REGISTERED NUMBER: 04072979 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2018

for

IP2IPO Limited

IP2IPO Limited

Contents of the Financial Statements
for the Year Ended 31 December 2018

IP2IPO Limited

Company Information
for the Year Ended 31 December 2018

| | |
|---|---|
| **DIRECTORS:** | A J Aubrey<br>D G Baynes<br>G Smith<br>M C N Townend |
| **SECRETARY:** | IP2IPO Services Limited |
| **REGISTERED OFFICE:** | The Walbrook Building<br>25 Walbrook<br>London<br>EC4N 8AF |
| **REGISTERED NUMBER:** | 04072979 (England and Wales) |
| **AUDITORS:** | KPMG LLP, Statutory Auditor<br>Chartered Accountants<br>15 Canada Square<br>London<br>E14 5GL |

## Strategic Report
## for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

The principal activity of IP2IPO Limited ("the Company") during the period was commercialisation of intellectual property via long-term partnerships with universities. The Company continues to create spin-out companies from its partner, and occasionally non-partner, universities and to provide business support and development services to such spin-out companies.

### RESULTS AND PERFORMANCE

The results for the year are set out on page 9. The Company's loss for the period was £68,913k (year ended 31 December 2017: £42,060k profit). The directors do not propose a final dividend for the year ended 31 December 2018 (year ended 31 December 2017: £nil).

### BUSINESS ENVIRONMENT

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

In this context, these remain extremely uncertain times both economically and politically, particularly in the UK, in the wake of the UK's vote to leave the European Union, as well as the economic policy changes made, and under consideration, in the US. Global growth for 2018-19 is projected to remain steady at its 2017 level, according to the International Monetary Fund. It is predicting global growth at 3.7 percent for 2018-19, noting that downside risks to global growth have risen in the past six months and the potential for upside surprises has receded.

### STRATEGY

The Company's business plan is to continue to create spin-out companies from its partner, and occasionally non-partner, universities and to provide business support and development services to such spin-out companies.

### KEY PERFORMANCE INDICATORS

The directors of IP Group plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of IP Group plc, which includes the Company, is discussed in IP Group plc's annual report which does not form part of this report.

### PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to the protection of intellectual property and market risk in respect of its equity investments. The principal risks and uncertainties are integrated with the principal risks and uncertainties of the larger group and are not managed separately. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 44 to 55 of IP Group plc's 2018 annual report and financial statements which does not form part of this report.

### FINANCIAL INSTRUMENTS

The Company's primary exposure to financial instruments is in relation to the holding of equity and debt instruments in spin-out companies, cash and loans receivable from fellow subsidiaries.

The directors manage the risks inherent in the holding of equity and debt instruments through the establishment, at a Group-wide level, of investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established corporate finance and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

Furthermore, the Company maintains adequate liquid capital such that it is not reliant on external providers of liquidity to support its operations.

IP2IPO Limited

Strategic Report
for the Year Ended 31 December 2018

FUTURE OUTLOOK
The directors believe the Company will continue to trade for the foreseeable future.

ON BEHALF OF THE BOARD:

........................................................................
G Smith - Director

Date: 12.12.2019

**Report of the Directors**
**for the Year Ended 31 December 2018**

The directors present their report with the financial statements of the company for the year ended 31 December 2018.

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Directors' report should be read in conjunction with the Strategic report on page 2 (which is incorporated in this Directors' report by reference), which together, include information about the Company's business, its financial performance during the year, and developments in the future.

## DIVIDENDS

No dividends will be distributed for the year ended 31 December 2018 (year ended 31 December 2017: £nil).

## DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

A J Aubrey
D G Baynes
G Smith
M C N Townend

## POLITICAL AND CHARITABLE CONTRIBUTIONS

During 2018 the Company made no political donations (2017: £nil) and charitable donations of £33,333 (2017: £33,333).

## PAYMENT OF CREDITORS

It is the Company'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 Company's average creditor payment period at 31 December 2018 was 49 days (2017: 36 days).

