities. During the first few months of 2010, the Group has approved the exercise of its option over two new Fusion companies under this agreement, the first is developing medical devices for laparoscopic surgery and the second is developing novel High Brightness LEDs.

The combination of the strategic investment in Fusion and co-investment agreement gives the Group exposure to an existing portfolio of established spin-out companies and enhances our proprietary access to the spin-out pipeline from leading UK research institutions, enabling us to leverage Fusion's experienced operating team.

Proprietary deal flow <<

"Over the last ten years, we have entered into long-term agreements with ten of the UK's leading universities with a combined research income of over £1 billion."

Capital

In 2009 the constrained funding environment for early stage companies, such as the ones IP Group incubates and develops, persisted. We have continued to work with portfolio companies to attract external finance alongside IP Group's investment as they mature. This investment originates from a range of sources determined by the stage and sector in which the relevant portfolio company is operating. Set out below are examples of the principal sources of co-investment:

- » **industrial partners:** examples during the year include the commercial collaborations and associated investments of Illumina Inc. with Oxford Nanopore Technologies Limited and Upsher-Smith with Proximagen Neuroscience plc;
- » **venture capital financiers:** investment rounds were led by Aquarius Equity Partners Limited into Retroscreen Virology, by Octopus Ventures into Surrey NanoSystems Limited and by Esperante into Karus Therapeutics Limited;
- » **public markets:** significant placings were completed by Proximagen Neuroscience, Synairgen plc and Avacta Group plc during 2009; and

» **angels and high net worth individuals:** financings including material angel investment were agreed for Actual Experience Limited and Xeros Limited during 2009.

The Group has continued the investment of IP Venture Fund in portfolio companies during the year and increased funds under management through the winning of the mandate to manage the North East Technology Fund which launched in January 2010. The £25m fund will invest in technology companies in the North East region from seed through to growth stages of development including opportunities from the leading research universities based in the region. The fund provides further recurring income from management fees and has the potential to generate performance fees from successful investment as well as providing co-investment opportunities for the Group.

The fund is part of the £125m JEREMIE venture capital fund (Joint European Resources for Micro to Medium Enterprises Initiative), the first fund of its type in England. The North East JEREMIE is jointly funded by the European Investment Bank, the European Regional Development Fund and the Regional Development Agency, One North East.

The management of third party funds continues to bring a number of benefits to the Group. Additional funds broaden the sources of financing potentially available to the Group's existing portfolio companies where such investment is aligned with the relevant fund's investment mandate. The funds also provide specialist limited partner investors with access to opportunities in IP Group's existing portfolio and enable them to benefit from the Group's deep expertise in intellectual property sourcing, work-up and business building. Fund management also leverages IP Group's existing competencies to provide additional recurring income and potential performance-related fees. The Group continues to seek to increase the level of third party funds under management to further consolidate these benefits.

In addition, the Group continues to manage its own balance sheet resources prudently and, as at 31 December 2009, had £28.1m of cash resources and no borrowings. We also encourage our portfolio companies to take a similar stance to their own financial budgeting and have been working with them to increase early engagement with industry as development partners, sources of equity financing and potential routes to market for their products.

Attracting external finance >>

"Principal sources of co-investment included industrial partners, venture capital, public markets and angels and high net worth individuals."



Development approach

Following the Client Services Team re-structuring described in the 2008 Annual Report, we have been able to support both our university partners and our portfolio companies more efficiently. This followed a rigorous review of our resourcing requirements which enabled us to make a number of organisational and process improvements. I am pleased to report that this approach has operated successfully during the year enabling us to offer more focused, specialist support to the pipeline and portfolio, which has been well received.

The Group now employs its proprietary capital-efficient technology evaluation and development model across all of its partner universities. In most instances, an essential part of this model involves very early stage engagement in incubation projects. Opportunities at this stage usually involve investments of up to £50,000 and this allows for additional proof of concept work and early commercial engagement to be carried out. Incubation projects typically have durations of nine to eighteen months, following which the opportunity is generally either progressed to seed financing or terminated. The Group also encourages early partnering with industry and leveraging of initial capital through grants or development finance. During the period the Group closed a number of incubation projects where proof of concept work failed or the investment case was insufficiently compelling to progress the opportunity further.

At 31 December 2009, the Group's portfolio was valued at £101.3m (2008: £98.4m). More detail of this is given in the *Portfolio review*.

Outlook

The economic environment remains challenging and the funding environment, particularly for early stage businesses such as those in which the Group invests, continues to be constrained. Nonetheless, IP Group is financially strong with a portfolio valued at £101.3m, £28.1m of cash and funds under management of £63m.

Our portfolio is progressing well, is, in general, well financed and diverse, with exposure to five key sectors and a range of businesses by level of maturity, and our access to both deal flow and capital is extremely strong, having both been recently augmented.

These factors, combined with our continued tight control of our cost base and the maintenance of conservative treasury policies, give us confidence that the Group remains well positioned to create long-term shareholder value.

Chemicals & Materials

Surrey NanoSystems Limited ("SNS") >>

A spin-out from the University of Surrey, SNS secured £2.5m of funding to commercialise its innovative low-temperature growth process for carbon nanotubes, targeted for use as an interconnection technology in semiconductor devices.



Portfolio review

Portfolio overview

At 31 December 2009, the Group's portfolio consisted of holdings in 63 companies (2008: 74) with a fair value that has stabilised during the year to stand at £101.3m (2008: £98.4m). A summary analysis of portfolio gains and losses is as follows:

	2009 £m	2008 £m
Unrealised gains on the revaluation of investments	15.3	12.2
Unrealised losses on the revaluation of investments	(16.7)	(47.7)
Net fair value losses	(1.4)	(35.5)
Loss on disposals of equity investments	(0.8)	–
Total	(2.2)	(35.5)

The principal unrealised gains on the revaluation of investments comprise, from the quoted portfolio, the positive share price performance of Modern Water plc (£7.4m), Oxford Advanced Surfaces Group plc (£1.1m) and Synairgen plc (£1.1m), and from the private portfolio, Oxford Nanopore Technologies Limited (£3.2m), which announced a £13.9m private financing in January 2009 as part of its worldwide strategic alliance with Illumina Inc., valuing the Group's 28.8% stake at £22.7m.

Unrealised losses on the revaluation of investments predominantly consist of falls in the share prices of certain companies in the Group's quoted portfolio, most significantly Green Chemicals plc (£3.3m), Oxford Catalysts Group plc (£3.2m), Proximagen Neuroscience plc (£2.1m) and Avacta Group plc (£1.7m). In addition, the application of the valuation techniques outlined in the Group's accounting policies set out in note 1 to the financial statements has resulted in reductions in the fair values of a limited number of unquoted portfolio companies.

Portfolio analysis - by company stage

Of the 63 companies in the Group's portfolio, 72% of the fair value resides in the ten companies in which IP Group's stake is worth over £3m. As at 31 December 2009, these businesses were valued at £72.9m (2008: £72.6m). An analysis of the Group's portfolio and investment during the year, by company stage, is shown opposite.

Over the course of 2009 we gave particular focus in our portfolio companies to the efficient use of cash resources. The success of this work, particularly in our early stage businesses, is partially reflected in the reduction in cash invested during the year. The overall level of investment into our portfolio during 2009 was £5.7m, including the investment of £2.9m into Fusion IP plc, compared to £8.6m during 2008. The Group's investment approach is designed to enable us to incubate early stage technology businesses with low levels of cash investment, and this has borne out in practice during 2009. This approach allows the progressive elimination of risk with minimal capital deployment and facilitates the maintenance of a portfolio that is well diversified by

Pharma & Biotech

Proximagen Neuroscience plc >>

Raised £50m, one of the largest biotech fundraisings in the UK in the past ten years, and completed its first acquisition. The Company, based on research from King's College London, announced its second acquisition in January 2010.

stage and sector. During the early part of 2010, the level of investment made by the Group has increased to some degree and by 26 February 2010, £1.4m of investment had been made across five portfolio opportunities. An additional trend that is helping the Group develop opportunities more cost effectively is the increasing availability of translational funding from a variety of sources.

Despite a continuation of difficult equity market conditions in the very early stage and micro-cap space, the Group took the opportunity to make modest realisations from the portfolio, generating proceeds of £0.5m (2008: £Nil). The directors will continue to identify and evaluate opportunities to realise cash from the portfolio when market conditions and/or specific circumstances make this appropriate to do so.

The Group's Capital Markets Team continues to work closely with our portfolio companies, and our portfolio companies have raised in excess of £80m through public and private financings this year (2008: £55m).

Portfolio analysis - by company stage

Company stage	31 December 2009				
	Investment £m	Fair value		Number	
		£m	%		%
Incubation projects	0.3	1.0	1%	11	17%
Portfolio businesses <£3m	2.0	27.4	27%	42	67%
Portfolio businesses >£3m	3.4	72.9	72%	10	16%
All portfolio businesses	5.7	101.3	100%	63	100%
Proceeds from sales of equity investments	0.5				

Company stage	31 December 2008				
	Investment £m	Fair value		Number	
		£m	%		%
Incubation projects	0.8	1.5	2%	20	27%
Portfolio businesses <£3m	6.2	24.3	24%	44	59%
Portfolio businesses >£3m	1.6	72.6	74%	10	14%
All portfolio businesses	8.6	98.4	100%	74	100%
Proceeds from sales of equity investments	–				

Capital-efficient business building <<

"Our approach allows the progressive elimination of risk with minimal capital deployment."



Portfolio review (continued)

Portfolio analysis - by sector

Sector	As at 31 December 2009			
	Fair value		Number	
	£m	%		%
Energy & Renewables	16.8	17%	10	16%
Chemicals & Materials	20.3	20%	16	25%
Medical Equipment & Supplies	31.0	31%	15	24%
Pharma & Biotech	24.8	24%	10	16%
IT & Communications	4.9	5%	11	17%
Multiple sectors	3.5	3%	1	2%
	101.3	100%	63	100%

Sector	As at 31 December 2008			
	Fair value		Number	
	£m	%		%
Energy & Renewables	13.0	13%	9	12%
Chemicals & Materials	23.9	24%	18	25%
Medical Equipment & Supplies	30.2	31%	23	31%
Pharma & Biotech	27.0	28%	12	16%
IT & Communications	4.3	4%	12	16%
Multiple sectors	—	—	—	—
	98.4	100%	74	100%

Portfolio analysis - by sector

The Group's portfolio consists of five key sectors, as depicted in the table shown to the left. A more detailed analysis of each sector is set out over the following pages.

Energy & Renewables

The Energy & Renewables sector has experienced the most significant increase in fair value during the period (approximately 28%) largely as a result of the recovery in the share price of AIM-listed Modern Water plc which has contributed a fair value gain of £7.4m. This has been partially offset by a reduction in Oxford Catalysts Group plc's ("OCG") share price giving rise to an unrealised reduction in fair value of £3.2m.

Modern Water plc, a company that develops leading water technologies, has made a number of significant operational and commercial advances during the year. In November, the company announced that fresh water production had commenced at its Manipulated Osmosis Desalination ("MOD") plant in Oman. The project is particularly significant as it acts as a showcase for the company's technology in the huge Middle East market, where annual expenditure on water and wastewater technology is expected

Portfolio progressing well >>

"Our portfolio is progressing well and is, in general, well financed and diverse, with exposure to five key sectors."



to rise to \$52.3 billion by 2016. The plant will also earn Modern Water its first revenue from desalination. This site is the second to employ the company's MOD technology. The first, in Gibraltar, has been successfully supplying water directly into Gibraltar's potable water distribution system since May 2009 having been thoroughly quality tested by the client and verified by a third-party expert for approval to supply the public.

While OCG's share price performance has been disappointing during the year, the clean synthetic fuels innovation company has shown considerable progress following its acquisition of Velocys Inc. in late 2008. During the period, OCG announced that it had been awarded development grants totalling in excess of \$7.7m (£4.8m) and will benefit from a further \$5.9m (£3.6m) through its joint development agreement with Portugal-based SGC Energia, SGPS, S.A. in the Fischer-Tropsch field. Following the period end, OCG announced a further \$5.0m (£3.1m) agreement with PTT Public Company Limited, Thailand's largest listed company, for small scale Gas-to-Liquid ("GTL") facilities and then, in February 2010, an agreement with Petróleo Brasileiro S.A. (Petrobras), the largest company in Latin America, for a further GTL demonstrator.

Energy & Renewables

Name/description	Group stake 31 December 2009 %	Quoted/ unquoted	Company value*	Value* of Group holding at:	
			31 December 2009 £m	31 December 2009 £m	31 December 2008 £m
Modern Water plc Technologies to address the world's water crisis	23.2%	Quoted	48.3	11.2	3.8
Oxford Catalysts Group plc Speciality catalysts for the generation of clean fuels	11.1%	Quoted	28.4	3.2	6.4
GETECH Group plc Gravity and magnetic data analysis for the oil and gas industry	20.3%	Quoted	3.8	0.8	1.2
Other companies and unquoted fair value reductions				1.6	1.6
Total				16.8	13.0

* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions).

During the year the Group made a seed investment into Encos Limited, a spin-out company using technology from the universities of Leeds and Nottingham, which aims to replace concrete as a structural material with fully sustainable construction products made from 100% recycled and industrial waste materials. Encos' ultimate aim is to produce construction products with a wide range of properties to suit different structural applications, using far less energy than traditional methods of manufacturing building materials. The Group co-invested

at the seed stage with Sustainable Resource Solutions Limited, another Group portfolio company, which aims to provide practicable solutions to waste and resource management problems.

Energy & Renewables

Modern Water plc >>

Announced fresh water production began from its desalination plant in Oman while its Gibraltar proving plant, which began producing water in September 2008, exceeded expectations. Its Cymtox Limited subsidiary received its first revenue from sales of water toxicity monitoring units in China.



Portfolio review (continued)

Chemicals & Materials

Name/description	Group stake		Company value* 31 December 2009 £m	Value* of Group holding at:	
	31 December 2009 %	Quoted/ unquoted		31 December 2009 £m	31 December 2008 £m
Ilika Technologies Limited High throughput materials discovery	23.6%	Unquoted	29.5	7.0	7.0
Oxford Advanced Surfaces Group plc Surface modification technologies applicable to a broad range of materials	15.4%	Quoted	37.1	5.7	4.5
Green Chemicals plc Environmentally friendly textiles and bleaching chemicals	24.4%	Quoted	10.8	3.0	6.1
Revolymer Limited Revolutionary polymer solutions	11.3%	Unquoted	26.3	3.0	3.0
Other companies and unquoted fair value reductions				1.6	3.3
Total				20.3	23.9

* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions).

Chemicals & Materials

The decrease in the fair value of the Chemicals & Materials portfolio can be largely attributed to the negative share price movement of Green Chemicals plc, which contributed an unrealised fair value reduction of £3.1m during the period. This was offset to some degree by an unrealised fair value gain in the Group's holding in Oxford Advanced Surfaces Group plc ("OAS"), whose share price increase contributed £1.2m.

Ilika Technologies Limited ("Ilika") is based on technology from the University of Southampton and specialises in the use of high throughput methods to accelerate materials development. Ilika's approach is to partner with a number of multinational

companies and during the year the company extended its partnership with Toyota Motor Company for the development of next-generation lithium ion batteries for use in electric and hybrid vehicles and announced a joint development project with CeramTec, the world-leading ceramics company, for the development and commercialisation of novel ceramic materials.