## 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.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's ultimate parent company, IP Group plc not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £632,869,832. IP Group plc has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

IP2IPO Limited

Report of the Directors
for the Year Ended 31 December 2018

AUDITORS
The auditor KPMG LLP is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

ON BEHALF OF THE BOARD:

........................................................................
G Smith - Director

Date: 12-12-2019

**Statement of Directors' Responsibilities**
**for the Year Ended 31 December 2018**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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;
- make judgements and estimates that are reasonable and prudent;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Report of the Independent Auditors to the Members of IP2IPO Limited**

**Opinion**

We have audited the financial statements of IP2IPO Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**The impact of uncertainties due to Britain exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company or partnership and this is particularly the case in relation to Brexit.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

**Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Report of the Independent Auditors to the Members of IP2IPO Limited**

**Responsibilities of directors**

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

**The purpose of our audit work and to whom we owe our responsibilities**

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

J. M. Mills

Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 13 December 2019

IP2IPO Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **TURNOVER** | 3 | 715 | 529 |
| Administrative expenses | | (21,432) | (12,622) |
| | | (20,717) | (12,093) |
| Change in fair value of investments | | (58,423) | 44,099 |
| **OPERATING (LOSS)/PROFIT** | | (79,140) | 32,006 |
| Profit on disposal of investment in group undertakings | 5 | - | 291 |
| Profit/(loss) on disposal of investments in spin-out companies | 5 | 61 | (26,357) |
| | | (79,079) | 5,940 |
| Income from shares in group undertakings | | 3,880 | 35,314 |
| Gain on release of loan obligation | | 5,487 | - |
| Interest receivable and similar income | 6 | 799 | 806 |
| **(LOSS)/PROFIT BEFORE TAXATION** | 7 | (68,913) | 42,060 |
| Tax on (loss)/profit | 8 | - | - |
| **(LOSS)/PROFIT FOR THE FINANCIAL YEAR** | | (68,913) | 42,060 |
| **OTHER COMPREHENSIVE INCOME** | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | (68,913) | 42,060 |

The notes on pages 12 to 28 form part of these financial statements

**IP2IPO Limited (Registered number: 04072979)**

**Balance Sheet**
**31 December 2018**

| | Notes | 2018 £'000 | 2018 £'000 | 2017 £'000 | 2017 £'000 |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 9 | | 38 | | 66 |
| Tangible assets | 10 | | 1,141 | | 1,413 |
| Investments | 11 | | 689,763 | | 615,837 |
| | | | 690,942 | | 617,316 |
| **CURRENT ASSETS** | | | | | |
| Debtors: amounts falling due within one year | 12 | 711 | | 2,607 | |
| Debtors: amounts falling due after more than one year | 12 | 56,601 | | 34,966 | |
| Investments | 13 | 90,000 | | 95,000 | |
| Cash at bank and in hand | | 32,015 | | 103,288 | |
| | | 179,327 | | 235,861 | |
| **CREDITORS** | | | | | |
| Amounts falling due within one year | 14 | 3,080 | | 5,182 | |
| **NET CURRENT ASSETS** | | | 176,247 | | 230,679 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 867,189 | | 847,995 |
| **CREDITORS** | | | | | |
| Amounts falling due after more than one year | 15 | | 693,297 | | 605,352 |
| **NET ASSETS** | | | 173,892 | | 242,643 |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 16 | | 40 | | 40 |
| Share premium | | | 3,960 | | 3,960 |
| Retained earnings | | | 169,892 | | 238,643 |
| **SHAREHOLDERS' FUNDS** | | | 173,892 | | 242,643 |

The financial statements were approved by the Board of Directors on 12.12.2019 and were signed on its behalf by:

G Smith - Director

The notes on pages 12 to 28 form part of these financial statements

IP2IPO Limited

## Statement of Changes in Equity
## for the Year Ended 31 December 2018

| | Called up share capital £'000 | Retained earnings £'000 | Share premium £'000 | Total equity £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2017** | 40 | 194,973 | 3,960 | 198,973 |
| **Changes in equity** | | | | |
| Total comprehensive income | - | 42,060 | - | 42,060 |
| Share-based payment charge | - | 1,610 | - | 1,610 |
| **Balance at 31 December 2017** | 40 | 238,643 | 3,960 | 242,643 |
| ***Changes in equity*** | | | | |
| Capital contribution | - | (1,360) | - | (1,360) |
| Total comprehensive income | - | (68,913) | - | (68,913) |
| Share-based payment charge | - | 1,522 | - | 1,522 |
| **Balance at 31 December 2018** | 40 | 169,892 | 3,960 | 173,892 |

The notes on pages 12 to 28 form part of these financial statements

## 1. STATUTORY INFORMATION

IP2IPO Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

## 2. ACCOUNTING POLICIES

**Basis of preparation**
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

These financial statements were prepared on a going concern basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Subsequent amendments to FRS 101 which are effective for these financial statements have been applied.

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

The Company's ultimate parent undertaking, IP Group plc, includes IP2IPO Limited in its consolidated financial statements. The consolidated financial statements of IP Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the company secretary at IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Cash Flow Statement and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of transactions with a management entity that provides key management personnel services to the company.

As the ultimate parent company, IP Group plc's consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures: certain disclosures required by IFRS 13 Fair Value Measurement, IAS 24 Related Party Disclosures and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

**Going concern**
The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's ultimate parent company, IP Group plc not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £632,869,832. IP Group plc has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.



continued...

2. ACCOUNTING POLICIES - continued

**Turnover**
Turnover, comprising fees for various advisory services, is recognised in the profit and loss account when the related services are performed and when considered recoverable. All turnover is generated within the United Kingdom and is in sterling and is stated exclusive of value added tax.

**Intangible fixed assets - intellectual property rights**
Intangible fixed assets are stated at historical cost less amortisation and provision for any impairment. Historical cost comprises the purchase price together with any incidental costs of acquisition. Amortisation is calculated so as to write off the cost of intangible fixed assets on a straight-line basis over their expected useful lives.

**Tangible fixed assets**
Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment: Over 3 to 5 years
Computer equipment: Over 3 to 5 years

**Taxation**
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events, that result in an obligation to pay more tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is considered more likely than not that they will be recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

**Foreign currencies**
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

**Hire purchase and leasing commitments**
Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

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

**Preparation of consolidated accounts**
The financial statements contain information about IP2IPO Limited as an individual company and do not contain consolidated financial information as a parent of a group. The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts on the basis that the parent company is included in the accounts of a larger group.

**Operating leases**
Costs in respect of operating leases, where substantially all the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight line basis over the lease term.



continued...

2. ACCOUNTING POLICIES - continued

**Investments in subsidiary undertakings**
Investments in subsidiary undertakings are held at cost less any provision for impairment.

**Equity investments and limited partnership interests**
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 "IPEV Guidelines") endorsed by the British and European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

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

**Price of recent investment**
The Group considers that fair value estimates, which are based entirely on observable market data, will be of greater reliability than those based on assumptions and, accordingly, where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment.

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 equity structure of a portfolio company involves different class rights in a sale or liquidity event, the Group takes these different rights into account when forming a view on the value of its investment.

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, or an alternative valuation technique is used where this is deemed more appropriate. Where a deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Group may consider increasing the carrying value of the investment; however, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and, accordingly, caution is applied

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

**Other valuation techniques**
Where it is no longer deemed appropriate to use the price of recent investment as a valuation basis, the Group uses alternative methodologies in the IPEV 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.

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.

## 2. ACCOUNTING POLICIES - continued

**No reliable estimate**
Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

**Debt investments**
Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt on initial recognition is measured at fair value which is equal to cost and subsequent remeasurement will be recognised as changes in fair value in the statement of comprehensive income.

**Share-based payments**
All employees of the group of companies headed by the Company's ultimate parent company, IP Group plc, are eligible to participate in the IP Group Long Term Incentive Plan ("LTIP"). Awards take the form of ordinary shares of IP Group plc.

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 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 Profit and Loss Account, with a corresponding credit to the Profit and Loss reserve being the capital contribution received from the parent company on granting awards over its own shares to the Company's employees.

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.

**Related party transactions**
In accordance with IAS 24 "Related Parties Disclosures", the Company discloses details of material transactions between the reporting entity and related parties. However, transactions between the Company and other Group companies have not been disclosed in accordance with the exemption in IAS 24 paragraph.

## 3. TURNOVER

The total turnover of the Company for the period has been derived from the provision of business support and advisory services wholly undertaken in the United Kingdom.

## 4. EMPLOYEES AND DIRECTORS

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 7,824 | 5,377 |
| Social security costs | 1,188 | 741 |
| Other bonuses accrued in the year | 939 | 1,394 |
| Share based payment charge | 1,522 | 1,610 |
| Other pension costs | 704 | 354 |
| | 12,177 | 9,476 |

The average number of employees during the year was as follows:

| | 2018 | 2017 |
|---|---|---|
| Management and administration | 88 | 71 |



continued...