OAS, the advanced materials company, announced in June that its Onto[®] surface modification technology had facilitated a breakthrough in adhesion for inert and low-surface energy materials including PET and polyimide polymers. In January 2010, the company announced a strengthening of its board

with Dr David Bott, previously Director of Group Technology at ICI, joining as a non-executive director. Green Chemicals' share price reduction occurred despite the unveiling of an ammonia-free, breakthrough hair bleaching and colouring system which is considered safer and simpler than other permanent dye products currently on the market.

Elsewhere in the Chemicals & Materials portfolio, Xeros Limited, the company behind the world's first "virtually waterless" washing machine technology, successfully completed a Series A financing led by Enterprise Ventures during the year, while Surrey NanoSystems Limited, which is developing a silicon-friendly carbon nanotube growth process for next-generation semiconductors, secured a £2.5m further financing led by Octopus Ventures.

Medical Equipment & Supplies

The fair value of the Group's portfolio of Medical Equipment & Supplies or "med tech" companies remained stable during the period.

The most significant transaction of 2009 for the Medical Equipment & Supplies sector was the entering into by Oxford Nanopore Technologies Limited ("ONP") of a worldwide strategic alliance with NASDAQ-quoted Illumina Inc. for the development and commercialisation of its BASE[™] Technology for super-fast DNA sequencing. Illumina Inc. is a leading developer, manufacturer, and marketer of next-generation life-science tools with sales in 2009 in excess of \$660m, and

Medical Equipment & Supplies



Avacta Group plc >>

Launched its flagship product 'Optim', an analytical technology designed to reduce risk in biopharmaceutical development and help drug companies bring optimised products to market quicker and at lower cost. The University of Leeds spin-out made three acquisitions during the year.

provides a strong commercialisation partner for ONP. As part of this strategic alliance, Illumina invested \$18m (£11.8m) alongside a further £2.1m from existing shareholders at an uplift from the previous investment round resulting in a fair value gain of £3.2m. Following the period end, ONP announced a further £17.4m equity financing from new and existing investors including IP Group and IP Venture Fund, to accelerate the development of ONP's electronic, single molecule analysis technology. This February 2010 investment was completed at a premium to the January 2009 round and will result in a further £2.2m fair value gain to the Group in 2010.

The Group's holding in Avacta Group plc ("Avacta"), which develops detection and analysis technology and services aimed at the pharmaceutical, healthcare, security and industrial sectors, saw a fair value reduction during the period of £1.7m. From an operational perspective, however, Avacta has performed strongly during the period. Having announced a number of acquisitions in the period, Avacta launched its Avacta Animal Health division and, in September, announced the first sale of its flagship Optim diagnostic product aimed at reducing risks and costs for biopharmaceutical developers. Avacta is also on track to launch its MIDAS animal diagnostic platform in early 2010 and completed a £2.0m placing during Q4 2009 to support roll-out of the product.

Medical Equipment & Supplies

Name/description	Group stake		Company value*		Value* of Group holding at:	
	31 December 2009 %	Quoted/unquoted	31 December 2009 £m	31 December 2009 £m	31 December 2008 £m	
Oxford Nanopore Technologies Limited Nanopore technology used for super-fast genome sequencing	28.8%	Unquoted	78.9	22.7	19.5	
Avacta Group plc Specialist detection and analysis technologies and services	17.8%	Quoted	15.4	2.7	3.9	
Tissue Regenix Limited Regenerative medical devices	28.1%	Unquoted	6.9	1.9	1.9	
Retroscreen Virology Limited Specialist virology contract research organisation	18.0%	Unquoted	7.9	1.3	1.1	
Other companies and unquoted fair value reductions				2.3	3.7	
Total				30.9	30.1	

* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions).

The technology behind Tissue Regenix Limited, a developer of regenerative medical devices, was highlighted in October 2009 as being at the centre of a £50m "50 active years after 50" research initiative being carried out by the University of Leeds. The company's lead product, the dCELL[®] Vascular Patch is currently undergoing a clinical trial in Europe. In parallel, Tissue Regenix is also developing a pipeline of further dCELL[®] products that address clinical needs in fields such as orthopaedics (meniscal repair, ligaments) and cardiac surgery (heart valves).

During the period, Retroscreen Virology Limited, the global leading CRO in anti-viral research, clinical trials and experimental challenge studies founded by Professor John Oxford, announced a successful £2.6m Series B financing led by Aquarius Equity Partners Limited in conjunction with IP Venture Fund. Retroscreen's sales have grown by over 66% in the last three years, generating revenues of over £5m in the year to 31 July 2009, and resulting in the company being included in the Sunday Times 2009 Tech Track 100 which ranks the fastest-growing private technology companies in Britain by sales growth over a three year period.

Well financed portfolio companies <<

"The Group's portfolio companies raised in excess of £80m including over £58m from public markets."



Portfolio review (continued)

Pharma & Biotech

Name/description	Group stake	Quoted/ unquoted	Company value*	Value* of Group holding at:	
	31 December 2009 %		31 December 2009 £m	31 December 2009 £m	31 December 2008 £m
Photopharmica (Holdings) Limited					
Wound treatment using light (photodynamic therapy or "PDT")	49.9%	Unquoted	26.0	13.0	13.0
Proximagen Neuroscience plc					
Treatments for neurodegenerative disorders such as Parkinson's disease	8.2%	Quoted	60.2	4.9	7.1
Synairgen plc					
Developing new drugs for respiratory diseases	10.8%	Quoted	19.4	2.1	1.0
Syntopix Group plc					
Topical antimicrobials for healthcare and pharmaceutical applications	18.7%	Quoted	5.8	1.1	1.1
Other companies and unquoted fair value reductions				3.8	5.0
Total				24.9	27.2

* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions).

Pharma & Biotech

The Group's Pharma & Biotech portfolio experienced a limited level of unrealised fair value losses during 2009 (£1.5m, 2008: £9.2m) predominantly due to a £2.1m unrealised fair value loss arising from a reduction in Proximagen Neuroscience plc's ("Proximagen") share price over the period.

Building on the successful licensing of its PRX1 Parkinson's programme with Upsher-Smith Laboratories Inc. during 2008, Proximagen significantly strengthened its business in a number of ways during 2009. Having announced the appointment of Peter Allen, previously CFO of Celltech Group, as its new

non-executive chairman in February 2009 (sourced through Stuart Thompson of IP Exec), the company completed a £50m placing. This placing provided capital for further in-licensing and development to commercialisation of drug development programmes for diseases of the central nervous system. In October, Proximagen announced its first acquisition, the purchase of Cambridge Biotechnology Ltd and certain drug development programmes from Biovitrum AB, providing Proximagen with a number of clinical and pre-clinical stage assets. Following the period end, in January 2010, Proximagen announced its recommended cash offer for Minster Pharmaceuticals plc, whose two principal assets, focusing on neurological and

psychiatric disorders, benefit from comprehensive safety data having been previously acquired from GlaxoSmithKline. Following this acquisition, Proximagen will have a broad portfolio of 16 programmes ranging from discovery, through pre-clinical and clinical stages.

Photopharmica Holdings Limited ("Photopharmica"), the spin-out company from the University of Leeds which is developing pharmaceutical products using photodynamic therapy, received MHRA regulatory approval for its repeat dose Phase II leg ulcer trial for its lead compound PPA904 in late 2008 and recruited its first patients during the second quarter of 2009. The company received further external validation during April that no bacterial resistance to PPA904 photodynamic therapy developed even under sustained conditions. Further developments from the trial are anticipated during 2010.

Both Syntopix Group plc ("Syntopix") and Synairgen plc made positive progress during 2009, with the latter's strong share price performance resulting in a fair value gain of £1.1m during the year. Having successfully raised £6.3m through a placing in May, Synairgen continued development of its respiratory drug programmes with the second half of 2009 seeing the patent for the company's lead compound, interferon-beta, being granted in the US, positive Phase I safety results being achieved and anti-viral proof of mechanism being confirmed. Synairgen is currently preparing for commencement of Phase II trials in Spring 2010, with the

Net assets stable >>

"The value of the Group's portfolio of 63 companies stabilised during the year and is valued at £101.3m."



scope of the first study being widened to include flu.

Syntopix meanwhile continues to progress the commercial applications of its topical antimicrobial innovations adding a second twelve month exclusive evaluation agreement with a major consumer healthcare company to that signed with Procter & Gamble during 2008. In November the company announced positive results in its Phase II randomised, blinded cosmetic study in subjects with acneic skin and is currently planning an equity issue in order to fully progress its commercial opportunities.

During the period the Group realised £0.25m of cash through the disposal of its holding in Summit Corporation plc. This realisation represents a cash on cash return of approximately ten times, following the Group's initial investment of £25,000 during 2003.

IT & Communications

The Group's holdings in IT & Communications portfolio companies increased to a fair value of £4.9m at 31 December 2009 (2008: £4.3m). This was largely attributable to an increase in the share price of AIM-listed CCTV and surveillance technology company, Coe Group plc ("Coe"), of £0.5m.

In the latter part of 2008 Coe rationalised its cost base and raised almost £1.0m (before expenses) by way of a placing to strengthen its balance sheet and enable it to take advantage of developing sales opportunities. During 2009 this

IT & Communications

Name/description	Group stake 31 December 2009 %	Quoted/ unquoted	Company value*	Value* of Group holding at:	
			31 December 2009 £m	31 December 2009 £m	31 December 2008 £m
Tracsis plc Crew scheduling software for the transportation industry	19.4%	Quoted	9.4	1.8	1.8
Coe Group plc CCTV and surveillance technology	34.8%	Quoted	2.8	1.0	0.5
Icona Solutions Limited Software to improve perceived quality	41.2%	Unquoted	1.1	0.4	0.4
Other companies and unquoted fair value reductions				1.7	1.6
Total				4.9	4.3

* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions).

strategy began to bear fruit as the company announced a number of commercial partnerships and contract awards, including a £1m contract to provide the video surveillance solution for lines 1, 3 and 4 of the Seoul Metropolitan Subway network. In November 2009, Coe announced a full year profit for the year to 30 June 2009 compared to a loss of £1m in the prior year.

Tracsis plc, the scheduling software company for the transportation industry, continued to grow revenues and operating profits in 2009 and further consolidated its market position through two strategic acquisitions. In July Tracsis acquired Peeping Limited, a company which provides research based services to train operating companies, and this was followed by the announcement in December that it was to acquire Safety

Information Systems Limited, a data analysis, process control and management reporting software developer.

Icona Solutions Limited continued to develop its innovative Perceived Quality simulation and visualisation software solution, aesthetica. As well as a number of software developments, the company announced in March that Bentley Motors had implemented Icona's aesthetica software, in order to streamline and improve the process of achieving consistently high Perceived Quality in Bentley Motors' vehicles without negatively impacting development timescales and manufacturing costs.

IT & Communications

Tracsis plc >>

The provider of planning software to the transport industries, and a spin-out from the University of Leeds, made two acquisitions in the year - Peeping Ltd and Safety Information Systems Ltd - to strengthen its offering to transport companies.



Financial review

Statement of comprehensive income

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

	2009 £m	2008 £m
Net portfolio losses	(2.3)	(35.0)
Other income	1.5	1.9
Administrative expenses - Modern businesses*	(0.3)	(2.9)
Administrative expenses - all other businesses	(5.6)	(6.6)
Finance income	0.6	2.2
Loss and total comprehensive income for the period	(6.1)	(40.4)

* Modern businesses' administrative expenses are stated net of R&D tax credits.

Portfolio gains consist primarily of realised and unrealised fair value gains and losses, as well as any dividends or other distribution income received from portfolio companies. A detailed analysis of fair value gains and losses is provided in the *Portfolio review* above.

Other income for the year decreased to £1.5m (2008: £1.9m) largely due to reduced private placement fees during the period (£0.1m; 2008: £0.3m) and a slight reduction in venture capital fund management fees (£1.0m; 2008: £1.1m) as one of the funds managed by the Group moves fully into its realisations period where lower fees are charged.

The Group will benefit from additional venture capital fund management fee income in 2010 following the appointment of the Group as manager of the £25m North East Technology Fund in January 2010.

As a result of the restructuring carried out in late 2008, the cost base of the business has reduced with administrative costs, excluding those attributable to the Group's drug discovery subsidiary, Modern Biosciences plc ("MBS"), £1m lower than in 2008.

As in prior years, administrative expenses include a number of non-cash charges totalling £1.1m (2008: £1.0m) including an IFRS 2 share-based payments charge of £0.6m relating to the Group's Long Term Incentive Plan (2008: £0.6m). This charge is designed to reflect 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'.

During 2009 the Group deployed limited capital to continue development of MBS's two lead programmes, Rimcazole and OsteoRx, while reducing operating overheads to an absolute minimum. The net cost to the business of this development, following the receipt of a cash R&D tax credit of £0.3m during the period (2008: £0.1m),

was £0.3m (2008: £2.9m). The Group currently intends to deploy limited further capital for the early-stage pre-clinical development of these two assets which seek to address the significant global markets of age-related macular degeneration ("AMD") and rheumatoid arthritis.

As anticipated in the 2008 Annual Report, finance income decreased significantly to £0.6m (2008: £2.2m) primarily due to significantly lower interest rates in the UK during 2009. It is expected that the Group's future finance income will fluctuate broadly in line with future interest rate changes.

Statement of financial position

The Group continues to have a strong balance sheet with cash and deposits of £28.1m (2008: £33.3m), no borrowings and a diversified portfolio of investments in private and publicly-listed companies across five distinct sectors.

The value of the Group's portfolio of 63 companies has stabilised during the year and is valued at £101.3m as at 31 December 2009 (2008: £98.4m, 74 companies). A detailed report on the Group's portfolio of equity and debt investments, including key developments and movements during the period, is provided in the *Portfolio review* on pages 10 to 17.

The Group's balance sheet includes goodwill of £18.4m (2008: £18.4m) and an equity rights asset of £19.9m (2008: £19.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £16.3m; 2008: £16.3m) and Top Technology Ventures (venture capital fund management business, £2.1m; 2008: £2.1m), while the equity rights asset represents amounts paid to the University of Oxford giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company or of any licensing income emanating from the University of Oxford's Chemistry Department until 2015. The carrying values of these assets have been reviewed during the period and the directors do not believe these assets to be impaired. Further details are provided in notes 11 and 15 to the Group financial statements.

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 opposite.

Cash and short-term deposits

The principal constituents of the movement in cash and short-term deposits balances during the period can be summarised as follows:

	2009 £m	2008 £m
Net cash used in operating activities	(2.7)	(3.5)
Net cash used in investing activities	(2.5)	(9.2)
Issued share capital	-	-
Movement during period	(5.2)	(12.7)

While the overall level of cash deployment has reduced during the period, the Group has continued to incubate and invest in new university spin-out opportunities, and has maintained some participation in follow-on funding rounds where appropriate. The Group invested £5.7m across 20 opportunities during the period (2008: £8.6m, 40). This included the Group's £2.9m investment into Fusion IP plc although, since this was financed through the issue of vendor-placed new share capital, the associated cash flows are not reflected in the Group's statement of cash flows. The Group made modest realisations of £0.5m during the period (2008: £Nil) and the net cash used in investing activities reduced to £2.5m (2008: £9.2m).

As in previous years, the directors have applied the Group's stringent qualification criteria to its investment opportunities at all stages of company maturity and will continue to do so in the future. The Group has discretion over the level of cash deployed into portfolio opportunities and regularly reviews this level based on the economic environment, likely capital requirements of the portfolio and volume of attractive intellectual property commercialisation opportunities.

It is the Group's policy to place cash which is surplus to near term working capital requirements in low-risk treasury funds rated "AA" or above, or on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria as detailed in note 2 to the Group financial statements. The Group has no borrowings or foreign currency deposits.

Taxation

The Group's directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE") on chargeable gains arising on the disposal of qualifying holdings and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on equity stakes which meet the qualifying criteria.

Alan Aubrey

Chief Executive Officer
1 March 2010

Strong balance sheet <<

"The Group continues to have a strong balance sheet with cash and deposits of £28.1m, no borrowings and a diversified portfolio of investments."

Dr Bruce Smith, CBE**Non-executive Chairman** ■■■

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

Alan Aubrey, FCA**Chief Executive Officer**

Alan established Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience at helping them raise money and prepare for sale or flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive on 1 January 2006 and has overall responsibility for the operational management of the Group.

Dr Alison Fielding**Chief Technology Officer**

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

Mike Townend**Director of Capital Markets**

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

Magnus Goodlad**Chief Operating Officer**

Magnus joined Top Technology Ventures Limited, IP Group's Fund Management business, in June 2000 after four and a half years with Slaughter and May practising a wide range of corporate, banking and finance law. Magnus was appointed a director of IP Group in March 2006.

Professor Graham Richards, CBE**Senior Non-executive Director** ■■■

Graham was the scientific founder of Oxford Molecular Group plc and was for 20 years a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham was Chairman of Chemistry in the University of Oxford until 30 June 2006. Graham became a non-executive director of IP Group in December 2001 and Chairman in August 2004. He became Senior Non-Executive Director on 1 January 2006.

Roger Brooke**Non-executive Director** ■■■

Roger founded Candover Investments and built it into one of the UK's foremost venture capital businesses. He retired from Candover as Chairman in May 1999. His previous directorships include: EMI, Beeson Gregory Group plc and he was previously Chairman of the Audit Commission. Roger became a director of IP Group in December 2001.

Francis Carpenter**Non-executive Director** ■

Francis was Chief Executive Officer of the European Investment Fund, holding that role for nearly six years until his retirement at the end of February 2008. Francis joined the European Investment Bank in 1975 and held a variety of roles including Secretary General, Director of Credit Risk Management and Director of Lending in the UK, Ireland, North Sea and Portugal. Francis became a director of IP Group in April 2008.

- Audit Committee
- Remuneration Committee
- Nomination Committee



Top row, left to right: Dr Bruce Smith, Alan Aubrey, Dr Alison Fielding, Mike Townend
Bottom row, left to right: Magnus Goodlad, Professor Graham Richards, Roger Brooke, Francis Carpenter

Adverse climate change and increased environmental degradation are very real threats to both the present and the future. Sustainability forms a core component of our business philosophy and we firmly recognise our responsibility to ensure that our business continues to operate in a sustainable manner.

This statement provides an overview of how the Group operates in a sustainability context, focusing on the steps we are taking as a company both to better understand our impact and, in the long term, firmly embed sustainability considerations into all of our decision-making processes.

About IP Group

The principal activities of the Group are the commercialisation of intellectual property generated from its partner universities, principally through the formation of, and investment in, spin-out companies.

The Group operates out of two main office locations in the UK and during 2009 employed an average of 35 people (2008: 54).

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

Our commitment to the environment

The direct environmental impact of the Group and its subsidiary companies is relatively low. The business operates from a small number of offices and employs less than 40 people, with the majority of our work being office based. The Group does, however, remain committed to ensuring that the environmental impacts of the business operations are minimised and reduced wherever possible. In 2008, we undertook a review of the environmental impacts of our operations and produced a Group Environmental Policy which is monitored at Board level and reviewed annually. This policy is communicated to all new staff upon induction into the business.

Minimising our direct impact on the environment

We are committed to:

- » promoting Resource Efficiency and the management of waste generated from our business operations according to the principles of the Waste Management Hierarchy. We prioritise the management of our waste in the following order: prevention, minimisation, reuse, recycling, recovery and finally disposal. Recycling facilities and waste awareness materials are present in all of our office locations;
- » maximising the use of public transport for business travel and minimising business airline travel;
- » working in partnership with our staff, suppliers, landlords and their agents to promote improved energy performance and energy efficiency; and
- » wherever appropriate, make use of recycled and recyclable consumables and materials, including promotional and marketing documentation.

Understanding the indirect environmental impacts of our business activities

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

Major investment themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. Two case studies, Sustainable Resource Solutions Limited and Encos Limited, have been included to highlight how our investment decisions are linked to the Global Environmental and Sustainability agenda.

Sustainable Resource Solutions Limited

Developed and developing countries continue to produce waste in significant quantities and have yet to de-couple economic growth from waste production. At the same time natural and finite resources continue to be diminished in an attempt to satisfy increasing levels of consumer demand.



In recognition of this problem, developed countries have enacted a raft of legislation aimed at minimising and/or recovering value from waste material and to promote the use of secondary (recycled) materials in new products. For example, Pan-European legislation is now in place to ensure a consistent level of environmental protection whilst enshrining resource efficiency.

Sustainable Resource Solutions Limited is an integrated resource management company which uniquely designs, develops and implements process change and/or technology to deliver enhanced environmental outcomes. Sustainable Resource Solutions is currently working with some of the largest private and public sector companies in the United Kingdom, delivering innovative resource efficiency solutions which not only result in improved environmental performance, but which also provide both considerable revenue generation and cost reduction opportunities.

Understanding the indirect environmental impacts of our business activities (continued)

Encos Limited

Construction is a major contributor to the global carbon dioxide emissions. In parallel, the disposal of waste to land fill is becoming increasingly unacceptable. Many governments, including the UK, are introducing increasingly tough legislation to address these two demands.

Encos Limited ("Encos") is developing sustainable construction products, made from 100% recycled materials with a fraction of the carbon footprint of conventional bricks and blocks. Encos has partnerships with major waste management and construction companies and is in the process of commissioning a pilot production facility.

The Encos product will provide a sustainable replacement to conventional building materials but allow companies to retain building techniques and skills that have been developed over centuries.



Further qualitative and quantitative details of the Group's investments in companies in the Energy & Renewables and Chemicals & Materials sectors are detailed in the *Portfolio review*.

Our business ethics and social responsibility

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

The Group's management and employees are fundamental to our success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coach and mentor.

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice.

Our employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations. As part of this initiative, the Group works with the Brightside Trust, a charity aimed at bringing educational opportunities to children from disadvantaged backgrounds. Group employees are given the opportunity to participate in schemes such as the "Confident Futures" programme which involves mentoring young people in care to support their progress into further education or employment, or the "Scientists in Schools" programme to help raise the aspirations and interest of underprivileged school students in the sciences.

Report of the directors

The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2009.

Principal activities

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

Results and dividends

During the period the Group made an overall loss after taxation for the year ended 31 December 2009 of £6.1m (2008: £40.4m). The directors do not recommend the payment of a dividend (2008: £Nil).

Directors

The names of directors who held office during 2009 are as follows:

Executive Directors

Alan Aubrey
Alison Fielding
Magnus Goodlad
Mike Townend

Non-executive Directors

Bruce Smith (Chairman)
Graham Richards
Roger Brooke
Francis Carpenter

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on pages 26 to 29.

Business review

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

- » Chairman's statement on pages 4 and 5;
- » Chief Executive Officer's statement on pages 6 to 19, which together include a review of the Group's external environment, key strategic aims, main trends and factors likely to affect the future development, performance and position of the Group's business;
- » Corporate responsibility report on pages 21 and 22 which includes information about environmental matters, employees and social and community issues;
- » Corporate Governance and Directors' Remuneration Report on pages 26 to 36 including details of the Company's rules relating to the appointment and replacement of directors; and
- » details of the principal operating subsidiaries are set out in note 2 to the Company's financial statements.

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

Key performance indicators

	2009	2008
Total equity ("net assets") (£m)	171.0	173.8
Loss attributable to equity holders (£m)	(6.1)	(40.3)
Change in fair value of equity and debt investments (£m)	(1.4)	(35.5)
Cash, cash equivalents and deposits (£m)	28.1	33.3
Proceeds from sale of equity investments (£m)	0.5	–
Purchase of equity and debt investments (£m)	5.7	9.2
Number of new portfolio companies (number)	4	12
IP Group plc share price performance (% change)	5.6	(50.9)

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 in the Corporate Governance report on pages 33 to 35. 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 ten UK universities granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to two limited partnerships, as detailed in note 1 to the consolidated financial statements, and further agreements following the period end in relation to the North East Technology Fund LP. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

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

Share capital and related matters

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

At the last general meeting, held on 28 April 2009, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum amount equivalent to approximately 33% of the shares in issue at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 27 April 2010. The directors partially used this authority in allotting and issuing new ordinary shares in connection with the acquisition of 19.8% of Fusion IP plc as described in note 20. Further, the directors were given authority effective for the same period to allot relevant securities in the Company up to a maximum amount equivalent to 33% of the shares in issue in connection with an offer by way of a fully pre-emptive rights issue. No shares have been issued pursuant to this authority. The directors propose to renew these authorities at the Company's next AGM to be held on 27 April 2010. The authorities being sought are in accordance with recent guidance issued by the Association of British Insurers.

A further special resolution passed at that meeting 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 1985 both in connection with a fully pre-emptive rights issue and up to a maximum of approximately five percent of the shares in issue at any time up to the earlier of the conclusion of the next AGM of the Company and 27 April 2010. The directors partially used this authority in allotting and issuing new ordinary shares in connection with the acquisition of 19.8% of Fusion IP plc as described in note 20. The directors will seek to renew this authority for a similar period at the next AGM.

Under the CA 2006, the Company is no longer required to have enabling provisions in its Articles giving it power to purchase its own shares. Accordingly these have been removed from the new Articles proposed to be adopted at the AGM and the powers will then be contained in Part 18, Chapter 5 of the CA 2006. The directors have no existing authority to purchase the Company's own shares.

Articles of Association

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

Substantial shareholders

As at 1 March 2010 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 is known, no other person holds or is beneficially interested in a disclosable interest in the Company.

	%
Lansdowne Partners	16.3
BlackRock, Inc.	15.4
Massachusetts Mutual Life Insurance Company	9.8
FIL Limited (Fidelity)	9.2
Standard Life Investments Limited	5.7
Legal & General Investment Management	4.4

Payment of trade payables

It is the Group's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The Group's average trade payable payment period at 31 December 2009 was 25 days (2008: 13 days). The Company had trade payables of £0.1m (2008: £0.1m) at 31 December 2009.

Charitable and political donations

During 2009 the Group did not make any charitable donations (2008: £30,000). The Group did not make any political donations in either year.

Post balance sheet events

On 22 January 2010, the Group announced that it had won the mandate to manage the North East Technology Fund (the "Fund"), a £25m venture capital fund that will invest in technology companies in the North East region from seed through to growth stages of development including opportunities from the leading research universities based in the region. The Group will receive management fees and has the potential to generate performance fees from successful investment of the Fund. In addition, the Group will be able to co-invest alongside the Fund in appropriate opportunities.

On 1 February 2010, Oxford Nanopore Technologies Limited announced a further £17.4m equity financing from new and existing investors including IP Group and IP Venture Fund, to accelerate the development of its electronic, single molecule analysis technology. This February 2010 investment was completed at a premium to the January 2009 round and will result in a further £2.2m fair value gain to the Group in 2010.

Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Appointment of auditors

BDO LLP offer themselves for re-appointment as auditors and an appropriate resolution will be put to the shareholders at the AGM.

ON BEHALF OF THE BOARD

Alan Aubrey

Chief Executive Officer
1 March 2010

The Directors' Remuneration Report has been prepared in accordance with requirements of the CA 2006.

The Company's remuneration policy is the responsibility of the Board of Directors. The Remuneration Committee provides recommendations to the Board of Directors on the Group's remuneration policy. This Remuneration Committee consists exclusively of non-executive directors, is chaired by Graham Richards and also comprises Bruce Smith and Roger Brooke. Graham Richards and Roger Brooke are considered to be independent directors and 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.

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. In advising the Group's Board on executive remuneration packages of individual directors, the Remuneration Committee takes account of the levels of experience, performance and responsibility of each director, and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole.

Remuneration policy

a) Executive remuneration

The committee aims to ensure that the remuneration of executive directors is competitive, takes into account individual performance and provides a package which is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary which is not performance related, an entitlement to private medical insurance, permanent health insurance, life assurance and pension contributions to individual money purchase schemes, an equity bonus scheme and a Long Term Incentive Plan. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the Long Term Incentive Plan are detailed below:

Bonuses

The Group operates a bonus incentive scheme linked to the equity received as a result of investments made by the Group (the "equity bonus scheme"). The Group accrues for employee bonuses at a cost to the Group of up to 17.5% of the fair value of investments made and equity received by the Group. Cash bonuses are payable on a discretionary basis in recognition of exceptional performance not otherwise recognised through existing schemes. Bonus awards are based on performance within the Group and/or at the relevant individual portfolio company level. No cash bonuses have been paid to executive directors in respect of the year ended 31 December 2009 (2008: £Nil).

Carried interest

The Group allocates carried interest in funds managed by the Group to executive directors and other key staff based on the level of involvement and contribution of the relevant members of the team to the management of the fund. Details of allocations made to the executive directors are set out below.

Pensions

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

Share options

It is the policy of the Group not to issue new options over ordinary shares in the Company. No new options over shares were issued during the year ended 31 December 2009.

b) Non-executive remuneration

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

Remuneration policy (continued)

c) Long Term Incentive Plan ("LTIP")

The LTIP and employee share ownership trust were approved by shareholders at the AGM in 2007 (the "2007 LTIP"). All employees, including full-time executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards will take the form of provisional awards of ordinary shares of 2p each in the Group. The maximum value of shares (as at the relevant dates of award) over which an individual may receive awards under the LTIP over any three consecutive financial years shall not exceed four times his or her basic annual rate of pay without the approval of the Remuneration Committee.

Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards and it is proposed that such conditions will be imposed to reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for future grants will be based on the Group's total shareholder return ("TSR") performance. The awards granted to date will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted in 2007 will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

Further details relating to 2007 LTIP awards to executive directors are detailed below. It is considered likely that the provisional awards made to the executive directors pursuant to the 2007 LTIP will expire without vesting in May 2010. It is anticipated that a revised equity-related incentivisation structure will be presented for approval at the Group's 2010 AGM.

d) Service contracts

Alan Aubrey and Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months by either party. Magnus Goodlad has a service contract which commenced on 30 June 2004 and contains a contractual notice period of six months by either party. Mike Townend has a service contract which commenced on 5 March 2007 and contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

The non-executive directors have letters of appointment which are dated 10 August 2004 in the case of Graham Richards, 3 September 2007 in the case of Bruce Smith, 29 September 2003 in the case of Roger Brooke and 3 April 2008 in the case of Francis Carpenter. Each appointment is for an initial term of three years, renewable for a further three years. The non-executive service agreements are terminable on three months' notice by either party save in the case of Roger Brooke, whose agreement is terminable on one month's notice by either party.

Executive directors may accept other outside non-executive appointments. 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. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

Directors' emoluments

The following is part of the Directors' Remuneration Report and is subject to audit.