The aggregate emoluments of the directors of the Company are shown below. The remuneration of the highest paid director was £378k (2017: £519k) and company pension contributions of £35k (2017: £33k) were made to a money purchase scheme on his behalf.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Remuneration in respect of directors: | | |
| Directors' remuneration | 1,369 | 1,783 |
| Company contributions to money purchase pension plans | 112 | 110 |
| | 1,481 | 1,893 |

## 5. PROFIT/(LOSS) ON DISPOSAL OF FIXED ASSET INVESTMENTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Exceptional items | 5,487 | - |
| Profit on disposal of investment in group undertakings | - | 291 |
| Profit/(loss) on disposal of investments in spin-out companies | 61 | (26,357) |
| | 5,548 | (26,066) |

## 6. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Deposit account interest | 799 | 806 |

## 7. (LOSS)/PROFIT BEFORE TAXATION

The loss before taxation (2017 - profit before taxation) is stated after charging:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Hire of plant and machinery | 17 | 11 |
| Other operating leases | 607 | 702 |
| Depreciation - owned assets | 389 | 182 |
| Computer software amortisation | 28 | 10 |
| Auditors' remuneration | 5 | 5 |
| Foreign exchange differences | 132 | 166 |

## 8. TAXATION

**Analysis of tax expense**
No liability to UK corporation tax arose for the year ended 31 December 2018 nor for the year ended 31 December 2017.



continued...

8. **TAXATION - continued**

**Factors affecting the tax expense**
The tax assessed for the year is higher (2017 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| (Loss)/profit before income tax | (68,913) | 42,060 |
| (Loss)/profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.25%) | (13,093) | 8,095 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 12,239 | 5,054 |
| Income not taxable for tax purposes | (2,492) | (15,316) |
| Group relief surrendered | 379 | - |
| Deferred tax not recognised | 2,719 | 1,958 |
| Permanent difference on share options exercised in the year | 248 | 209 |
| Tax expense | - | - |

There is a potential deferred tax asset at 31 December 2018 of £20,929k (2017: £18,569k), in respect of short term timing differences of £736k (2017: £716k), losses of £17,920k (2017: £15,749k) and capital losses of £2,288k (2017: £2,104k). This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying timing differences. The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted.

9. **INTANGIBLE FIXED ASSETS**

| | Goodwill £'000 | Computer software £'000 | Totals £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 and 31 December 2018 | 5 | 71 | 76 |
| **Amortisation** | | | |
| At 1 January 2018 | - | 10 | 10 |
| Amortisation for year | - | 28 | 28 |
| At 31 December 2018 | - | 38 | 38 |
| **Net book value** | | | |
| At 31 December 2018 | 5 | 33 | 38 |
| At 31 December 2017 | 5 | 61 | 66 |



continued...

## 10. TANGIBLE FIXED ASSETS

| | Fixtures and fittings £'000 | Computer equipment £'000 | Totals £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 1,605 | 879 | 2,484 |
| Additions | - | 117 | 117 |
| At 31 December 2018 | 1,605 | 996 | 2,601 |
| **Depreciation** | | | |
| At 1 January 2018 | 476 | 595 | 1,071 |
| Charge for year | 206 | 183 | 389 |
| At 31 December 2018 | 682 | 778 | 1,460 |
| **Net book value** | | | |
| At 31 December 2018 | 923 | 218 | 1,141 |
| At 31 December 2017 | 1,129 | 284 | 1,413 |

## 11. INVESTMENTS

| | Shares in group undertakings £'000 | Limited participation interests £'000 | Equity investments in quoted spin out companies £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2018 | 464 | 166,961 | 77,536 |
| Additions | - | 36,904 | 36,370 |
| Disposals | - | - | (2,306) |
| Distributions from Limited Partnerships | - | (850) | - |
| Change in fair value during the year | - | 3,687 | (61,135) |
| Transaction-based reclassifications during the year | - | - | 4,651 |
| At 31 December 2018 | 464 | 206,702 | 55,116 |
| **Net book value** | | | |
| At 31 December 2018 | 464 | 206,702 | 55,116 |
| At 31 December 2017 | 464 | 166,961 | 77,536 |



continued...

11. INVESTMENTS - continued

| | Equity investments in unquoted spin out £'000 | Unquoted debt investments in spin out £'000 | Totals £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2018 | 358,675 | 12,201 | 615,837 |
| Additions | 61,529 | 1,666 | 136,469 |
| Disposals | - | (964) | (3,270) |
| Distributions from Limited Partnerships | - | - | (850) |
| Change in fair value during the year | (656) | (319) | (58,423) |
| Transaction-based reclassifications during the year | 1,325 | (5,976) | - |
| At 31 December 2018 | 420,873 | 6,608 | 689,763 |
| **Net book value** | | | |
| At 31 December 2018 | 420,873 | 6,608 | 689,763 |
| At 31 December 2017 | 358,675 | 12,201 | 615,837 |



continued...