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

	Base salary £000	Equity bonus £000	Fees £000	Benefits ⁽ⁱⁱ⁾ £000	Total (excluding pension) 2009 £000	Pension £000	Total (including pension) 2009 £000	Total (excluding pension) 2008 £000	Pension £000	Total (including pension) 2008 £000
Executive										
Alan Aubrey	169	32	–	3	204	19	223	238	22	260
Alison Fielding	180	31	–	4	215	18	233	208	18	226
Magnus Goodlad	170	30	–	4	204	17	221	197	17	214
Mike Townend	180	31	–	4	215	18	233	224	20	244
Non-executive										
Bruce Smith	–	–	41	–	41	–	41	45	–	45
Graham Richards	–	–	32	–	32	–	32	35	–	35
Roger Brooke	–	–	23	–	23	–	23	25	–	25
Francis Carpenter ⁽ⁱ⁾	–	–	32	–	32	–	32	26	–	26
Total	699	124	128	15	966	72	1,038	998	77	1,075

⁽ⁱ⁾ 2008 figures are in respect of the period from 18 April 2008 to 31 December 2008.

⁽ⁱⁱ⁾ Benefits represent private medical insurance and life assurance provision.

⁽ⁱⁱⁱ⁾ Alison Fielding and Mike Townend were the highest paid directors during the year ended 31 December 2009 (2008: Alan Aubrey).

^(iv) In addition to the above, during the period Alan Aubrey retained fees totalling £13,333 in respect of non-executive director services provided to companies in which the Group is a shareholder.

Directors' long-term incentives

The following is part of the Directors' Remuneration Report and is subject to audit.

a) Long Term Incentive Plan

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

	Number of shares 1 January 2009	Notionally held at awarded in the year	Potential interest in shares at 31 December 2009	Share price at date of notional award (p)	Amount charged against profit in the year £000	Earliest vesting date
Executive Directors						
Alan Aubrey	671,641	–	671,641	134.75	124	20.05.10
Alison Fielding	597,015	–	597,015	134.75	109	20.05.10
Magnus Goodlad	522,388	–	522,388	134.75	96	20.05.10
Mike Townend	597,015	–	597,015	134.75	109	20.05.10
Total	2,388,059	–	2,388,059		438	

No notional shares vested or lapsed during the year.

The fair value charge recognised in the income statement in respect of LTIP share awards granted to directors was £437,811 (2008: £437,811).

The performance criteria relating to the LTIP awards are set out on page 27 and it is considered likely that the notional awards shown above will expire without vesting in May 2010.

Co-investment and carried interest schemes

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

a) Co-investment scheme

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

	Total commitment £000	Limited partnership interest of IPVF	Total invested to 1 January 2009 £000	Invested during the year £000	Total invested to 31 December 2009 £000
Executive Directors					
Alan Aubrey	51	0.17%	21	5	26
Alison Fielding	51	0.17%	21	5	26
Magnus Goodlad	51	0.17%	21	5	26
Mike Townend	51	0.17%	21	5	26
Total	204	0.68%	84	20	104

b) Carried interest scheme

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

	Scheme ⁽ⁱ⁾	Scheme interest ⁽ⁱⁱ⁾ at 1 January 2009	Awarded during the year	Lapsed during the year	Scheme interest at 31 December 2009	Accrued value ⁽ⁱⁱⁱ⁾ of scheme interest 31 December 2009
Executive Directors						
Alan Aubrey	IPVF	1.67%	–	–	1.67%	–
Alison Fielding	IPVF	1.67%	–	–	1.67%	–
Magnus Goodlad	IPVF	1.67%	–	–	1.67%	–
	TTV IV	4.36%	–	–	4.36%	–
Mike Townend	IPVF	1.67%	–	–	1.67%	–

⁽ⁱ⁾ Under the IPVF scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the Top Technology Ventures IV LP ("TTV IV") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 6% compound interest.

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

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

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

Directors' interests in ordinary shares (unaudited)

The directors, who held office at 31 December 2009, had the following beneficial interests in the ordinary shares of the Company:

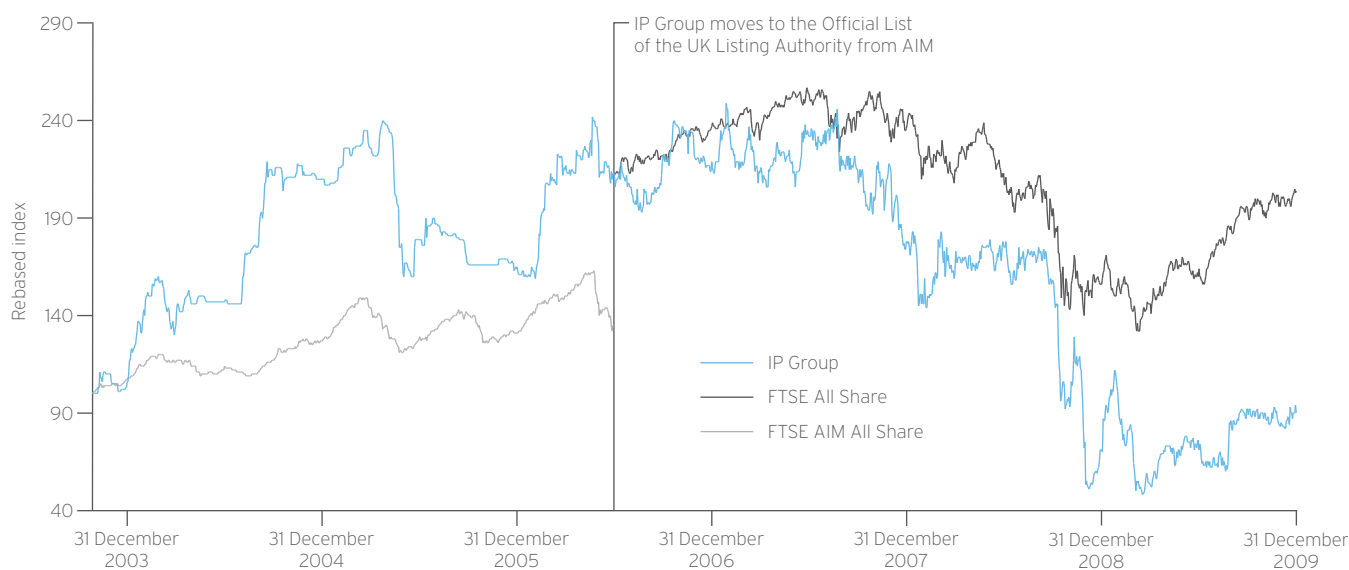
	31 December 2009 Number of shares	1 January 2009 Number of shares
Alan Aubrey	974,670	954,865
Alison Fielding	394,630	394,630
Magnus Goodlad	31,887	30,000
Mike Townend	204,340	200,000
Bruce Smith	216,592	211,875
Graham Richards	9,250	9,250
Roger Brooke	269,633	263,973
Francis Carpenter	109,151	–

There has been no change in the interests set out above between 31 December 2009 and 1 March 2010.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2009 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of spin-out companies that the Group has an equity interest in. Details of these interests are disclosed in note 24 of the financial statements.

Performance graph (unaudited)

The chart below shows the shareholder return performance for the period 15 October 2003 when the Group listed on AIM to 31 December 2009 alongside the performance of the FTSE AIM All Share and FTSE All Share indices. For ease of comparison, these figures have been rebased such that the Group's share price is equal to the FTSE AIM All Share at 15 October 2003 and FTSE All Share at 19 June 2006, the date at which the Group joined the Official List of the UK Listing Authority. The directors have selected the FTSE AIM All Share and FTSE All Share indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which TSR of IP Group plc should be measured.



ON BEHALF OF THE BOARD

Graham Richards

Chairman of the Remuneration Committee
1 March 2010

The Company is committed to high standards of corporate governance. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

This statement, together with the Directors' Remuneration Report (set on pages 26 to 29), describes how the Company has applied the principles of good corporate governance set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the "Code"). During the year ended 31 December 2009, the Group has been in compliance with all relevant requirements of the Code.

The Board

Board composition and responsibilities

The Board is responsible to shareholders for the overall management of the Group providing entrepreneurial leadership within a framework of controls for managing risk; setting the Group's strategy; maintaining the policy and decision-making framework in which this strategy is implemented; ensuring that necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; overseeing the system of risk management; and setting values and standards in governance matters.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors.

The Board manages these matters at its regular meetings. It receives reports and presentations from each of the executive directors responsible for the Group's operating businesses and key central functions. 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.

Board meetings and decisions

The Group's business is managed by the Board of Directors. 16 Board meetings were held during 2009. A discussion of current and future performance and strategy is included on the agenda for each meeting. In addition, the Board has a schedule of matters reserved for its decision, which includes, but is not restricted to, the approval of interim and annual accounts, major investments and disposals, budgets and long-term plans, litigation, and Board remuneration and appointments.

Each Board member receives monthly management accounts including a review and analysis of performance against budget and other forecasts. Directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate.

Any matter requiring a decision by the Board is supported by a paper analysing the relevant aspects of the proposal: costs, benefits, potential risks and proposed management action.

Directors

During 2009, the Board was made up of four executive directors (being the Chief Executive Officer, the Chief Technology Officer, the Director of Capital Markets and the Chief Operating Officer), the Chairman and three independent non-executive directors. A list of the individual directors and their biographies is provided on pages 20 and 23. Collectively, the Board believes it possesses all of the necessary range of qualities, skills and experience to lead the Company effectively.

In accordance with the Code, the Company is currently deemed a "smaller company" since it has been below the FTSE 350 throughout the year immediately prior to the reporting year.

The Company's Articles give the directors power to appoint and replace directors. All directors are required to submit themselves for re-election by the shareholders at the Company's AGM following their first appointment and thereafter at least every three years. Notwithstanding this, no more than one third of all the directors must submit themselves for re-election each year.

Chairman and Chief Executive Officer

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 and its conduct of the Group's affairs and strategy, and ensuring effective communication with shareholders. The Chairman facilitates the effective contribution of non-executive directors. The Chief Executive Officer is responsible for the management of the Group's operating businesses and the development of their strategic direction. He is responsible for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board.

Senior Independent Director

Professor Graham Richards is the Senior Independent Director. A key responsibility of his 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 takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new Chairman is considered.

The Board (continued)

Non-executive directors

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that each non-executive director is independent in character and judgement and that they also meet the independence criteria set out in the Code.

In a limited number of cases, directors have made de minimis investments in spin-out companies formed under the university partnerships. Details of these investments are set out in note 24 to the financial statements.

The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. Directors have direct access to the impartial advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

While the Board retains overall responsibility for the Company, the day-to-day management of the business is conducted by the executive directors. The Board delegates specific responsibilities to certain committees. Each committee has its own terms of reference set by the Board. These are available on request from the Company Secretary.

Directors' conflicts of interest

With effect from 1 October 2008 a director has a duty under the CA 2006 to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the company. This duty is in addition to the existing duty that a director owes to the company to disclose to the board any transaction or arrangement under consideration by the company. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to that effect. Shareholders approved amendments to the Company's Articles at the AGM held on 27 April 2009 which included provisions giving the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed before 1 October 2008. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. The directors are subject to an 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 if they think this is appropriate.

Where potential conflicts of interest have arisen such as when a non-executive director is also a director of a spin-out company, a director has a relationship with an academic institution with whom the company has a partnership agreement or there are previous relationships between a director and the company or predecessor companies, the director does not participate in any decisions relating to that relationship. Professor Graham Richards is a Professor of Chemistry at the University of Oxford and a director of Inhibox Limited and Crysalin Limited.

Performance evaluation

The performance of the Chairman and each director and of each committee of the Board is formally evaluated on an annual basis. The Non-executives meet annually, and whenever deemed necessary, to appraise the Chairman's performance in the absence of the chairman. The performance of Non-executive Directors and the Chief Executive Officer is reviewed by the Chairman, and the performance of executive directors is reviewed by the Chief Executive Officer in each case on an annual basis. The last such review took place in January and February 2010. In addition, the performance of executive directors is reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

Attendance

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

	Board		Audit		Remuneration		Nomination	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Alan Aubrey	16	16	–	–	–	–	–	–
Alison Fielding	15	16	–	–	–	–	–	–
Magnus Goodlad	15	16	–	–	–	–	–	–
Mike Townend	14	16	–	–	–	–	–	–
Graham Richards	16	16	2	2	1	1	–	–
Roger Brooke	13	16	2	2	1	1	–	–
Bruce Smith	16	16	2	2	1	1	–	–
Francis Carpenter	15	16	2	2	–	–	–	–

Committees of the Board

Audit Committee

The Audit Committee, which has written terms of reference, was established in October 2003. The committee comprises Roger Brooke (Chairman), Bruce Smith, Graham Richards and Francis Carpenter. The auditors, Chief Executive Officer and Chief Operating Officer and other members of management attend the meetings by invitation. The Audit Committee also meets with the auditors in the absence of executive directors and management. The Audit Committee examines and reviews internal controls, together with accounting policies and practices, the form and context of financial reports and statements and general matters raised by the auditors. It reviews the interim financial information and annual accounts before they are submitted to the Board. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditors, reviews their independence and objectivity, and monitors the scope and results of the audit. The Audit Committee is also responsible for agreeing the level of audit fees and monitoring the provision of non-audit services provided by the Group's auditors. The Audit Committee assesses the likely impact on the auditor's independence and objectivity before awarding them any material contract for additional services. The Board has identified Francis Carpenter as having recent and relevant financial experience notwithstanding the fact that he is not a member of one of the professional accountancy bodies. Further, Roger Brooke is a past Chairman of the Audit Commission and the Board considers that collectively the members have the requisite skills and attributes to enable the committee to properly discharge its responsibilities.

During the year, the Audit Committee:

- » considered the effectiveness of the internal control environment of the Group;
- » reviewed and recommended to the Board the approval and publication of the half-yearly and annual financial statements of the Group;
- » oversaw the Group's relations with its external auditors including reviewing and monitoring the scope and results of the audit and half-yearly review;
- » assessed the independence and objectivity of BDO LLP as the Group's auditor, including consideration of the nature and size of non-audit fees in relation to the Group audit fee. In the current year, this included the approval of BDO LLP carrying out a Section 593 valuation required under CA 2006 where the Group issued shares for non-cash consideration in relation to its acquisition of 19.8% of the issued share capital of Fusion IP plc and in connection with specialist advice surrounding share schemes and related issues arising in portfolio companies. In the case of all non-audit work carried out, the committee considered BDO LLP had the requisite skill and knowledge of the Group to carry out the work efficiently using staff unconnected with the audit team and that the fees were commensurate with the work carried out and not considered sufficient to impair BDO LLP's independence;
- » recommended to the Board the re-appointment of BDO LLP as auditor and the approval of their remuneration for the year and acknowledged the appointment of the Group's current lead partner who replaced the previous lead partner upon his reaching five years' service in early 2009;
- » met with the external auditors twice during the year in the absence of management to discuss any issues or concerns from either the committee or the auditors; and
- » in accordance with the Combined Code, reviewed the need to establish an internal audit function, but continued to believe that in a Group of this size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function. It will continue to review the requirement for such a function on an annual basis.

The Audit Committee met twice during 2009.

Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. It comprises Graham Richards (Chairman), Bruce Smith and Roger Brooke. The committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre without paying more than is necessary. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive directors' individual remuneration packages are fixed by the committee or the Board. Full details of the directors' remuneration are set out in the Directors' Remuneration Report on pages 26 to 29.

The Remuneration Committee met once during 2009.

Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), Graham Richards and Roger Brooke. The Combined Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. The Nomination Committee did not meet during 2009. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments.

Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for Directors on the Combined Code ("Turnbull"). The Group's internal controls, which were Group-wide, were in place during the whole of 2009 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2009.

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

Control environment and procedures

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

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2009.

Identification and evaluation of risks

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

Information and financial reporting systems

The Board approves the annual operating budgets and each month receives details of actual performance measured against the budget.

Principal risks and uncertainties

The key risks and uncertainties affecting the Group and the steps taken to manage these are as follows:

Financial risks

Through its normal operations, the Group is exposed to a number of financial risks, comprising market, liquidity and credit risks.

Market risk

The Group is exposed to market risks, principally equity securities price risk as a result of its equity investments and investments in limited partnerships. The Group holds investments which are publicly traded on AIM and/or PLUS Markets and investments which are not traded on an active market. The valuation of quoted and unquoted investments depends on a combination of market factors, including investor sentiment, availability of liquidity and appetite for specific asset classes, as well as the specific performance of each underlying company.

The Group seeks to mitigate price risk by having an established investment appraisal process and asset-specific monitoring procedures which are subject to overall review by the Board. In a number of cases these monitoring procedures can include members of the Group's executive team and other staff serving in an advisory capacity to portfolio companies (including secondments and non-executive directorships). The Group has also established Capital Markets and Communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

Liquidity risk

The Group is exposed to liquidity risk arising from the need to have finance available to make investments in portfolio companies and to meet payments for administrative and other costs as they fall due.

The Group seeks to manage its liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly, the Group only places working capital on overnight deposits with clearing banks or in short-term treasury funds managed by reputable counterparties. The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

Credit risk

Credit risk arises from the exposure to the risk of loss if a counterparty fails to perform its financial obligations to the Group. This could include non-repayment of cash and cash equivalents held with financial institutions or defaults of individual trade or investment debtors. Reasons for counterparty defaults include general economic or sector specific downturns, or the failure of an individual financial institution or other entity.

The Group seeks to mitigate its credit risk on cash and cash equivalents by investing in treasury funds with an "AA" credit rating or above managed by institutions, or by making short-term deposits with counterparties. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3 billion 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).

Further details of these financial risks, including quantitative considerations of their potential impacts, are set out in note 2 to the consolidated financial statements.

Principal risks and uncertainties (continued)**Loss of key personnel from the Group**

The Group's employees are highly qualified and experienced, and the area in which the Group operates is a specialist area. There is a risk that the Group's management and employees will be targeted by competitors or technology companies. The loss of key employees of the Group may also have an adverse effect on the value of the Group.

The Group mitigates this risk by performing a thorough market comparison of the remuneration of its staff, balancing salary with longer-term incentive plans. All senior executives are shareholders in the business and members of the senior management and executive teams participate in the Group's LTIP and/or equity bonus scheme, both of which are described more fully on pages 26 and 27.

Group investments are generally into companies at an early stage of development

Investments made by the Group in spin-out companies are made at an early stage and are subject to risks associated with early stage investments in general, including the ability to secure second round funding, the impact of competing technologies entering the market and the risk that the technology will fail. In some cases the ability to succeed will be dependent upon regulatory approval for certain trials to proceed.

The Group mitigates this risk in a number of ways. Executives and senior management collectively have many years of experience in sourcing, developing and investing in early stage technology companies and then growing these to significant value creation. This is achieved through the Group's investment and business building methodology. The risk is further mitigated through low value initial investments prior to seed funding, which enables identification and removal of potential failures at the earliest possible stage of the investment process.

Failure of companies within the Group's portfolio

The Group has a portfolio of equity interests in portfolio companies and there is a high risk that certain of the Group's current and future investments in portfolio companies may fail, resulting in an impairment of the Group's profitability. In addition, failure of companies within the Group's portfolio may make it more difficult for other spin-out companies within the portfolio to raise additional capital.

The Group mitigates this by investing in a number of portfolio companies across different sectors which reduces the potential impact of the failure of any one individual portfolio company. Further, members of the Group's management team and staff frequently serve in an advisory capacity to the Group's portfolio companies (including secondments and non-executive directorships) enabling identification and remedy of business issues at an early stage.

Changes in legislation and government policy

There may be unforeseen changes in government policy or legislation (including taxation legislation), or other changes in the terms upon which public monies are made available to universities and research institutions. Such changes could result in universities and research institutions no longer being able, or for it to become commercially unattractive for them, to own, exploit or protect intellectual property. In addition, changes in government policy or legislation (including changes to tax legislation, in particular in relation to the substantial shareholder exemption), or other terms upon which university academics are incentivised, could make it commercially unattractive for research academics to participate in the commercialisation of the intellectual property that they create. Changes of this nature could represent a fundamental risk to the Group's business.

The Group's university partners are incentivised to protect their intellectual property for the Group to exploit through the structure of the partnership agreements which share the returns between the universities, the academic founders and the Group. The Group has further mitigated this risk by having client service team managers working locally at its partner universities to assist them with the management of their intellectual property and with the negotiation with research contracts to ensure that their intellectual property is not unduly compromised. The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes and the Group utilises professional advisers as appropriate to support its monitoring of, and response to, changes in tax or other legislation.

Termination of university partnerships and change of control provisions

The benefits to which the Group is entitled under its university partnerships are dependent on the continuation of those partnerships. In a number of instances (principally relating to a failure on the part of the Group to meet certain contractual obligations), the partnerships can be terminated, which could have an adverse effect on the Group's business. In addition, a number of the partnership agreements contain change of control clauses which may result in their renegotiation or termination.

The Group manages this risk by ensuring that its university partners receive the highest level of service in line with the Group's contractual obligations and by continuing to generate significant value for the universities and their academic founders through the success of spin-out companies created.

Principal risks and uncertainties (continued)

Recoverability of the University of Oxford Equity Rights asset

The Equity Rights asset shown in the Group's consolidated statement of financial position relates to amounts paid to the University of Oxford to secure 50% of the university's equity in any spin-out company or of any licensing income emanating from the university's chemistry department until November 2015. The accounting treatment of the Equity Rights asset is described further in note 1 on page 46, however the asset is not repayable in cash by the university and its value is therefore affected by a number of factors. In the event of evidence that the future recoverable amount of the Equity Rights asset is less than the value shown in the consolidated statement of financial position, a provision for impairment would be recognised at that time through the statement of comprehensive income.

The key risks that could result in an impairment of the Equity Rights include: the timing and number of successful IP spin-out opportunities arising from the university; the extent to which the Group's holding is diluted through further financing of spin-out companies; and general market conditions which may impact the disposal values or IPO valuations of such companies.

The Group manages these risks by working closely with the university to jointly source and develop intellectual property spin-out companies and then utilising the knowledge and experience of the Group's management team to create value from these companies and generate exit routes.

Relations with shareholders

The Company is committed to having a dialogue with shareholders, based on the mutual understanding of objectives, and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer and Director of Capital Markets. However the Senior Independent Director and other directors as appropriate make themselves available for contact with major shareholders in order to understand their issues and concerns. Where appropriate, major institutional shareholders are consulted on significant changes to the structure of the directors' remuneration.

The Company is committed to constructive dialogue with its shareholders. The Company uses the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held on 27 April 2010 at IP Group plc, 24 Cornhill, London EC3V 3ND, is enclosed with this report. In line with the Combined Code the Notice of the AGM is being sent to shareholders at least 20 working days before the meeting. Details of the resolutions and explanatory notes thereto are included with the Notice. A proxy form for members of the Company unable to attend will accompany the Notice.

The Group's website www.ipgroupplc.com is the primary source of information on the Group. This includes an overview of the activities of the Group, key university partnership agreements and details of all recent Group 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, CA 2006 is very broadly drafted in this area and the Board is concerned that it may catch activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 28 April 2009, 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 28 April 2009 up to the conclusion of the next AGM. The Board intends to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's AGM, to be held on 27 April 2010, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records which show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' Remuneration Report which comply with the requirements of the CA 2006.

The directors are responsible for preparing the annual report and the financial statements in accordance with the CA 2006. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and Article 4 of the IAS Regulation. The directors have elected to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

Group financial statements

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

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

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- » select suitable accounting policies and then apply them consistently;
- » prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- » make judgements and estimates that are reasonable and prudent; and
- » state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

Responsibility statement

The directors of IP Group plc and their functions are listed on page 20. The annual report and accounts is the responsibility of, and has been approved by, the directors.

The directors confirm to the best of their knowledge that:

- » the consolidated financial statements have been prepared in accordance with IFRS as endorsed by the European Union and Article 4 of the IAS regulation;
- » the financial statements 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 annual report and accounts includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

ON BEHALF OF THE BOARD

Bruce Smith
Chairman
1 March 2010

Alan Aubrey
Chief Executive Officer

To the members of IP Group plc

We have audited the Group and parent company financial statements of IP Group for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the CA 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- » the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- » the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- » the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- » the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- » the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- » the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- » adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- » the parent company financial statements 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.

Under the Listing Rules we are required to review:

- » the Directors' statement, set out on page 36, in relation to going concern; and
- » the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Neil Fung-On (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
1 March 2010
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	16	(1.4)	(35.5)
Loss on disposal of equity investments		(0.8)	–
Change in fair value of limited partnership investments		(0.1)	–
Other portfolio income		–	0.5
Revenue from services	4	1.5	1.9
		(0.8)	(33.1)
Administrative expenses			
Employee bonus costs	19	(0.3)	(0.1)
Research and development costs		(0.5)	(1.3)
Share-based payment charge	22	(0.6)	(0.6)
Other administrative expenses		(4.9)	(7.6)
		(6.3)	(9.6)
Operating loss			
Finance income – interest receivable	7	(7.1)	(42.7)
		0.6	2.2
Loss before taxation			
Taxation	9	0.4	0.1
Loss and total comprehensive income for the year			
		(6.1)	(40.4)
Loss and total comprehensive income for the year attributable to:			
Owners of the parent		(6.1)	(40.3)
Minority interest	25	–	(0.1)
		(6.1)	(40.4)
Basic earnings per ordinary share (p)			
	10	(2.45)	(16.10)
Diluted earnings per ordinary share (p)			
	10	(2.45)	(16.10)

As at 31 December 2009

	Note	2009 £m	2008 £m
ASSETS			
Non-current assets			
Intangible assets:			
- goodwill	11	18.4	18.4
- acquired intangible assets	12	-	0.1
Property, plant and equipment	13	0.4	0.5
Equity rights and related contract costs	15	20.1	20.2
Investment portfolio:			
- equity investments	16	99.0	96.5
- debt investments	16	2.3	1.9
Other financial asset	18	1.1	1.1
Investment in limited partnerships	23	1.5	1.4
Total non-current assets		142.8	140.1
Current assets			
Trade and other receivables	17	0.8	1.1
Deposits		15.0	-
Cash and cash equivalents		13.1	33.3
Total current assets		28.9	34.4
Total assets		171.7	174.5
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	20	5.1	5.0
Share premium account		99.3	96.7
Merger reserve		12.8	12.8
Retained earnings		53.8	59.3
Total equity attributable to owners of the parent		171.0	173.8
Minority interest in equity	25	-	-
Total equity		171.0	173.8
Current liabilities			
Trade and other payables	19	0.7	0.7
Total equity and liabilities		171.7	174.5

Registered number: 4204490

The financial statements on pages 38 to 63 were approved by the Board of Directors and authorised for issue on 1 March 2010 and were signed on its behalf by:

Bruce Smith
Chairman

Alan Aubrey
Chief Executive Officer

For the year ended 31 December 2009

	2009 £m	2008 £m
Operating activities		
Loss before taxation	(6.5)	(40.5)
Adjusted for:		
Finance income - interest receivable	(0.6)	(2.2)
Fair value movements in equity and debt investments	1.4	35.5
Fair value movements in limited partnership investments	0.1	-
Depreciation of property, plant and equipment	0.1	0.1
Amortisation of intangible non-current assets	0.2	0.2
Loss on disposal of equity investments	0.8	-
Non-cash employee bonus costs	0.3	0.1
Share-based payment charge	0.6	0.6
Other portfolio income classified as investing activities cash flows	-	(0.5)
Changes in working capital		
(Increase)/decrease in trade and other receivables	(0.2)	0.7
Decrease in trade and other payables	(0.1)	(0.1)
Other operating cash flows		
Research and development tax credits received	0.3	0.1
Interest received	1.0	2.5
Net cash outflow from operating activities	(2.7)	(3.5)
Investing activities		
Purchase of property, plant and equipment	-	(0.1)
Purchase of equity and debt investments	(2.8)	(9.2)
Investment in Limited Partnership Funds	(0.2)	(0.4)
Proceeds from sale of equity investments	0.5	-
Other portfolio income received	-	0.5
Net cash outflow from investing activities	(2.5)	(9.2)
Financing activities		
Net cash flow to deposits	(15.0)	-
Net cash outflow from financing activities	(15.0)	-
Net decrease in cash and cash equivalents	(20.2)	(12.7)
Cash and cash equivalents at the beginning of the year	33.3	46.0
Cash and cash equivalents at the end of the year	13.1	33.3

For the year ended 31 December 2009

	Attributable to owners of the parent				Total £m	Minority interest £m	Total equity £m
	Share capital £m	Share premium ⁽ⁱ⁾ £m	Merger reserve ⁽ⁱⁱ⁾ £m	Retained earnings ⁽ⁱⁱⁱ⁾ £m			
At 1 January 2008	5.0	96.7	12.8	99.0	213.5	0.3	213.8
Loss and total comprehensive income for the year	–	–	–	(40.3)	(40.3)	(0.1)	(40.4)
Acquisition of minority interest	–	–	–	–	–	(0.2)	(0.2)
Share-based payment charge	–	–	–	0.6	0.6	–	0.6
At 1 January 2009	5.0	96.7	12.8	59.3	173.8	–	173.8
Loss and total comprehensive income for the year	–	–	–	(6.1)	(6.1)	–	(6.1)
Issue of equity	0.1	2.6	–	–	2.7	–	2.7
Share-based payment charge	–	–	–	0.6	0.6	–	0.6
At 31 December 2009	5.1	99.3	12.8	53.8	171.0	–	171.0

⁽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.

1. Accounting policies

Basis of preparation

The annual report and accounts of IP Group plc (the "Group") are for the year ended 31 December 2009. 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 IFRS").

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

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2009

The following new standards, interpretations and amendments, applied for the first time from 1 January 2009, have had an effect on the financial statements:

- » Improving Disclosures about Financial Instruments (Amendments to IFRS 7): The application of this amendment has resulted in changes to the disclosures provided in respect of financial instruments, primarily in note 16 to the financial statements, including an analysis of financial assets and financial liabilities that are measured at fair value in the statement of financial position, into a three level fair value measurement hierarchy. The amendment does not change the recognition or measurement of transactions and balances in the financial statements.
- » Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation: As a result of the application of this amendment the Group has elected to present a single statement of comprehensive income; previously it presented an income statement and the statement of recognised income and expense. In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note. An analysis of the tax effect of any items recognised in other comprehensive income will be included if this is applicable in the future. The amendment does not change the recognition or measurement of transactions and balances in the financial statements.
- » IFRS 8 Operating Segments: This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The segments are to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess its performance. It replaces IAS 14 Segmental Reporting. The adoption of the standard has not resulted in a change of the number and composition of the segments reported by the Group.