11. INVESTMENTS - continued

**Significant equity investments**
At 31 December 2018, the Company has investments where it holds 20% or more of the issued share capital in the following companies:

| Name of undertaking | Registered address | Proportion of nominal value held % (note 1) |
|---|---|---|
| IP Venture Fund | The Walbrook Building, 25 Walbrook, London, EC4N 8AF | 10.0% |
| Absynth Biologics Limited | Biohub at Alderley Park, Macclesfield, Cheshire, SK10 4TG | 56.6% |
| A Ordinary shares | | 41.3% |
| B Ordinary shares | | 100.0% |
| Ordinary shares | | 43.3% |
| Actual Experience plc | Quay House, The Ambury, Bath, Somerset, BA1 1UA | 22.1% |
| Alesi Surgical Limited | Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ | 28.7% |
| B shares | | 100.0% |
| Ordinary shares | | 57.0% |
| Preferred B shares | | 9.7% |
| Preferred Ordinary shares | | 40.3% |
| Amaethon Limited | Heslington Hall, Heslington, York, YO10 5DD | 27.6% |
| A Ordinary shares | | 52.9% |
| B Ordinary shares | | 27.6% |
| Ordinary shares | | 0.0% |
| Art of Xen Limited | NHS Liaison Unit 4th Floor Mckenzie House 30-36 Newport Road, Cardiff, CF24 0DE | 83.5% |
| A Preference shares | | 100.0% |
| B Preference shares | | 100.0% |
| Asterion Limited | The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP | 66.8% |
| Azellon Limited | The Walbrook Building, 25 Walbrook, London, EC4N 8AF | 32.5% |
| A Ordinary shares | | 0.0% |
| Ordinary shares | | 32.5% |
| Boxarr Limited | 65 London Road, St Albans, Hertfordshire, AL1 1LJ | 45.4% |
| Capsant NeurotechnologiesLtd | The Walbrook Building, 25 Walbrook, London, EC4N 8AF | 50.0% |
| C-Capture Limited | Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF | 39.3% |
| A Preference shares | | 42.3% |
| Ordinary shares | | 36.7% |
| Crysalin Limited | The Walbrook Buliding, 25 Walbrook, London, England, EC4N 8AF | 25.3% |
| A shares | | 0.0% |
| B shares | | 0.0% |
| C shares | | 0.0% |
| D shares | | 0.0% |
| Ordinary shares | | 27.0% |
| Ditto AI Limited | Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9D | 39.8% |
| B Ordinary shares | | 69.2% |
| Ordinary shares | | 17.1% |
| Diurnal Group plc | Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ | 43.3% |



continued...

11. INVESTMENTS - continued

| | | |
|---|---|---|
| Istesso Limited | The Walbrook Buliding, 25 Walbrook, London, England, EC4N 8AF | 56.7% |
| A shares | | 75.6% |
| Ordinary shares | | 42.1% |
| Magnomatics Limited | Park House, Bernard Road, Sheffield, S2 5BQ | 44.5% |
| A shares | | 52.1% |
| B shares | | 100.0% |
| C shares | | 100.0% |
| Ordinary shares | | 24.8% |
| Medella Therapeutics Limited | The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP | 60.0% |
| Oxford Drug Design Limited | The Walbrook Building, 25 Walbrook, London, EC4N 8AF | 29.0% |
| Deferred shares | | 0.0% |
| Ordinary shares | | 29.0% |
| Perachem Holdings plc | 55 Drury Lane, London, WC2B 5RZ | 46.2% |
| Convertible Preference shares | | 0.0% |
| Ordinary shares | | 46.2% |
| Perpetuum Limited | 2 Venture Road, Southampton Science Park, Chilworth, Southampton, SO16 7NP | 29.3% |
| Ordinary shares | | 33.1% |
| Series B shares | | 13.4% |
| Series C shares | | 46.9% |
| Series C1 shares | | 0.0% |
| Preference shares | | 0.0% |
| PH Therapeutics Limited | The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP | 60.0% |
| Phase Focus Limited | 40 Leavy Greave Road, Sheffield, S3 7RD | 34.4% |
| A shares | | 26.1% |
| B shares | | 33.3% |
| H shares | | 0.0% |
| Ordinary shares | | 48.6% |
| Polar OLED Limited | Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF | 35.0% |
| A shares | | 55.9% |
| Ordinary shares | | 32.7% |
| Structure Vision Limited | 103 Clarendon Road, Leeds, LS2 9DF | 42.4% |

Note 1: All holdings are via ordinary shares unless separate classes are specified in the table.