The following new standards, interpretations and amendments, also effective for the first time from 1 January 2009, have not had a material effect on the financial statements:

- » Amendment to IAS 23 Borrowing Costs
- » Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
- » Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- » Improvements to IFRS (2009)
- » IFRIC 15 Agreements for the Construction of Real Estate
- » Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)

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

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

- » Revised IFRS 3 Business Combinations (effective from periods beginning 1 July 2009): Revised IFRS 3 retains the requirement to apply acquisition accounting in all cases and to identify and recognise intangible assets separately from goodwill. However, for all future acquisitions, all acquisition costs shall be written off to profit or loss instead of being included in the cost of investment; an intangible asset shall be recognised even if it cannot be reliably measured; and, it will be possible to gross up the balance sheet for goodwill attributable to 'non-controlling interests' (previously 'minority interests'). The revised standard will not require the restatement of the Group's previous business combinations.
- » Amendments to IAS 27 Consolidated and Separate Financial Statements (effective from periods beginning 1 July 2009): This amendment affects in particular the acquisition of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether or not control is obtained as a result of the transaction, or where a transaction results only in a change in the percentage of a controlling interest. The amendment will not require the restatement of previous transactions.
- » IFRS 9 Financial Instruments: IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components (classification and measurement; impairment; and, hedge accounting) and it is considered unlikely that the new standard will be endorsed until all of these components are in their final form. While the current standard is largely incomplete, its eventual adoption may result in changes to the classification and measurement of the Group's financial instruments, including any impairment thereof.

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

1. Accounting policies (continued)

Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

(iii) Limited partnerships

Group entities act as General Partner to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund	10.0
Top Technology Ventures IV LP	1.0

IP Venture Fund has a narrow and well-defined scope of operation and, as its limited partners are predominantly parties external to the Group, the Group does not have access to substantially all the risks and rewards arising from its operation. Having due regard for the Group's minor interests in Top Technology Ventures IV LP, the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities. Accordingly, none of the limited partnerships meets the definition of a subsidiary under IAS 27 Consolidated and Separate Financial Statements. The Group does have the power to exercise significant influence over the limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

(iv) Transactions with minority shareholders - 'economic entity approach'

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

Portfolio return and revenue

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

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

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

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

1. Accounting policies (continued)**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**(i) 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 ("CGU") 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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(ii) Acquired intangible assets - business combinations

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis, are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the statement of comprehensive income over their expected useful economic lives, and is included within "Other administrative expenses".

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

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

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

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

Cost

Where the investment being valued was itself made recently, its cost will generally 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.

1. Accounting policies (continued)

Financial assets (continued)

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

Price of recent investment

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

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

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

Factors which 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 above, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment.

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

No reliable estimate

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

(ii) Loans and receivables

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

Fair value hierarchy

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

Level 1 - Quoted prices in active markets.

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

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

1. Accounting policies (continued)**Financial assets (continued)****(ii) Loans and receivables (continued)****Equity rights**

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

The payment gives the Group the right to receive 50% of the University's equity in any spin-out company or of any licensing income emanating from the University's Chemistry Department. The contract expires on 23 November 2015.

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised within profit or loss in the statement of comprehensive income.

As described in note 15, the directors have not been able to determine a reliable fair value for this financial instrument. Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of an impairment, then a provision would be charged to profit or loss in the statement of comprehensive income.

Debt investments

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

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

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

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

Share capital

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

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

Contract costs

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

Operating segments

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

Employee benefits**(i) Pension obligations**

The Group operates a stakeholder pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Group in an independently administered fund. At present the Group does not make contributions to this scheme, but does make contributions 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.

1. Accounting policies (continued)

Employee benefits (continued)

(ii) Share-based payments

The fair value of LTIP awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market-based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

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.

(iii) Bonus plan

The Group operates a bonus incentive scheme linked to the equity received in spin-out companies as a result of investments made by the Group (the "equity bonus scheme"). The Group accrues for employee bonuses when it becomes likely that an award or awards will be made under the scheme at a cost to the Group of up to 17.5% of the fair value of investments made by the Group. Bonus awards due under the scheme are settled using shares held in companies in the Group's equity portfolio. Some of these shares have been subscribed for in cash by the Group and others have been received for no cash consideration by virtue of the Group's university partnerships.

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 of the Corporate Governance statement on pages 33 to 35, 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 investments and investments in limited partnerships held by the Group and categorised as at fair value through profit and loss.

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

The Group holds investments which are publicly traded on the AIM and/or PLUS Markets and investments which are not traded on an active market.

The net reduction in fair value of the Group's equity investments during 2009 of £1.4m represents a 1% change against the opening balance (2008: net decrease of £35.4m, 28%) 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.

	2009			2008		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	0.4	0.6	1.0	0.4	0.6	1.0

2. Financial risk management (continued)**(a) Market risk (continued)****(ii) Interest rate risk**

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

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

	2009				2008			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
Financial assets								
Equity rights	–	–	19.9	19.9	–	–	19.9	19.9
Equity investments	–	–	99.0	99.0	–	–	96.5	96.5
Debt investments	1.5	–	0.8	2.3	1.0	–	0.9	1.9
Deposits	15.0	–	–	15.0	–	–	–	–
Cash and cash equivalents	–	13.1	–	13.1	15.0	18.3	–	33.3
Other financial asset	–	–	1.1	1.1	–	–	1.1	1.1
Trade receivables	–	–	0.2	0.2	–	–	0.2	0.2
Other receivables	–	–	0.6	0.6	–	–	0.8	0.8
	16.5	13.1	121.6	151.2	16.0	18.3	119.4	153.7
Financial liabilities								
Trade payables	–	–	0.2	0.2	–	–	0.1	0.1
Accrued staff bonus	–	–	0.1	0.1	–	–	–	–
Other accruals and deferred income	–	–	0.4	0.4	–	–	0.4	0.4
	–	–	0.7	0.7	–	–	0.5	0.5

At 31 December 2009, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.2m (2008: £0.2m) higher/lower as a result of higher interest received on floating rate cash deposits.

(b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continuously 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 investing in treasury funds with an "AA" credit rating or above managed by institutions, or by making short-term deposits with counterparties. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3 billion and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2009 £m	2008 £m
P1	16.1	10.0
P2	2.5	–
AA	9.5	14.4
Unrated*	–	8.9
Total deposits & cash and cash equivalents	28.1	33.3

* Unrated deposits & cash and cash equivalents includes £Nil (2008: £5.0m) of short-term instruments where the counterparty has not been rated by Moody's or Standard & Poor's. In 2008 these counterparties were building societies who, in accordance with the Group's treasury policy, have most recently reported total assets in excess of £3 billion at the time of investment.

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.

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

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

3. Significant accounting estimates and judgements

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

- (i) impairment of goodwill - the Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value in use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows;
- (ii) equity rights - the equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the statement of comprehensive income. The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values which result in a wide range of fair value estimates. None of these estimates is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument; and
- (iii) valuation of unquoted equity investments - the judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the future earnings potential of portfolio companies, assessing which appropriate earnings multiples to apply, and marketability and other risk discounts.

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

4. Revenue from services

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

5. Operating segments

For both the year ended 31 December 2009 and the year ended 31 December 2008 the Group's revenue and profit before taxation was derived entirely from its principal activity within the UK and accordingly no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partnerships with universities; (ii) management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Chief Executive Officer's statement on pages 6 to 19.

Year ended 31 December 2009	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	(1.4)	-	-	(1.4)
Loss on disposal of equity investments	(0.8)	-	-	(0.8)
Change in fair value of limited partnership investments	(0.1)	-	-	(0.1)
Revenue from advisory services	0.4	0.1	-	0.5
Revenue from fund management services	-	1.0	-	1.0
Administrative expenses	(4.9)	(0.7)	(0.7)	(6.3)
Operating (loss)/profit	(6.8)	0.4	(0.7)	(7.1)
Finance income - interest receivable	0.6	-	-	0.6
(Loss)/profit before taxation	(6.2)	0.4	(0.7)	(6.5)
Taxation	-	-	0.4	0.4
(Loss)/profit and total comprehensive income for the year	(6.2)	0.4	(0.3)	(6.1)
STATEMENT OF FINANCIAL POSITION				
Assets	166.7	4.8	0.2	171.7
Liabilities	(0.5)	(0.1)	(0.1)	(0.7)
Net assets	166.2	4.7	0.1	171.0
Other segment items				
Capital expenditure	-	-	-	-
Depreciation	0.1	-	-	0.1
Amortisation of intangible assets	-	0.2	-	0.2

5. Operating segments (continued)

Year ended 31 December 2008	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	(35.5)	–	–	(35.5)
Other portfolio income	0.5	–	–	0.5
Revenue from advisory services	0.5	0.3	–	0.8
Revenue from fund management services	–	1.1	–	1.1
Administrative expenses	(5.4)	(1.2)	(3.0)	(9.6)
Operating (loss)/profit	(39.9)	0.2	(3.0)	(42.7)
Finance income - interest receivable	2.0	0.1	0.1	2.2
(Loss)/profit before taxation	(37.9)	0.3	(2.9)	(40.5)
Taxation	–	–	0.1	0.1
(Loss)/profit and total comprehensive income for the year	(37.9)	0.3	(2.8)	(40.4)
STATEMENT OF FINANCIAL POSITION				
Assets	170.7	3.2	0.6	174.5
Liabilities	(0.5)	(0.1)	(0.1)	(0.7)
Net assets	170.2	3.1	0.5	173.8
Other segment items				
Capital expenditure	0.1	–	–	0.1
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	0.2	–	0.2

6. Auditor's remuneration

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

	2009 £000	2008 £000
Audit services		
- fees payable to Company auditor for the audit of parent and consolidated accounts	60	57
Non-audit services		
Fees payable to Company auditor and its associates for other services:		
- auditing of accounts of subsidiaries pursuant to legislation	39	27
- other services supplied under legislation	13	13
- other taxation services:		
- corporation tax compliance	36	43
- corporation tax advisory	4	22
- other tax advisory	49	69
- recruitment and remuneration services	–	–
- all other services	11	4
	212	235

7. Loss from operations

Loss from operations has been arrived at after charging:

	2009 £m	2008 £m
Amortisation of intangible assets	0.2	0.2
Depreciation of tangible assets	0.1	0.1
Employee costs (see note 8)	3.9	5.5
Operating leases - property	0.4	0.5
Loss on disposal of equity investments	0.8	–

8. Employee costs

Employee costs (including directors) comprise:

	2009 £m	2008 £m
Salaries	2.6	4.2
Defined contribution pension cost	0.1	0.1
Share-based payment charge (see note 22)	0.6	0.6
Equity bonuses accrued in the year	0.3	0.1
Social security	0.3	0.5
	3.9	5.5

The average monthly number of persons (including executive directors) employed by the Group during the year was 35, all of whom were involved in management and administration activities (2008: 54). The Company had no employees in the year ended 31 December 2009 (2008: Nil). Details of directors' remuneration and gains on the exercise of share options can be found in the Directors' Remuneration Report on pages 26 to 29.

9. Taxation

	2009 £m	2008 £m
Current tax	(0.4)	(0.1)
Deferred tax	–	–

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

	2009 £m	2008 £m
Loss before tax	(6.5)	(40.5)
Tax at the UK corporation tax rate of 28% (2008: 28%)	(1.8)	(11.3)
Non-taxable income	0.5	(0.1)
Non-deductible net fair value losses	0.4	9.9
Schedule 23 deduction	–	–
Research and development tax credits	(0.4)	(0.1)
Tax losses arising not recognised	0.8	0.9
Other adjustments	0.1	0.6
Tax credit	(0.4)	(0.1)

At 31 December 2009, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £19.4m (2008: £16.7m). An analysis is shown below:

	2009		2008	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs	–	–	–	–
Unused tax losses	19.4	5.4	16.7	4.7
	19.4	5.4	16.7	4.7

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

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

10. Earnings per share

Earnings	2009 £m	2008 £m
Earnings for the purposes of basic and dilutive earnings per share	(6.1)	(40.3)
Number of shares	2009 No. of shares	2008 No. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	250,711,712	250,291,965
Effect of dilutive potential ordinary shares:		
- share options	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	250,711,712	250,291,965

The Group has only one class of potentially dilutive ordinary shares. These are contingently issuable shares arising under the Group LTIP. Based upon information available at the end of the reporting period, none of the performance criteria for vesting of awards under the LTIP has been satisfied. Consequently, there are no potentially dilutive shares outstanding at the period end and therefore the diluted earnings per share is equal to the basic earnings per share.

11. Goodwill

	£m
At 1 January 2008	18.7
Acquisition of minority interests ⁽ⁱ⁾	0.1
Disposed with subsidiary ⁽ⁱ⁾	(0.4)
At 1 January 2009	18.4
At 31 December 2009	18.4
At 31 December 2008	18.4

⁽ⁱ⁾ Goodwill arising on the Group increasing its stake in Modern Waste Limited in 2008. Modern Waste Limited was then subsequently disposed of on 17 December 2008.

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

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

	2009 £m	2008 £m
University partnership CGU	16.3	16.3
Fund management CGU	2.1	2.1
	18.4	18.4

Impairment review of venture capital fund management CGU

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

	2009	2008
Discount rate	9%	9%
Number of funds under management	3	3
Management fee	2-3.5%	2%
Cost inflation	4%	4%

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

11. Goodwill (continued)

Impairment review of the university partnership CGU

The directors consider that for each of the key variables which would be relevant in determining a value in use for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below.

	2009	2008
The number of spin-out companies per year	2-10	2-8
Initial equity stake acquired by the Group under the university partnership	12-30%	20%
Proportion of spin-out companies failing	20-40%	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	35-60%	35-50%
Proportion of IPO exits	30-50%	30-50%
IPO exit valuations	£20m-£40m	£30m-£50m
Proportion of disposal exits	30-50%	30-50%
Disposal valuations	£10m-£30m	£15m-£35m
Discount rate	8-12%	8-10%

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

12. Acquired intangible assets

	£m
At 1 January 2008	0.3
Amortisation charge during the year ended 31 December 2008	(0.2)
At 1 January 2009	0.1
Amortisation charge during the year ended 31 December 2009	(0.1)
At 31 December 2009	-
At 31 December 2008	0.1

On 30 June 2004 the Group acquired the entire issued share capital of Top Technology Ventures Limited. At this time, Top Technology Ventures Limited was party to two contracts to supply fund management services. The directors calculated the fair value of this asset on a discounted cash flow basis, and concluded that the fair value of this asset at 30 June 2004 was £0.8m. The asset has been amortised on a straight-line basis over its useful life which was determined by reference to the residual life of the two contracts to be 5½ years from the date of acquisition. At 31 December 2009 the asset had been fully amortised.

13. Property, plant and equipment

	Total £m
Cost	
At 1 January 2009	0.8
Additions	-
At 31 December 2009	0.8
Accumulated depreciation	
At 1 January 2009	0.3
Charge for the year	0.1
At 31 December 2009	0.4
Net book value	
At 31 December 2009	0.4
At 31 December 2008	0.5

13. Property, plant and equipment (continued)

	Total £m
Cost	
At 1 January 2008	0.7
Additions	0.1
At 31 December 2008	0.8
Accumulated depreciation	
At 1 January 2008	0.2
Charge for the year	0.1
At 31 December 2008	0.3
Net book value	
At 31 December 2008	0.5
At 31 December 2007	0.5

14. 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	
At 31 December 2009				
Equity rights	19.9	–	–	19.9
Equity investments	–	99.0	–	99.0
Debt investments	–	2.3	–	2.3
Other financial asset	1.1	–	–	1.1
Investment in limited partnerships	–	1.5	–	1.5
Trade and other receivables	–	–	0.8	0.8
Deposits	–	–	15.0	15.0
Cash and cash equivalents	–	–	13.1	13.1
Total	21.0	102.8	28.9	152.7
At 31 December 2008				
Equity rights	19.9	–	–	19.9
Equity investments	–	96.5	–	96.5
Debt investments	–	1.9	–	1.9
Other financial asset	1.1	–	–	1.1
Investment in limited partnerships	–	1.4	–	1.4
Trade and other receivables	–	–	1.1	1.1
Cash and cash equivalents	–	–	33.3	33.3
Total	21.0	99.8	34.4	155.2

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 (2008: £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. In 2008, all net fair value gains were attributable to financial assets designated at fair value through profit or loss on initial recognition.

15. Equity rights and related contract costs

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2009 and 31 December 2009	19.9	0.5	20.4
Aggregate amortisation of contract costs			
At 1 January 2009	–	(0.2)	(0.2)
Charge for the year	–	(0.1)	(0.1)
At 31 December 2009	–	(0.3)	(0.3)
Net book value			
At 31 December 2009	19.9	0.2	20.1
At 31 December 2008	19.9	0.3	20.2
	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2008 and 31 December 2008	19.9	0.5	20.4
Aggregate amortisation of contract costs			
At 1 January 2008	–	(0.2)	(0.2)
Charge for the year	–	–	–
At 31 December 2008	–	(0.2)	(0.2)
Net book value			
At 31 December 2008	19.9	0.3	20.2
At 31 December 2007	19.9	0.3	20.2

Carrying amount of equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001. The payment gives the Group the right to receive 50% of the university's equity in any spin-out company or of any licensing income emanating from the University's Chemistry Department. The contract expires on 23 November 2015.

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

	2009	2008
The number of spin-out companies per year from the University of Oxford Chemistry Department	1-3	1-3
Initial equity stake acquired by the Group under the equity rights contract	20%	20%
Proportion of spin-out companies failing	20-30%	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	35-60%	35-50%
Proportion of IPO exits	30-40%	30-50%
IPO exit valuations	£30m-£50m	£30m-£50m
Proportion of disposal exits	30-50%	30-50%
Disposal valuations	£15m-£35m	£15m-£35m
Discount rate	8-10%	8-10%

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2004 or any subsequent reporting date. The directors consider a fair value for this instrument could be reliably estimated when the remaining duration of the contract reaches a stage at which the above variable ranges produce a range of fair values which are sufficiently close.

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of an impairment, such as a continued decline in either the number of new spin-out companies from the University of Oxford Chemistry Department or the valuations achieved at IPO or disposal, then a provision would be charged to the statement of comprehensive income. None of the above reasonably possible estimates of fair value indicates that an impairment of carrying value of the equity rights agreement is required.

16. Investment portfolio

Group	Level 1	Level 2		Level 3	Total £m
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	
At 1 January 2009	38.2	46.1	1.9	12.2	98.4
Investments during the year	3.2	1.4	1.0	0.1	5.7
Reclassifications during the year	0.2	0.1	(0.1)	(0.2)	–
Transfers between hierarchy levels during the year	–	(20.8)	–	20.8	–
Disposals	(0.9)	(0.1)	–	(0.2)	(1.2)
Change in fair value in the year	–	3.5	(0.5)	(4.4)	(1.4)
Equity allocated to staff	–	(0.2)	–	–	(0.2)
At 31 December 2009	40.7	30.0	2.3	28.3	101.3

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 27 companies have been classified as Level 3, and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions. However, if the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

The net reduction in fair value for the year of £1.4m (2008: £35.5m) includes a net reduction of £4.4m (2008: £3.6m) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

Change in fair value in the year

	2009 £m	2008 £m
Fair value gains	15.3	12.2
Fair value losses	(16.7)	(47.7)
	(1.4)	(35.5)

The Company's interests in subsidiary undertakings are listed in note 2 of the Company's financial statements on page 66.

17. Trade and other receivables

	2009 £m	2008 £m
Trade debtors	0.2	0.2
Prepayments	0.2	0.1
Other receivables	0.4	0.8
	0.8	1.1

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.

18. Other financial asset

Other financial asset comprises of a zero cost forward contract giving the Group the right to receive sale proceeds when the University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £1.2m (2008: £1.2m). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the statement of comprehensive income. Fair value is determined by discounting expected cash flows at prevailing market rates of interest and, accordingly, the Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

19. Trade and other payables

	2009 £m	2008 £m
Trade payables	0.2	0.1
Social security expenses	0.1	0.2
Accrued staff bonuses	0.1	–
Other accruals and deferred income	0.3	0.4
	0.7	0.7

Accrued staff bonuses

During the year ended 31 December 2009, bonus entitlements were settled by the allocation of equity from investments made by the Group.

The timing of the actual allocations of equity to employees is subject to a number of factors, including the performance of the business as a whole.

Group	Current bonus accrual £m
At 1 January 2009	–
Charged in the statement of comprehensive income	(0.3)
Settled during the year	0.2
At 31 December 2009	(0.1)

Group	Current bonus accrual £m
At 1 January 2008	0.7
Charged in the statement of comprehensive income	0.1
Settled during the year	(0.8)
At 31 December 2008	–

20. Share capital

	2009 £m	2008 £m
Issued and fully paid:		
255,763,664 ordinary shares of 2p each (2008: 250,291,965 ordinary shares of 2p each)	5.1	5.0

On 4 December 2009 the Company issued 5,471,699 ordinary shares of 2p each for consideration of £2.9m. The new ordinary shares were issued in consideration for the Group's acquisition of a 19.8% stake in Fusion IP plc and were vendor placed on behalf of Fusion IP plc by the Group's brokers, KBC Peel Hunt, to existing Group shareholders. Accordingly the associated cash flows are not presented in the Group's consolidated statement of cash flows.

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

21. Operating lease arrangements

	2009 £m	2008 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	0.4	0.5

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

	2009 £m	2008 £m
Within one year	0.3	0.3
In the second to fifth years inclusive	0.4	0.6
	0.7	0.9

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

22. Share-based payments**LTIP awards**

Awards under the LTIP take the form of provisional awards of ordinary shares of 2p each in the Group. Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards, and it is proposed that such conditions will be imposed as reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for any potential future grants will be based on the Group's TSR performance. The awards granted in 2007 and 2008 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

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

	2009	2008
At 1 January	3,483,009	2,656,716
Notionally awarded during the year	–	826,293
At 31 December	3,483,009	3,483,009

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

	2009	2008
Share price at date of award	–	105p
Exercise price	–	£Nil
Expected volatility (median of historical 50 day moving average)	–	26%
Expected life (years)	–	3
Expected dividend yield	–	0%
Risk-free interest rate	–	4%
Value per option	–	42p

The fair value charge recognised in the income statement during the year in respect of LTIP share awards was £0.6m (2008: £0.6m).

23. Investments in limited partnerships

	£m
At 1 January 2008	1.0
Additions during the year	0.4
At 1 January 2009	1.4
Additions during the year	0.2
Change in fair value during the year	(0.1)
At 31 December 2009	1.5

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

24. Related party transactions

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

a) Limited partnerships

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

	2009 £m	2008 £m
Statement of comprehensive income		
Revenue from services	0.8	0.9
Statement of financial position		
Investment in limited partnerships	1.5	1.4
Amounts due from related parties	–	–

24. Related party transactions (continued)

b) Key management transactions

The key management had direct shareholdings in the following spin-out companies as at 31 December 2009:

Director	Company name	Number of shares held at 1 January 2009	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2009	%
Alan Aubrey	Activotec SPP Limited	1,500	–	1,500	0.9%
	Amaethon Limited - A Ordinary Shares	104	–	104	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	–	11,966	1.0%
	Amaethon Limited - Ordinary Shares	21	–	21	0.3%
	Avacta Group plc ⁽ⁱ⁾	12,961,857	314,256	13,276,113	1.0%
	Bioniqs Limited	1,063	–	1,063	1.0%
	Capsant Neurotechnologies Limited	11,631	–	11,631	0.8%
	Cerogenix Limited	3,143	(3,143)	–	–
	Chamelic Limited	26	–	26	1.6%
	COE Group plc	357,204	–	357,204	1.0%
	Crysalin Limited	1,447	–	1,447	0.4%
	Dispersia Limited	416	–	416	1.0%
	EmDot Limited	–	15	15	0.9%
	Getech Group plc	15,000	–	15,000	<0.1%
	Green Chemicals plc	108,350	–	108,350	1.3%
	Icona Solutions Limited	1,674	–	1,674	1.3%
	Ilika Technologies Limited	1,175	–	1,175	1.0%
	Karus Therapeutics Limited	223	–	223	0.7%
	Leeds Lithium Power Limited	178	–	178	1.2%
	Leeds Reproductive Biosciences Limited	18	–	18	1.1%
	Luto Research Limited	132	(132)	–	–
	Mode Diagnostics Limited	1,863	–	1,863	1.2%
	Modern Biosciences plc	1,185,150	–	1,185,150	2.1%
	Modern Water plc	575,000	–	575,000	1.0%
	Overlay Media Limited	22	10	32	1.4%
	Oxford Advanced Surfaces Group plc	2,172,809	–	2,172,809	1.2%
	Oxford Catalysts Group plc	254,749	–	254,749	0.4%
	Oxford Nanopore Technologies Limited	11,442	–	11,442	1.0%
	Oxford RF Sensors Limited	53,639	–	53,639	0.8%
	Oxtox Limited	25,363	–	25,363	0.6%
	Pharminox Limited	685	–	685	0.3%
	Photopharmica (Holdings) Limited	37,020	–	37,020	1.0%
	Plexus Planning Limited	1,732	–	1,732	0.8%
	ReactivLab Limited	50	–	50	1.1%
	Retroscreen Virology Limited	1,858	–	1,858	0.5%
	Revolymmer Limited	2,963	–	2,963	0.4%
	Simulstrat Limited - A Preference Shares	24,063	–	24,063	2.8%
	Simulstrat Limited - Ordinary Shares	2,255	–	2,255	1.3%
	Structure Vision Limited	212	–	212	1.2%
	Surrey Nanosystems Limited	393	–	393	1.0%
	Sustainable Resource Solutions Limited	–	25	25	1.4%
Syntopix Group plc	77,059	(328)	76,731	1.0%	
Theragenetics Limited ⁽ⁱ⁾	3,150	(3,150)	–	–	
Tissue Regenix Limited	89	–	89	0.8%	
Tracsis plc	203,400	–	203,400	1.0%	
Xanic Limited	16	–	16	0.6%	
Xeros Limited	241	–	241	1.3%	
Alison Fielding	Activotec SPP Limited	300	–	300	0.2%
	Amaethon Limited - A Ordinary Shares	105	–	105	3.2%
	Amaethon Limited - B Ordinary Shares	12,049	–	12,049	1.0%
	Amaethon Limited - Ordinary Shares	21	–	21	0.3%
	Avacta Group plc ⁽ⁱ⁾	7,522,403	141,702	7,664,105	0.6%
	Bioniqs Limited	1,063	–	1,063	1.0%
	Capsant Neurotechnologies Limited	7,847	–	7,847	0.5%
	Cerogenix Limited	874	(874)	–	–
	Chamelic Limited	21	–	21	1.3%
	COE Group plc	468,314	–	468,314	1.3%
	Crysalin Limited	1,447	–	1,447	0.4%

All figures refer to ordinary shares unless indicated otherwise.

(i) On 15 January 2009, Avacta Group plc acquired the entire issued ordinary share capital of Theragenetics Limited. Theragenetics Limited shareholders received approximately 112 ordinary shares in Avacta Group plc as consideration for each ordinary share in Theragenetics Limited held at that time.

24. Related party transactions (continued)

b) Key management transactions (continued)

Director	Company name	Number of shares held at 1 January 2009	Number of shares acquired / (disposed) in the period	Number of shares held at 31 December 2009	%
Alison Fielding (continued)	Dispersia Limited	342	-	342	0.8%
	EmDot Limited	-	14	14	0.8%
	Green Chemicals plc	126,181	-	126,181	1.6%
	Icona Solutions Limited	1,419	-	1,419	1.1%
	Ilika Technologies Limited	328	-	328	0.3%
	Karus Therapeutics Limited	43	-	43	0.1%
	Leeds Lithium Power Limited	172	-	172	1.2%
	Leeds Reproductive Biosciences Limited	17	-	17	1.0%
	Luto Research Limited	132	(132)	-	-
	Mode Diagnostics Limited	1,632	-	1,632	1.1%
	Modern Biosciences plc	773,460	283,883	1,057,343	1.9%
	Modern Water plc	276,000	-	276,000	0.5%
	Overlay Media Limited	18	10	28	1.2%
	Oxford Advanced Surfaces Group plc	611,042	-	611,042	0.3%
	Oxford Catalysts Group plc	84,196	-	84,196	0.1%
	Oxford Nanopore Technologies Limited	5,721	-	5,721	0.5%
	Oxford RF Sensors Limited	15,085	-	15,085	0.2%
	Oxtox Limited	16,601	-	16,601	0.4%
	Pharminox Limited	274	-	274	0.1%
	Photopharmica (Holdings) Limited	27,350	-	27,350	0.7%
	Plexus Planning Limited	480	-	480	0.2%
	ReactivLab Limited	48	-	48	1.1%
	Retroscreen Virology Limited	1,216	-	1,216	0.3%
	Revolymmer Limited	1,198	-	1,198	0.2%
	Simulstrat Limited - A Preference Shares	15,750	-	15,750	1.8%
	Simulstrat Limited - Ordinary Shares	1,476	-	1,476	0.9%
	Structure Vision Limited	195	-	195	1.1%
	Surrey Nanosystems Limited	323	-	323	0.8%
	Sustainable Resource Solutions Limited	-	25	25	1.4%
	Syntopix Group plc	35,477	-	35,477	0.5%
	Theragenetics Limited ⁽ⁱ⁾	1,260	(1,260)	-	-
	Tissue Regenix Limited	85	-	85	0.8%
	Tracsis plc	197,750	-	197,750	1.0%
	Xanic Limited	15	-	15	0.5%
	Xeros Limited	197	-	197	1.0%
	Magnus Goodlad	Activotec SPP Limited	627	-	627
Amaethon Limited - A Ordinary Shares		31	-	31	0.9%
Amaethon Limited - B Ordinary Shares		3,616	-	3,616	0.3%
Amaethon Limited - Ordinary Shares		6	-	6	<0.1%
Avacta Group plc ⁽ⁱ⁾		2,297,770	141,702	2,439,472	0.2%
Bioniqs Limited		533	-	533	0.5%
Capsant Neurotechnologies Limited		7,772	-	7,772	0.5%
Cerogenix Limited		651	(651)	-	-
Chamelic Limited		20	-	20	1.3%
COE Group plc		246,094	-	246,094	0.7%
Crysalin Limited		1,125	-	1,125	0.3%
Dispersia Limited		324	-	324	0.8%
EmDot Limited		-	14	14	0.8%
Green Chemicals plc		43,067	(21,533)	21,534	0.3%
Icona Solutions Limited		1,355	-	1,355	1.0%
Ilika Technologies Limited		260	-	260	0.2%
Karus Therapeutics Limited		105	-	105	0.3%
Leeds Lithium Power Limited		61	-	61	0.4%
Leeds Reproductive Biosciences Limited		6	-	6	0.4%
Luto Research Limited		30	(30)	-	-

All figures refer to ordinary shares unless indicated otherwise.