All companies above are incorporated in the United Kingdom. The significant influence noted above has been determined in line with IAS 28 and Schedule 4 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008

12. **DEBTORS**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | 271 | 167 |
| Other debtors | 291 | 2,131 |
| Prepayments and accrued income | 149 | 309 |
| | 711 | 2,607 |



continued...

12. DEBTORS - continued

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Amounts falling due after more than one year: | | |
| Amounts owed by group undertakings | 56,601 | 34,966 |
| Aggregate amounts | 57,312 | 37,573 |

13. CURRENT ASSET INVESTMENTS

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Deposits | 90,000 | 95,000 |

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Trade creditors | 777 | 313 |
| Social security and other taxes | 497 | 381 |
| Other creditors | 214 | 2,767 |
| Accruals and deferred income | 1,592 | 1,721 |
| | 3,080 | 5,182 |

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed to group undertakings | 692,206 | 605,352 |
| Long Term Incentive Carry Scheme Accrual | 1,091 | - |
| | 693,297 | 605,352 |

16. CALLED UP SHARE CAPITAL

*Allotted, issued and fully paid:*

| Number: | Class: | Nominal value: | 2018 £'000 | 2017 £'000 |
|---|---|---|---|---|
| 40,100 | Ordinary | £1 | 40 | 40 |



continued...

## 17. CAPITAL COMMITMENTS

Pursuant to the terms of their Limited Partnership agreements, the Group has committed to invest the following amounts into Limited Partnerships as at 31 December 2018:

| Partnership | Year of commencement of partnership | Original commitment £'m | Invested to date £'m | Remaining commitment £'m |
|---|---|---|---|---|
| IP Venture Fund | 2006 | 3.1 | 3.0 | 0.1 |
| IP Venture Fund II L.P. | 2013 | 10.0 | 7.6 | 2.4 |
| | | 13.1 | 10.6 | 2.5 |

As at 31 December 2017:

| Partnership | Year of commencement of partnership | Original commitment £'m | Invested to date £'m | Remaining commitment £'m |
|---|---|---|---|---|
| IP Venture Fund | 2006 | 3.1 | 3.0 | 0.1 |
| IP Venture Fund II L.P. | 2013 | 10.0 | 6.6 | 3.4 |
| | | 13.1 | 9.6 | 3.5 |



continued...

## 18. RELATED PARTY DISCLOSURES

The Directors who held office at 31 December 2018 had beneficial shareholdings in the following spin-out companies as at 31 December 2018:

| Director | Company name | Number of shares held at 1 January 2018 | Number of shares acquired/ (disposed in) the period | Number of shares held at 31 December 2018 | % |
|---|---|---|---|---|---|
| Alan Aubrey | Alesi Surgical Limited | 18 | - | 18 | 0.1% |
| | Amaethon Limited - A shares | 104 | - | 104 | 3.1% |
| | Amaethon Limited - B shares | 11,966 | - | 11,966 | 1.0% |
| | Amaethon Limited - Ordinary shares | 21 | - | 21 | 0.3% |
| | Avacta Group plc | 202,761 | (11,427) | 191,334 | 0.2% |
| | Boxarr Limited | 1,732 | - | 1,732 | 0.2% |
| | Capsant Neurotechnologies Ltd (i) | 11,631 | - | 11,631 | 0.8% |
| | Crysalin Limited | 1,447 | - | 1,447 | 0.1% |
| | Ditto AI Limited | 120,434,525 | 50,534,071 | 170,968,596 | 12.2% |
| | Diurnal Group plc | 15,000 | - | 15,000 | <0.1% |
| | EmDot Limited | 15 | - | 15 | 0.9% |
| | Getech Group plc | 15,000 | - | 15,000 | <0.1% |
| | hVivo plc | 37,160 | - | 37,160 | <0.1% |
| | Ilika plc | 69,290 | (54,814) | 14,476 | <0.1% |
| | Istesso Limited | 1,185,150 | - | 1,185,150 | 1.6% |
| | Itaconix plc | 88,890 | - | 88,890 | <0.1% |
| | Karus Therapeutics Limited | 223 | - | 223 | <0.1% |
| | MDL 2016 Limited - Ordinary shares (ii) | 3,226 | (3,226) | - | 0% |
| | MDL 2016 Limited - A shares (ii) | 229 | (229) | - | 0% |
| | Modern Water plc | 519,269 | - | 519,269 | 0.5% |
| | Oxford Advanced Surfaces Ltd (iii) | 8,402 | (8,401) | 1 | <0.1% |
| | Oxford Nanopore Technologies Ltd | 101,208 | - | 101,208 | 0.4% |
| | Perachem Holdings plc | 108,350 | - | 108,350 | 0.3% |
| | Salunda Limited | 53,639 | - | 53,639 | <0.1% |
| | Structure Vision Limited | 212 | - | 212 | 1.0% |
| | Surrey Nanosystems Limited | 453 | - | 453 | 0.2% |
| | Tissue Regenix Group plc | 2,389,259 | - | 2,389,259 | 0.2% |
| | Xeros Technology Group plc | 40,166 | (17,319) | 22,847 | <0.1% |
| Mike Townend | Amaethon Limited - A shares | 104 | - | 104 | 3.1% |
| | Amaethon Limited - B shares | 11,966 | - | 11,966 | 1.0% |
| | Amaethon Limited - Ordinary shares | 21 | - | 21 | 0.3% |
| | Avacta Group plc | 20,001 | - | 20,001 | <0.1% |
| | Capsant Neurotechnologies Ltd (i) | 11,282 | - | 11,282 | 0.8% |
| | Crysalin Limited | 1,286 | - | 1,286 | 0.1% |
| | Ditto AI Limited | 613,048 | - | 613,048 | <0.1% |
| | Diurnal Group plc | 15,000 | - | 15,000 | <0.1% |
| | EmDot Limited | 14 | - | 14 | 0.8% |
| | Getech Group plc | 20,000 | - | 20,000 | <0.1% |
| | Istesso Limited | 1,185,150 | - | 1,185,150 | 1.6% |
| | Ilika plc | 10,000 | - | 10,000 | <0.1% |
| | Itaconix plc | 64,940 | - | 64,940 | <0.1% |
| | MDL 2016 Limited (ii) | 1,756 | (1,756) | - | 0% |
| | Modern Water plc | 575,000 | - | 575,000 | 0.6% |
| | Oxford Advanced Surfaces Ltd (iii) | 5,000 | (4,999) | 1 | <0.1% |
| | Oxford Nanopore Technologies Ltd | 30,967 | - | 30,967 | <0.1% |
| | Perachem Holdings plc | 113,222 | - | 113,222 | 0.3% |



continued...

| | | | | | |
|---|---|---|---|---|---|
| | Structure Vision Limited | 212 | - | 212 | 1.0% |
| | Surrey Nanosystems Ltd | 404 | - | 404 | 0.2% |
| | Tissue Regenix Group plc | 1,950,862 | - | 1,950,862 | 0.2% |
| | Xeros Technology Group plc | 35,499 | - | 35,499 | <0.1% |
| Greg Smith | Alesi Surgical Limited | 2 | - | 2 | <0.1% |
| | Avacta Group plc | 3,904 | - | 3,904 | <0.1% |
| | Capsant Neurotechnologies Ltd (i) | 896 | - | 896 | <0.1% |
| | Crysalin Limited | 149 | - | 149 | <0.1% |
| | Ditto AI Limited | 144,248 | - | 144,248 | <0.1% |
| | Diurnal Group plc | 15,000 | - | 15,000 | <0.1% |
| | EmDot Limited | 4 | - | 4 | 0.2% |
| | Getech Group plc | 8,000 | - | 8,000 | <0.1% |
| | hVivo plc | 61,340 | - | 61,340 | <0.1% |
| | Istesso Limited | 313,425 | - | 313,425 | 0.4% |
| | Itaconix plc | 4,500 | - | 4,500 | <0.1% |
| | MDL 2016 Limited - Ordinary shares (ii) | 361 | (361) | - | 0% |
| | MDL 2016 Limited - A shares (ii) | 28 | (28) | - | 0% |
| | Modern Water plc | 7,250 | - | 7,250 | <0.1% |
| | Oxford Nanopore Technologies Ltd | 1,581 | - | 1,581 | <0.1% |
| | Perachem Holdings plc | 4,830 | - | 4,830 | <0.1% |
| | Surrey Nanosystems Limited | 88 | - | 88 | <0.1% |
| | Tissue Regenix Group plc | 50,000 | - | 50,000 | <0.1% |
| | Xeros Technology Group plc | 1,392 | - | 1,392 | <0.1% |
| David Baynes | Alesi Surgical Limited | 4 | - | 4 | <0.1% |
| | Diurnal Group plc | 73,000 | - | 73,000 | 0.1% |
| | Oxford Nanopore Technologies Ltd | 174 | - | 174 | <0.1% |

(i) Capsant Neurotechnologies Limited commenced voluntary liquidation proceedings on 13th August 2018
(ii) MDL 2016 Limited was dissolved on 6th March 2018
(iii) Oxford Advanced Surfaces Limited had a share consolidation of 5000:1 on 12th March 2018



continued...