(i) On 15 January 2009, Avacta Group plc acquired the entire issued ordinary share capital of Theragenetics Limited. Theragenetics Limited shareholders received approximately 112 ordinary shares in Avacta Group plc as consideration for each ordinary share in Theragenetics Limited held at that time.

24. Related party transactions (continued)

b) Key management transactions (continued)

Director	Company name	Number of shares held at 1 January 2009	Number of shares acquired / (disposed) in the period	Number of shares held at 31 December 2009	%
Magnus Goodlad (continued)	Mode Diagnostics Limited	1,549	–	1,549	1.0%
	Modern Biosciences plc	773,460	225,141	998,601	1.8%
	Modern Water plc	476,200	–	476,200	0.8%
	Overlay Media Limited	17	9	26	1.1%
	Oxford Advanced Surfaces Group plc	425,857	–	425,857	0.2%
	Oxford Catalysts Group plc	74,684	–	74,684	0.1%
	Oxford Nanopore Technologies Limited	5,721	–	5,721	0.5%
	Oxford RF Sensors Limited	29,735	–	29,735	0.4%
	Oxtox Limited	16,601	–	16,601	0.4%
	Pharminox Limited	274	–	274	0.1%
	Photopharmica (Holdings) Limited	21,340	–	21,340	0.6%
	Plexus Planning Limited	444	–	444	0.2%
	ReactivLab Limited	45	–	45	1.0%
	Retroscreen Virology Limited	1,216	–	1,216	0.3%
	Revolymmer Limited	1,228	–	1,228	0.2%
	Simulstrat Limited - A Preference Shares	15,750	–	15,750	1.8%
	Simulstrat Limited - Ordinary Shares	1,476	–	1,476	0.9%
	Structure Vision Limited	83	–	83	0.5%
	Surrey Nanosystems Limited	306	–	306	0.8%
	Sustainable Resource Solutions Limited	–	23	23	1.3%
	Syntopix Group plc	13,312	–	13,312	0.2%
	Theragenetics Limited ⁽ⁱ⁾	1,260	(1,260)	–	–
	Tissue Regenix Limited	31	–	31	0.3%
	Tracsis plc	113,000	–	113,000	0.6%
	Xanic Limited	14	–	14	0.5%
	Xeros Limited	187	–	187	1.0%
	Mike Townend	Amaethon Limited - A Ordinary Shares	104	–	104
Amaethon Limited - B Ordinary Shares		11,966	–	11,966	1.0%
Amaethon Limited - Ordinary Shares		21	–	21	0.3%
Capsant Neurotechnologies Limited		11,282	–	11,282	0.8%
Chamelic Limited		23	–	23	1.4%
Crysalin Limited		1,286	–	1,286	0.4%
Dispersia Limited		370	–	370	0.9%
EmDot Limited		–	14	14	0.8%
Green Chemicals plc		113,222	–	113,222	1.4%
Icona Solutions Limited		1,515	–	1,515	1.1%
Leeds Lithium Power Limited		178	–	178	1.2%
Leeds Reproductive Biosciences Limited		18	–	18	1.1%
Mode Diagnostics Limited		1,756	–	1,756	1.1%
Modern Biosciences plc		1,185,150	–	1,185,150	2.1%
Modern Water plc		575,000	–	575,000	1.0%
Overlay Media Limited		19	10	29	1.3%
Oxford Advanced Surfaces Group plc		932,994	–	932,994	0.5%
Oxford Nanopore Technologies Limited		3,490	–	3,490	0.3%
Oxtox Limited		25,363	–	25,363	0.6%
Photopharmica (Holdings) Limited		37,020	–	37,020	1.0%
ReactivLab Limited		51	–	51	1.2%
Retroscreen Virology Limited		1,858	–	1,858	0.5%
Revolymmer Limited		1,198	–	1,198	0.2%
Simulstrat Limited - A Preference Shares		24,063	–	24,063	2.8%
Simulstrat Limited - Ordinary Shares		2,255	–	2,255	1.3%
Structure Vision Limited		212	–	212	1.2%
Surrey Nanosystems Limited		350	–	350	0.9%
Sustainable Resource Solutions Limited		–	25	25	1.4%
Tissue Regenix Limited		89	–	89	0.8%
Tracsis plc		84,750	–	84,750	0.4%
Xanic Limited		16	–	16	0.6%
Xeros Limited		213	–	213	1.1%
Graham Richards		Getech Group plc	30,000	–	30,000
	Summit Corporation plc	662,958	–	662,958	1.1%

All figures refer to ordinary shares unless indicated otherwise.

(i) On 15 January 2009, Avacta Group plc acquired the entire issued ordinary share capital of Theragenetics Limited. Theragenetics Limited shareholders received approximately 112 ordinary shares in Avacta Group plc as consideration for each ordinary share in Theragenetics Limited held at that time.

24. Related party transactions (continued)**b) Key management transactions (continued)**

Director	Company name	Number of shares held at 1 January 2009	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2009	%
Bruce Smith	Capsant Neurotechnologies Limited	20,724	–	20,724	1.4%
	Getech Group plc	15,000	–	15,000	<0.1%
	iQur Limited	2,000	–	2,000	0.8%
	Nanotecture Group plc	50,000	–	50,000	0.5%
	Oxford Catalysts Group plc	10,000	–	10,000	<0.1%
	Synairgen plc	200,000	–	200,000	0.3%
	Syntopix Group plc	15,241	–	15,241	0.2%
Roger Brooke	Activotec SPP Limited	1,459	–	1,459	0.8%
	Avacta Group plc ⁽ⁱ⁾	661,318	–	661,318	<0.1%
	Bioniqs Limited	1,000	–	1,000	0.9%
	Capsant Neurotechnologies Limited	2,667	–	2,667	0.2%
	Getech Group plc	30,000	–	30,000	0.1%
	Glycoform Limited	937	–	937	0.3%
	Inhibox Limited	500	–	500	0.2%
	iQur Limited	1,400	–	1,400	0.6%
	Nanotecture Group plc	33,335	–	33,335	0.3%
	Oxford Nanopore Technologies Limited	3,481	–	3,481	0.3%
	Pharminox Limited	786	–	786	0.4%
	Proximagen Neuroscience plc	160,000	(25,000)	135,000	0.2%
	ReOx Limited	2,717	–	2,717	0.3%
	Revolymex Limited	1,351	–	1,351	0.2%
	Stratophase Limited	4,549	–	4,549	0.5%
	Summit Corporation plc	11,400	–	11,400	<0.1%
Syntopix Group plc	11,299	–	11,299	0.1%	

All figures refer to ordinary shares unless indicated otherwise.

(i) On 15 January 2009, Avacta Group plc acquired the entire issued ordinary share capital of Theragenetics Limited. Theragenetics Limited shareholders received approximately 112 ordinary shares in Avacta Group plc as consideration for each ordinary share in Theragenetics Limited held at that time.

Compensation to key management comprises solely that paid to executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 26 to 29 and these amounts are included within the employee costs set out in note 8.

c) Portfolio companies

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

Statement of comprehensive income	2009 £m	2008 £m
Revenue from services	0.5	0.8
Statement of financial position	2009 £m	2008 £m
Trade receivables	0.2	0.2

d) Subsidiary companies

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

	2009 £m	2008 £m
Intercompany balances with other Group companies	6.3	6.0

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

25. Minority interest

	2009 £m	2008 £m
At 1 January	–	0.3
Disposal of minority interest	–	(0.2)
Share of loss for the year	–	(0.1)
At 31 December	–	–

26. Capital commitments

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton ⁽ⁱ⁾	2002	5.0	3.0	2.0
King's College London ⁽ⁱⁱ⁾	2003	5.0	1.8	3.2
University of York - CNAP ⁽ⁱⁱⁱ⁾	2003	0.8	0.2	0.6
University of Leeds ^(iv)	2005	5.0	5.0	–
University of Bristol ^(v)	2005	5.0	1.0	4.0
University of Surrey ^(vi)	2006	5.0	0.5	4.5
University of York ⁽ⁱⁱⁱ⁾	2006	5.0	0.1	4.9
Queen Mary, University of London ^(vii)	2006	5.0	0.3	4.7
University of Bath ^(viii)	2006	5.0	0.2	4.8
University of Glasgow ^(ix)	2006	5.0	1.0	4.0
		45.8	13.1	32.7

⁽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. The basis for investment is subject to review during 2010.

⁽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 2009. Under the revised agreement, the Group has agreed to target investing the remaining commitment of £3.2m over a three year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and changes to the termination rights of the parties.

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

^(iv) The Group extended its partnership with the University of Leeds ("Leeds") in July 2005 by securing the right and obligation to invest up to £5.0m in Leeds spin-out companies.

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

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

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

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

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

27. Post balance sheet events

On 22 January 2010, the Group announced that it had won the mandate to manage the North East Technology Fund (the "Fund"), a £25m venture capital fund that will invest in technology companies in the North East region from seed through to growth stages of development including opportunities from the leading research universities based in the region. The Group will receive management fees and has the potential to generate performance fees from successful investment of the Fund. In addition, the Group will be able to co-invest alongside the Fund in appropriate opportunities.

On 1 February 2010, Oxford Nanopore Technologies Limited announced a further £17.4m equity financing from new and existing investors including IP Group and IP Venture Fund, to accelerate the development of its electronic, single molecule analysis technology. This February 2010 investment was completed at a premium to the January 2009 round and will result in a further £2.2m fair value gain to the Group in 2010.

As at 31 December 2009

	Note	2009 £m	2008 £m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	25.3	25.3
Investment in associated undertakings	3	9.8	9.8
Other investments	4	2.9	–
Loans to subsidiary undertakings	5	72.6	73.2
Total assets		110.6	108.3
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	5.1	5.0
Share premium account	6	99.3	96.7
Profit and loss reserve	6	(6.6)	(6.2)
Merger reserve	6	12.8	12.8
Total equity shareholders' funds and liabilities		110.6	108.3

Registered number: 4204490

The financial statements on pages 64 to 67 were approved by the Board of Directors and authorised for issue on 1 March 2010 and were signed on its behalf by:

Bruce Smith
Chairman

Alan Aubrey
Chief Executive Officer

1. Accounting policies

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

Investments

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

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

Intercompany loans

All intercompany loans are initially recognised at fair value. As all intercompany loans are repayable on demand, their carrying value approximates to their fair value.

Impairment

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

Financial instruments

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

Share-based payments

The fair value of Long Term Incentive Plan ("LTIP") awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market-based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which is treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

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 award recipient at the date of modification, the incremental fair value is amortised over the vesting period.

2. Investments in subsidiary undertakings

	£m
At 1 January 2009	25.3
Additions	–
Impairment	–
Disposals	–
At 31 December 2009	25.3

2. Investments in subsidiary undertakings (continued)

Details of the company's subsidiary undertakings at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited ^{1,5}	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited ^{1,6}	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited ³	England and Wales	100.0	100.0	Acquisition
HATT III GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited ^{1,3}	Scotland	100.0	100.0	Acquisition
IP Europe (GP) Limited ^{1,2,7}	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc ⁴	England and Wales	54.3	69.0	Acquisition
PIMCO 2501 Limited ^{1,4}	England and Wales	54.3	69.0	Acquisition
PIMCO 2664 Limited ^{1,4}	England and Wales	54.3	69.0	Acquisition
Rimcazole Limited ^{1,4}	England and Wales	54.3	69.0	Acquisition
Modern Biosciences Nominees Limited ^{1,2}	England and Wales	54.3	69.0	Acquisition
MBS Secretarial Limited ^{1,2}	England and Wales	54.3	69.0	Acquisition
MBS Director Limited ^{1,2}	England and Wales	54.3	69.0	Acquisition
IP2IPO Nominees Limited ²	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited ²	England and Wales	100.0	100.0	Acquisition
IP2IPO (LifeUK) Limited ²	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited ²	England and Wales	100.0	100.0	Acquisition
Aptuscan Limited ¹	England and Wales	100.0	100.0	Acquisition
C-Capture Limited ¹	England and Wales	100.0	100.0	Acquisition
Metabio Limited ¹	England and Wales	100.0	100.0	Acquisition
Organisense Limited ¹	England and Wales	100.0	100.0	Acquisition
Ovatus Limited ¹	England and Wales	100.0	100.0	Acquisition
Pregnopause Limited ¹	England and Wales	100.0	100.0	Acquisition
Rheokinisis Limited ¹	England and Wales	100.0	100.0	Acquisition
vVax Limited ¹	England and Wales	100.0	100.0	Acquisition

1 Company held indirectly.

2 Dormant company.

3 Company engaged in fund management activity.

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

5 Company operates a branch in Luxembourg.

6 Company limited by guarantee.

7 Company renamed North East Technology (GP) Limited on 7 January 2010.

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

3. Investment in associated undertakings

	£m
At 1 January 2009 and 31 December 2009	9.8

At 31 December 2009 the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets £000	Loss before tax £000	Date of financial statements
Photopharmica (Holdings) Limited	49.9%	11,935	–	31 July 2009
Modern Water plc	23.2%	41,390	(2,400)	31 December 2008

All companies are incorporated in England and Wales.

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

4. Other investments

	£m
At 1 January 2009	–
Additions	2.9
Impairment	–
Disposals	–
At 31 December 2009	2.9

5. Loans to subsidiary undertakings

	£m
At 1 January 2009	73.2
Impairment of loans in the year	(0.3)
Net repayment of loans in the year	(0.3)
At 31 December 2009	72.6

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

6. Share capital and reserves

	Share capital £m	Merger reserve £m	Share premium £m	Profit and loss reserve £m
At 1 January 2009	5.0	12.8	96.7	(6.2)
Loss for the year	–	–	–	(0.9)
Issue of equity	0.1	–	2.6	–
Share-based payment charge	–	–	–	0.5
At 31 December 2009	5.1	12.8	99.3	(6.6)

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 57. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity on page 41.

7. Profit and loss account

As permitted by Section 408 of the CA 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £0.9m (2008: £7.3m loss).

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

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

Full details of the directors' remuneration can be found in the Directors' Remuneration Report on pages 26 to 29. Full details of the share-based payments charge and related disclosures can be found in note 22 to the consolidated financial statements.

The Company had no employees during 2009 or 2008.

Company registration number	4204490
Registered office	24 Cornhill London EC3V 3ND
Directors	Dr Bruce Gordon Smith, CBE (Non-executive Chairman) Alan John Aubrey (Chief Executive Officer) Dr Alison Margaret Fielding (Chief Technology Officer) Magnus James Goodlad (Chief Operating Officer) Michael Charles Nettleton Townend (Director of Capital Markets) Professor William Graham Richards, CBE (Senior Non-executive Director) Christopher Roger Ettrick Brooke (Non-executive Director) Francis Adam Wakefield Carpenter (Non-executive Director)
Company secretary	Angela Leach
Brokers	KBC Peel Hunt Limited 111 Old Broad Street London EC2N 1PH
Registrars	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH
Independent auditors	BDO LLP 55 Baker Street London W1U 7EU



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