## 19. SHARE-BASED PAYMENT TRANSACTIONS

In 2018, the Group of companies headed by IP Group plc ("IP Group"), of which IP2IPO Limited is a part, continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 90 to 113 of the IP Group plc 2018 Annual Report.

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

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

| | 2018 | 2017 |
|---|---|---|
| At 1 January | 330,213 | 837,995 |
| AIS deferral shares awarded during the year | 344,077 | - |
| Exercised during the year | (169,603) | (286,161) |
| Lapsed during the year | (14,272) | (221,621) |
| At 31 December | 490,415 | 330,213 |

The options outstanding at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted-average remaining contractual life of 0.6 years (2017: 0.3 years).

The weighted average share price at the date of exercise for share options exercised in 2018 was 127p (2017: 139.17p).

As the 2018 AIS financial performance targets were met and as the number of DBSP options to be granted in order to defer such elements of the AIS payments as are required under our remuneration policy are based on a percentage of employees' salary, the share-based payments line includes the associated share-based payments expense incurred in 2018.

**Long-Term Incentive Plan ("LTIP")**
Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time.

The 2018 LTIP awards were made on 10 May 2018. The awards will ordinarily vest on 31 March 2021, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2018 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2018 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2018 to 31 December 2020, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2021, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2017 LTIP awards were made on 29 August 2017. The awards will ordinarily vest on 31 March 2020, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2017 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2017 to 31 December 2019, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2020, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2016 LTIP awards were made on 16 May 2016. The awards will ordinarily vest on 31 March 2019, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2016 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2016 to 31 December 2018, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2019, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2015 LTIP awards did not meet the threshold performance target and lapsed on 31 March 2018. The movement in the number of shares conditionally awarded under the LTIP is set out below:

| | **2018** | 2017 |
|---|---|---|
| At 1 January | **7,729,013** | 5,485,983 |
| Notionally awarded during the year | **3,832,233** | 3,462,067 |
| Forfeited during the year | **(707,775)** | (3,766) |
| Lapsted during the year | **(1,097,084)** | (1,215,271) |
| Vested during the year | **-** | - |
| At 31 December | **9,756,387** | 7,729,013 |

The options outstanding at 31 December 2018 had an exercise price in the range of £nil (2017: £nil) and a weighted-average remaining contractual life of 1.3 years (2017: 1.6 years).

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

| | **2018** | 2017 |
|---|---|---|
| IP Group plc shares price at date of award | **£1.355** | £1.151 |
| Exercise price | **£nil** | £nil |
| Fair value at grant date | **£0.57** | £0.34 |
| Expected volatility (median of historical 50 day moving average) | **36%** | 36% |
| Expected life (years) | **3.00** | 3.00 |
| Expected dividend yield | **0%** | 0% |
| Risk-free interest rate | **1.0%** | 0.4% |

**Former Fusion LTIP**

In 2014, three former employees of Fusion IP plc were each conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, the Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards were scheduled to vest on 31 December 2017 provided certain performance conditions are met which related to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. The options expired on 31 December 2017 as vesting criteria had not been met.



continued...

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

| | 2018 | 2017 |
|---|---|---|
| At 1 January | - | 1,338,000 |
| Expired during the year | - | (1,338,000) |
| At 31 December | - | - |

**Fair value charge**
The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £1.5m (2017: £1.6m).

## 20. EVENTS AFTER THE REPORTING PERIOD

On 15 July 2019, portfolio company Istesso Limited announced positive headline results from its Phase 2a study of its investigational drug, MBS2320, for the treatment of rheumatoid arthritis ("RA"). The study was a randomised, double-blind, placebo-controlled trial for which the primary objective was to assess the safety and tolerability of MBS2320 over 12 weeks of treatment in patients receiving background methotrexate therapy. This primary objective was met, with MBS2320 being generally well-tolerated with no drug-related serious adverse events.

## 21. ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking was IP Group plc, a public limited company registered in England and Wales. The smallest and largest group into which these accounts are consolidated is IP Group plc. Copies of the ultimate parent company's financial statements may be obtained from the secretary of IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF.