

Registration Number: 04204490

# IP Group plc

## EVOLVING GREAT IDEAS

into world-changing businesses



### Annual Report and Accounts

for the year ended 31 December 2015  
Stock Code: IPO

# Welcome

**IP Group was set up with a mission to evolve great ideas, mainly from our partner universities, into world-changing businesses. We achieve this by systematically helping to create, build and support outstanding intellectual property-based companies.**

The Group pioneered the concept of the long-term partnership model with UK universities and has spent many years honing a unique approach to building businesses and providing support along the journey from "cradle to maturity". More recently, we have sought to adopt this approach with a select group of US research institutions.

## Our values: the 3 Ps

Our values of being 'passionate, pioneering and principled' are at the heart of all that we do.

**PASSIONATE:** Our team is passionate about evolving great ideas into world-changing businesses.

**PIONEERING:** We believe we have pioneered a successful way to do this time and again while being open-minded and able to adapt to constant change. Our pioneering approach to supporting our portfolio companies is what differentiates us from traditional venture capital companies.

**PRINCIPLED:** We run the Company in a principled manner and are committed to building a successful and sustainable business that will provide attractive returns over the long term for our shareholders and other stakeholders. We aim to uphold the highest standards and strive to work with all of our partners and stakeholders in a principled manner.

## We support our portfolio companies with:

**Financial capital from our balance sheet and also from funds that we manage on behalf of others**

**Strategic, technical and commercial expertise**

**Executive search and development**

Read more on pages 10 and 11

**Corporate finance and capital raising**

**A range of administrative services**

**Getting around the report**

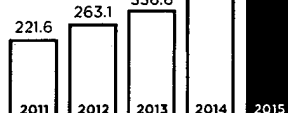
For further information within this document

Additional information online at:  
[www.ipgroupplc.com](http://www.ipgroupplc.com)

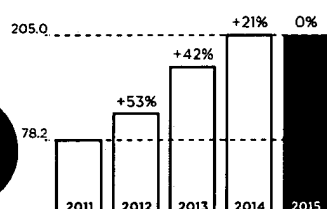
# Highlights

**Strongest financial performance since the Group's formation; well-positioned for future growth**

## Net Assets (£m)



## Share price performance (£m)



## 2015 highlights

- Net assets increased by approximately 50% to £781.9m (2014: £526.2m)
- £178.8m (net of expenses) raised through the issue of new equity capital
- Acceleration of US activities with four new portfolio companies created bringing the total portfolio to five
- Acquisition of a £40.0m strategic holding in Oxford Sciences Innovation plc, broadening the Group's exposure to spin-out companies from the University of Oxford
- Modern Biosciences plc reached the first development-related milestones in its agreement with Janssen Biotech, Inc. triggering gross payments of £8.0m

## Financial highlights

- Net assets excluding goodwill and intangibles increased to £714.3m (2014: £451.3m)
- Adjusted profit before tax of £82.4m (2014: £16.2m), excluding amortisation of intangible assets and reduction in fair value of Oxford Equity Rights asset of £7.3m (2014: £6.7m)
- Net cash and deposits at 31 Dec 2015: £178.8m (2014: £97.3m)
- New 8-year £30m debt facility negotiated with European Investment Bank

## Portfolio highlights

- Fair value of portfolio: £552.2m (2014: £349.9m)
- Net increase in fair value of portfolio, excluding net investment, of £86.2m (2014: £22.3m)
- Capital provided to portfolio companies\* and projects: £75.9m (2014: £46.8m)
- Portfolio realisations: £0.6m (2014: £9.7m)
- Oxford Nanopore completed £70m private financing and its MinION product became fully commercially available
- Diurnal Group plc completed £30m AIM admission and began Phase 3 trials for its Infacort® product

\*In addition to acquisition of £40.0m strategic holding in Oxford Sciences Innovation plc

**Disclaimer:** This Annual Report and Accounts may contain forward-looking statements. These statements reflect the Board's current view, are subject to a number of material risks and uncertainties and could change in the future. Factors that could cause or contribute to such changes include, but are not limited to, the general economic climate and market conditions, as well as specific factors relating to the financial or commercial prospects or performance of individual companies within the Group's portfolio. Further details can be found in the Risk management section on pages 34 to 41.

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

## What's inside

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# Group at a Glance

## IP Group's portfolio

**£552.2m**

Fair Value

**99**

Companies in total

Of which: Top ten' worth

**£386.1m**

**£26.6m**

other post-seed quoted

**11**

companies

**£80.6m**

other post-seed private

**36**

companies

**£13.2m**

early-stage

**38**

opportunities

**£45.7m**

multi-sector platform

**4**

companies

Largest:

Oxford Nanopore

**£193.0m**

**>£300m**

Total funds raised by  
portfolio companies  
in 2015

## Portfolio overview

### Sectors

Portfolio value  
(% of total)

### Healthcare

**£277.6m (50%)**

[Read more on page 22](#)

### Technology

**£91.9m (17%)**

[Read more on page 24](#)

### Cleantech

**£69.1m (13%)**

[Read more on page 26](#)

### Biotech

**£67.9m (12%)**

[Read more on page 28](#)

### Multi-sector platform businesses

**£45.7m (8%)**

Total

**£552.2m**

2015 net fair value change <sup>ii</sup>	Stage				Research partners
	Incubation	Seed	Post-seed (private)	Post-seed (public)	
<b>£43.8m</b>	3	6	16	6	<b>UK Partners</b> <ul style="list-style-type: none"> <li>• University of Bath</li> <li>• University of Bristol</li> <li>• University of Cardiff</li> <li>• University of Glasgow</li> <li>• University of Leeds</li> <li>• King's College London</li> <li>• Queen Mary, University of London</li> <li>• University of Manchester</li> <li>• University of Nottingham</li> <li>• University of Sheffield</li> <li>• University of Southampton</li> <li>• University of Surrey</li> <li>• Swansea University</li> <li>• University of York</li> </ul>
<b>£19.1m</b>	10	5	11	5	
<b>£(1.3)m</b>	4	6	6	4	
<b>£25.5m</b>	2	2	5	4	
<b>£0.1m</b>	-	1	2	1	
<b>£87.2m</b>	19	20	40	20	<b>UK Platform Access</b> <ul style="list-style-type: none"> <li>• University of Oxford<sup>iii</sup></li> <li>• University of Cambridge<sup>iv</sup></li> </ul>
					<b>US agreements</b> <ul style="list-style-type: none"> <li>• Columbia University</li> <li>• University of Pennsylvania</li> <li>• Princeton University</li> </ul>
					<b>Notes</b> <ul style="list-style-type: none"> <li>i. Excluding the £40.0m holding in Oxford Sciences Innovation plc which is classified in multiple sectors</li> <li>ii. Unrealised increase/ (decrease) in value excluding investments and divestments in the period, including fees settled in equity £0.7m and FX gains £0.1m</li> <li>iii. Through 11.8% shareholding in Oxford Sciences Innovation plc</li> <li>iv. Through 8.0% shareholding in Cambridge Innovation Capital plc</li> </ul>

# Create

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

## Did you know that...

...by the end of 2015, **IP Group** had supported a total of five new projects in the US based on novel intellectual property from our three university partners and through our Federal Labs initiative with FedImpact? IP Group, Inc. the Group's US subsidiary, had five employees.

## Strategic Report

### Our Business & Strategy

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## Chairman's letter: strong financial and operational performance

“ The Group completed a number of key corporate transactions during 2015 which, taken together, have strengthened both the balance sheet and the Company's pipeline of opportunities. The business is well-positioned for future growth. ”

Mike Humphrey Chairman

In my first statement as Chairman, I am delighted to report that the Group has had its most successful year since its formation in terms of financial performance. Operationally, 2015 was also an extremely productive year and it was particularly pleasing to see our US operations gain traction as we continue to internationalise the business.

### Key events

The Group completed a number of key corporate transactions during 2015 which, taken together, have strengthened both the balance sheet and the Company's pipeline of opportunities. The business is well-positioned for future growth.

The first half of the year saw tremendous corporate activity with the Group raising approximately £179m of funding through two significantly oversubscribed issues of equity, followed by the securing of an additional £30m debt facility from the European Investment Bank (“EIB”). The Group also took a strategic stake in Oxford Sciences Innovation plc (“OSI”), an exciting development that will give the Group access to a much wider range of scientific research from the University of Oxford than before and broadens its exposure to future Oxford spin-out companies.

### Strategy

The Group's new operational structure, which saw portfolio decision-making within appropriate levels of authority divided into four sectors, Biotech, Cleantech, Healthcare and Technology, during 2014, is working very well and is deepening the sector expertise that we believe is critical for the Group's continued development. On the whole, companies across the four sectors contributed to the overall strong performance in the year and each sector has a number of exciting prospects for future growth.

The Group continues to build its business in the US and at the date of this report has a portfolio comprising seven companies or projects based on intellectual property from our university partners at Columbia, Pennsylvania and Princeton, and a number of Federal Labs. We continue to evaluate what we consider to be an excellent pipeline of future opportunities from these partners and may seek to selectively add further sources during the year.

### Financial performance

In terms of financial performance, the Group recorded its strongest year ever with healthy increases in all of our key performance indicators. Net assets, excluding intangibles, increased to £714.3m (2014: £451.3m) while profit before tax increased to £75.1m (2014: £9.5m). The Group ended the year with £178.8m (2014: £97.3m) gross cash and a further £15m of undrawn commitment under our new EIB facility. As ever, it remains important to consider the Group as a long-term business where results can fluctuate from year to year. This is particularly relevant given the current macroeconomic conditions which continue to cast significant uncertainty over equity markets and the global economic situation

### 2015: Year in Review

#### March

Raised £128m through placing and open offer

#### May

Acquired strategic shareholding in Oxford Sciences Innovation plc & £55m placing



## Board changes

It was an honour to become Chairman of the Board in March, having served as a non-executive director since 2011. I believe my experience of having led and grown Croda International plc into a major corporation will be highly relevant to IP Group in the next phase of its development. Doug Liversidge, who joined the Board in 2014, has taken on the role of Senior Independent Director while Jonathan Brooks, a member of the Board since 2011, has become Chairman of the Remuneration Committee.

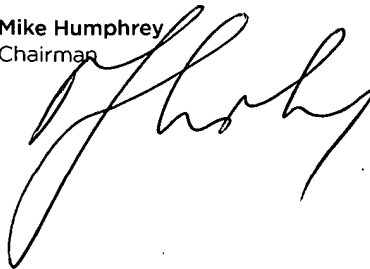
We were also delighted to welcome Dr Elaine Sullivan to the Board as a non-executive director in July. Dr Sullivan brings a wealth of experience in the life sciences and operating in the U.S. with over 25 years' international experience in the pharmaceutical industry including roles with Eli Lilly and AstraZeneca. She is currently Chief Executive Officer of Carrick Therapeutics, a specialist oncology company that she founded in early 2015.

## Summary

In summary, 2015 has been a highly productive and successful year which would not have been possible without the continued hard work and dedication of the Group's staff, academic partners and portfolio companies. The Board would like to thank all of our stakeholders for their continued commitment and support.

IP Group is passionate about evolving great ideas into world-changing businesses and we remain excited about the opportunities that we see for the Group as a whole, as it continues to grow and develop.

**Mike Humphrey**  
Chairman



### June

Modern Biosciences reached the first development-related milestone with Janssen Biotech, Inc. A total of £8m gross milestone payments received in 2015

### July

Secured £30m debt facility from the European Investment Bank  
Portfolio company Oxford Nanopore raised £70m and MinION saw full commercial launch

### November

Portfolio company Xeros completed £40m funding round

### December

Portfolio company Diurnal floated on AIM, raising £30m  
US finished the year with five portfolio companies

# Marketplace

## Current economic climate

While the economic recovery continues globally, it remains fragile with the prospect of rising interest rates in the US coupled with an economic slowdown in China contributing to uncertainty. The International Monetary Fund is currently forecasting the world economy will grow modestly in 2016, by 3.6% compared with growth of 3.1% in 2015. Average forecasts for the UK economy, meanwhile, point to GDP growth of about 2.5% over the next couple of years.

## Global research landscape

The UK and the US, which have been responsible for some of the most significant scientific breakthroughs in recent history, remain at the forefront of producing world-class scientific research with the most prestigious research institutions in both countries continuing to attract outstanding researchers and innovators from around the world. The OECD Science, Technology and Industry Outlook 2014 noted, however, that China is on track to be the world's top R&D spender by around 2019. The report highlighted that with R&D spending by most OECD governments and businesses yet to recover from the economic crisis, the OECD's share in global R&D spending has slipped from 90% to 70% in a decade. Annual growth in R&D spending across OECD countries was 1.6% over 2008-12, half the rate of 2001-08 as public R&D budgets stagnated or shrank in many countries and business investment was subdued. China's R&D spending, meanwhile, doubled from 2008 to 2012. Further, the report found that Korea became the world's most R&D intensive country in 2012, spending 4.36% of GDP on R&D, overtaking Israel (3.93%) and versus an OECD average of 2.40%. The BRIICS produced around 12% of the top-quality scientific publications in 2013, almost twice its share of a decade ago and compared to 28% in the United States. China and Korea are now the main destinations of scientific authors from the United States and experienced a net "brain gain" over 1996-2011.

In the UK, the Government remains committed to its plan of capitalising on the cutting-edge science base that "will be critical to our future prosperity and societal wellbeing". In its report, "Our plan for growth: science and innovation", the UK's Department for Business, Innovation & Skills pledged £5.9bn to science capital up until 2021 and additionally maintains its focus on the "Eight Great Technologies" (see table).

## The UK Government's Eight Great Technologies

1. **Big data and energy efficient computing**
2. **Satellites and commercial applications of space**
3. **Robotics and autonomous systems**
4. **Life sciences, genomics and synthetic biology**
5. **Regenerative medicine**
6. **Agri-science**
7. **Advanced materials and nano-technology**
8. **Energy and its storage**

Source: "Our plan for growth: science and innovation", the UK Department for Business Innovation & Skills.

The Government recognises the increasingly important role that business building and venture capital companies can play in supporting the incubation companies which emerge from university research. IP Group already seeks opportunities in the majority of the eight technologies and welcomes the Government's approach, believing that central policy support is likely to improve the high-quality, innovative output emanating from the research institutions with which it has partnerships.

The US Government continues to fund science and innovation and has highlighted advanced manufacturing, clean energy and innovation in life sciences, biology and neuroscience as some of its budget priorities for 2015 and 2016. Despite the US Government and universities' commitment to supporting science and technology, venture capital investment companies in the US have, in recent years, increasingly focused on opportunities in IT and social media and therefore the Directors believe that this mismatch of funding creates an attractive opportunity for IP Group. IP Group currently has arrangements with three Ivy League universities in the North East Corridor of the US.

## Accessing quality research

The Group aims to establish credible partnerships with the top research institutions in countries where leading research is produced in order to access research with commercial potential. The Company's two current areas of geographic focus are the US and the UK, with its core activities continuing to remain in the UK. In 2014, the Research Excellence Framework ("REF") carried out a ranking assessment of the quality of research carried out in UK research institutions. IP Group currently seeks to commercialise IP developed at 11 of the top

## IP Group's key differentiators

- Strength of partnerships with leading research institutions, giving access to potentially disruptive IP in both the UK and the US.
- Business-building expertise including an executive search function and innovative programmes working with CEOs and boards of portfolio companies.
- "Patient" capital approach.

20-ranked institutions identified by the REF as well as a number of others. The Group believes that no other organisation seeking to provide commercialisation services to universities has as broad a range of access to high-quality research in the UK. The Group regularly gives consideration to future geographic areas where the Group's model may offer opportunities for value creation but currently has no operations outside of the UK and US.

### Competitive landscape

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

syndication of investment. However, there are also occasions when IP Group may need to participate in a competitive process to obtain an interest in a particular technology. The Group's portfolio companies regularly compete with a range of technology and other businesses when seeking capital for the development of their business models. This competition for both opportunities and capital can come from a wide variety of categories of entity, including:

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

### IP Group's competitive advantage

IP Group's approach to building businesses is one of the ways in which it differentiates itself from more traditional venture funds. The Group actively supports the development of its portfolio companies through access to early-stage business-building expertise, interim executive support, technical and commercial networks and senior team recruitment and development in addition to the provision of capital. In addition, the Group provides operational, legal, business and company secretarial support to its companies, with a view to minimising the most common administrative factors that can contribute to early-stage company failure. The Group has also successfully carried out a number of instances of two innovative programmes to accelerate company growth, working with CEOs and company boards to improve performance.

# Business Model

## Evolving great ideas into world-changing businesses.

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

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

### ip partners

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

### ip exec

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

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

#### ip assist

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

#### ip legal

#### ip capital

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

#### ip impact

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

# Our strategy: Systematically building businesses

## Our strategic aims

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

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

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

## What we did in 2015 to address our objectives

- Provided capital for the first time to 14 companies or projects (2014: 11)
- Agreed to convert the commercialisation agreements with two of our three current US partner universities to ongoing arrangements with no fixed term following the successful completion of an 18-month pilot phase
- Broadened exposure to spin-out companies from the University of Oxford through the acquisition of a strategic holding in Oxford Sciences Innovation plc
- Maintained board representation on more than 70% of companies by number
- IP Exec team placed 31 senior executives, of which nine were chair appointments and eight were non-executive director appointments, with portfolio companies
- Completed the largest number of strategic support and corporate finance advisory contracts in the Group's history
- Ran two IP Impact CEO programmes with a total of 14 participants
- Continued to provide other support services including business support and legal advice to spin-out companies
- Net portfolio fair value increased to £552.2m, a net fair value gain of £86.4m
- Portfolio increased to 99 companies
- Successfully raised £178.8m of equity capital (net of expenses) and secured a £30m 8-year debt facility
- Increased the net fair value of our portfolio holdings, excluding net investment, by £86.4m
- Provided £75.9m of capital to 53 distinct portfolio companies in addition to a £40m commitment to OSI
- Generated proceeds from sale of equity and debt of £0.6m
- Portfolio now stands at 99 companies with a combined total value of approximately £3bn
- Total funds under management of approximately £85m

**Our strategy is clear: to systematically create, develop and deliver outstanding intellectual property-based businesses in order to provide attractive returns for all our stakeholders. The Group's strategy can be broken down into these three specific aims and our performance is measured against these:**

## Objectives for 2016

- Continue to maintain and potentially expand relationships with top US and UK research institutions
- Increase the number of new opportunities evaluated and created in the US, whilst maintaining a similar level of new opportunities in the UK
- Increase the level of new opportunities in the Group's biotech division
- Increase value of portfolio company holdings through hands-on support and development
- Seek to maintain approach of direct IP Group representation on spin-out company boards
- Maintain the number of executive search mandates within IP Exec and assist portfolio companies to increase diversity of boards
- Complete capital raising mandates for certain portfolio companies requiring finance from non-Group sources
- Continue to provide specialist support services such as IP Exec, IP Impact, IP Assist and corporate finance advice
- Seek to continue net long-term increase in portfolio value and net assets
- Assist, directly or indirectly, portfolio companies to access public and private markets to raise development capital
- Continue to monitor opportunities to secure additional capital or funds under management
- Where appropriate, generate cash realisations from portfolio
- Generate attractive performance in Group's managed funds

## Link to KPIs

- Number of new portfolio companies  
Read more on pages 14 and 15
- Purchase of equity and debt investments
- Change in fair value of equity and debt investments  
Read more on pages 14 and 15
- Total equity
- Profit/(loss) attributable to equity holders
- Proceeds from sale of equity investments
- Change in fair value of equity and debt investments  
Read more on pages 14 and 15

# Key performance indicators

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

KPI	Further description	2015 performance
<b>Financial KPIs</b>		
<b>Total equity (“net assets”)</b>	The value of the Group's assets less the value of its liabilities, including minority interest	<b>£781.9m</b> (2014: £526.2m)
<b>Profit/loss attributable to equity holders</b>	Profit/loss after tax for the year, attributable to owners of the parent	<b>£73.9m</b> (2014: £9.1m)
<b>Purchase of equity and debt investments</b>	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	<b>£115.9m</b> (2014: £46.8m)
<b>Change in fair value of equity and debt investments</b>	Movement in the value of holdings in the portfolio due to share price movements or impairments in value	<b>£86.4m</b> (2014: £20.7m)
<b>Proceeds from sale of equity investments</b>	The total amount received from the disposal of interests in portfolio companies	<b>£0.6m</b> (2014: £9.7m)
<b>Non-financial KPIs</b>		
<b>Number of new portfolio companies</b>	The number of portfolio companies that received initial capital from the Group during the year	<b>14</b> (2014: 11)

### Key:

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



Strategic element	Risks potentially impacting KPI	Link to performance-related director remuneration
To grow the value of our assets (and those we manage on behalf of third parties) and deliver attractive financial returns from these assets	1 2 5 6	LTIP 2013 - 2015 2015 annual incentive
Portfolio fair value movement has the most material impact on this figure which also reflects corporate expenses. Measures the development of portfolio companies and return on our assets	1 2 5 6	2015 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	2 3 4 6	Indirectly impacts both net assets and Group profit/loss (See above)
To develop IP-based businesses and grow their value	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Cash from proceeds can be used for redeployment into the portfolio or for new opportunities	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	3 4 5 6	Indirectly impacts both net assets and Group profit/loss (See above)
For more information on our strategy see pages 12 and 13	For more information on our risk management see pages 34 to 41	For more information on our remuneration see pages 62 to 86

## Operational review: Another active and positive year

“ The key positive contributors to the increase in fair value in 2015 were Oxford Nanopore Technologies Limited, Diurnal Group plc, Avacta Group plc, Actual Experience plc, First Light Fusion Limited and Ultrahaptics Limited. ”

Alan Aubrey Chief Executive Officer

2015 was another extremely active and positive year with the portfolio recording some impressive achievements. Over the course of the year, our portfolio companies raised approximately £300m (2014: approximately £200m).

The total fair value of the Group's portfolio, which now comprises holdings in 99 companies, increased by more than 50% in 2015 to £552.2m (2014: £349.9m), representing a net unrealised fair value increase, excluding net investment, of more than £86m during the year (2014: £21m).

The key positive contributors to the increase in fair value in 2015 were Oxford Nanopore Technologies Limited (£50.4m), Diurnal Group plc (£15.7m), Avacta Group plc (£9.7m), Actual Experience plc (£8.2m), First Light Fusion Limited (£6.7m) and Ultrahaptics Limited (£6.1m).

These gains were partially offset by some reductions in fair value, most notably as a result of reductions in the share prices of some of our AIM-quoted portfolio companies including Tissue Regenix Group plc (£5.0m), Ceres Power Holdings plc (£4.2m), Seren Photonics Limited (£2.2m) and Modern Water plc (£2.0m).

During 2015, the Group provided £75.9m of incubation, seed and development capital to 53 portfolio companies (2014: £46.8m capital; 51 companies) and a further £40m strategic investment into Oxford Sciences Innovation plc.

### Significant portfolio company transactions and developments

The first half of the year saw significant fundraisings from portfolio companies in our Healthcare, Technology and Biotech sectors with Tissue Regenix Group plc, Actual Experience plc and Avacta Group plc raising a combined total of approximately £58m before expenses. In addition, in the Biotech sector, Modern Biosciences plc ("MBS"), the Group's private drug-discovery subsidiary, achieved three development-related milestones in its agreement with Janssen Biotech, Inc., triggering gross payments of £8m. The goal of the collaboration is to develop new drugs for the treatment of rheumatoid arthritis and the agreement could be worth up to a total of £176m in upfront and milestone payments in addition to future royalties.

In the second half of the year, Oxford Nanopore Technologies Limited completed a £70m financing round while shares in Diurnal Group plc were admitted to AIM in December, with the company raising £30m before expenses. A further three of our quoted companies (Xeros Technology Group plc, hVIVO plc and Applied Graphene Materials plc) also announced significant fundraisings, totalling approximately £70m. Two of the Group's unquoted companies, First Light Fusion Limited and Ultrahaptics Limited, announced financings of £23m and £10m respectively.

Further detailed analysis and information on the portfolio is provided in the portfolio review on pages 18 to 29.

## The US

In the US, the Group has now moved beyond the initial pilot phase agreements with its university partners and is focused on building on the positive progress achieved to date. Our US team, which comprised five FTEs at year end, is developing an exciting portfolio of companies.

The Group took a significant minority stake in Uniformity Labs, Inc. (Princeton University), which is developing equipment, materials and software for 3D printing, and provided debt financing to AptaCo, Inc. (Columbia University), which is developing an aptamer-based bio-sensing platform that is capable of providing rapid and accurate diagnostic information essential to the management of a wide range of conditions. Seed financing was also provided to Exyn Technologies Inc., the Group's first spin-out company from the University of Pennsylvania, which has developed software to control autonomous micro unmanned aerial vehicles ("UAVs") and enable coordination in swarms of flying vehicles. Since year-end we have completed incubation financings for two further spin-out companies from the University of Pennsylvania; Prendo Systems, Inc., that is developing universal low-cost robotic manipulators, and Chip Diagnostics, Inc. that is developing digital assays in which ultra-sensitive molecular measurements are made by performing millions of parallel experiments. The Group has also provided incubation funding to pursue two opportunities from our Federal Labs initiative through FedImpact LLC.

IP Group Inc., our US subsidiary, hosted a well-attended investor conference in New York in the Autumn, showcasing both some of our US and UK portfolio companies, including a demonstration of the internal navigation and mapping capabilities that can be achieved using Exyn's software to control autonomous UAVs.

## Outlook

While the major macroeconomic trends continue to cast significant uncertainty over the pace of the global economic recovery, which is likely to impact the general funding environment, the major global economies continue to increase expenditure on research and development to fuel growth.

IP Group remains well-positioned to respond to both this challenge and opportunity with a strong cash position and a healthy pipeline of opportunities across all of our sectors. Against this backdrop, we are cautiously optimistic about the prospects for the current year and beyond as we continue to grow and internationalise the Group.

# Portfolio review

Our portfolio: Continuing to develop and mature

## Overview

At 31 December 2015 the value of the Group's portfolio had increased to £552.2m, from £349.9m in 2014, as a result of a significant increase in net investment following the Group's equity capital raising of £178.8m (post expenses) and the fair value movements set out below. The portfolio comprised holdings in 99 companies, compared with 90 at 31 December 2014, with the ten most valuable portfolio companies accounting for 75% of the total portfolio value (2014: 73%).

During the year to 31 December 2015, the Group provided pre-seed, seed and post-seed capital totalling approximately £75.9m to its portfolio companies, in addition to contributing £40.0m to Oxford Sciences Innovation plc ("OSI") as part of its formation and £320m capitalisation. Excluding OSI, this £75.9m represents a 62% increase on the £46.8m provided to portfolio companies in 2014 and is consistent with the commitments made by management at the time of the Group's 2014 and 2015 equity capital fundraisings. The Directors continue to believe that the Group's ability to utilise its increased capital to maintain its equity interests in its most promising companies will contribute to significant potential fair value increases in the portfolio over the medium to long term.

In addition to significantly increasing the total level of capital deployed into portfolio company opportunities, the Group also increased the rate of new spin-out opportunity formation, with capital being deployed by the Group into 14 companies or projects for the first time during the year (2014: 11). It is worth noting that four of these were opportunities sourced through our US operations (2014: one) and that the level of new UK opportunities was broadly unchanged from 2014. Four companies were sold during the period, two of which to existing portfolio companies, while a further four companies, with a total historic cost of £2.3m, were closed or fully provided against.

During the year, cash proceeds from the realisation of investments decreased to £0.6m (2014: £9.7m). The proceeds predominantly arose from the cash received on the wind-up of CH4E Limited, a decision that had been taken in 2014, whilst prior year realisations were primarily driven by the partial disposal of interests in Synairgen plc, Rock Deformation Research Limited and Velocys plc.

## Performance summary

A summary of the gains and losses across the portfolio is as follows:

	2015 £m	2014 £m
Unrealised gains on the revaluation of investments	115.4	63.2
Unrealised losses on the revaluation of investments	(29.0)	(42.5)
Net fair value gains	86.4	20.7
Profit/(loss) on disposals of equity investments	(0.2)	1.6
Change in fair value of Limited Partnership interests	0.4	0.5
Net portfolio gains	86.6	22.8

The most significant contributors to unrealised gains on the revaluation of investments comprised Oxford Nanopore Technologies Limited (£50.4m), Diurnal Group plc (£15.7m), Avacta Group plc (£9.7m), Actual Experience plc (£8.2m), First Light Fusion Limited (£6.7m), and Ultrahaptics Limited (£6.1m). The major contributors to the unrealised losses on the revaluation of investments were Tissue Regenix Group plc (£5.0m), Ceres Power Holdings plc (£4.2m) and Seren Photonics Limited (£2.2m).

The performance of the Group's holdings in companies quoted on either AIM or ISDX saw a net unrealised fair value increase of £10.0m while the Group's holdings in unquoted companies experienced a net fair value increase of £76.5m. Excluding both the net amount invested during the year and the fair value increase in Diurnal Group plc upon its initial public offering on AIM, the Group's listed portfolio increased in fair value by 7.9%, outperforming the FTSE AIM All Share's 4.4% increase.

Since the year end, i.e. between 31 December 2015 and the 26 February 2016, the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value decrease of £19.2m. Despite the disappointing start to 2016 for equity markets and the share prices of a number of the Group's AIM-quoted portfolio companies, management believes that the increasing maturity, and technical and commercial progress, of a number of its underlying portfolio businesses, both quoted and unquoted, will continue to provide opportunities for the Group to generate significant future value.

## Investments and realisations

The Group's rate of capital deployment increased during 2015, with a total of £75.9m being deployed across 53 new and existing projects (2014: £46.8m; 51 projects), excluding the £40.0m strategic investment in OSI.

Cash investment analysis by company stage	2015 £m	2014 £m
Incubation opportunities	1.6	0.8
Seed businesses	3.5	8.2
Post-seed private businesses	39.9	22.3
Post-seed quoted businesses	30.9	15.5
Multi-sector platform businesses	40.0	—
<b>Total</b>	<b>115.9</b>	<b>46.8</b>
<b>Proceeds from sales of equity investments</b>	<b>0.6</b>	<b>9.7</b>

Incubation opportunities comprise businesses or pre-incorporation projects that are generally at a very early stage of development. Opportunities at this stage usually involve capital of less than £200,000 from IP Group, predominantly allowing for proof of concept work to be carried out. Incubation projects generally have a duration of nine to eighteen months, following which the opportunity is progressed to seed financing, terminated or retained at the pre-seed stage for a further period to allow additional proof of concept work to be carried out. Seed businesses are those that have typically received financing of up to £1m in total, primarily from IP Group, in order to continue to progress towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement.

Post-seed businesses are those that have received some level of further funding from co-investors external to IP Group, with total funding received generally in excess of £1m. Although each business can vary significantly in its rate and manner of development, such additional funding is generally used to progress towards key milestones and commercial validation, to build senior level capability in the business and to attract experienced non-executive directors to their boards. This category is further broken down into post-seed private and post-seed quoted companies. Post-seed quoted companies consist of companies quoted on AIM.

The Group has continued to contribute to the development of its post-seed businesses with a number announcing further financings supported by the Group and/or IP Venture Fund ("IPVF"), the dedicated follow-on venture capital fund managed by the Group. With IPVF approaching the end of its term, the amount invested into existing Group portfolio businesses during the year reduced to £nil (2014: £2.7m).

Since its inception in May 2013, IP Venture Fund II ("IPVFII"), the £30m venture capital successor fund to IP Venture Fund, has invested alongside the Group in 27 companies spun-out from IP Group's university partnerships and other collaborations. At 31 December 2015, IPVFII had invested £8.2m into spin-out companies from incubation stage through seed and post-seed stage (2014: £4.5m), with an investment ratio of 30:70 (IP Venture Fund II: IP Group). Further, IP Group holds a 33% interest in IP Venture Fund II. In complying with IFRS 10, the Group consolidates the assets, liabilities and results of IPVFII. In order to reflect meaningful information to its shareholders, the detailed sectoral analysis tables included in this Portfolio review reflect the Group's economic interest in portfolio company holdings, including an estimate of its "look through" interest via IPVFII, which as noted above is calculated as one third of IPVFII's holdings in such companies. The minority interest ownership, i.e. that element of IPVFII's holdings that is attributable to external Limited Partners, is reflected in a separate section within those tables.

During the year, 13 opportunities received initial incubation or seed funding during the year (2014: ten) and one company received initial post-seed funding (2014: one), while the Group received founder equity in one further new spin-out company under the terms of its university agreements. During the period five existing incubation projects progressed to seed or post-seed stage (2014: one).

## Portfolio review continued

The 14 new opportunities included the following, and some further discussion of new opportunities is included in portfolio analysis — by sector below:

- Ultramatis Limited (University of Leeds) has developed Ultrafast Laser Plasma Implantation which can implant any glass with femtosecond-laser generated plasma. This can be used to create sophisticated anti-counterfeiting markers for glass surfaces, as well as being able to toughen and brand glass;
- Structures for Lossless Ion Manipulation (SLIM) is a project originating from the FedIMPACT initiative – a programme intending to develop opportunities arising within the US Department of Energy (DOE) laboratory network. SLIM is an analytical system utilising lossless ion transfer and multiplexing ion mobility separations for trace analysis of biologic molecules. It can replace liquid chromatography/mass spectrometry systems with high throughput (1 minute vs. 1-5h) separations and analysis for complex biologic samples, enabling proteomics research and biomarker discovery; and,
- Navenio Limited (University of Oxford) is developing a mobile location sensing technology using a combination of approaches including fingerprinting of the electromagnetic spectrum, consolidating sensor data and indoor mapping, to achieve highly accurate and lightweight indoor positioning.

The average level of capital deployed per company increased from £0.9m to £2.1m in 2015. Excluding the Group's participation in Oxford Nanopore Technologies Limited's 2014 and 2015 financing rounds, as well as the £40.0m investment in Oxford Sciences Innovation plc, the average investment per company increased to £1.2m from £0.8m in 2014. This general trend of increasing average investment per company is expected to continue in the future.

### Portfolio analysis — by stage of company maturity

At 31 December 2015, the Group's portfolio fair value of £552.2m was distributed across stages of company maturity as follows:

Company stage	As at 31 December 2015				As at 31 December 2014			
	Fair value £m	%	Number	%	Fair value £m	%	Number	%
Incubation opportunities	1.4	—	19	19%	0.9	—	13	14%
Seed businesses	11.8	2%	19	19%	16.0	5%	24	27%
Post-seed private businesses	80.6	15%	36	37%	51.2	14%	30	34%
Post-seed quoted businesses	26.6	5%	11	11%	21.3	6%	10	11%
Top ten businesses	386.1	70%	10	10%	255.1	73%	10	11%
Multi-sector platform businesses	45.7	8%	4	4%	5.4	2%	3	3%
All portfolio businesses	552.2 <sup>1</sup>	100%	99	100%	349.9 <sup>1</sup>	100%	90	100%

<sup>1</sup> Total fair value includes £8.5m (2014: £4.2m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII.

Of the 99 companies in the Group's portfolio, 75% (2014: 73%) of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £414.0m (2014: £255.1m). Excluding holdings in the Group's four multiple sector portfolio companies, such as Oxford Sciences Innovation plc and Cambridge Innovation Capital plc, the top ten most valuable companies represent £386.1m, or 76%, of a total £506.5m portfolio value, and 70% of the total portfolio value.

The total value of the Group's 95 non-platform portfolio companies, calculated by reference to the Group's holding in such companies and grossed up to reflect their total value, is now in excess of £2.5bn, or approximately £3.0bn including the Group's four holdings in multi-sector platform companies (e.g. Oxford Sciences Innovation plc and Cambridge Innovation Capital plc).

## Portfolio analysis — by sector

The Group funds spin-out companies based on a wide variety of scientific research emerging from leading research intensive institutions and does not limit itself to funding companies from particular areas of science. The Group splits its core opportunity evaluation and business building team into four specialist divisions, Biotech, Cleantech, Healthcare and Technology. Where the Group invests in businesses that cannot be classified within these divisions, primarily those portfolio companies which also invest in other opportunities, they are recorded in a separate sector as shown below. Together these five sectors make up the university partnership business segment. An update on the other two operating segments is included in the financial review on pages 30 to 33.

Sector	As at 31 December 2015				As at 31 December 2014			
	Fair value £m	%	Number	%	Fair value £m	%	Number	%
Healthcare	277.6	50%	31	32%	213.1	61%	31	34%
Technology	91.9	17%	31	31%	58.6	17%	25	28%
Cleantech	69.1	13%	20	20%	56.2	16%	18	20%
Biotech	67.9	12%	13	13%	16.4	5%	13	15%
Multiple sectors	45.7	8%	4	4%	5.6	1%	3	3%
	<b>552.2<sup>1</sup></b>	<b>100%</b>	<b>99</b>	<b>100%</b>	<b>349.9<sup>1</sup></b>	<b>100%</b>	<b>90</b>	<b>100%</b>

<sup>1</sup> Total fair value includes £8.5m (2014: £4.2m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII.

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

A more detailed analysis of each sector follows.

# Portfolio review Healthcare

“ During 2015, the Healthcare team completed 14 direct investments across its portfolio of 31 companies. ”

Mark Warne Head, Healthcare

## Purpose

IP Healthcare aims to ensure that the businesses it supports provide innovation to improve health outcomes and are also well-placed to be sustainable in a world where the funding of healthcare is subject to fundamental change. Across the globe, governments, healthcare providers, insurers, and patients/consumers are engaged in a persistent tug-of-war between competing priorities: meeting the increasing demand for healthcare services and reducing the rising cost of those services.

## Review of the year

During 2015, the Healthcare team completed 14 direct investments across its portfolio of 31 companies. The headline transaction for the year was the completion of Oxford Nanopore's £70m placing. This funding will enable Oxford Nanopore to press on with product and commercial development of its MinION, PromethION and Metrichor platforms. In its efforts to democratise DNA sequencing, it is notable that MinION has now been distributed to over 1,000 independent scientists in 50 countries with those scientists having been encouraged to experiment and publish their results free from editorial input from Oxford Nanopore.

IP Healthcare also participated in significant placings into AIM-quoted companies Tissue Regenix Group plc, to enable the launch of its new regenerative medicine products, and hVIVO plc, principally to progress clinical phase candidates into Phase 2b alongside diversification in utility of its Pathomics platform.

Progress of note in newer companies included the financing of Quantum Imaging Limited, a spin-out company from the University of Leeds focused on magnetic imaging for heart screening, which secured £4.6m to pursue trials of its screening platform and move the company from producing research-based prototypes to fully-fledged commercial products. Additionally, the ambitious 'chemputer-focused' Cronin Group plc became a material asset as a result of AIM-listed cash shell Oxaco plc acquiring Cronin 3D, a spin-out from the University of Glasgow, concurrent with a £3.3m placing.

The year was not, however, without its disappointments. Fundamental technology failure at Oxtox Limited, a business focused on drug-abuse testing, resulted in our decision to no longer invest. IP Healthcare also discontinued its support for consumer health home test company Mode Diagnostics Limited. Despite evidence of commercial traction, difficulties in the cost-effective manufacturing of its at-home bowel cancer screening product meant that ongoing support was not possible.

In 2016 and beyond, IP Healthcare is confident that healthcare technology advances and government initiatives to increase access to care should continue to result in sector expansion, albeit pressure to reduce costs is escalating. Growing populations and consumer wealth are increasing demand for healthcare services but ageing societies and chronic diseases are forcing healthcare payers to make difficult decisions on benefit levels. We believe many historic business models and operating processes will no longer suffice and hence anticipate focusing on major trends we believe will impact stakeholders along the global healthcare value chain as we assess which portfolio companies to support.



Company name	Description	Group stake at 31 Dec 2015 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2014 £m	Year to 31 December 2015		
				Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2015 £m
Oxford Nanopore Technologies Limited	Single-molecule detection. 1st application in 3rd generation DNA sequencing ("£1000 genome")	19.9%	128.3	14.3	50.4	193.0
hVIVO plc <sup>(ii)</sup>	Viral challenge and 'virometrics' specialist ("conquering viral disease")	16.7%	28.4	2.5	(1.9)	29.0
Tissue Regenix Group plc	Regenerative dCELL® soft tissue body parts	13.6%	18.0	2.5	(5.0)	15.5
Quantum Imaging Limited	Quantum cardiac imaging technology	43.9%	1.3	1.9	3.3	6.5
Alesi Surgical Limited	Medical devices to improve the safety and efficiency of laparoscopic surgery	58.8%	3.9	1.4	1.2	6.5
Other companies			22.5	4.8	(5.1)	22.2
<b>IP Group total</b>			202.4	27.4	42.9	272.7
Non-consolidated interest			2.7	1.3	0.9	4.9
<b>Total<sup>(iii)</sup></b>			205.1	28.7	43.8	277.6

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

<sup>(ii)</sup> Formerly known as Retroscreen Virology Group plc.

<sup>(iii)</sup> Avacta Group plc reclassified from Healthcare to Biotech and Oxaco plc reclassified from Technology to Healthcare; 2014 comparatives have been restated.

# Portfolio review Technology

“ The division’s most valuable asset, Actual Experience plc, had a very positive year. ”

Mark Reilly Head, Technology

## Purpose

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

## Review of the year

The division’s most valuable asset, Actual Experience plc, had a very positive year. In May, the company announced a three-year contract to supply services to a “major global organisation” which management says has the potential to “radically enhance the company’s revenue profile”. September brought more good news with the announcement that Actual Experience had signed a major three-year partnership deal with Verizon Enterprise Solutions. The deal is anticipated to begin delivering significant revenue in a 12 to 18 month timescale as Verizon re-sells Actual Experience’s services to its large enterprise clients. In between those two announcements, the company completed a fundraising of around £16m (before expenses), which will support accelerated growth, establishing client-facing teams in Europe and North America and growing the technology development team.

There was also encouraging progress at Ultrahaptics Limited, a University of Bristol spin-out commercialising a unique technology that can create tactile sensations in mid-air to enhance gesture-based interfaces and virtual reality environments. The company is a relative newcomer to the IP Group portfolio, having only received seed funding in Q3 2014, but October saw completion of a £10m series A round which will support rapid growth into several key target markets where strong evidence of early customer traction has been seen.

Elsewhere in the portfolio, quoted companies Revolymer plc and Tracsis plc both made good progress with positive news driving enterprise value growth for both assets. Revolymer announced licence deals for its encapsulation technology with global giant Solvay and international chemicals group OCI Chemical Corporation, while Tracsis announced several strategic investments including the acquisition of Ontrac Limited, a £7m revenue software development and IT solutions company. In the private portfolio, several smaller transactions were completed, with accompanying valuation uplifts, for Anacail Limited, Ionix Advanced Technologies Limited and Boxarr Limited.

Finally, we were particularly pleased to welcome Mirriad Advertising Limited to the portfolio, an exciting company with an innovative, patented computer vision technology that can retrospectively insert advertising and branded products into existing video content. We believe that this product has the potential to disrupt and transform a \$90bn segment of the global advertising industry. Mirriad has already announced deals with top-tier media companies including Havas, Cheil, YouKu and others and we expect to hear more encouraging news from the company in 2016.

Company name	Description	Group stake at 31 Dec 2015 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2014 £m	Year to 31 December 2015		
				Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2015 £m
Actual Experience plc	Optimising the human experience of networked applications	25.2%	14.1	1.5	8.2	23.8
Tracsis plc	Resource optimisation software for the transport industry	10.2%	11.3	—	3.3	14.6
Ultrahaptics Limited	Ultrasound-based touch-free haptic technology	30.1%	0.4	2.5	5.0	7.9
Applied Graphene Materials plc	Producer of speciality graphene materials	20.3%	6.2	—	(0.2)	6.0
Mirriad Advertising Limited	Native in-video advertising	41.3%	—	4.5	—	4.5
Other companies			25.9	5.2	1.6	32.7
<b>IP Group total</b>			57.9	13.7	17.9	89.5
Non-consolidated interest			0.3	0.9	1.2	2.4
<b>Total<sup>(ii)</sup></b>			58.2	14.6	19.1	91.9

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

<sup>(ii)</sup> Oxaco plc reclassified from Technology to Healthcare; 2014 comparatives have been restated.

# Portfolio review Cleantech

“ This has been a record year for investment by IP Group in cleantech companies with a total of £14m capital being deployed. ”

Robert Trezona Head, Cleantech

## Purpose

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

## Review of the year

2015 has been a very positive year for the clean technology sector as a whole. Investment in clean energy is on track to exceed \$250bn, matching last year's historic levels and resulting in record deployment. In December, the UN Climate Conference in Paris was successful in binding 195 countries to a new treaty to fight climate change. It is noteworthy that both the US and China were active participants in the process and they have become the top two markets for renewable energy. The Paris agreement commits countries to national plans for reducing their carbon emissions and sets an ambition to limit the average temperature rise due to global warming to less than 2°C.

IP Cleantech sources distinctive new technologies principally from research and development taking place in our partner academic institutions. There has been increasing agreement over the last year amongst the policy makers who direct this R&D that new technologies will be required (and existing technologies such as wind and solar will need to improve) if a 2°C target is to be met. This led 20 countries that represent 75% of the world's CO<sub>2</sub> emissions from electricity, and more than 80% of the world's current clean energy R&D investment, to publicly commit to double their R&D spending at the Paris conference. The initiative, called 'Mission Innovation', will amount to a total investment of \$20bn over the next four years and includes the UK and US, where IP Group's current partners are located. This is an extraordinary change for the Cleantech sector, and we expect that the pipeline of original science that IP Cleantech has access to will improve significantly.

The two companies that completed the largest fund raising in the sector provide good examples of exciting businesses based on the outputs of academic R&D. In August, First Light Fusion Limited raised £22.7m, in a round supported by existing shareholders and several new investors including a fund managed by Invesco Asset Management Limited. First Light was founded to exploit ground breaking research at the University of Oxford on new implosion processes that can achieve the high temperatures and compression necessary for fusion reactions and other valuable applications. The company's approach has the potential to dramatically shorten the timescale and cost of achieving practical and affordable fusion energy. In December, Xeros Technology Group plc completed a £40m funding round. Xeros' polymer bead technology is based on research carried out in the Chemistry Department at the University of Leeds. The Xeros technology has already demonstrated significant environmental and performance benefits for commercial laundry applications and the new funding is for expansion of this business and the development of new markets in domestic laundry and leather processing.

As a consequence of the positive macro trends and a number of exciting assets with ambitious plans, this has been a record year for investment by IP Group in cleantech companies with a total of £14m capital being deployed. We expect this strong commitment to continue in 2016 as there are a number of high potential new opportunities in the pipeline and strong growth prospects for existing assets such as Ceres Power Holdings plc.

		Year to 31 December 2015				
Company name	Description	Group stake at 31 Dec 2015 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2014 £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2015 £m
Xeros Technology Group plc	Polymer bead cleaning systems	11.8%	13.8	4.8	4.8	23.4
First Light Fusion Limited	Developing a new method of achieving extreme intensity bubble collapse	34.9%	0.9	6.3	6.7	13.9
Ceres Power Holdings plc	Ceramic fuel cell technology for distributed generation	23.5%	16.4	—	(4.2)	12.2
Magnomatics Limited	High torque magnetic transmissions	49.4%	3.5	—	0.1	3.6
Ilika plc	Development of new materials for energy and electronics applications	7.5%	4.8	—	(1.2)	3.6
Other companies			15.6	2.8	(7.3)	11.1
IP Group total			55.0	13.9	(1.1)	67.8
Non-consolidated interest			1.2	0.3	(0.2)	1.3
Total			56.2	14.2	(1.3)	69.1

<sup>(1)</sup> Represents the Group's undiluted beneficial economic equity interest (excluding debt) including the portion of IPVFI's stake attributable to the Group.

## Portfolio review Biotech

“Modern Biosciences plc continues to make good progress in its development of MBS2320, a novel agent for the treatment of rheumatoid arthritis.”

Dr Sam Williams Head, Biotech

### Purpose

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

### Review of the year

An example of the latter, Diurnal Group plc, represents the division's most advanced company with two products in Phase 3 development. A spin-out from the University of Sheffield, Diurnal has made significant progress in the year, securing US Orphan Drug Designation for its lead product, Infacort, and EU Orphan Drug Designation for its second product, Chronocort. Phase 3 studies for both have now been initiated, with Infacort in infant adrenal insufficiency and Chronocort in congenital adrenal hyperplasia. These conditions represent focused markets that can be addressed via proprietary marketing and sales, rather than by out-licensing to a larger partner, and the company's IPO on AIM in December was designed to help finance its transition into a specialty pharma company focussed on diseases of the adrenal gland. This was a highly successful transaction which raised £30m for Diurnal and resulted in a fair value uplift of £14.6m to IP Group, the largest single contributor to the £25.5m increase in the fair value of the Biotech division's portfolio company holdings during the year.

As an example of in-house drug discovery, the Group's subsidiary Modern Biosciences plc ("MBS") continues to make good progress in its development of MBS2320, a novel agent for the treatment of rheumatoid arthritis. MBS2320 was partnered with Janssen Biotech Inc. in November 2014 and the attainment of clinically-related milestones triggered gross payments totalling £8m from Janssen during 2015. MBS is a majority-owned subsidiary of the Group and, hence, its results are consolidated in the Group financials rather than being included in the portfolio valuation.

Elsewhere, Asterion Limited continues to develop its recombinant growth-hormone fusion for the treatment of acromegaly-related growth disorder towards clinical trials, helped by a £2.4m Medical Research Council grant. Asterion represents the Group's second majority-controlled drug discovery asset. Glythera Limited has generated very encouraging in vitro and in vivo data that demonstrate the advantage of its Permalink technology over current methods for making antibody-drug conjugates for the treatment of cancer. Finally, following its successful £20m secondary financing on AIM, Avacta Group plc has now moved into the Biotech division, consistent with its transition from a services business to a therapeutics development company focused on its proprietary Affimer scaffold technology.

Together, these developments reflect the broad approach within the Biotech division in terms of stage of development, disease area and business model. In terms of future focus, with the growing interest within the biotech and pharma industry on such areas as immunotherapy and the utility of the microbiome in disease management, the division is harnessing IP Group's academic network to pull together its own companies in these areas and we will provide a further update in due course.

Company name	Description	Group stake at 31 Dec 2015 <sup>(i)</sup> %	Fair value of Group holding at 31 Dec 2014 £m	Year to 31 December 2015		
				Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2015 £m
Diurnal Group plc	Novel treatments of hormone deficiency	45.0%	10.1	13.8	15.7	39.6
Avacta Group plc	Bio-therapeutic affimer technology	23.4%	8.4	3.0	9.7	21.1
Karus Therapeutics Limited	Inflammatory disease and cancer	9.6%	1.5	0.5	—	2.0
Absynth Biologics Limited	Vaccines and therapeutic antibodies	62.0% <sup>(ii)</sup>	1.8	0.1	—	1.9
Glythera Limited	Biological therapeutics development using glycosylation technologies	32.2%	1.3	0.2	—	1.5
Other companies			1.7	—	0.1	1.8
<b>IP Group total</b>			24.8	17.6	25.5	67.9
Non-consolidated interest			—	—	—	—
<b>Total<sup>(iii)</sup></b>			24.8	17.6	25.5	67.9

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

<sup>(ii)</sup> Voting interest is less than 50%.

<sup>(iii)</sup> Avacta Group plc reclassified from Healthcare. 2014 comparatives have been restated.

# Financial review

“A strong year: the value of the Group’s holdings in portfolio companies increased to £552.2m.”

Greg Smith Chief Financial Officer

## Statement of comprehensive income

Overall the Group recorded a profit for the year of £75.1m (2014: £9.5m) and a return on Hard NAV, i.e. on the Group’s net assets excluding goodwill and intangible assets and the Oxford Equity Rights asset, of £84.0m (2014: £17.1m).

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

	2015 £m	2014 £m
Net portfolio gains	86.6	22.8
Licensing income	8.1	3.0
Other income	3.6	2.6
Amortisation of intangible assets and change in fair value of Oxford Equity Rights asset	(7.3)	(6.7)
Administrative expenses – Modern Biosciences plc	(2.5)	(1.8)
Administrative expenses – performance based staff incentives and share based payments charge	(3.4)	(0.9)
Administrative expenses – all other expenses	(11.3)	(9.0)
Acquisition costs	—	(1.1)
Finance income	1.3	0.6
<b>Profit for the year</b>	<b>75.1</b>	<b>9.5</b>

Net portfolio gains consist primarily of realised and unrealised fair value gains and losses from the Group’s equity and debt holdings in spin-out businesses as well as changes in the fair value of its Limited and Limited Liability Partnership interests. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 18 to 29.

Other income for the year increased to £3.6m (2014: £2.6m). The increase was primarily due to an increase in the number of successful corporate finance and advisory mandates for portfolio companies, which resulted in fee income of £1.0m in 2015 (2014: £0.1m). Due to management’s belief in the growth potential of the portfolio and in order to align itself with value creation in the portfolio companies that are the subject of its mandates, the majority of these fees (£0.7m) were received as equity. This ensures that as much as possible of the cash raised through such financings can be deployed in the development of the portfolio companies while increasing the Group’s exposure to such companies.

The remainder of other income comprises fund management fees as well as consulting and similar fees typically chargeable to its portfolio companies for services including executive search and selection, legal and administrative support. Fund management fees are received from the Group’s three managed funds, two of which also have the potential to generate performance fees from successful investment performance (IP Venture Fund and the NETF). As a result of an extension by its Limited Partner during the period, the NETF’s “investment period” is now anticipated to continue until the end of 2016, while that of IP Venture Fund ceased in 2012. The fund management fees for both funds reduce following the cessation of their investment periods. The results of the Group’s third managed fund, IPVFII, are consolidated into those of the Group and accordingly the fund management fees received are not reflected in the statement of comprehensive income.



**Total Equity ("Net Assets")**

(£m)

**£781.9m**

(2014: £526.2m)

The Group continued to receive milestone payments as a result of Modern Biosciences plc's R&D alliance and global option and licence agreement with Janssen Biotech, Inc. ("Janssen"). £8.0m was received on the achievement of three milestones during 2015 (2014: £3.0m; one initial payment). The Group allocated an increased level of capital to the evaluation and development of certain early-stage therapeutic programmes, including through its subsidiary Modern Biosciences plc ("MBS"), during the year. The majority of these costs related to the OxeoRx programme that is the subject of the R&D alliance with Janssen. All development costs are expensed to the income statement as they are incurred. MBS continued to benefit from the recovery of a proportion of the OsteoRx costs through a Biomedical Catalyst grant, with the net expense being reflected in the statement of comprehensive income. The Group intends to continue developing a small number of early-stage therapeutic assets.

**Profit/(loss) attributable to equity holders**

(£m)

**£73.9m**

(2014: £9.1m)

The Group's administrative expenses, excluding those relating to MBS, increased during the period to £14.7m (2014: £9.9m), predominantly due to increased headcount, the first full year of the increased cost base following the Fusion IP plc acquisition in 2014 and the cost of the Group's 2015 Annual Incentive Scheme following the achievement of the 18% maximum target increase in Hard NAV. The administrative expenses are inclusive of an IFRS 2 share-based payments charge totalling £1.5m (2014: £0.9m) relating to the Group's Long-Term Incentive Plan and Deferred Bonus Share Plan awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or "net assets".

**Cash, cash equivalents and deposits**

(£m)

**£178.8m**

(2014: £97.3m)

As a result of the Group's two equity capital raisings in the first half of the year which raised £178.8m net of expenses, and the resultant increased average cash balance during the year, the Group's interest receivable during the period increased to £1.3m (2014: £0.6m).

## Financial review continued

### Statement of financial position

The Group ended the period with net assets attributable to shareholders of £780.4m, representing an increase of £254.2m from the position at 1 January 2015 (£526.2m). As described above, the most significant contributing factors to the increase in net assets during the period were the £178.8m capital raising and the performance of the Group's portfolio of holdings in spin-out companies. "Hard" net assets, i.e. those excluding intangible assets and the Oxford Equity Rights asset, totalled £714.3m at 31 December 2015 (2014: £451.3m).

At 31 December 2015, the Group held gross cash and deposits of £178.8m (2014: £97.3m) and a diversified portfolio of equity and debt investments in 99 private and publicly listed technology companies (2014: 90).

The value of the Group's holdings in portfolio companies increased to £552.2m at year end (2014: £349.9m) after net unrealised fair value gains of £86.4m and net investment of £115.3m (2014: £20.7m net unrealised fair value gain; £37.1m net investment). The Portfolio review on pages 18 to 29 contains a detailed description of the Group's portfolio of equity and debt investments including key developments and movements during the year.

The Group's statement of financial position includes goodwill of £57.1m (2014: £57.1m) and acquired intangible assets of £10.5m (2014: £16.5m). £38.7m of the goodwill and entirety of the acquired intangible assets values arose as a result of the Group's acquisition of Fusion IP in 2014. The remainder of the goodwill balance arose from historical acquisitions of Techtran Group Limited (university partnership business, £16.3m; 2014: £16.3m) and Top Technology Ventures Limited (venture capital fund management business, £2.1m; 2014: £2.1m). The intangible assets are separately identifiable assets resulting from Fusion IP's agreements with its partner universities. The fair value of the intangible assets are to be amortised on a straight line basis over each partnership's useful economic life.

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

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

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

	2015 £m	2014 £m
Net Cash generated/ (used) by operating activities (excluding cash flows from deposits)	2.4	(6.4)
Net Cash used in investing activities	(114.6)	(35.4)
Issue of share capital	178.8	97.4
Drawdown of debt facility	14.9	—
Acquisition of subsidiary	—	17.6
<b>Movement during period</b>	<b>81.5</b>	<b>(73.2)</b>

At 31 December 2015, the Group's Cash totalled £178.8m, an increase of £81.5m from a total of £97.3m at 31 December 2014 predominantly due to a net £178.8m increase from the issue of new equity capital and £15.0m through the part drawdown of the £30m debt facility provided by the European Investment Bank (£14.9m net of expenses), and offset by net investment in the Group's spin-out companies.

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

The Group's net cash used in investing activities increased during 2015, reflecting an increase in investments (2015: £115.9m; 2014: £46.8m) but a decrease in realisations (2015: £0.6m; 2014: £9.7m). As described in more detail in the Portfolio review on pages 18 to 29, the Group allocated a total of £75.9m across 53 portfolio companies during the period (2014: £46.8m; 51 companies) and made a £40m strategic investment into OSI.

No further funds were committed to IP Venture Fund during 2015 (2014: £0.3m), which in turn made no investments during the period (2014: £2.7m; eight companies). The Group received a distribution of £0.6m following IP Venture Fund realising £5.7m from two exits and one partial disposal (2014: £1.1m received on a total £11.1m distributed).

Overall, net cash used in investing activities totalled £114.6m (2014: £35.4m).

Primarily as a result of the income from the milestone payments received by the Group as a result of MBS's agreement with Janssen as noted above, Cash generated by operating activities increased to £2.4m (2014: £6.4m of Cash used by operating activities).

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

At 31 December 2015, the Group recognised £7.1m of loans (2014: £4.5m) from the Limited Partners of IPVFII, a fund raised during 2013 that is consolidated by the Group. These loans are repayable only upon IPVFII generating sufficient returns to repay the Limited Partners. A further £15.0m of non-current liabilities are recognised which arise from the Group's use of the EIB debt facility described above.

At 31 December 2015, the Group had a total of £1.3m (2014: £1.2m) held in US Dollars to meet the short-term working capital requirements of its US operations, including capital anticipated to be required by new and existing spin-out company opportunities.

## Taxation

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

# Risk management

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

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

Overall responsibility for the risk framework and definition of risk appetite rests with the Board, who through regular review of risks ensure that risk exposure is matched with an ability to achieve the Group's strategic objectives. Risk identification, using a structured risk framework, is carried out primarily by the management team with non-executive review being primarily carried out by the audit committee. All of the Group's employees have an important role to play in the identification and management of risk. In this way, a comparison of bottom up and top down risks is used to ensure emerging risks are captured and managed appropriately by the Group.

Ranking of the Group's risks is carried out by combining the economic, operational or environmental impact of risks and the likelihood that they may occur, both before and after the controls

and mitigants in place to reduce each risk. Those risks that are considered to pose the greatest threat to the Group and score the highest pre-mitigation are identified as 'principal risks'. The operations of the Group, and the implementation of its objectives and strategy, are subject to a number of principal risks and uncertainties. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

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

## The framework for evaluating, mitigating and monitoring risk is:

Ongoing process to evaluate and update the risk management framework, to consider the level of risk appetite for each risk and the operating effectiveness of each 'level of defence'.

Risk assessments are monitored regularly by the Audit Committee and overseen by the Board.

Financial and non-financial risks are recorded in the Group's risk register. Risks are analysed for likelihood and potential impact.

Required actions are agreed and assigned, and deadlines are set.

## 'Levels of defence' applied by the Group:

### Strategic

#### Board (1)

Audit Committee (2)      Remuneration Committee (3)      Nomination Committee (4)

### Operational

#### Executive management (5)

Investment Committee (6)      Legal      Compliance' (7)

### External

#### Independent assurance (8)

1. The Board has overall responsibility for the Group's risk management and internal controls, sets the 'tone from the top', sets the strategic objectives, defines the risk appetite and monitors the risk exposure. The whistleblowing policy encourages disclosures to be addressed to the Board Chairman and/or any other Non-executive Director.
2. The Audit Committee oversees the effectiveness of the internal control function and risk management systems within the Group.
3. The Remuneration Committee ensures the appropriate incentivisation of Executive Directors and staff.
4. The Nomination Committee ensures that the Board has the appropriate balance of skills and knowledge required to assess and address risk, and that appropriate succession plans are in place.
5. Executive management identify, assess and manage the risks identified.
6. The Investment Committee reviews the merits of each investment proposal and ensures that investment decisions are aligned with the Group's strategic objectives and within the acceptable risk limits.
7. The compliance function ensures that all regulated activity undertaken is within the regulated boundaries and permissions.
8. Independent assurance is provided by the independent auditors and various external consultants and advisers. External consultants and advisers support management and the Board through ad hoc consulting activities, as required.

# Risk management continued

## Summary of principal risks

A summary of the key risks affecting the Group and the steps taken to manage these is set out below. Further discussion of the Group's approach to principal risks and uncertainties are given on pages 34 to 41 and on pages 59 to 60 of the Corporate Governance Report.

Risk and description	Impact	Mitigation
<p><b>It may be difficult for the Group and its early-stage companies to attract capital.</b></p> <p>The Group's operations are reliant on capital markets, particularly those in the UK. As the Group's operations, and the operations of the majority of its portfolio companies, are based in the UK, the financial and operational performance of the Group and particularly the ability of its portfolio companies to attract development capital is influenced by the general economic climate and trading conditions in the UK.</p>	<ul style="list-style-type: none"> <li>• The success of those portfolio companies which require significant funding in the future may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient.</li> <li>• Failure of companies within the Group's portfolio may make it more difficult for the Group or its spin-out companies to raise additional capital.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities.</li> <li>• The Group operates a corporate finance function which carries out fundraising mandates for portfolio companies.</li> <li>• The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development.</li> <li>• The Group frequently forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary limits, treasury policy guidelines and transaction authorisation controls.</li> </ul>
<p><b>The returns and cash proceeds from the Group's early-stage companies can be very uncertain.</b></p> <p>The following risks are typically associated with early-stage companies:</p> <ul style="list-style-type: none"> <li>• may not be able to secure later rounds of funding;</li> <li>• may not be able to source or retain appropriately skilled staff;</li> <li>• competing technologies may enter the market;</li> <li>• technology can be materially unproven and may fail;</li> <li>• IP may be infringed, copied or stolen;</li> <li>• may be more susceptible to cyber-crime; and</li> <li>• other administrative, taxation or compliance issues may lead to company failure.</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio company failure directly impacts the Group's value and profitability.</li> <li>• At any time, a large proportion of the Group's portfolio value may be accounted for by one, or very few, companies, which could exacerbate the impact of any impairment or failure of one or more of these companies. Oxford Nanopore is an example of such a portfolio company that has the potential to materially impact the Group's results.</li> <li>• Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group's staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including use of the Group's systematic opportunity evaluation and business building methodologies within delegated board authorities.</li> <li>• Members of the Group's senior team often serve as non-executive directors or advisers to portfolio companies to help identify and remedy critical issues promptly.</li> <li>• Support on operational, legal and company secretarial matters is offered to minimise failures due to common administrative factors.</li> <li>• The Group has spin-out company holdings across different sectors managed by experienced sector-specialist teams to reduce the impact of a single company failure or sector demise.</li> <li>• The Group maintains significant cash balances and seeks to employ a capital efficient process deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage.</li> </ul>

Risk trend	Developments during the year	Strategy	KPI
	<ul style="list-style-type: none"> <li>The Group raised £178.8m (net of expenses) through the issue of new equity capital in the year, secured a £30m, 8-year debt facility from the European Investment Bank and increased capital deployment into the portfolio.</li> <li>The Group hosted investor relations roadshows in the UK and US during the year including its first US technology summit.</li> </ul>		<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Total equity ("net assets").</li> <li>Profit/loss attributable to equity holders.</li> </ul>
	<ul style="list-style-type: none"> <li>The Group increased its rate of capital deployment into its portfolio in the year and portfolio companies raised approximately £300m of capital.</li> <li>The Group maintained board representation on more than 70% of companies by number.</li> <li>Some increasing volatility and reduced liquidity was observed in the capital markets during late 2015 and 2016.</li> </ul>		<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Purchase of equity and debt investments.</li> <li>Proceeds from the sale of equity investments.</li> </ul>

# Risk management continued

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



Risk trend	Developments during the year	Strategy	KPI
	<ul style="list-style-type: none"> <li>New business and Partnerships team established to service existing partnerships and source new opportunities.</li> <li>Completed investments with all three US Ivy League partner universities.</li> <li>Oxford Chemistry contract expired in November 2015 but broadened exposure to Oxford through the acquisition of a strategic shareholding in Oxford Sciences Innovation plc.</li> <li>Group re-branding, website and communications updated during the year to increase awareness of the Group.</li> </ul>		<ul style="list-style-type: none"> <li>Number of new portfolio companies.</li> </ul>
	<ul style="list-style-type: none"> <li>The Group continues to dedicate resources to remuneration and incentivisation.</li> <li>Staff attrition remained low and the Group recruited seven new members to the team. Approximately 40% of staff have been with the Company for at least five years.</li> <li>Deepening of sector expertise and increased autonomy through divisional approach.</li> <li>Optimal organisation planning and structuring ongoing, including the recruitment of a full-time HR director during the year.</li> </ul>		<ul style="list-style-type: none"> <li>Total equity ("net assets").</li> <li>Number of new portfolio companies.</li> </ul>
	<ul style="list-style-type: none"> <li>Macroeconomic and geopolitical conditions remain uncertain in the UK, Europe and the rest of the world.</li> <li>Poor post year-end performance in the UK and numerous other stock exchanges have heightened concern. This has caused a flight to historically safe assets. Primary drivers for this are a slowdown in Chinese economic growth and low commodity prices.</li> <li>Political stability in the UK has increased since the 2015 elections. However, this is expected to become more uncertain as we near the 2016 referendum over Britain's EU membership.</li> </ul>		<ul style="list-style-type: none"> <li>Change in fair value of equity and debt investments.</li> <li>Total equity ("net assets").</li> <li>Profit/loss attributable to equity holders.</li> </ul>

## Risk management continued

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

Risk trend	Developments during the year	Strategy	KPI
	<ul style="list-style-type: none"> <li>• Ongoing focus on regulatory compliance including third party reviews.</li> <li>• UK and US Governments have emphasised their ongoing support for scientific research with UK funding ring-fenced to 2021.</li> <li>• Specialist therapeutics advisory panel continually consulted.</li> <li>• Increased focus on cyber security including further development of the Group's controls using the UK Government's 'ten steps' approach and review of the Cyber Essentials regime and how this applies to the Group.</li> </ul>		<ul style="list-style-type: none"> <li>• Total equity ("net assets").</li> </ul>

## Viability statement

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. The Directors' robust assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed table above.

The strategy and associated principal risks underpin the Group's three year plan and scenario testing, which the Directors review at least annually. The three year plan is built using a bottom up model. The three year plan makes certain assumptions about the level of capital deployed into, and realisations from, its portfolio of companies, the financial performance (and valuation) of the underlying portfolio companies, the Group's utilisation of its debt finance facility and ability to raise further capital, and the level of the Group's net overheads. The plan is stress-tested in a robust downside scenario as part of the Board's review of the principal risks of the business, primarily through reducing the fair value of the Group's portfolio company interests, reducing the amount of capital that the Group is able to raise, lowering the deployment of capital and decreasing portfolio company divestment proceeds.

The three year plan review is underpinned by the regular Board briefings provided by the sector heads and the discussion of any new strategies undertaken by the Board in its normal course of business. These reviews consider both the market opportunity and the associated risks, principally the required level of investment into the Group's portfolio companies and its ability to raise equity capital. These risks are considered within the Board's risk appetite framework.

# Building a sustainable business

## Our Values: Passionate, Pioneering, Principled

### Our Business ethics and social responsibility

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

IP Group pioneered the concept of the long-term partnership model and has arrangements covering 14 of the UK's leading universities and 3 of the Ivy League universities in the US. Our New Business & Partnerships Team and sector teams work closely with the universities to identify exciting opportunities and to ensure these partnerships are mutually beneficial. We believe that our approach to providing executive and administrative support, where appropriate, to portfolio companies gives their founders the best possible chance of building a successful business. Our support of early-stage businesses demonstrates our alignment with government initiatives in science and innovation and contributes to employment growth in the communities in which our portfolio companies operate.

In addition to the support they receive from the Group, our portfolio businesses often seek funding from other sources, both public (such as government-backed grant funding) and private (from sources ranging from angel investors and small privately-owned funds to large institutional investors), and the Group will often assist in gaining access to this financial capital. The Group complies with all applicable legislation in this respect and communicates with its co-investors in an appropriate and transparent manner. As a publicly traded entity, IP Group actively seeks to engage and maintain an open dialogue with its private and institutional shareholders through its investor relations programme.

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

that we support with financial and human capital. Our portfolio companies, which are primarily focused on the biotechnology, technology, healthcare and clean technology sectors, are developing solutions to some of the most significant social, environmental and health challenges faced in the world today. While the Group is pleased to support these world-changing innovations, it recognises the importance of ensuring that the businesses it establishes and nurtures comply with all applicable environmental, ethical and social legislation. IP Group's direct involvement in its portfolio companies allows greater scope to engage with the management teams of these companies and guide them on these matters.

IP Group aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders. The Group is committed to growing the business while ensuring a safe environment for employees as well as minimising the overall impact on the environment. IP Group endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships.

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

The Group 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. We take a zero tolerance approach to bribery and corruption and implement and enforce effective systems to counter bribery. The Group is bound by the laws of the UK, including the Bribery Act 2010, and has implemented policies and procedures based on such laws. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses.

## Breakdown of staff by gender as at 31 Dec 2015

Total Staff: 63 (excl. NEDs)	Male	Female
Board	70%	30%
Senior Management	69%	31%
All Employees	48%	52%

## Employee diversity and employment policies

Diversity is key to how we work and great ideas can come from anyone. As such, quite naturally, we believe in equal opportunity for all people when it comes to recruitment, selection and career development. This belief is enshrined in our policies, which have been revamped and modernised in 2015 with relevant training provided for all employees.

For the year ended 31 December 2015, the Group employed an average of 63 employees and had five non-executive directors. A breakdown of our people by gender can be seen in the table above. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and, insofar as it is able to, ensures that all transactions the Group enters into uphold these principles.

## Talent Management

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

Because we operate in a highly specialised segment of our industry, we recruit talent with a combination of rare skills such as scientists with commercial and entrepreneurial backgrounds, who can operate with equal confidence in both academia and fast-paced start-ups while speaking the language of the City. Development comes to a very large degree from the experience our people gain from working with a

significant number of start-up enterprises and seeing first-hand what works and what doesn't. Sharing knowledge and discussing these experiences as well as structured training is key to leveraging this learning across the Group.

To this end, we encourage employees to build very strong relationships with all their colleagues by keeping everyone updated regularly and often in person on the Group's objectives and progress.

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

## Health and Safety

All our people are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The Chief Operating Officer has overall responsibility for the implementation of the Group's health and safety policies and procedures. The primary purpose of the Group's health and safety policy is to enable all of the Group's people to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the years ended 31 December 2015 and 31 December 2014, no reportable accidents occurred under UK Health and Safety regulations.

## Building a sustainable business continued

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

### Community engagement

The Group seeks to have a positive impact on the communities in which it operates and one of the ways in which it achieves this is through charitable support at both a Group level and by staff. The Group aims to donate up to 1% of the previous year's realised profits to one or more charities which have a particular relevance to IP Group's activities or to members of our team. The Group's chosen charities in 2015 were the Multiple Sclerosis Society, which helps support people with MS and fund research, and The Percy Hedley Foundation, which provides specialist and personalised care and education support to disabled people and their families. A list of charities the Group has supported to date can be found on the Group's website: [www.ipgroupplc.com](http://www.ipgroupplc.com).

In 2015, the Group donated a total of £17,239 to charitable causes, with £15,655.50 going to the charities listed above and £1,801.50 being donated to other charities for employee match funding or discretionary donations. Employee initiatives included a lunchtime feast and a half marathon walk through the night raising a total of £733.43 in addition to Group donations.

The Group also continued its work experience programme in 2015 which gives students a taste of working life and illustrates how each employee contributes to the Group's business. This year, the Group partnered with Petchey Academy, inviting 15 students to a taster session following which they were given the opportunity to apply for a one week programme. The successful student then spent the week following the story of IP Group meeting different teams and making a visit to portfolio company Ceres. The feedback from both students and teachers has been very positive.

### Organisation boundary and scope of emissions

The following section includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial year. We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement.

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

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

## Case Study

### Mentoring for Career Ready

Career Ready is a national charity committed to preparing students for the world of work, including a one year mentoring partnership for students to work in industry. Students may not always have friends or family to act as role models and mentors can support the students giving career and life guidance, acting as a soundboard and being a critical friend.

Anne-Sofie Lagander, part of the IP Exec team, piloted the mentoring programme for the Group and found it to be a challenging, yet interesting process:

"Throughout the last year I have been meeting with an A-Level student, who is really at a crossroads in her life and has to make the difficult decision as to what follows after college. Through our monthly discussions and meetups we have explored different options and I have taken a holistic approach, discussing University and work, but also lifestyle choices and how these may play a part in planning her future.

It hasn't always been a straightforward and easy process, but I hope that my time with the student has been a support now and in the future. I have found the mentor programme has challenged some of my thinking. I will continue as a mentor for Career Ready and hope to maintain the relationship with last year's student".

## Methodology

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

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

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

## Absolute emissions

The total greenhouse emissions from IP Group plc's operations in the financial year 2015 (year ending 31 December 2015) were: 460.5 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e).

The increase in emissions comes from Scope 1 emissions, due to emissions from refrigerant gas losses and Scope 3 due to Business travel.

## Intensity ratio

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

## Target and baselines

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

For 2015, the intensity metric has increased from 0.13 tCO<sub>2</sub>e per m<sup>2</sup> to 0.27 tCO<sub>2</sub>e per m<sup>2</sup>. This is primarily due to the increase in Scope 1 emissions from refrigerant gas loss. If like for like Scope 1 emissions (without refrigerant gas loss) across the two periods are considered only, then the performance for 2015 is 0.13 tCO<sub>2</sub>e per m<sup>2</sup>.

	2015 Tonnes CO <sub>2</sub> e	2014 Tonnes CO <sub>2</sub> e	2013 Tonnes CO <sub>2</sub> e	2015 <sup>4</sup> Tonnes CO <sub>2</sub> e per m <sup>2</sup>	2014 Tonnes CO <sub>2</sub> e per m <sup>2</sup>	2013 Tonnes CO <sub>2</sub> e per m <sup>2</sup>
<b>GHG emissions</b>						
Scope 1 <sup>1</sup>	127.6	6.9	6.7	0.15	0.01	0.01
Scope 2 <sup>2</sup>	97.7	103.9	75.1	0.12	0.13	0.10
Subtotal	225.3	110.8	81.8	0.27	0.13	0.11
Scope 3 <sup>3</sup>	235.2	177.6	146.8			
<b>Total GHG emissions</b>	<b>460.5</b>	<b>288.4</b>	<b>228.6</b>			

	2015 Tonnes	2014 Tonnes	2013 Tonnes
<b>Waste production</b>			
Landfill waste	6.7	4.5	4.4
Recycled waste	2.1	1.8	1.9
<b>Total Waste</b>	<b>8.8</b>	<b>6.3</b>	<b>6.3</b>

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

<sup>2</sup> Scope 2 being electricity, heat, steam and cooling purchased for the Group's own use.

<sup>3</sup> Scope 3 being emissions which the Group is not directly responsible for, but arise as a by-product of its operation.

<sup>4</sup> Occupied office space: 830m<sup>2</sup>.

## Board approval

The Strategic Report, as set out on pages 1 to 45, has been approved by the Board.

ON BEHALF OF THE BOARD

Mike Humphrey

Chairman

29 February 2016



# Develop

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



## Did you know that...

...in helping Ultrahaptics Limited on its journey, IP Group worked with the company from a very early stage, providing management time, funding and business strategy. IP Exec, the Group's executive search arm, found the company's chairman, Michael Tobin, while IP Capital, the Group's FCA-authorised subsidiary, advised on and co-ordinated Ultrahaptics' £10m Series A funding round.

## Our Governance

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# Board of Directors

## Mike Humphrey Non-executive Chairman

**Effective date of current letter of appointment**  
24 March 2015

**Age:** 64

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

**Tenure:** 4 years

**Term of office**

3 years, 3 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

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

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

None

**Committee memberships**

Nomination (chair) and Remuneration

## Alan Aubrey Chief Executive Officer

**Effective date of current letter of appointment**  
20 January 2005

**Age:** 54

**Independent:** No

**Tenure:** 11 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

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

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

Non-executive Chairman Proactis Holdings plc

**Committee memberships**

None

## Mike Townsend Chief Investment Officer

**Effective date of current letter of appointment**  
5 March 2007

**Age:** 53

**Independent:** No

**Tenure:** 9 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

17+ years equity capital markets experience at Lehman Brothers

and Donaldson, Lufkin and Jenrette

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

None

**Committee memberships**

None

## Greg Smith Chief Financial Officer

**Effective date of current letter of appointment**  
2 June 2011

**Age:** 37

**Independent:** No

**Tenure:** 4 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

KPMG background, FCA 10+ years

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

None

**Committee memberships**

None

## David Baynes Chief Operating Officer

**Effective date of current letter of appointment**  
20 March 2014

**Age:** 52

**Independent:** No

**Tenure:** 2 years

**Term of office**

Permanent, 6 months' notice

**Re-election to Board**

Annually at AGM

**Experience**

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

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

None

**Committee memberships**

None

**Doug Liversidge, CBE** Non-executive Director

<b>Effective date of current letter of appointment:</b>	<b>Term of office</b>	<b>Current external appointments</b>
20 March 2014	3 years, 3 months' notice	Chairman of Surgical Innovations plc
<b>Age:</b> 79	<b>Re-election to Board</b>	<b>Committee memberships</b>
<b>Independent:</b> Yes	Annually at AGM	Nomination, Audit and Remuneration
<b>Tenure:</b> 2 years	<b>Experience</b>	
	10 years as Chairman at Fusion IP plc, 20+ years at British Steel	

**Jonathan Brooks** Non-executive Director

<b>Effective date of current letter of appointment</b>	<b>Term of office</b>	<b>Current external appointments</b>
31 August 2011	3 years, 3 months' notice	Aveva Group plc
<b>Age:</b> 60	<b>Re-election to Board</b>	<b>Committee memberships</b>
<b>Independent:</b> Yes	Annually at AGM	Nomination, Audit (chair) and Remuneration (chair)
<b>Tenure:</b> 3 years	<b>Experience</b>	
	Formerly CFO ARM Holdings plc, 20+ years technology sector experience, FCMA	

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

<b>Effective date of current letter of appointment</b>	<b>Term of office</b>	Engineering
26 March 2014	3 years, 3 months' notice	<b>Current external appointments</b>
<b>Age:</b> 54	<b>Re-election to Board</b>	The British Land Company PLC
<b>Independent:</b> Yes	Annually at AGM	<b>Committee memberships</b>
<b>Tenure:</b> 1 years	<b>Experience</b>	Nomination, Audit and Remuneration
	Fellow of the Royal Society, Royal Academy of Engineering, Institution of Chemical Engineers, Royal Society of Chemistry and Institute of Physics, Shell Professor of Chemical	

**Dr Elaine Sullivan** Non-executive Director

<b>Effective date of current letter of appointment</b>	<b>Term of office</b>	<b>Current external appointments</b>
30 July 2015	3 years, 3 months' notice	Supervisory Board of Evotec AG
<b>Age:</b> 55	<b>Re-election to Board</b>	<b>Committee memberships</b>
<b>Independent:</b> Yes	Annually at AGM	Nomination, Audit and Remuneration
<b>Tenure:</b> Less than 1 year	<b>Experience</b>	
	25+ years pharmaceutical industry experience, senior management teams of Eli Lilly and Astra Zeneca, currently CEO of Carrick Therapeutics	

<sup>1</sup> Mr Humphrey was considered by the Board to be independent on appointment.

<sup>2</sup> Excludes appointments to Group portfolio company boards.

# Corporate Governance Statement

**“ A year of bedding down of the sector teams and their accountability, together with further evolution of the Board. ”**

**Mike Humphrey** Chairman

2015 has been a busy year for IP Group with the completion of two significant equity fundraisings, the securing of a new debt facility from the European Investment Bank, solid performances from the portfolios of each of its four sectors and good traction being attained by, and a high quality pipeline of spin-out opportunities identified for, its US operations.

The Board remains focused on the execution of the Group's strategy, working with its partners to develop outstanding intellectual property-based businesses, and, in doing so, it continues to recognise the importance of a strong focus on corporate governance. Corporate governance at IP Group is more than just compliance with rules and regulations. It is an integral part of all of our activities, especially those of the Board and its committees.

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

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

**Mike Humphrey** Chairman

## Compliance with the UK Corporate Governance Code

The Directors are committed to a high standard of corporate governance and to compliance with the best practice of the UK Corporate Governance Code (the "Code"). The version of the Code applicable to the twelve months ended 31 December 2015 is that issued by the Financial Reporting Council in September 2014, and the Directors consider that the Company has been in compliance with all the provisions set out in that edition of the Code with the following exception: the requirement under the Code (Section B.1.2) for at least half of the Board, excluding the Chairman, to comprise independent non-executive directors was not met for a short period between the Group's annual general meeting held in May 2015 when Dr Bruce Smith retired and 31 July 2015 when Dr Elaine Sullivan was appointed as an additional independent Non-executive Director. The Board has been compliant with Section B.1.2 of the Code with effect from Dr Sullivan's appointment.

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

## The Board

### Role and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group as a whole, providing entrepreneurial leadership within a framework of controls for assessing and managing risk; defining, challenging and interrogating the Group's strategic aims and direction; maintaining the policy and decision-making framework in which such strategic aims are implemented; ensuring that the necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; succession planning; overseeing the system of

risk management; setting values and standards in governance matters; monitoring policies and performance on corporate social responsibility and helping to shape and embed the Group's corporate culture and values. The Directors are also responsible for promoting the long-term success of the Group, taking into account the interests of shareholders and other stakeholders including employees, suppliers, customers, university and other partners, the community, the environment and society; for ensuring that obligations to shareholders and other stakeholders are understood and met; and in maintaining a satisfactory dialogue with shareholders. All Directors are equally accountable to the Company's shareholders for the proper stewardship of its affairs and the long-term success of the Group.

The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-executive Directors. The Executive Directors are directly responsible for running the business operations, and developing and implementing strategy, and the Non-executive Directors are responsible for constructively challenging and contributing to proposals on strategy, scrutinising the performance of management, determining levels of remuneration and for succession planning for the Executive Directors. The Non-executive Directors must also satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust.

The Board reviews strategic issues on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. The Board has overall responsibility for the Group's systems of internal controls and risk management, as described on pages 34 to 41. Any decisions made by the Board on policies and strategy to be adopted by the Group, or changes to current policies and strategy, are made following presentations by the Executive Directors and a detailed process of review and challenge by the Board. Once made, the Executive Directors are fully empowered to implement those decisions.

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group's operations to the Executive Committee comprising the Chief Executive Officer, the other Executive Directors and four members of the senior management team: the Group's Director of Strategy, the Group's Managing Director - New Business and Partnerships, the Group's Head of Biotech and the Group's General Counsel and Company Secretary.

The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial or reputational implications. This current schedule was scrutinised in detail in 2014 alongside the terms of reference of the Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee and the final version adopted by the Board in August 2014 following this process was reviewed by the Board in 2015 and has not required any amendment. This schedule includes, without limitation, those matters set out in the box overleaf and the full schedule can be found within the Corporate Governance section of the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com).

In addition to the Executive Committee, the Board delegates specific responsibilities to certain additional committees that assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management. The three principal Board Committees (Audit, Remuneration and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board. The current terms of reference for the Nomination Committee, which were updated in 2014, are fully compliant with the provisions of the Code and reflect best practice, were reviewed by the Nomination Committee throughout the year and no amendments were considered necessary. The review of the current terms of reference of each of the Audit Committee and Remuneration Committee through 2015 concluded that, whilst compliant with the provisions of the Code, certain amendments were desirable to reflect current best practice and the actual workings of the relevant Committee. Amended terms of reference for each of the Audit Committee and Remuneration Committee were accordingly approved by the relevant Committee for recommendation to the Board for approval, which was duly received, in December 2015. Each Committee will continue to review its own terms of reference annually and update these where necessary. All of the current Committee terms of reference are available on request from the Company Secretary or within the Corporate Governance section of the Group's website at [www.ipgroupplc.com](http://www.ipgroupplc.com).

# Corporate Governance Statement continued

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

## Board size and composition

As at 31 December 2015, there were nine Directors on the Board: the Chairman, four Executive Directors and four Non-executive Directors. The biographies of all of these Directors are provided on pages 48 and 49. During the year, there were a number of changes to the Board and its Committees as follows:

- Dr Bruce Smith retired from the Board as Non-Executive Chairman on 24 March 2015;
- Mike Humphrey, the Group's former Senior Independent Director, succeeded Dr Bruce Smith as Non-Executive Chairman with effect from 24 March 2015. Upon his appointment as Chairman, Mr Humphrey stepped down from the Audit Committee, became chair of the Nomination Committee and, whilst he remains a member of the Remuneration Committee, was replaced by Jonathan Brooks as chair of the Remuneration Committee;
- Doug Liversidge succeeded Mike Humphrey as Senior Independent Director with effect from 24 March 2015; and
- Dr Elaine Sullivan joined the Board as a Non-executive Director with effect from 30 July 2015. Upon her appointment, Dr Sullivan was appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee.

Details of the process undertaken by the Nomination Committee in connection with the appointment of Dr Elaine Sullivan are set out on page 59.

An extract of the Group's Policy relating to the terms of appointment and the remuneration of both executive and non-executive directors is detailed in the Directors' Remuneration Report on pages 62 to 86.

In accordance with the Code, all Directors (other than Dr Elaine Sullivan) will submit themselves for annual re-election by shareholders at the Annual General Meeting of the Company to be held on 12 May 2016. As Dr Elaine Sullivan was appointed since the last general meeting of the Company held on 12 May 2015, she will be standing for election at the 2016 AGM. The Board recommends to shareholders the appointment of Dr Elaine Sullivan and the reappointment of all other Directors retiring at the meeting and offering themselves for re-election on the basis that the annual Board evaluation and individual performance reviews demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles. New directors may be appointed by the Board

but their appointment is subject to election by shareholders at the first Annual General Meeting after their appointment.

## Diversity

The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Company. In that culture, diversity across a range of criteria is valued. The Board recognises that diversity, in all its aspects, is key for introducing different perspectives into board debate and decision making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, knowledge, experiences and backgrounds, as well as *representing differences in nationality, race and gender*.

The Board's policy is to make appointments to the Board based upon merit against objective criteria. In addition, the Board agrees that gender remains an important aspect in creating an optimal board in terms of balance and composition. In identifying suitable candidates for the new Non-executive Director appointment made during 2015, the Nomination Committee gave due regard to the benefits of diversity as well as its stated intention in the 2014 annual report and accounts to give due consideration to increasing the level of female representation on the Board. As a result, the Nomination Committee made the decision to, as the first step in the recruitment process, request a female only longlist and it was from this that the eventual candidate, Dr Elaine Sullivan, was selected.

The Nomination Committee gave further consideration through the year as to whether to set a target in relation to the number of women on the Board but, whilst it endorses Lord Davies' recommendations, it did not consider it appropriate nor in the best interests of the Group to set either Board or Group-wide targets at this stage and prefers to continue to consider all aspects of diversity (including gender) when assessing the overall Board composition and in making further new appointments. Notwithstanding that it does not have a fixed target in relation to the number of women on the Board, the Company did increase the number of female directors on its Board to two throughout the year and will aim to maintain female representation on the Board at least at this current level. In addition, the terms of reference of the Nomination Committee include a requirement for the Nomination Committee to consider diversity, including gender, in evaluating the composition of the Board and in identifying suitable candidates for Board appointments.

# Corporate Governance Statement continued

The Group's commitment to diversity at the senior management level is also very strong and it actively works to increase the number of women in leadership positions within the Group. A breakdown of employee diversity showing the number of persons who were Directors of the Company and senior managers at the date of this report can be found on page 43.

## Non-executive Directors

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

Since 2009, the Board's policy has been to prohibit personal investments by the non-executive directors in any of the Group's portfolio companies, whether new or existing. None of the Non-executive Directors presenting themselves for election or re-election at the AGM in 2016 have holdings in any of the Group's portfolio companies.

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

## The roles of Chairman and Chief Executive Officer

Mike Humphrey is the current Chairman. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board, the conduct of the Group's affairs and strategy and for ensuring effective communication

with shareholders. The Chairman facilitates the full and effective contribution of non-executive directors at Board and Committee meetings, ensures that they are kept well informed and fosters a constructive relationship between the Executive Directors and Non-executive Directors. The Chairman also ensures that the membership of the Board is appropriate to the needs of the business and that the Board Committees carry out their duties, including reporting back to the Board following their meetings, either orally or in writing, at the next Board meeting depending on its proximity to the meeting of the relevant committee.

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

## Senior Independent Director

Doug Liversidge is the current Senior Independent Director, having succeeded Mike Humphrey on 2015 when Mr Humphrey took on his new role as Chairman of the Board. A key responsibility of the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive Officer. In addition, the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman, where necessary, and takes the lead when the Non-executive Directors assess the Chairman's performance and when the appointment of a new Chairman is considered other than where the Senior Independent Director himself or herself wishes to be considered for the role. Further, the Senior Independent Director will lead the Board in their deliberations on any matters on which the Chairman is conflicted.

## Board support

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance matters and relevant regulatory matters.



All directors have access to the impartial advice and services of the Company Secretary. There is also an agreed procedure for directors to take independent professional advice at the Company's expense. In accordance with the Company's Articles of Association, directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage where a director is proved to have acted fraudulently or dishonestly. A copy of the indemnity is available for inspection as required by the Companies Act 2006. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

### Board meetings and decisions

The Board meets regularly during the year as well as on an ad hoc basis, as required by business need. The Board had seven scheduled Board meetings in 2015. One of these meetings was devoted entirely to the Board's review of the progress, performance and objectives (for the next twelve to eighteen months) of each of the Group's four Sector teams (Healthcare, Biotech, Tech and Cleantech) which had been first created in 2014. The Heads of each Sector presented to the Board at the meeting and this detailed Board review was seen as a concerted move towards further bedding these sector teams down within the Group and enhancing the accountability of each of the Sector Heads for the budgeting for and performance of their respective teams and portfolios.

In addition to the seven scheduled Board meetings, the Board held a new format two day strategy meeting in October 2015 devoted entirely to the Group's strategic objectives. This provided an opportunity for all the Directors, and particularly the Non-executive Directors, to ensure the Group's strategy is on course; to discuss medium and longer term strategic objectives, and the key drivers underpinning these; to review the Group's KPIs; to analyse and challenge the Group's objectives; and to review the Group's risk framework and risk appetite, including considering the major risks facing the Group and its strategy and how to assess, manage, mitigate and/or monitor the same. In addition, the Chairman and the Non-executive Directors met without the presence of the Executive Directors twice during the year.

The schedule of Board and Committee meetings each year is, so far as is possible, determined before the commencement of that year and all Directors or, if appropriate, all Committee members are expected to attend each meeting. Supplementary meetings of the Board and/or the Committees are held as

and when necessary. In advance of each scheduled meeting, each member of the Board receives detailed Board packs, which include an agenda based upon the schedule of matters reserved for its approval along with appropriate reports and briefing papers. If a director is unable to attend a meeting due to exceptional circumstances, he or she will still receive the supporting papers and will usually discuss any matters he or she wishes to raise with the Chairman in advance of the meeting. The Chairman, Chief Executive Officer, Chief Financial Officer, Company Secretary and Heads of each of the sectors work together to ensure that the Directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes monthly management accounts containing analysis of performance against budget and other forecasts, as well as monthly reports from each of the Heads of the four Sectors. Additional information is provided as appropriate or if requested. At each meeting, the Board receives information, reports and presentations from the Chief Executive Officer, the other Executive Directors and, by invitation, other members of senior management or the Group's Sector Teams as required. This ensures that all Directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy, and its management of risk.



















































































































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

The majority of Board meetings are held at the Group's offices in London, which gives members of the Group's Sector Teams the opportunity to formally present to the Board on new spin-out opportunities or early-stage portfolio companies on which they are working. This assists the Board in gaining a deeper understanding of the breadth, stage of development and diversity of the Group's portfolio. The Board also aims to have at least one of its scheduled meetings, or its annual strategy day(s), at either the Company's offices in Leeds, Oxford, Sheffield, Cardiff or Newcastle or at the location of one of the Group's partner universities in order to encourage further interaction with the Group's stakeholders. In 2015, the Board's annual strategy days were held in Cardiff. Meetings between the Chairman and the Non-executive Directors, both with and without the presence of the Chief Executive Officer, are also held as the need arises.

# Corporate Governance Statement continued

## Board and committee attendance

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

	Scheduled Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Mike Humphrey <sup>1</sup>	      	 	    	 
Alan Aubrey	      			
Mike Townend	      			
Greg Smith	      			
David Baynes	      			
Jonathan Brooks	      	   	     	  
Doug Liversidge	      	   	     	  
Prof. Lynn Gladden	      	   	     	  
Dr Elaine Sullivan <sup>2</sup>	  			
Dr Bruce Smith <sup>3</sup>	  			 


<sup>1</sup> Upon Mike Humphrey's appointment as Chairman of the Board on 24 March 2015, he stepped down as a member of the Audit Committee.

<sup>2</sup> Dr Elaine Sullivan was appointed to the Board as Non-executive Director and as a member of the Audit, Remuneration and Nomination Committee on 30 July 2015.

<sup>3</sup> Dr Bruce Smith retired as Chairman of the Board on 24 March 2015.

### Key:

 Attended

 Did not attend

### Directors' conflicts of interest

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

### Induction, awareness and development

A comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her so that he or she can gain a better understanding of the Group and its businesses. This will generally include an overview of the Group and its businesses, structure, functions and strategic aims; site visits to the Group's head office in London and to one or more of its nationwide offices in Leeds, Oxford, Sheffield, Cardiff and Newcastle; and site visits to a number of the Group's portfolio companies, including, where possible, one or more within the Group's top ten holdings (by value), which will include meeting with such companies' management and a presentation from them on their businesses. In addition, the Company facilitates sessions as appropriate with the Group's advisers, in particular

its sponsor Numis Securities Limited, as well as with appropriate governance specialists, to ensure that any new directors are fully aware of and understand their responsibilities and obligations as a director of a FTSE 350 company and of the governance framework within which they must operate.

In order to ensure that directors continue to further their understanding of the issues facing the Group, the Chairman and Non-executive Directors are encouraged to continue to visit the Group's offices other than the main corporate office in London, its portfolio companies and its partner universities. Throughout 2016, it is anticipated that at least one of the Group's Board meetings or its strategy day(s) will be off-site to facilitate this. As detailed above, the Board is also exposed to the early-stage opportunities, in which the Group has invested, through presentations at Board meetings by relevant members of the Group's staff. It is also intended that, through 2016, other function heads (such as the heads of IP Exec, IP Impact, Communications and IP Assist and IP Capital) will be given the opportunity to present to the Board in order to enhance the Board's awareness of how the Group operates on a day-to-day basis and how such functions assist in the execution of the Group's core strategy of systematically helping create, build and support outstanding intellectual property-based businesses.

As a further aspect of their ongoing development, each director also receives feedback on his or her performance following the Board's performance evaluation in each year and, through the Company Secretary, access to relevant training and development opportunities, including those relevant to the Non-executive Directors' membership on the Board's Committees, is facilitated.

### Board effectiveness and performance evaluation

In line with best practice under the Code a performance evaluation of the Board, its Committees and individual directors is conducted annually to ensure that Board performance continues to be effective and that each of the directors demonstrates commitment to his or her respective role and has sufficient time to meet their commitment to the Group.

Further, the Code requires FTSE 350 companies to have an externally facilitated evaluation at least every three years.

# Corporate Governance Statement continued

The Board appointed an external third-party provider, Deloitte LLP, to externally facilitate the evaluation during January/February 2016. Deloitte LLP has no connection to the Group other than the provision of ad hoc advice to the remuneration committee. Deloitte LLP previously facilitated the evaluation in 2013 and the Board has satisfied itself that neither of these factors compromised its independence.

This process was based on:

- a review of documentation including Board and committee papers, terms of reference, strategy documents and forward plans;
- distribution of an online survey to Members comprising quantitative and qualitative questions; and
- non-attributable interviews with all Board members and a number of stakeholders who regularly interact with the Board, to include the Company Secretary.

The anonymity of all respondents was ensured throughout the process in order to encourage an open and frank exchange of views. The results were analysed by Deloitte and a report detailing the observations and recommendations prepared and shared with the Board.

Overall it was concluded that the Board continues to work effectively. There have been a number of changes to the Board composition, resulting in a well-balanced Board with a range of skills and experience. In an effort to continue to improve, a number of areas the Board should focus on were identified to include:

- Increase focus on succession planning;
- Build on the strategic discussions at the strategy away day by incorporating key strategic items on the agenda throughout the year;
- Increase Non-executive Director interaction with the business and management; and
- Continue to enhance Board oversight of risk, building on the work of the Audit Committee in 2015.

In addition to the above, the Non-executive Directors, led by the Senior Independent Director, appraised the Chairman's performance following which the Senior Independent Director provided feedback to the Chairman. The performance of each of the Directors on the Board was reviewed by the Chairman and the operational performance of the other Executive Directors was reviewed by the Chief Executive Officer as part of the annual appraisal process. In addition to the aforementioned annual reviews, the performance

of the Executive Directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review.

## Committees of the Board

The composition of the three Committees of the Board and the attendance of the members throughout the year is set out in the diagram on page 56.

### Remuneration and Audit Committees

Separate reports on the role, composition, responsibilities and operation of the Remuneration Committee and the Audit Committee are set out on pages 62 to 86 and pages 87 to 90 respectively.

### Nomination Committee

The Nomination Committee leads the process for Board appointments and the re-election and succession of directors and the Chairman. Its key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that the Board is effective in discharging its duties. It is responsible for making recommendations to the Board concerning the composition and skills of the Board including any changes considered necessary in the identification and nomination of new directors, the reappointment of existing directors and the appointment of members to the Board's Committees. It also assesses the roles of the existing directors in office to ensure there continues to be a balanced Board in terms of skills, knowledge, experience and diversity. The Nomination Committee reviews the senior leadership needs of the Group which will enable it to compete effectively in the marketplace. The Nomination Committee also advises the Board on succession planning for executive director appointments although the Board as a whole is responsible for succession generally.

The Committee is chaired by Mike Humphrey. Its other members, as at 31 December 2015, were Jonathan Brooks, Professor Lynn Gladden, Douglas Liversidge and Dr Elaine Sullivan, ensuring a majority of independent non-executive directors as prescribed by the Code. The Nomination Committee meets as and when required, or as requested by the Board, and met three times during 2015. The attendance by each member of the Committee at the meetings during 2015 is set out on page 56.

Alongside the ongoing selection process for a new Chairman and building further on the work of the Committee in the final quarter of 2014 and the first month of 2015 to review in detail the structure, size and composition of the current Board, the Nomination Committee commenced its search for an additional Non-Executive Director in February 2015. The Committee followed the following process in its search for a new Non-executive Director:

- Following its evaluation of: (i) the balance of current skills, knowledge, experience and diversity (including gender) on the current Board; (ii) the identification of any skills, capabilities, areas of expertise and/or experience which were not already present, or were under-represented, on the current Board or which may be necessary or desirable on the Board to supplement the existing members, the Nomination Committee instructed the Head of IP Exec, the Group's in-house executive search function, to produce a female *only shortlist focussing on industrial life scientist* candidates. The Nomination Committee gave due consideration to using the services of an external search agency as it had done in connection with the new Chairman recruitment process but, given the in-depth skill, knowledge and experience of IP Exec in recruiting industry specialist non-executive directors, elected to use the in house service;
- IP Exec produced a longlist within the above remit, which the Committee narrowed down to a shortlist of preferred candidates. The Nomination Committee and members of the Group's Executive Committee then interviewed the shortlisted candidates, the outcome of which was the recommendation from the Nomination Committee to the Board for the appointment of Dr Elaine Sullivan to the Board. Dr Sullivan brings to the Board a wealth of industry experience in life sciences with over 25 years' international experience in the pharmaceutical industry, including senior roles at Eli Lilly and AstraZeneca, and is currently CEO at a specialist oncology company, Carrick Therapeutics, which she founded in early 2015; Dr Sullivan has also confirmed that she has sufficient time to discharge the requirements of the role. The Board approved the Nomination Committee's recommendation and Dr Elaine Sullivan was appointed with effect from 30 July 2015.

In connection with any future appointments to the Board, the Committee will continue to adopt a formal, rigorous and transparent procedure, including giving full consideration to the balance, skills, knowledge, independence and diversity (including gender) on the Board in advance of any new search to ensure a suitable balance is maintained (see paragraph headed "Employee diversity" on page 43 for further explanation of the considerations made by the Committee in this regard). Consideration will also always be given to whether identified candidates have enough time available to devote to the role.

The Committee intends to increase its focus on succession planning, at Board level and for senior leadership positions, through 2016, in line with the recommendation from the recent Board evaluation, and looks forward to working with the Group's HR Director who was appointed in 2015 to further formalise and enhance the approach. In addition, developing and monitoring the internal talent pipeline is a continuous process at the Group and, whilst sound systems and procedures are in place to ensure the development of the Group's people throughout the organisation, the Committee will continue to oversee a further enhancement of the same during 2016.

## Internal control

The Board fully recognises the importance of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting which, in September 2014, revised, integrated and replaced the Financial Reporting Council's "Internal Control: Revised Guidance for Directors on the Combined Code" and "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" and reflects changes made to the Code. The Group's internal controls, which were Group-wide and were in place during the whole of 2015, were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2015.

# Corporate Governance Statement continued

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 2015.

## **Identification and evaluation of principal risks and uncertainties**

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. The Board actively identifies and evaluates the risks inherent in the business, formally reviews these annually and ensures that appropriate controls and procedures are in place to monitor and, where possible, mitigate these risks. Specifically, all decisions relating to strategic partnerships and other collaborations and acquisitions entered into by the Group are reserved for the Board's review and approval. The Board formally reviews the performance of the Group's university partnerships and other strategic collaborations and relationships. It also reviews equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate dependent on their relative size as regards the aggregate portfolio as a whole. The Board maintains an up-to-date

Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 36 to 41. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

## **Information and financial reporting systems**

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

## **Relations with stakeholders**

The Company is committed to a continuous dialogue with shareholders as it believes that it is essential to ensure amongst its shareholders a greater understanding of, and confidence in, the short, medium and longer term strategy of the Group and in the Board's ability to oversee its implementation. It is the responsibility of the Board as a whole to ensure that a satisfactory dialogue takes place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer, Chief Investment Officer, Chief Operating Officer and the Chief Financial Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Chief Investment Officer and the Chief Executive Officer. The Senior Independent Director and other Directors make themselves available, as appropriate, for contact with major shareholders and other stakeholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the Board and the structure of the Executive Directors' remuneration.

The Company uses the Annual General Meeting ("AGM") as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 1.00pm on 12 May 2016 at IP Group plc, 24 Cornhill, London, EC3V 3ND, is enclosed with this report. In line with the Code, the Notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM, to vote for or against or to withhold their vote on each resolution. The results of all proxy voting are published on the Group's website after the meeting and declared at the meeting itself to those shareholders who attend. Shareholders who attend the AGM will have the opportunity to ask questions and all directors are expected to be available to take questions.

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

### Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties, and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board is concerned that it may include activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 12 May 2015, the shareholders passed a resolution on a precautionary basis to authorise the Group to incur political expenditure (as defined in Section 365 of CA 2006) not exceeding £50,000 in total at any time from 12 May 2015 up to the conclusion of the 2016 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 2016 AGM, to be held on 12 May 2016, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

### Going concern

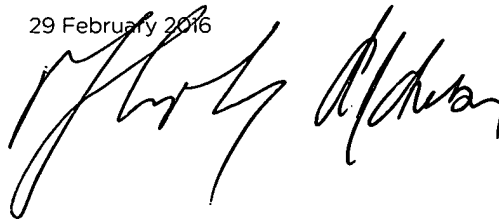
The Directors confirm that they have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

ON BEHALF OF THE BOARD

**Mike Humphrey**  
Chairman

**Alan Aubrey**  
Chief Executive Officer

29 February 2016



# Directors' Remuneration Report

## Remuneration Statement

**“An evolutionary year for the Group's remuneration framework.”**

**Jonathan Brooks**

Chairman of the Remuneration Committee

On behalf of your Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 31 December 2015.

### 2015 Performance

In terms of financial performance, 2015 has been the most successful year for the Group since its formation.

As a result, we have achieved the 18% return on hard net assets required for the maximum award pool (100%) under the Group's 2015 Annual Incentive Scheme ("AIS") and so maximum awards will be payable to the Executive Directors and the Group's employees under this scheme. In line with our Remuneration Policy, 50% of all awards whose total exceeds £20,000 are deferred into equity that vests over a two-year period.

We fully disclose our annual bonus performance targets on both a retrospective and prospective basis. Full details of annual bonus targets for 2015 and forward looking targets for 2016 are contained in this report.

With respect to the Long-Term Incentive Plan ("LTIP"), the cumulative three-year performance of the Group's hard net assets has equalled the 15% maximum target under the Group's LTIP. However weaker equity markets towards the end of 2015 and especially in the first quarter of 2016 have brought the absolute Total Shareholder Return ("TSR") below the 8% threshold target at the date of writing and so, based on the Group's share price performance to 26 February 2016, it is currently anticipated that approximately 57% of the awards granted in 2013 will vest. It should be noted however that the actual TSR performance period for the 2013 LTIP runs until 31 March 2016.

### Evolution of our remuneration framework: shareholder consultation in 2015

IP Group's recruitment mantra is to hire extraordinary people to do extraordinary things and we believe that our people should be well rewarded when they achieve very challenging performance expectations. Fairness and consistency in the application of our principles across the Group are of paramount importance.

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

In 2015, the Committee sought to evolve the Group's remuneration and incentive structures within best practice for a FTSE 250 listed business, and engaged in an extensive shareholder consultation with respect to two important elements. The first of these was the proposed introduction of an all-employee long-term 'carried interest' scheme, while the second was to consult on the remuneration of the Chief Executive Officer and the other three executive directors of the Group. Both of these are discussed in more detail below.



## Changes to executive director remuneration for 2016

In our 2014 Annual Report, we stated that we would be consulting shareholders during 2015 with respect to the remuneration of the Group's Chief Executive Officer. This process was extensive and we consulted with shareholders making up over 70% of the total register. The issue which has confronted the Committee for several years is how much lower the total remuneration of the CEO has been when compared to companies of a similar size and complexity to the Group. The Committee considers that the Group's Executive Directors are of paramount importance to its continued success and that this issue could not be left unaddressed indefinitely without posing an unacceptable risk to the Group, particularly in light of the recent increased interest in the sector in which the Group operates.

As a result of the review, the Committee is proposing to make two significant changes to the operation of the Group's remuneration arrangements for 2016 and onwards:

- Increases to Executive Directors' base salaries. We are proposing to make increases, on a phased basis, to the salaries of the CEO and the CFO. Positioning of salaries following the increases will be approaching lower quartile of our comparator group.
- Increases to Executive Directors' LTIP opportunities. This reflects our performance-based philosophy with a focus on the long term. The levels also reflect a 'low base/high long-term variable' philosophy towards total remuneration.

More detail on our proposed approach is set out below.

### Executive Directors' base salaries

Following extensive consultation, the Committee has proposed the following changes to the Executive Directors' salaries:

- CEO's base salary should be increased by 15% for each of the years 2015 and 2016. This increases his base salary from £261,000 in 2014 to £300,000 in 2015 and £345,000 in 2016.
- With respect to the Chief Financial Officer, we have been in the process of adjusting his base pay over several years to bring it closer to market norms as his experience and tenure grows. We will be increasing his salary by 13% to £239,000 in 2016.

- In the case of both the CEO and CFO, their salaries still remain well below the lower quartile for equivalent positions in comparator companies, and the objective will be to increase their salaries again in 2017 to bring them to around the lower quartile when compared to a peer group of similar companies. For the CEO this salary is expected to be £400,000 and for the CFO it is expected to be £265,000. At this point the Committee feels the issue of their base salaries will have been substantially addressed. Any salary increases for 2017 are, of course, not guaranteed and are dependent on the continued success of the Group.
- The Committee has determined that the Chief Operating Officer and Chief Investment Officer will receive increases of 2% on their current base salaries of £250,000 with effect from 1 April 2016.

The average salary rise among staff in 2016 is of the order of 7%, a similar increase to that in 2015.

More detail on the executive director salary increases is set out on page 75.

### Executive Directors' LTIP opportunities

During the consultation process with shareholders, we have framed the discussions around increasing the remuneration of the CEO in terms of 'pay for performance' and a 'low base/ high long-term variable' approach. Accordingly, we proposed to shareholders that we increase the annual LTIP award to the CEO from 100% to 300% of salary with the award to the other three executive directors being increased from 100% to 200% of annual salary. This significant change in the level of award reflects the disparity between the executive directors' current total remuneration and what the Committee considers is an appropriate target to attract, retain and motivate executives of the highest calibre as well as against the remuneration of executives in comparator companies. This increase in the maximum annual LTIP award requires a change to our existing Remuneration Policy. The Committee will therefore be proposing an updated Remuneration Policy for approval at the Group's 2016 AGM to increase the level of LTIP awards for all four of its executive directors and, assuming it is approved by shareholders, would intend to make the 2016 LTIP awards immediately following the AGM.

We introduced additional two-year holding periods on our LTIP from 2014, and these will continue to apply under our new policy.

# Directors' Remuneration Report continued

## Remuneration Statement

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

The Committee considers that, in order to align its employees with its core strategic objectives, the Group's remuneration structure requires incentive levers covering the short term, the longer term and, in common with many of our comparator companies, incentives directly aligned with the returns achieved on the specific assets, potentially over a much longer term of 10 years or more. During 2015, the Committee developed this concept and sought shareholder feedback for such a scheme. The proposed LTICS will be open to all employees except Executive Directors and its objective is to give staff the equivalent of a 'founder's stake' in the portfolio companies that they help find, create and build.

The LTICS works by offering staff the opportunity to participate in the eventual returns from the Group's portfolio that are in excess of the original capital invested by the Group and after taking account of an annualised hurdle return. Portfolio companies will typically be grouped into biennial vintage years with each company being allocated to one carry vintage and all capital invested and returns from that company will be included in that single carry vintage. The scheme will contain well-defined good/bad leaver provisions, and malus and claw-back provisions. Over 70% (by reference to voting rights) of shareholders were consulted on the proposed LTICS and many made helpful comments. We intend to introduce the LTICS during 2016 and intend for the opening biennial vintage to comprise those companies created or first funded during 2014 and 2015.

In addition to the proposed introduction of the LTICS, and recognising the unique culture of teamwork and collaboration in the Group, we also decided to re-open the LTIP to all employees of the Group.

### Committee Chairmanship

I assumed chairmanship of the Committee from Mike Humphrey when he became the Group's Chairman in 2015. It is intended that this appointment be temporary and this continues to be the case. However, as I have undertaken an extensive consultation with our major shareholders during 2015 it is my intention to see the proposed changes implemented before handing over to a new chairperson.

### Structure of this report and approval of updated Remuneration Policy

The following pages contain our proposed Remuneration Policy, a summary of how we intend to implement the policy during 2016, and the detailed disclosure of outcomes in respect of 2015.

We are proposing a resolution to approve our updated Remuneration Policy at our 2016 AGM. We believe that our work in this regard, including consultation with shareholders representing more than 70% of our register, has resulted in a policy that meets with the approval of our shareholders. Our 2014 Directors' Remuneration Report received 99% of votes cast in favour at our AGM in May 2015 and, while this indicated a strong level of support, the Group remains committed to transparency and I welcome the opportunity for continued discussion of the Group's remuneration with any shareholder, either at our AGM or at any other time during the year.

ON BEHALF OF THE BOARD

**Jonathan Brooks**  
Chairman of the Remuneration Committee

29 February 2016



# Directors' Remuneration Report

## Remuneration policy and components

This report sets out the Company's policy on the remuneration of its executive and non-executive directors (the "Policy") which will become effective subject to approval by shareholders at our AGM on 12 May 2016.

As described in the Remuneration Statement, our Policy has been updated following a review of the Group's approach to remuneration by the Committee, including input from Deloitte LLP, and following an extensive consultation with institutions holding in excess of 70% of the Group's shares during 2015 and early 2016.

In updating the Policy, the Committee has continued to apply its principles supporting the overriding strategic objective of the Group to provide capital to and help to build world-changing businesses based on academic research. The success of the Group over time will primarily be a function of three key variables – the amount of capital provided to the portfolio, the return per annum achieved on that capital and the period over which it is invested. To achieve this objective, the Committee continues to believe that the Group requires a remuneration structure that has incentive levers covering both the short-term (1-3 years) and the longer-term (3-5 years) and, for all employees other than the Group's executive directors, incentives directly aligned with those specific assets potentially over an even longer term (5-10+ years). The first two levers remain the most relevant for the Group's executive directors and therefore continue to be used as the variable elements of the Policy.

### Changes to the remuneration policy

The changes to the previous policy are limited to an increase in the maximum annual LTIP award to 300% from 150%, and minor amendments to facilitate the operation of the Policy and additional explanatory wording or clarifications.

# Directors' Remuneration Report continued

## Remuneration policy and components

### Remuneration Policy table

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

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

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

# Directors' Remuneration Report continued

## Remuneration policy and components

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

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
<b>Long-term incentive plan ("LTIP")</b>	<p>To provide a competitive, performance-linked long-term incentive mechanism that will:</p> <ul style="list-style-type: none"> <li>attract, retain and motivate individuals with the required personal attributes, skills and experience;</li> <li>provide a real incentive to achieve our strategic objectives; and</li> <li>align the interests of management and shareholders.</li> </ul>	<p>The LTIP is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year.</p> <p>Awards under the LTIP typically comprise conditional awards of shares in IP Group (although instruments with similar economic effect may be used if considered appropriate).</p> <p>From the 2013 LTIP awards onwards any share awards that vest, net of any tax and NICs liabilities, are subject to a further holding period. The holding period is one year for the 2013 LTIP and two years for subsequent awards.</p> <p>In the case of intended fraud or misconduct by a participant that contributes to a significant error in financial information the Company will be entitled to reduce the number of shares in respect of an unvested award and/or claw back any shares that remain subject to the post-vesting holding period.</p> <p>Calculations of the achievement of the vesting targets are reviewed and approved by the Committee.</p>	<p>The maximum annual level of award is:</p> <ul style="list-style-type: none"> <li>300% of salary for the Chief executive officer; and</li> <li>A lower percentage for other Executive Directors</li> </ul> <p>Each year the Committee determines the annual award for each executive director within the above Policy limits.</p> <p>The award level for 2016 shall be 300% of the 2016/17 base salary for the Chief Executive Officer and 200% for all other executive directors.</p> <p>The overall maximum under the LTIP approved by shareholders is 400% of salary. However, the policy limits set out above will apply and this plan limit will only be used in exceptional circumstances (such as a buyout or recruitment or where an award could not be made in the relevant year and needs to be made in a subsequent year).</p>	<p>Specific targets may vary from year to year in accordance with strategic priorities but shall be based on:</p> <ul style="list-style-type: none"> <li>Relative or absolute TSR and</li> <li>Hard net assets.</li> </ul> <p>These performance criteria shall be presented in a matrix format similar to that set out in the Annual Remuneration Report.</p> <p>The level of vesting for threshold performance is 30% of the maximum.</p> <p>Where absolute TSR is used as a performance metric, awards may be subject to a relative performance underpin against an appropriate benchmark index or comparator group.</p> <p>Performance will ordinarily be measured based on a performance period of at least three years.</p>

# Directors' Remuneration Report continued

## Remuneration policy and components

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 13 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Further, the Committee reserves the right to make minor amendments to the Policy, for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without seeking shareholder approval.

### Differences between the Policy and that applied to employees generally

The components of remuneration set out on the previous pages for executive directors are also available to the Group's employees and, other than as set out below, differ only in values and award maxima. The benefits package is typically available to all UK members of staff following completion of a probationary period, with a broadly equivalent package being offered to overseas staff. All permanent UK staff employed on 1 January each year are eligible for an award under the AIS in that year (with pro-rated inclusion for permanent members joining up to 30 June each year), with similar arrangements for overseas staff.

The key differences between the Policy and that applied to employees generally are:

- (i) that a market-competitive salary for all employees other than executive directors is considered to be at or around the median level of appropriate market benchmarks for similar roles, while that for executive directors is currently considered to be to approach lower quartile levels against companies of a similar size and complexity to the Group; and
- (ii) that a Long Term Incentive Carry Scheme will operate for all employees excluding executive directors. The LTICS' objective is to give employees the equivalent of a 'founder's stake' in the portfolio companies that they help to find, create and build, by offering them the opportunity to participate in the eventual returns from the Group's portfolio that are in excess of the original capital invested by the Group and after taking account of an annualised hurdle return. We believe that this will align our employees directly with the long-term returns achieved on the specific assets.

### Schemes or arrangements under which allocations or awards are no longer being made:

In addition to the executive directors' remuneration arrangements, the Group previously allocated carried interest in funds managed by the Group to executive directors and other key employees based on their level of involvement and contribution of the relevant members of the team to the management of the fund, as well as their cash contribution to the relevant fund (where applicable). No new allocations of this kind will be made to executive or non-executive directors but outstanding allocations will be allowed to vest.



## Illustration of the application of the Policy

The value and composition of the executive directors' remuneration packages for the year ending 31 December 2016 at below threshold, threshold and maximum scenarios under the Policy are set out in the charts below. The charts depict an estimate of the remuneration that could be received by each executive director under the Policy set out in this report.

Each bar is broken down to show how the total under each scenario comprises fixed remuneration (salary, pension and benefits), the AIS and the LTIP.

### Notes:

The basis of calculation for the above graphs and key assumptions used are as follows:

	Minimum	Threshold/Target	Maximum
Fixed elements of remuneration	<ul style="list-style-type: none"> <li>Contracted base salary with effect from 1 April 2016 (before any deduction for fees received directly from portfolio companies)</li> <li>Estimated cash cost to the company of benefits and pension contributions received under the remuneration policy</li> </ul>		
Annual incentive scheme <sup>1</sup> (pay-out as % of maximum opportunity)	0%	25% (opportunity based on achievement of threshold target)	100%
LTIP <sup>2</sup> (vesting as % of maximum opportunity)	0%	30% (opportunity based on achievement of threshold targets)	100%

<sup>1</sup> As described above, the Group's annual incentive scheme operates such that any amounts in respect of a financial year are only paid in the following financial year (or later years in the case of the 50% deferred into shares) following completion of all audit, assurance and approval processes. However, the charts above effectively depict the total face value of the bonus that can be earned in respect of the relevant year.

<sup>2</sup> Conditional awards of shares under the Group's LTIP are made based on a percentage of the participant's salary in face value terms and therefore the above amounts relating to the LTIP component reflect this. Changes in the value of those shares over the vesting period are therefore ignored.

# Directors' Remuneration Report continued

## Remuneration policy and components

### Development of remuneration Policy

**Consideration of pay and conditions for the wider Group:** The components of pay across the Group's UK staff are broadly similar although a significant component of long-term incentive for all employees other than the executive directors is intended to be in the form of the Group's LTICS, which is currently being implemented. The Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market and economic conditions and to governance trends when assessing the level of salaries and remuneration packages of executive directors. From a practical perspective, the Group has approximately 60 members of staff and, as a result, the Committee currently has the ability to review remuneration levels and changes thereto across the Group when considering base salary increases, bonus maxima and award pay-outs for the executive directors. The Committee has been involved in key decisions around remuneration concerning all employees.

**Engagement with our shareholders:** The Committee is committed to an ongoing dialogue with shareholders and seeks to consult with its significant shareholders and the various proxy advisory groups

when considering any major changes to remuneration arrangements. Feedback as part of any consultation is used to guide the Committee in its finalisation of the remuneration arrangements and their implementation. During 2015 and the early part of 2016 the Committee carried out an extensive consultation involving shareholders making up more than 70% of the register in connection with the proposed salary levels and maximum LTIP opportunities for our executive directors, and the proposed introduction of the LTICS. Key shareholders have engaged constructively in this debate and made helpful comments to shape the final recommendations.

### Approach to recruitment remuneration

The Committee will apply the Policy for any new executive director recruited to the board in respect of all elements of forward-looking remuneration. The maximum level of variable remuneration under the AIS and LTIP that may be awarded will be within the usual maxima as set out in the Policy (i.e. 100% of salary under the AIS and 300% of salary under the LTIP). The Committee retains flexibility to provide benefits in kind, pensions and other allowances,

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

such as relocation, education and tax equalisation, required in order to recruit the intended candidate.

The Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will seek to structure buyout awards on a comparable basis to awards forfeited, taking into account relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards. It is intended that the value awarded would be no higher than the expected value of the forfeited awards. The Committee would seek as far as possible to make such buyout awards under the Company's existing share plans but, if necessary, may rely on the Listing Rules exemption which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a director.

Similarly, the policy for a new chairman or new non-executive directors would be to apply the same remuneration elements as apply to existing non-executive directors under the Policy, as set out below.

In addition to the above principles, the following additional considerations may be applied as appropriate depending on the circumstances:

- In the case of internal promotion, any existing performance-related elements arising from an individual's previous role will continue to be honoured under the policy, even if they may not otherwise be consistent with the policy prevailing when the commitment is fulfilled.
- In the case of promotion to executive director following an acquisition or other business combination, the Committee may permit equity-based incentive arrangements to continue in force if they can be "rolled-up" into awards over IP Group shares, provided the performance and vesting conditions are considered appropriate.
- In the case of the recruitment of an executive at a time of the year when it would be inappropriate or not possible to provide an LTIP award for that year (for instance due to price sensitive information or if there is insufficient time to assess performance), the quantum in respect of the months employed during the year may be transferred to and amalgamated with the subsequent year's award, if considered reasonable to do so by the Committee.

The Committee will include details of the implementation of the Policy in respect of any such recruitment to the Board in its future Annual Remuneration Reports.

## Service agreements

The Executive Directors have service contracts that commenced on the dates set out in the chart on page 72 and contain a contractual notice period of six months by either party. The Non-executive Directors have letters of appointment that commenced on the dates set out in the chart on page 72, are generally for an initial fixed term of three years, which is reviewed and may be extended for a further three years, and are terminable on three months' notice by either party. In accordance with the Code, all directors submit themselves for annual re-election by shareholders at each AGM.

## Loss of office payments policy

Executive directors' service contracts do not contain any pre-determined provisions for compensation in the event of early termination. When determining termination payments, the Committee takes into account a variety of factors, including individual and Company performance, mitigation of loss (for example, through new employment) and the relevant director's length of service. Any compensation will be based on what would have been earned by way of salary, pension entitlement and other contractual benefits over the notice period.

In the event that a contract is to be terminated, and a payment in lieu of notice made (if permitted by the terms of the contract), payments to the executive director may be staged over the notice period. During that period the executive director must take all reasonable steps to obtain alternative employment and payments to such executive director by the Company will be reduced to reflect payments received in respect of that alternative employment.

All awards under the Group's AIS are fully discretionary and require the participant to be employed (and not under notice) at the end of the financial year to which the award relates. Should an executive director leave following the end of the annual financial performance period but prior to the payment of any cash element of an AIS award then the cash element would generally be payable, although always at the discretion of the Committee. Any unvested share-based element of an AIS award, such as any prospective or unvested awards received under the DBSP, may lapse although, at the discretion of the Committee, in certain circumstances including but not limited to change of control, death, disability, retirement or redundancy, the Committee may permit some or all of the award to be received by the executive director. Malus/clawback provisions would apply as described in the Policy Table above.

# Directors' Remuneration Report continued

## Remuneration policy and components

The treatment of leavers under the Group's LTIP is determined by the rules of the scheme. The Committee shall determine the extent to which outstanding conditional awards made to good leavers (including but not limited to those individuals leaving due to death, disability, redundancy, ill health or any other reason at the Committee's discretion) may vest, taking into account the extent to which performance conditions have been met and the length of the performance period completed. Any unvested awards made to other leavers will typically lapse. Any vested awards that are being held by the executive director subject to any applicable holding period shall be retained by them other than in cases of intended fraud or misconduct by them that contributes to a significant error in financial information.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his cessation of office or employment.

### Change of control

The rules of the LTIP provide that, in the event of a change of control, awards would vest to the extent determined by the Committee where the Committee considers that the performance conditions (or alternative conditions that the Committee considers to be appropriate and proportionate) are satisfied at the date of such event. The Committee may allow directors to exchange their awards over Company shares for awards in shares of the acquiring company, provided that the terms of the offer allow this.

Any bonuses under the AIS that have been deferred into shares (or options) will vest in full upon a change of control.

### Shareholding policy

The Group operates a formal shareholding requirement under which all executive directors are expected to build up and maintain a personal shareholding in the Group. The levels required for each executive director are set out in the Annual Remuneration Report.

### Chairman's and Non-Executive Directors' Remuneration

A Committee of the Board comprising the Chairman and Executive Directors sets the remuneration of Non-Executive Directors. The Committee sets the remuneration of the Chairman. Fees may comprise a base fee with additional fees for other duties such as chairmanship of a committee or for being the senior independent director. Each Non-Executive Director is also entitled to reimbursement of necessary travel, overnight accommodation (if applicable) and other expenses, including a tax gross-up where applicable. Non-Executive Directors do not participate in any of the Group's variable incentive schemes and are not eligible to join the Group's pension schemes.

# Directors' Remuneration Report

## Annual Remuneration Report

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

During 2015, we consulted extensively with shareholders as part of a comprehensive review of executive director remuneration. As a result of the review, the Committee is proposing to make two significant changes to the operation of the Group's remuneration arrangements for 2016 and onwards:

- Increases to Executive Directors' base salaries. In particular, we are proposing to make increases, on a phased basis, to the salaries of the CEO and the CFO. Positioning of salaries following the increases will be around lower quartile of a peer group of similar companies.
- Increase in Executive Directors' LTIP opportunities. This reflects our performance based philosophy with a focus on the long term. The levels also reflect a 'low base/high variable' approach.

### Salary and fixed components

The Committee considers that, as part of a competitive overall package, base salaries should be within a market-competitive range, which is considered to be within lower quartile to median of companies of a similar size and complexity. The Committee continues to note however that, given the Group's continued significant growth in assets, and scale and international reach of operations, the salaries for certain Executive Directors remain significantly below this market-competitive range.

The Committee recognised that this situation could not left unaddressed indefinitely and as a result, and as anticipated in our 2014 remuneration report, the Committee has been engaged in an

extensive consultation process with the Group's major shareholders. Having received input from shareholders representing approximately 70% of the total register, the Committee determined that, the salary of the Group's CEO would be £300,000 with effect from 1 April 2015 and shall be increased to £345,000 with effect from 1 April 2016.

The increase for the CFO from £212,000 to £239,000 with effect from 1 April 2016 reflects an increase that is being phased over a number of years to bring him closer to a lower-quartile salary commensurate with his increased experience having initially joined the Board on a lower base salary.

Since the Committee considers that the base salaries of the CIO and COO are approaching the lower quartile level, the increase in 2016 is in line with or less than the general rate of increase across the business, as was the case for 2014.

During 2015, and again following consultation with shareholders, we made changes to executive director base salaries which were introduced with effect from 1 April 2015.

As set out earlier in this report, the changes made and proposed to both salaries and LTIP are addressing issues which have confronted the Committee for several years. An important principle is that we are introducing salary increases on a phased basis. In order to provide shareholders with a transparent overview of the changes, the table below provides both the historic 2015 adjustments and the 2016/17 base salaries which will be effective from 1 April 2016. We then outline our proposed approach for 2017/18.

	2015/16 salaries			For 2016: 2016/17 salaries	
	Former base salary (2014/15)	Base salary following reviews <sup>1</sup>	% change <sup>2</sup>	2016 base salary (from 1 April 2016)	% change
Alan Aubrey (CEO)	£261,000	£300,000	15% (£39,000)	£345,000	15% (£45,000)
Mike Townend (CIO) <sup>2</sup>	£232,000	£250,000	5% (£18,000)	£255,000	2% (£5,000)
Greg Smith (CFO)	£186,000	£212,000	14% (£26,000)	£239,000	13% (£27,000)
David Baynes (COO) <sup>2</sup>	£232,000	£250,000	5% (£18,000)	£255,000	2% (£5,000)

<sup>1</sup> The salaries for Mr Aubrey and Mr Smith were effective 1 April 2015. As reported last year the salaries for Mr Townend and Mr Baynes were increased by 2% to £236,650 effective 1 April 2015 with a further increase to £250,000 effective 1 October 2015.

<sup>2</sup> For Mr Townend and Mr Baynes the increase shown is the annualised average increase over the 12-month period.

# Directors' Remuneration Report continued

## Annual Remuneration Report

Considering the CEO's current position against relevant market benchmarks, both in terms of base salary and overall remuneration opportunity, the Committee intends to increase the CEO's salary again in 2017 to £400,000. The Committee considers that the CEO's salary would then be around the lower quartile level. For the CFO the intention is also to make a further increase to bring his salary to around the lower quartile. Any salary increases for 2017 are not guaranteed and are dependent on the continued success of the Group.

The average increase across all staff in the UK business, excluding executive directors and new joiners was 6.9% in 2015 and is anticipated to be approximately 6.6% for 2016.

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

### Incentives

As described above, the Committee considers that salaries, as well as the overall remuneration opportunity, for our executive directors, and in particular the CEO and CFO, are currently positioned well below that of other companies of a similar size and complexity, and below the level required to appropriately attract, retain and incentivise executive directors of the highest calibre. The Committee intends to address this primarily through the use of long-term, shareholder-aligned incentives. This change is consistent with our 'pay for performance' and 'low base/ high long-term variable' approach to executive remuneration.

The 2016 LTIP awards will be adjusted to 300% of base salary for the CEO and 200% of base salary for all other Executive Directors in order to achieve a more appropriate total remuneration opportunity for our executive directors. Performance will continue to be assessed against growth in hard NAV and TSR performance (with the underpin based on relative TSR against the FTSE 250) as per the vesting tables for the 2012 LTIP set out on page 79. Any awards that vest, net of any tax and NICs liabilities, are subject to a further two-year holding period. Since the levels of the proposed 2016 awards require an amendment to the Group's existing remuneration policy, the Committee intends to make such awards immediately following the Group's 2016 AGM, assuming the proposed Policy is approved.

The maximum AIS opportunity will remain at 100% of base salary for the CEO and increase from 75% to 100% of base salary for the other Executive Directors. As in previous years, the base salaries used in order to calculate the maximum potential award will be those in effect from 1 April 2016. As with the 2015 AIS, the performance measure shall remain the return achieved on the Group's hard NAV. The Committee determines the AIS target return level each year taking into consideration the blend of assets that constitute the Group hard NAV, particularly the relative level of cash on which it is not currently possible to achieve a return in excess of 1-2%. For 2016, the Committee has determined that threshold vesting of 25% of the maximum award will be available provided a minimum return of 6% is achieved while the maximum awards pool will be available should a return of 17% or greater be achieved. In absolute terms, this requires the achievement of a return on hard NAV in excess of £42m before any AIS may be awarded and a return in excess of £121m in order for full awards to be made. To put this into context, in order to achieve the upper target the Group would need to achieve a return on NAV nearly 50% greater than the £82.4m achieved in 2015, itself the highest return on hard NAV achieved by the Group in its history to date. The targets are therefore considered by the Committee to be appropriately stretching, particularly in light of the current economic climate and equity markets in the UK and other relevant major economies.

### Chairman and Non-Executive Directors

The fees for the Chairman for 2016/17 shall be £150,000, unchanged from the level of fees paid upon his appointment in 2015. The fees of the Non-executive Directors will be £40,000 reflecting a 3% increase compared to 2015/16. Additional fees for chairmanship of a board committee, or for being senior independent director, shall remain £7,500.

## Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for Directors for the financial years ended 31 December 2015 and 2014.

All £000s	Base salary/fees		Benefits		Pension <sup>1</sup>		Annual Bonus (AIS) <sup>2</sup>		LTIP <sup>3</sup>		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Executive Directors</b>												
Alan Aubrey <sup>4</sup>	202	191	4	4	25	23	300	—	188	684	719	902
Mike Townend	239	231	8	7	24	23	182	—	151	521	604	782
Greg Smith	206	180	5	4	21	18	159	—	107	323	498	525
David Baynes	239	181	7	4	24	16	182	—	—	—	452	201
<b>Non-executive directors</b>												
Bruce Smith <sup>5</sup>	15	65	—	—	—	—	—	—	—	—	15	65
Mike Humphrey <sup>6</sup>	126	45	—	—	—	—	—	—	—	—	126	45
Jonathan Brooks	52	45	—	—	—	—	—	—	—	—	52	45
Doug Liversidge	44	29	—	—	—	—	—	—	—	—	44	29
Lynn Gladden	39	29	—	—	—	—	—	—	—	—	39	29
Elaine Sullivan <sup>7</sup>	16	—	—	—	—	—	—	—	—	—	16	—

- Pension includes payments made to defined contribution schemes on behalf of the Directors or the value of any cash equivalent if applicable.
- AIS bonus payable in respect of the financial year including the 50% which is deferred into shares over two years at face value at date of award. Further information about the level of the 2015 awards is provided in the additional disclosures section overleaf.
- The 2015 LTIP value is based on the 2013 LTIP award due to vest in March 2016. The value of the award is based on a share price of 230.5p, being the average price of the Group's shares for the last quarter of 2015 as stipulated by Financial Reporting Lab single figure for remuneration guidelines, and the estimated proportion of awards that will vest based on the performance conditions at 26 February 2016. The 2014 LTIP value has been updated to reflect the actual share price on vesting, being 226p per share. Further information about the level of vesting for both of these awards is provided in the additional disclosures section overleaf.
- In addition, Alan Aubrey retained board fees in 2015 totalling £88,333 (2014: £68,333) from portfolio companies in which the Group is a shareholder and that were deducted from his base salary, as described further under "Outside appointments for executive directors" on page 85.
- Bruce Smith retired as Chairman with effect from 24 March 2015.
- Mike Humphrey was appointed Chairman of the Board with effect from 24 March 2015.
- Elaine Sullivan was appointed to the Board with effect from 30 July 2015.

# Directors' Remuneration Report continued

## Annual Remuneration Report

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

#### Annual incentive scheme

The targets for the 2015 AIS were solely financial in nature and were based on the annual return on hard net assets (i.e. excluding intangible assets and the Oxford equity rights asset) which were £451.3m at 31 December 2014. The targets for 2015 and the outturn against these were as follows:

Performance condition	Vesting criteria	Actual Performance
Return on Hard NAV	8% return (£36.1m): 25% of maximum opportunity ("threshold") 18% return (£81.2m): 100% of maximum opportunity	18.6% return (£84.0m)

As shown in the table, and as noted previously, the financial performance of the Group in 2015 was the most successful in its history in absolute terms, with an 18.6% actual return on hard NAV being achieved. Therefore, the Committee was able to allocate 100% of the award pool.

Taking into account various factors, including the company's year-end cash position, the remuneration committee determined that it would make no amendments to the general policy. Therefore, subject to a minimum award of £20,000, 50% of any individual's bonus will be payable in cash and 50% would be deferred into equity in the form of nil-cost options under the Group's DBSP and that, in line with the scheme rules, these would be subject to deferral as to 50% over one year and 50% over two years with forfeiture should the executive director leave the Group within such times. Awards to executive directors are subject to claw-back as set out in the Policy.

The Committee considered that the executives should be treated equally in terms of bonus outcome for 2015 given the strong all-round performance. As a result, the following annual incentive scheme awards apply for the 2015 year:

CEO: 100% of maximum opportunity for the year (100% of £300,000 2015/16 salary),

CFO: 100% of maximum opportunity for the year (75% of £212,000 2015/16 salary),

CIO: 100% of maximum opportunity for the year (75% of £243,325 average 2015/16 salary); and

COO: 100% of maximum opportunity for the year (75% of £243,325 average 2015/16 salary).

#### Long-term incentive scheme

##### 2013 LTIP awards due to vest in March 2016

The 2013 LTIP awards are based on the performance of the Group's Hard NAV (the Group's net assets excluding intangibles and the Oxford Equity Rights asset) for the three financial years ending on 31 December 2015 and Total Shareholder Return ("TSR") from March 2013 to the ordinary vesting date, being 31 March 2016, using a one month average. Both performance measures are combined into a matrix format as per the vesting table below. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%.

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

Growth in NAV (p.a.)

Performance condition	Target Performance	Actual/forecast Performance
Hard NAV <sup>1</sup> (at 31 Dec 2015)	8%: £624m 15%: £712m	£714.3m (15.2% p.a. growth)
Annual TSR <sup>2</sup> (share price)	8%: 180p 15%: 217p	175.1p (7.2% p.a. growth)
Comparative TSR	FTSE 250 +29%	IP Group +22%

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

<sup>2</sup> TSR performance shown reflects the Group's one-month average share price to 26 February 2016. Actual performance period is the one-month average to 31 March 2016.

The actual performance of the Group in terms of Hard NAV growth was in excess of the upper target however, based on the 1-month average share price to 26 February 2016, was below the lower TSR target and that of the FTSE 250 TSR performance. On this basis, the proportion of the award vesting, including the application of the underpin, would be approximately 57%. The amounts disclosed above in the single remuneration figure table are based on



this performance and resulting expected outcome. Actual vesting will be based on TSR performance to 31 March 2016.

#### 2012 LTIP awards that vested in March 2015

The following table sets out the outcomes of the performance measures relating to the 2012 LTIP awards against the vesting criteria.

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

Performance condition	Target Performance	Actual/forecast Performance
Hard NAV <sup>1</sup> (at 31 Dec 2014)	8%: £365.4m 15%: £421.8m	£451.3m (18.4% p.a. growth)
Annual TSR <sup>2</sup> (share price)	8%: 164.1p 15%: 196.0p	235.6p (22.7% p.a. growth)
Comparative TSR <sup>2</sup>	FTSE Small cap +71%	IP Group +78%

<sup>1</sup> Hard NAV target increased by Committee to reflect £21.7m Fusion IP net assets acquired in 2014 and £97.4m net proceeds of the Group's placing in 2014.

<sup>2</sup> Group TSR performance based on three-month average prior to date of award and prior to 31 March 2015.

As the performance measures were achieved in full and the underpin was exceeded, 100% of the 2012 LTIP awards vested on 31 March 2015.

#### 2015 LTIP awards

The 2015 LTIP awards were made based on 21 May 2015 with a face value of 100% of salary for the CEO and 90% of salary for other Executive Directors, based on the share price at date of grant and vesting subject to performance. Awards are typically calculated by reference to the salary effective for the 2015/16 salary year, however, the 2015 LTIP award to the CEO was based on a 2% increase to his 2014 base salary as shareholder consultations around his 2015/16 salary had not been concluded at the time of award. The 2015 LTIP awards to the other executive directors were based on their salaries at the date of award. As with the 2014 LTIP awards, any conditional shares that vest (net of tax) shall be subject to a two-year holding period.

The performance conditions that apply to both of these awards follow the same matrix structure with the same vesting parameters as that set out above for the previous awards. Hard NAV growth will be measured over the three-year period to 31 December 2017 (starting point: £451.3m, adjusted upwards for the net proceeds of the Group's 2015 placings) and TSR shall be measured from May 2015 to March 2018 with a one-month average (starting point: 209.4p). The underpin will be with reference to TSR performance against the FTSE 250 over this same period.

Executive Director	Type of interest	Basis of award (% salary)	Face value <sup>1</sup> (000s)	Threshold vesting <sup>2</sup>	End of performance period
Alan Aubrey	2015 LTIP	100%	£266	30%	31 Dec 2017 (NAV) / 30 Mar 2018 (TSR)
Mike Townend	2015 LTIP	90%	£213	30%	31 Dec 2017 (NAV) / 30 Mar 2018 (TSR)
Greg Smith	2015 LTIP	90%	£191	30%	31 Dec 2017 (NAV) / 30 Mar 2018 (TSR)
David Baynes	2015 LTIP	90%	£213	30%	31 Dec 2017 (NAV) / 30 Mar 2018 (TSR)

<sup>1</sup> The face value is calculated using the share price used to determine the number of shares awarded, being 213.4p, the closing price of the Group's shares on 21 May 2015, the date of award. 2015 LTIP award to Alan Aubrey was based on a 2% increase to his 2014 base salary as shareholder consultations around his 2015/16 salary had not been concluded at the time of award. The 2015 LTIP awards to Mike Townend and David Baynes were based on their salaries at the date of award, being £236,650.

<sup>2</sup> Represents threshold vesting against both elements of the performance matrix. Lower vesting is possible if only one element of the matrix is partially met or as a result of the application of the relative performance underpin.

# Directors' Remuneration Report continued

## Annual Remuneration Report

### Chairman and Non-Executive director fees

The Group appointed a new Chairman during 2015 and as part of this recruitment exercise the Committee sought benchmarking information from Spencer Stuart, the executive search and selection firm used in the recruitment process, as well as reviewing available market benchmarks. As a result of that exercise, the Committee determined that the fees for the new Chairman would be £150,000. The new Chairman, who was an internal candidate serving on the Committee at that time, was not part of the Committee's decision with respect to these fees. Non-Executive Directors' base fees were increased by 2% during the year, whilst additional fees for chairing a sub-committee remained £7,500.

### Loss of office payments (audited information)

No payments for loss of office were made to past directors during the year. No payments have been made that have not already been included in the single figure of remuneration set out earlier in this report.

### Historical executive pay and Group performance

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

The chart below shows the Group's TSR performance against the performance of the FTSE All-Share, FTSE SmallCap and FTSE 250 indices over the seven-year period to 31 December 2015. The Directors have selected these indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during a significant proportion of the period in question and against which total shareholder return of IP Group plc should be measured.

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

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

	% change in base salary 2014 to 2015	% change in bonus 2014 to 2015 <sup>1</sup>	% change in benefits (exc. pensions) 2014 to 2015
CEO	14.9%	100%	1.4%
UK employees	6.9%	100%	12.1%

<sup>1</sup> As the bonus outcome for 2014 was zero, the increase shown is the 2015 bonus out-turn.

## Historical Chief Executive Officer remuneration outcomes

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

Chief Executive Officer: Alan Aubrey	2009	2010	2011	2012	2013	2014	2015 <sup>1</sup>
CEO single figure of remuneration (£000s)	223	193	209	3,257	2,231	902	719
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%	0%	100%
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%	100%	57%

<sup>1</sup> LTIP vesting is based on the current expectations of the performance against the 2013 LTIP targets as discussed on page 78.

## Relative spend on pay

The chart below shows the total employee costs, change in "hard" NAV and change in share price from 2014 to 2015.

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

Total employee pay: Total staff costs from note 8 on page 116, including wages and salaries, social security costs, pension and share-based payments.

Change in "hard" NAV: change in the Group's net assets excluding goodwill, intangibles and the Oxford Equity Rights asset taken from the statement of financial position on page 100.

Returns to shareholders: since the Group does not currently pay a dividend, returns to shareholders are represented by the change in the Group's share price over the period from 31 December 2014 to 31 December 2015.

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

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

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

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

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

## Interests in shares

The Directors who held office during 2015 had the following beneficial interests in the ordinary shares of the Company:

Current directors	31 December 2015	
	Number of shares	% of share capital
Alan Aubrey	2,453,999	0.43%
Mike Townend	1,074,504	0.19%
Greg Smith	240,233	0.04%
David Baynes	226,066	0.04%
Jonathan Brooks	60,000	0.01%
Mike Humphrey	80,000	0.01%
Doug Liversidge	75,297	0.01%
Lynn Gladden	—	—
Elaine Sullivan	—	—

There have been no changes in the interests of the directors set out above between 31 December 2015 and 29 February 2016.

Former directors (as at date of leaving)	Number of shares
Bruce Smith (retired 24 March 2015)	236,592

# Directors' Remuneration Report continued

## Annual Remuneration Report

### Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2015	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2015	Share price at date of conditional award (p)	Earliest vesting date(s)
<b>Alan Aubrey</b>							
2012 LTIP	302,695	—	(302,695)	—	—	135.5	31 March 2015
2013 LTIP	143,239	—	—	—	143,239	177.5	31 March 2016
2014 LTIP	147,042	—	—	—	147,042	177.5	31 March 2017
2015 LTIP	—	124,751	—	—	124,751	213.4	31 March 2018
	<b>592,976</b>	<b>124,751</b>	<b>(302,695)</b>	<b>—</b>	<b>415,032</b>		
<b>Mike Townsend</b>							
2012 LTIP	230,625	—	(230,625)	—	—	135.5	31 March 2015
2013 LTIP	114,592	—	—	—	114,592	177.5	31 March 2016
2014 LTIP	117,634	—	—	—	117,634	177.5	31 March 2017
2015 LTIP	—	99,801	—	—	99,801	213.4	31 March 2018
	<b>462,851</b>	<b>99,801</b>	<b>(230,625)</b>	<b>—</b>	<b>332,027</b>		
<b>Greg Smith</b>							
2012 LTIP	142,768	—	(142,768)	—	—	135.5	31 March 2015
2013 LTIP	81,127	—	—	—	81,127	177.5	31 March 2016
2014 LTIP	94,310	—	—	—	94,310	177.5	31 March 2017
2015 LTIP	—	89,409	—	—	89,409	213.4	31 March 2018
	<b>318,205</b>	<b>89,406</b>	<b>(142,768)</b>	<b>—</b>	<b>264,843</b>		
<b>David Baynes</b>							
2014 LTIP	117,634	—	—	—	117,634	177.5	31 March 2017
2015 LTIP	—	99,801	—	—	99,801	213.4	31 March 2018
	<b>117,634</b>	<b>99,801</b>	<b>—</b>	<b>—</b>	<b>217,435</b>		

### Deferred bonus share plan ("DBSP")

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

	Options held at 1 January 2015	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2015	Share price at date of award (p)	Earliest vesting date(s)
<b>Alan Aubrey</b>							
Deferral from 2013 AIS	33,037	—	(33,037)	—	—	192.4	15 April 2015
Deferral from 2013 AIS	33,037	—	—	—	33,037	192.4	15 April 2016
	<b>66,074</b>	<b>—</b>	<b>(33,037)</b>	<b>—</b>	<b>33,037</b>		
<b>Mike Townend</b>							
Deferral from 2013 AIS	22,024	—	(22,024)	—	—	192.4	15 April 2015
Deferral from 2013 AIS	22,024	—	—	—	22,024	192.4	15 April 2016
	<b>44,048</b>	<b>—</b>	<b>(22,024)</b>	<b>—</b>	<b>22,024</b>		
<b>Greg Smith</b>							
Deferral from 2013 AIS	15,593	—	(15,593)	—	—	192.4	15 April 2015
Deferral from 2013 AIS	15,593	—	—	—	15,593	192.4	15 April 2016
	<b>31,186</b>	<b>—</b>	<b>(15,593)</b>	<b>—</b>	<b>15,593</b>		

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

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

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

#### IPVF co-investment arrangements

The Executive Directors' commitments to, and returns from, IPVF are set out below. Commitments are made indirectly through the IP Venture Fund (FP) LP, which is the founder partner of IPVF.

	Total commitment £000	Limited partnership interest of IPVF	Total capital contributed to 1 January 2015 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2015 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2015 £000
<b>Executive Directors</b>							
Alan Aubrey	56	0.18%	53	1	54	10	34
Mike Townend	56	0.18%	53	1	54	10	34
Greg Smith	35	0.11%	33	1	34	6	21
<b>Total</b>	<b>147</b>	<b>0.47%</b>	<b>139</b>	<b>3</b>	<b>142</b>	<b>26</b>	<b>89</b>

# Directors' Remuneration Report continued

## Annual Remuneration Report

### Carried interest arrangements

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

	Fund <sup>(i)</sup>	Carried interest <sup>(ii)</sup> at 1 January 2015	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme Interest at 31 December 2015 <sup>(iii)</sup>	Accrued value <sup>(iv)</sup> of scheme interest at 31 December 2015 £000
<b>Executive Directors</b>							
Alan Aubrey	IPVF	1.81%	—	—	—	1.81%	447
	NETF	1.55%	—	—	—	1.55%	—
Mike Townend	IPVF	1.81%	—	—	—	1.81%	447
	NETF	1.15%	—	—	—	1.15%	—
Greg Smith	IPVF	1.14%	—	—	—	1.14%	281
	NETF	0.85%	—	—	—	0.85%	—

- (i) Under the IPVF fund LPA, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the North East Technology Fund ("NETF") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 3.5% compound interest.
- (ii) Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits assuming the relevant hurdle return has been met.
- (iii) The schemes contain forfeiture provisions over the investment period of the fund which may reduce the scheme interest accruing to any participant. The table reflects the maximum scheme interest receivable should no forfeiture occur.
- (iv) Accrued value of scheme interests is calculated based upon the current fair value of the relevant limited partnership's assets in excess of the capital contributed and the hurdle rate of return. Any payments will only be made following full repayment of limited partners' loan commitments and the hurdle return and accordingly actual payments under the scheme, if any, may be materially different to those set out above.

### Former Fusion IP LTIP

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

	Number of shares conditionally held at 1 January 2015	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2015	Share price at date of conditional award (p)	Earliest vesting date(s)
David Baynes	446,000	—	—	—	446,000	n/a	31 December 2017
<b>Total</b>	<b>446,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>446,000</b>		

## Outside appointments for executive directors

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

Any outside appointments (i.e. excluding those companies in which the Group is a shareholder) held by executive directors are set out on pages 48 and 49.

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

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

The Committee regularly monitors the position and prior to the making of any share-based award considers the effect of potential vesting of outstanding awards to ensure that the Company remains within these limits. Any awards which are required to be satisfied by market purchased shares are excluded from such calculations. No treasury shares were held or utilised in the year ended 31 December 2015.

As at 31 December 2015, the Company's headroom position, which remains within such guidelines, was as shown in the chart below.

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

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

The Remuneration Committee currently comprises the following independent non-executive directors whose backgrounds and experience are summarised on pages 48 and 49:

Jonathan Brooks (Chair from 24 March 2015 onwards)  
Mike Humphrey (Chair, until becoming the Group's Chairman on 24 March 2015)  
Doug Liversidge  
Lynn Gladden  
Elaine Sullivan (from 30 July 2015)

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

# Directors' Remuneration Report continued

## Annual Remuneration Report

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

- Consideration of the Group's overall remuneration philosophy to ensure it continues to promote the Group's strategy, including the blend of fixed and short and longer-term variable pay.
- Consideration of the skills and experience of the Executive Directors and carrying out of benchmarking in order to determine base salaries and total remuneration opportunity for the period 1 April 2015 to 31 March 2016 and giving further consideration to base salaries and total remuneration opportunity with effect from 1 April 2016 and from 1 April 2017.
- Consideration of policy and structure of LTICS for implementation in 2016 for the Group's non-director employees.
- Extensive consultation with the Group's major shareholders and proxy voting advisory firms in connection with the development and finalisation of the above matters.
- Review of the Group's approach to non-director remuneration including base salaries and incentive scheme targets and pay-outs.
- Consideration of LTIP awards and vesting targets for 2015 and 2016 awards and outturns for the 2012 awards.
- Consideration of AIS awards and vesting targets for 2015 and 2016 as well as outturns for 2015.
- Review and approval of the Group's updated Remuneration Policy.
- Approval of the Group's DRR.

### External advisers

The Remuneration Committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense, including attendance at Committee meetings.

During the year the Remuneration Committee continued its review of executive remuneration and took into consideration professional advice from Deloitte LLP in respect of the development of the Group's Remuneration Policy and its application, and reporting under the revised Directors' Remuneration Reporting Regulations. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Fees paid to Deloitte LLP in connection with advice to the Committee in 2015 were £36,150. Deloitte LLP also provided advice to the Group in 2015 in connection with internal and external assessments of the effectiveness of the operation of its Board. In addition, the Committee took advice from MM&K Limited in connection with the introduction and structuring of the LTICS. Fees paid to MM&K in relation to 2015 were £100,150.

### Statement of shareholder voting

The table below sets out the proxy results of the vote on the Group's Remuneration Report at the Group's 2015 AGM. At the Group's 2014 AGM, the Remuneration Policy received 99.99% of votes cast in favour.

	Votes for		Votes against		Votes cast	Votes withheld
	Number	% of votes cast	Number	% of votes cast		
Remuneration Report	456,038,647	99.1%	4,309,249	0.9%	460,353,925	466,356

### Remuneration disclosure

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



# Report of the Audit and Risk Committee

“The main activities of the Committee, which was renamed the Audit and Risk Committee at the end of 2015 to reflect the increased importance of risk management in the Committee agenda, can be seen by referring to the summary agenda items overleaf.”

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

## Audit and Risk Committee responsibilities

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

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

## Committee membership

The Committee comprises four independent non-executive directors, with myself as Chair. As the Chair of the Committee, I am deemed by the Board to have recent and relevant financial experience, being a Fellow of the Chartered Institute of Management Accountants and having held senior financial positions in my career. Until the AGM in 2015, the other committee members were Mike Humphrey, who was then the senior independent director, Doug Liversidge CBE and Professor Lynn Gladden CBE. Following the AGM in May, Mike Humphrey stepped down from the Committee following his appointment as Chairman of the Group, while Dr Elaine Sullivan joined the Committee in July 2015 following her appointment as a non-executive director.

The Committee met four times during the year, with all meetings attended by four independent Non-executive Directors.

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

## Activities during the year

The main activities of the Committee during 2015 can be seen by referring to the summary agenda items overleaf. During the year, the Committee focussed on three particular activities, these being work around the new 'viability statement', a more rigorous approach to the examination of the management of risk in the Group following the recent changes to corporate governance, and finally more time spent than in previous years on the subject of cyber security. Each of these items featured in three out of the four meetings in 2015, demonstrating the greater emphasis placed on them during the year. Brief details on the most important activities undertaken by the Committee are noted overleaf.

## Valuation of assets and liabilities

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

The most material area of judgement in the financial statements relates to the valuation of the unquoted equity investments, which at year end had a carrying value of £341.8m. The Committee satisfied itself that the portfolio valuations were materially correct after considering findings from the year end valuations meeting, which was attended by KPMG, receiving periodic presentational updates from the sector heads and business building team members, and receiving regular written reports on the Group's portfolio companies.

# Report of the Audit and Risk Committee continued

## Summary agendas for Audit committee meetings in 2015

### February

- Full year financial statements and discussions with auditor
- Fair, balanced and understandable review of Annual Report
- Audit committee effectiveness review
- Going concern review for 2015 financial statements
- Consideration of the need for a formal internal audit function
- Audit tender process
- Review of Audit Committee annual agenda

### May

- Review of Risk Register
- Planning of internal audit projects
- MLRO/Compliance officer reports on regulated businesses
- External review of FCA-authorized businesses
- Review of Group Treasury Policy
- Half year results planning with new audit firm
- Long term viability statement
- Cyber security project update and ten steps analysis

### July

- Half year financial statements and review with auditor
- Cyber Security update from KPMG
- Review of anti-bribery policy and procedures
- Cyber-security and IT Data update
- Risk Review and Long term viability update
- Review of D&O and PI insurances

### December

- Review of auditor's 2015 audit planning document
- Audit and Risk Committee's terms of reference; annual review
- Whistleblowing policy; annual review of process
- Investment and divestment policy; annual review
- Related party transaction policy review
- Review of risk register and risk appetite
- Going concern and long-term viability report
- Cyber security update
- Group KPI review

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

### Regulatory Compliance

Ensuring compliance for FCA regulated businesses also represents an important control risk from the perspective of the Audit Committee. An annual review is conducted internally to monitor compliance and an external evaluation is also conducted by a specialist firm. During the review in 2015, no particular issues were identified.

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

The Committee carried out a thorough review of the Group's 2015 Annual Report and Accounts and its 2015 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its portfolio companies during the year.

### Going Concern

Annually, the Committee considers the going concern principle on which the financial statements are prepared and also considers and approves the impairment review of goodwill prepared by management. As a business which seeks to establish and invest in new ventures as well as support existing investments with further capital, the business model is currently inherently cash consuming. Following the placing and open offer for gross proceeds of £128m at the end of March 2015, the Group has sufficient cash reserves to continue to provide capital to its existing portfolio and to create and fund new businesses at a similar rate to previous years for in excess of two years assuming broadly similar levels of net operating expenditure and portfolio realisations.

## Long Term Viability

During 2015, the Committee spent time discussing how best to assess the long term viability of the Group and it was decided to use the Group's board strategy 'away day' in October to evaluate four possible forecasts for the business, but judged against five topics. These topics included changes in the competitive landscape, the ability to raise further capital, internationalisation of the business, scaling of the business and different outcomes following an Oxford Nanopore 'exit' event, and the impact of these on each of the forecast scenarios was assessed. By working through each of these scenarios, the Board was able to make an assessment of the longer-term viability of the Group, and came to the conclusion that given the possibility of great changes in the business in all scenarios that the viability period should not be greater than three years.

## Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on pages 59 and 60. The principal risks the Group faces are set out on pages 36 to 41. During the year, the Audit Committee considered the Group risk register and related management controls at three separate meetings and the Board had a lengthy assessment of risk and its risk appetite towards its strategic priorities at the annual strategy off-site meeting in October. During that meeting, a heat map of risks assessed in 2015 was compared to a similar exercise for 2014 to see what had changed. Increased competition, an equity market downturn, insufficient returns from investments, excessive portfolio concentration and a difficulty scaling the university partnership model were all identified as areas of increasing risk since 2014 and mitigation plans to cope with each of these as well as with all of the other identified risks were discussed in the December Audit and Risk Committee.

## Whistleblowing Policy

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

## Cyber Security

During the year there was increased emphasis on cyber security in the Group with a general migration to cloud-based data storage services for security reasons, a general enhancement of user awareness training and an updating of encryption at the device level. An outside firm was engaged to undertake penetration testing as well as to mount bogus phishing 'attacks' to test general staff awareness of this ever-growing risk. Both the training and policies with respect to internet access were reviewed by an external third party and considered appropriate for the scale and nature of the business by a third party. In May the Committee assessed its progress against the UK Communications Electronic Security Group "10 steps to cyber security", noting that progress continued to be made in this increasingly important area.

## Internal audit

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

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

A risk assessment performed by operational management and the Board to identify key areas for assurance.

An annual assessment by the Audit Committee of the whole system of internal financial and operational controls.

The Audit Committee considers that a key area of risk in the business lies in the Group's investment and divestment policies and processes. The establishment of four sector-focused divisions within the Group in late 2014 following the acquisition of Fusion IP has given added momentum to the need to further formalise these policies and further progress was made in 2015, with the development of better historical record-keeping.

# Report of the Audit and Risk Committee continued

## External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In December, the Committee discussed the Auditor's audit plan for 2015. This included a summary of the proposed audit scope and a summary of what the Auditor considered to be the most significant financial reporting risks facing the Group together with the Auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the valuation of investments in portfolio companies, with particular focus on unquoted companies, including Oxford Nanopore Technologies Limited, the valuation of goodwill, and ensuring there had been regulatory compliance for those parts of the business covered by FCA regulations.

## Appointment and Independence

The Audit Committee advises the Board on the appointment of the external auditor and on its remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with the external auditor. The Committee keeps under review the cost-effectiveness and the independence and objectivity of the external auditor. Controls in place to ensure this include monitoring the independence and effectiveness of the audit, implementing a policy on the engagement of the external auditor to supply non-audit services, and a review of the scope of the audit and fee and performance of the external auditor. As part of this work, as described above, the Committee undertook a tender process for the Group's audit during 2014 that resulted in the appointment of KPMG LLP as auditor.

## Non-Audit Work

The Audit Committee approves all fees paid to the auditor for non-audit work. Since its appointment as the Group's Auditor, KPMG LLP has not undertaken any non-audit work, the Committee having preferred to engage other firms to perform tax advisory work and other consulting engagements to ensure that the independence of the Auditor is not compromised. Where appropriate, the Committee may sanction the use of KPMG LLP for non-audit services in accordance with the Group's non-audit services policy but has so far chosen not to do so. An analysis of audit and non-audit fees is provided in note 6 to the financial statements on page 116.

## Auditor Independence

A formal statement of independence is received from the auditor each year and the Board and the Audit Committee are satisfied that the independence of the auditor, first appointed in May 2014, has been maintained.

## Auditor Effectiveness

The Committee will complete its formal assessment of the effectiveness of the Group's external auditor following the completion of the 2015 audit cycle and will report on this assessment in the 2016 annual report. With respect to the 2014 audit, the Committee formally considered this at its May 2015 meeting and decided that the approach taken by the auditor, Jon Mills of KPMG, had been very effective. In particular, the Committee appreciated his attendance at the year-end valuation meeting in December, the structured approach to preparatory planning work before the year end to assist a smooth audit timetable, and the substantive nature of the audit work undertaken, with 87% of unquoted and 100% of quoted assets being reviewed as part of the audit. Specialist corporate finance staff were also used for some of the valuation work and overall, the auditor's risk-based approach drew on both their rapidly-gained knowledge of the business but also the wider economic and business environment.

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

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

29 February 2016



# Directors' Report

## Report of the Directors

The Directors present their report together with the audited financial statements for IP Group plc and its subsidiaries for the year ended 31 December 2015.

## Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 50 to 61 and is incorporated into this Directors' report by reference.

## Results and dividends

During the period, the Group made an overall profit after taxation for the year ended 31 December 2015 of £75.1m (2014: £9.5m profit). The directors do not recommend the payment of a dividend (2014: £nil).

## Directors

The names of directors who currently hold office or did so during 2015 are as follows:

### Executive Directors

Alan Aubrey  
Mike Townsend  
Greg Smith  
David Baynes

### Non-executive Directors

Mike Humphrey  
(Chairman with effect from 24 March 2015)  
Dr Bruce Smith (retired 24 March 2015)  
Jonathan Brooks  
Doug Liversidge  
Prof Lynn Gladden  
Dr Elaine Sullivan (appointed 30 July 2015)

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

## Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described on pages 34 to 41 and in the Corporate Governance report on pages 59 to 60. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

## Significant agreements

The Group has entered into various agreements to form partnerships with 14 UK universities and three US universities. In addition, the Group has entered into agreements to act as general partner and investment manager to three limited partnerships. Further, in 2015, the Group entered into a Finance Agreement with the European Investment Bank in relation to a £30m debt facility. Further details can be found in the strategic report and in the notes to the financial statements.

## Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 19 to the consolidated financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the "Articles") and prevailing legislation.

At the last Annual General Meeting of the Company held on 12 May 2015 (the "2015 AGM"), authority was given to the Directors pursuant to the relevant provisions of the Companies Act 2006 to allot *unissued relevant securities in the Company* up to a maximum amount equivalent to approximately one-third of the issued ordinary share capital on 8 April 2015 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2016. In addition, at the 2015 AGM, the Directors were also given authority effective for the same period as the aforementioned authority to allot relevant securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 8 April 2015 in connection with an offer by way of a fully pre-emptive rights issue. The Directors propose to renew both of these authorities at the Company's next AGM to be held on 12 May 2016. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2015 AGM granted authority to the Directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006, both: (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 8 April 2015 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 8 April 2015, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 1 August 2016. The former of these authorities has

# Directors' Report continued

not been used during the year. The latter of these authorities was used in a connection with the equity fundraising to raise approximately £55.1m which was completed by the Group on 14 May 2015. The Directors will seek to renew these authorities for a similar period at the next AGM to be held on 12 May 2016.

Under the Companies Act 2006, the Company has the power to purchase its own shares in accordance with Part 18, Chapter 5 of the Companies Act 2006. At the 2015 AGM, a special resolution was passed which granted the Directors authority to make market purchases of the Company's shares pursuant to these provisions of the Companies Act 2006 up to a maximum of approximately 10% of the Company's issued share capital on 8 April 2015 provided that the authority granted set a minimum and maximum price at which purchases can be made and is exercisable at any time up to the earlier of the conclusion of the next AGM and 1 August 2016. This authority has not been used during the year. The Directors will seek to renew the authority within similar parameters and for a similar period at the next AGM to be held on 12 May 2016.

## Articles of Association

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

## Substantial shareholders

As at 29 February 2016, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its Directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Limited	25.9
Woodford Investment Management LLP	12.4
Lansdowne Partners	12.4
Baillie Gifford & Co	9.2
Sand Aire Limited	5.1
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	3.7

## Political donations

The Group did not make any political donations during 2015.

## Corporate and social responsibility

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including details of its greenhouse gas emissions, are included in the Sustainability section on pages 42 to 45.

## Directors' indemnity and liability insurance

During the year, the Company has maintained liability insurance in respect of its Directors. Subject to the provisions of the Companies Act 2006, the Articles provide that to the extent that the proceeds of any liability insurance are insufficient to meet any liability in full, every Director is entitled to be indemnified out of the funds of the Company against any liabilities incurred in the execution or discharge of his or her powers or duties. A copy of the indemnity is available for inspection as required by the Companies Act 2006.

## Regulation

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

## Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the strategic report and in note 26 to the Group financial statements.

## Disclosure of information to auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

## Appointment of auditor

A resolution to reappoint KPMG LLP, together with a resolution to authorise the Directors to determine their remuneration, will be proposed at the AGM to be held on 12 May 2016.

ON BEHALF OF THE BOARD

Angela Leach  
Company Secretary

29 February 2016



# Statement of Directors' Responsibilities

## In respect of the Annual Report and the Financial Statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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

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

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

We confirm that to the best of our knowledge:

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

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

ON BEHALF OF THE BOARD

**Mike Humphrey**  
Chairman

29 February 2016



# Deliver

To deliver attractive financial returns  
from our assets



## Did you know that...

...Modern Biosciences plc, the Group's drug-discovery subsidiary, achieved three developmental milestones in its agreement with Janssen Biotech, Inc. in 2015, triggering gross payments totalling £8.0m? The goal of the collaboration is to develop new drugs for the treatment of rheumatoid arthritis and the agreement could be worth up to £176m in upfront and milestone payments in addition to future royalties.

## Our Financials

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# Independent Auditor's Report

to the Members of IP Group plc only

## Opinions and conclusions arising from our audit

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

We have audited the financial statements of IP Group plc for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the Group Consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet, the Company statement of changes in equity and the related notes. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

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

Refer to page 87 (Audit and Risk Committee Report), pages 107 and 108 (accounting policy) and pages 121 and 122 (financial disclosures).

- The risk — 42.3% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using

measurements of value such as prices of recent investment. Due to the relatively low number of investors partaking in funding rounds, there is a risk that recent investments on which fair value is based are not sufficiently at arm's length to ensure an independent market valuation representative of fair value. Furthermore, due to the nature of the Group's investment portfolio, funding rounds can be more than 12 months apart. Whether it remains appropriate to use the price of the recent investment depends on the specific circumstances of the investment and the stability of the external environment. There is therefore a significant risk over the valuation of these investments and this is one of the key judgmental areas that our audit focused on.

- Our response — In this area our audit procedures included using our own valuation specialist to assist us in:
  - For a selection of individually significant investments, assessing whether the price of recent investment is an appropriate basis for the measurement of the fair value applied to year end valuations by evaluating the independence of the funding rounds on which this valuation is based.
  - Conducting independent research into publically available information for indicators of fair value adjustment, considering the valuation techniques applied against IPEV guidelines and agreeing key elements to appropriate support.
  - For individually significant investments valued based on a funding round aged greater than 12 months, seeking independent evidence to support the events since the most recent investment as communicated to us by IP Group's business building team, for example external news sources, and critically assessing these events as potential indicators of fair value adjustment.
  - Attending the year-end valuation meetings with the Directors and senior finance personnel to assess their discussion and review of the investment valuations.
  - Considering the appropriateness, in accordance with relevant accounting standards, of the disclosures related to unquoted investments

**Carrying value of goodwill (£57.1m):**

Refer to page 88 (Audit and Risk Committee Report), page 106 (accounting policy) and pages 118 and 119 (financial disclosures).

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

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

The materiality for the Group financial statements as a whole was set at £8.17m (2014: £8.2m), determined with reference to a benchmark of Group total assets, of which it represents 1%, reflecting industry consensus levels (2014: 1.5%).

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

Of the Group's 26 components, the Group audit team subjected 9 to audits for Group audit purposes. Due to the nature of the Group's operations and the audit approach, aggregation risk was deemed to be low and component materiality was set at £8.0m. These 9 entities account for 99.5% of the Group's revenue, 98.3% of absolute total profits and losses that made up the Group's profit before tax and 98.1% of the Group's total assets.

For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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

In our opinion:

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

# Independent Auditor's Report continued

to the Members of IP Group plc only

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

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

- the directors' statement of long term viability on page 41, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 61 and 41, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 50 to 61 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

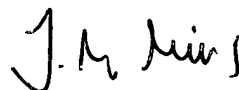
We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 93, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

29 February 2016



# Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	14	86.4	20.7
Profit/(loss) on disposal of equity investments		(0.2)	1.6
Change in fair value of limited and limited liability partnership interests	22	0.4	0.5
Other portfolio income		0.2	0.2
Licensing income		8.1	3.0
Revenue from services and other income		3.4	2.4
		<b>98.3</b>	<b>28.4</b>
<b>Administrative expenses</b>			
Research and development costs		(2.0)	(1.5)
Share-based payment charge	21	(1.5)	(0.9)
Change in fair value of Oxford Equity Rights asset		(1.3)	(1.8)
Amortisation of intangible assets		(6.0)	(4.9)
Acquisition costs		—	(1.1)
Other administrative expenses		(13.7)	(9.3)
		<b>(24.5)</b>	<b>(19.5)</b>
<b>Operating profit</b>	7	<b>73.8</b>	<b>8.9</b>
Finance income — interest receivable		1.3	0.6
<b>Profit before taxation</b>		<b>75.1</b>	<b>9.5</b>
Taxation	9	—	—
<b>Profit for the year</b>		<b>75.1</b>	<b>9.5</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		0.1	—
<b>Total comprehensive income for the period</b>		<b>75.2</b>	<b>9.5</b>
<b>Attributable to:</b>			
Equity holders of the parent		73.9	9.1
Non-controlling interest		1.3	0.4
		<b>75.2</b>	<b>9.5</b>
<b>Earnings per share</b>			
Basic (p)	10	13.66	1.97
Diluted (p)	10	13.63	1.96

# Consolidated statement of financial position

As at 31 December 2015

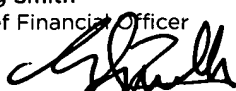
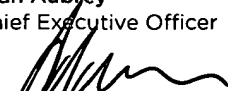
	Note	2015 £m	2014 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
Goodwill	11	57.1	57.1
Acquired intangible assets	12	10.5	16.5
Property, plant and equipment		0.2	0.2
Oxford Equity Rights asset and related contract costs		—	1.3
Portfolio:			
Equity investments	14	543.1	345.9
Debt investments	14	9.1	4.0
Limited and limited liability partnership interests	22	4.4	4.6
Other financial asset		—	—
Contingent value rights	16	1.4	1.4
<b>Total non-current assets</b>		<b>625.8</b>	<b>431.0</b>
<b>Current assets</b>			
Trade and other receivables	15	3.2	4.8
Deposits		70.0	30.0
Cash and cash equivalents		108.8	67.3
<b>Total current assets</b>		<b>182.0</b>	<b>102.1</b>
<b>Total assets</b>		<b>807.8</b>	<b>533.1</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the parent			
Share capital	19	11.3	9.6
Share premium account		504.7	327.6
Merger reserve		12.8	12.8
Retained earnings		251.6	176.2
<b>Total equity attributable to equity holders</b>		<b>780.4</b>	<b>526.2</b>
Non-controlling interest		1.5	—
<b>Total equity</b>		<b>781.9</b>	<b>526.2</b>
<b>Current liabilities</b>			
Trade and other payables	17	3.9	2.1
<b>Non-current liabilities</b>			
EIB debt facility	18	14.9	—
Loans from limited partners of consolidated funds	18	7.1	4.5
Contingent loans from university partners		—	0.3
<b>Total equity and liabilities</b>		<b>807.8</b>	<b>533.1</b>

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 99 to 134 were approved by the Board of Directors and authorised for issue on 29 February 2016 and were signed on its behalf by:

Greg Smith  
Chief Financial Officer

Alan Aubrey  
Chief Executive Officer

# Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
<b>Operating activities</b>			
Total comprehensive income for the period		75.2	9.5
<b>Adjusted for:</b>			
Finance income — interest receivable		(1.3)	(0.6)
Change in fair value of equity and debt investments	14	(86.4)	(20.7)
Change in fair value of limited and limited liability partnership interests		(0.4)	(0.5)
Loss/(profit) on disposal of equity investments		0.2	(1.6)
Depreciation of property, plant and equipment		0.1	0.1
Amortisation of intangible non-current assets	12	6.0	4.9
Change in fair value of Oxford equity rights asset		1.3	1.8
Fees settled in the form of equity		(0.7)	—
Share-based payment charge		1.5	0.9
Other portfolio income classified as investing activities cash flows		(0.1)	(0.2)
<b>Changes in working capital</b>			
Decrease/(increase) in trade and other receivables		2.2	(3.2)
Increase/(decrease) in trade and other payables		1.9	(0.5)
Increase in non-current liabilities		2.2	3.2
Net cash flow to deposits		(40.0)	(25.0)
<b>Other operating cash flows</b>			
Interest received		0.7	0.5
<b>Net cash outflow from operating activities</b>		<b>(37.6)</b>	<b>(31.4)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		—	(0.1)
Purchase of equity and debt investments	14	(115.9)	(46.8)
Investment in limited and limited liability partnerships		—	(0.3)
Acquisition of subsidiary undertakings		—	—
Proceeds from sale of equity investments		0.6	9.7
Distributions from limited and limited liability partnerships		0.6	1.1
Proceeds from other financial asset		—	0.8
Other portfolio income received		0.1	0.2
<b>Net cash outflow from investing activities</b>		<b>(114.6)</b>	<b>(35.4)</b>
<b>Financing activities</b>			
Proceeds from the issue of share capital		178.8	97.4
Proceeds from drawdown of EIB facility	18	14.9	—
Proceeds from acquisition of subsidiary		—	17.6
<b>Net cash inflow from financing activities</b>		<b>193.7</b>	<b>115.0</b>
<b>Net increase in cash and cash equivalents</b>		<b>41.5</b>	<b>48.2</b>
Cash and cash equivalents at the beginning of the year		67.3	19.1
<b>Cash and cash equivalents at the end of the year</b>		<b>108.8</b>	<b>67.3</b>

# Consolidated statement of changes in equity

For the year ended 31 December 2015

	Attributable to equity holders of the parent					Non-controlling interest <sup>(iv)</sup>	Total equity
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	Total £m		
At 1 January 2014	7.5	150.4	12.8	166.3	337.0	(0.4)	336.6
Comprehensive income	—	—	—	9.1	9.1	0.4	9.5
Issue of equity	2.0	177.2	—	—	179.2	—	179.2
Issue of shares in connection with LTIP	0.1	—	—	(0.1)	—	—	—
Equity settled share based payments	—	—	—	0.9	0.9	—	0.9
<b>At 1 January 2015</b>	<b>9.6</b>	<b>327.6</b>	<b>12.8</b>	<b>176.2</b>	<b>526.2</b>	<b>—</b>	<b>526.2</b>
Comprehensive income	—	—	—	73.9	73.9	1.3	75.2
Issue of equity	1.7	177.1	—	—	178.8	0.2	179.0
Issue of shares in connection with LTIP	—	—	—	—	—	—	—
Equity-settled share-based payments	—	—	—	1.5	1.5	—	1.5
<b>At 31 December 2015</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>251.6</b>	<b>780.4</b>	<b>1.5</b>	<b>781.9</b>

(i) Share premium — Amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

(ii) Merger reserve — Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings.

(iii) Retained earnings — Cumulative net gains and losses recognised in the consolidated statement of comprehensive income net of associated share-based payments credits.

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



# Notes to the consolidated financial statements

## 1. Accounting Policies

### Basis of preparation

The Annual Report and Accounts of IP Group plc ("IP Group" or the "Company") and its subsidiary companies (together, the "Group") are for the year ended 31 December 2015. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs").

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

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

### Changes in accounting policies

#### (i) New standards, interpretations and amendments effective from 1 January 2015

No new standards, interpretations and amendments effective for the first time from 1 January 2015 have had a material effect on the Group's financial statements.

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

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

##### IFRS 15 Revenue from Contracts with Customers:

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

##### IFRS 9 Financial Instruments:

IFRS 9 will eventually replace IAS 39 in its entirety. The process has been divided into three main components, being classification and measurement; impairment; and hedge accounting. The Group provisionally assesses the potential effect to be immaterial given the majority of its financial assets are currently held at fair value through profit or loss. The current proposed effective date is 1 January 2018.

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

### Basis of consolidation

#### (i) Business Combinations

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

# Notes to the consolidated financial statements

continued

## 1. Accounting Policies continued

### (ii) Subsidiaries

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

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

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

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

### (iii) Associates

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

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

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 11 of the Company financial statements to these financial statements. Similarly, those investments which may not have qualified as Associate but fall within the wider scope of significant holdings and so are subject to Section 409 disclosure acts are also included in Note 11 of the Company financial statements.

### (iv) Limited Partnerships and Limited Liability Partnerships ("Limited Partnerships")

#### Limited Partnerships

Group entities act as general partner and investment manager to the following Limited Partnerships:

Name	Interest in limited partnership %
IP Venture Fund II LP ("IPVFII")	33.3
IP Venture Fund ("IPVF")	10.0
The North East Technology Fund LP ("NETF")	—

The Group receives compensation for its role as investment manager to these Limited Partnerships including fixed fees and performance fees. The directors consider that these amounts are in substance and form “normal market rate” compensation for its role as investment manager.

In order to determine whether these Limited Partnerships were required to be consolidated, the presence of the three elements of control noted in part (ii) was examined.

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

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

Similarly, the lack of a stake in NETF indicates the Group's role as an agent for the limited partner. As a result, the Directors consider that the Group does not have the power to govern the operations of these limited partnerships so as to obtain benefits from their activities and accordingly do not meet the definition of a subsidiary under IFRS 10 Consolidated Financial Statements. However the Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group's accounting treatment for the interest in IPVF is consistent with that of associates as described earlier in this report, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

#### Limited Liability Partnerships

The Group has a 17.9% interest in the total capital commitments of Technikos LLP (“Technikos”). The general partner and investment manager of Technikos are parties external to the Group.

#### (v) Non-controlling interests

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

### Portfolio return and revenue

#### Change in fair value

Change in fair value of equity and debt investments represents revaluation gains and losses on the Group's portfolio of investments. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the start of the accounting period on the disposal of equity investments. Change in fair value of Limited Partnership investments represents revaluation gains and losses on the Group's investments in Limited Partnership funds. Changes in fair values of assets do not constitute revenue.

#### Revenue from services and other income

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

##### Advisory fees:

Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded. In some instances, these fees are settled via the issue of equity in the company receiving the corporate finance services at the same price per share as equity issued as part the financing round to which the advisory fees apply.

# Notes to the consolidated financial statements

continued

## 1. Accounting Policies continued

### Fund management services:

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

### Licence income:

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

### Dividends:

Dividends receivable from equity shares are included within other portfolio income and recognised on the ex-dividend date or, where no ex-dividend date is quoted, are recognised when the Group's right to receive payment is established.

### Property, plant and equipment

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

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

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

### Intangible assets

#### Goodwill

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

#### Other intangible assets

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

### Impairment of intangible assets (including goodwill)

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

### Financial assets

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

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

## Financial assets continued

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

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

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

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

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

### Fair value hierarchy

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

Level 1 — Quoted prices in active markets.

Level 2 — Inputs other than quoted prices that are observable, such as prices from market transactions. These are mainly based on prices determined from recent investments in the last twelve months.

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

### Equity investments

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

#### Cost

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

#### Price of recent investment

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

# Notes to the consolidated financial statements

continued

## 1. Accounting Policies continued

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

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

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

### Other valuation techniques

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

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

### No reliable estimate

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

**Debt investments**

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

**Equity rights**

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

**Contingent value rights**

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

**(ii) Loans and receivables**

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

**Deposits**

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

**Cash and cash equivalents**

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

**Financial liabilities**

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

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

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

# Notes to the consolidated financial statements

continued

## 1. Accounting Policies continued

### Share capital

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

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

### Employee benefits

#### (i) Pension obligations

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

#### (ii) Share-based payments

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

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

The fair value at the date of grant is recognised as an expense over the period that the employee provides services, generally the period between the start of the performance period and the vesting date of the shares. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

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

### Deferred tax

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

### Leases

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



## 2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 34 to 41, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

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

### (a) Market risk

#### (i) Price risk

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

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

The Group holds investments which are publicly traded on AIM (20 companies) and investments which are not traded on an active market.

The net increase in fair value of the Group's equity and debt investments during 2015 of £86.4m represents a 25% change against the opening balance (2014: net increase of £20.7m, 7%) 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.

	2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	2.0	3.6	5.6	1.4	2.1	3.5

#### (ii) Interest rate risk

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

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

#### (iii) Concentrations of risk

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

# Notes to the consolidated financial statements

continued

## 2. Financial Risk Management continued

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.

	2015				2014			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
<b>Financial assets</b>								
Equity rights	—	—	—	—	—	—	1.1	1.1
Equity investments	—	—	543.1	543.1	—	—	345.9	345.9
Debt investments	0.2	—	8.9	9.1	0.2	—	3.8	4.0
Limited and limited liability partnership interests	—	—	4.4	4.4	—	—	4.6	4.6
Contingent value rights	—	—	1.4	1.4	—	—	1.4	1.4
Deposits	70.0	—	—	70.0	30.0	—	—	30.0
Cash and cash equivalents	—	108.8	—	108.8	—	67.3	—	67.3
Trade receivables	—	—	3.0	3.0	—	—	4.8	4.8
Other receivables	—	—	0.2	0.2	—	—	—	—
	70.2	108.8	561.0	740.0	30.2	67.3	361.6	459.1
<b>Financial liabilities</b>								
Trade payables	—	—	(0.7)	(0.7)	—	—	(1.5)	(1.5)
Other accruals and deferred income	—	—	(3.2)	(3.2)	—	—	(0.6)	(0.6)
Loans from limited partners of consolidated funds	—	—	(7.1)	(7.1)	—	—	(4.5)	(4.5)
EIB debt facility	—	(14.9)	—	(14.9)	—	—	—	—
	—	(14.9)	(11.0)	(25.9)	—	—	(6.6)	(6.6)

At 31 December 2015, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £1.1m (2014: £0.7m) higher/lower as a result of higher interest received on floating rate cash deposits.

### (b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group's Treasury Management Policy asserts that at any one point in time no more than 60% of the Group's cash and cash equivalents will be placed in fixed-term deposits with a holding period greater than three months. Accordingly, the Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

### (c) Credit risk

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by making short-term deposits with counterparties, or by investing in treasury funds with an "AA" credit rating or above managed by institutions. Short-term deposit counterparties are required to have most recently reported total assets in excess of £5bn and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2015 £m	2014 £m
P1	126.3	68.7
P2	52.5	28.6
AA	—	—
Total deposits and cash and cash equivalents	178.8	97.3

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2015 was £50m (2014: £25m).

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

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

### 3. Significant Accounting Estimates and Judgements

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

#### (i) Valuation of unquoted equity investments

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

#### (ii) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using a number of value-in-use and fair-value-less-costs-to-sell calculations. The use of these methods requires the estimation of future cash flows, and the selection of a suitable discount rate, in order to calculate the present value of these cash flows as well as the selection of applicable and reasonable multiples.

#### (iii) Acquired intangible assets

At the date of its acquisition by IP Group, Fusion IP had contractual arrangements with four UK universities. The Group separately recognised each of these contractual arrangements as an intangible asset at its fair value at acquisition date. As the intangible assets are not quoted on an active market, the fair value at acquisition date was determined by averaging the inflation- and venture capital industry activity-adjusted true cost of all university contracts that IP Group was aware of and that have had costs associated with those contracts.

As the contractual agreements are for a finite term, the intangible assets are subsequently measured at amortised cost. Amortisation will occur over the remaining term (or useful life) of each contractual arrangement with each of the four universities.

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

# Notes to the consolidated financial statements

continued

## 4. Revenue from Services

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

## 5. Operating Segments

For both the year ended 31 December 2015 and the year ended 31 December 2014, the Group's revenue and profit/loss before taxation were derived almost entirely from its principal activities within the UK. Though the Group has initiated operations in the US, the associated revenues and costs are currently immaterial and accordingly, no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partner relationships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Strategic report on pages 1 to 45.

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

Year ended 31 December 2014	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	20.7	—	—	20.7
Gain on disposal of equity investments	1.6	—	—	1.6
Change in fair value of limited and limited liability partnership interests	0.5	—	—	0.5
Other portfolio income	0.2	—	—	0.2
Licensing income	—	—	3.0	3.0
Revenue from services and other income	0.8	0.3	—	1.1
Revenue from fund management services	—	1.3	—	1.3
Change in fair value of Oxford Equity Rights asset	(1.8)	—	—	(1.8)
Amortisation of intangible assets	(4.9)	—	—	(4.9)
Administrative expenses	(9.5)	(1.4)	(1.9)	(12.8)
<b>Operating profit</b>	<b>7.6</b>	<b>0.2</b>	<b>1.1</b>	<b>8.9</b>
Finance income — interest receivable	0.6	—	—	0.6
Profit before taxation	8.2	0.2	1.1	9.5
Taxation	—	—	—	—
<b>Profit and total comprehensive income for the year</b>	<b>8.2</b>	<b>0.2</b>	<b>1.1</b>	<b>9.5</b>
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	520.6	9.4	3.1	533.1
Liabilities	(5.8)	(0.1)	(1.0)	(6.9)
<b>Net assets</b>	<b>514.8</b>	<b>9.3</b>	<b>2.1</b>	<b>526.2</b>
<b>Other segment items</b>				
Capital expenditure	(0.1)	—	—	(0.1)
Depreciation	(0.1)	—	—	(0.1)

# Notes to the consolidated financial statements

continued

## 6. Auditor's Remuneration

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

	2015 £'000s	2014 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	73	70
The audit of the Company's subsidiaries, pursuant to legislation	87	94
Total fees for audit services	160	164
Audit-related assurance services	20	33
Total assurance services	180	197
Tax compliance services	—	—
Taxation advisory services	—	—
All other services	—	—
Total non-assurance services	—	—
	180	197

## 7. Operating Profit

Operating profit has been arrived at after charging:

	2015 £m	2014 £m
Amortisation of intangible assets	(6.0)	(4.9)
Depreciation of tangible assets	(0.1)	(0.1)
Employee costs (see note 8)	(8.8)	(6.1)
Operating leases — property	(0.4)	(0.4)
(Loss)/profit on disposal of equity investments	(0.2)	1.6

## 8. Employee Costs

Employee costs (including directors) comprise:

	2015 £m	2014 £m
Salaries	5.5	4.4
Defined contribution pension cost	0.3	0.3
Share-based payment charge (see note 21)	1.5	0.9
Other bonuses accrued/(released) in the year	0.7	(0.1)
Social security	0.8	0.6
	8.8	6.1

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 64, all of whom were involved in management and administration activities (2014: 49). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 62 to 86

## 9. Taxation

	2015 £m	2014 £m
Current tax	—	—
Deferred tax	—	—

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

	2015 £m	2014 £m
Profit before tax	75.1	9.5
Tax at the UK corporation tax rate of 20.3% (2014: 21.5%)	15.2	2.0
Expenses not deductible for tax purposes	1.4	1.3
Non-taxable income	—	—
Fair value movement on investments qualifying for SSE	(18.8)	(3.4)
Movement on share-based payments	(0.6)	(1.0)
Unrecognised other temporary differences	1.3	(2.1)
Movement in tax losses arising not recognised	1.5	3.2
Tax credit	—	—

At 31 December 2015, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £105.5m (2014: £62.7m). An analysis is shown below:

	2015		2014	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs and other temporary differences	6.0	1.1	5.0	1.0
Unused tax losses	99.5	17.9	57.7	11.5
	105.5	19.0	62.7	12.5

At 31 December 2015, deductible temporary differences and unused tax losses, for which a deferred tax asset/ (liability) has been recognised, totalled £nil (2014: £nil). An analysis is shown below:

	2015		2014	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	(4.4)	(0.8)	11.3	2.3
Unused tax losses	4.4	0.8	(11.3)	(2.3)
	—	—	—	—

# Notes to the consolidated financial statements

continued

## 10. Earnings per Share

Earnings	2015 £m	2014 £m
Earnings for the purposes of basic and dilutive earnings per share	73.9	9.1
<b>Number of shares</b>	<b>2015 Number of shares</b>	<b>2014 Number of shares</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	540,681,647	462,466,944
Effect of dilutive potential ordinary shares:		
Options or contingently issuable shares	1,237,274	2,523,968
Weighted average number of ordinary shares for the purposes of diluted earnings per share	541,918,921	464,990,912

The Group has only one class of potentially dilutive ordinary share. These are contingently issuable shares or shares that may be issued to meet the exercise of options arising from the Group's existing and former employee incentive schemes.

## 11. Goodwill

	£m
At 1 January 2014	18.4
Recognised on acquisition of subsidiary	37.1
At 1 January 2015	57.1
<b>At 31 December 2015</b>	<b>57.1</b>

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

	2015 £m	2014 £m
University partnership CGU	55.0	55.0
Fund management CGU	2.1	2.1
	<b>57.1</b>	<b>57.1</b>



### Impairment review of venture capital fund management CGU

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

	2015	2014
Discount rate	9%-11%	9%-11%
Number of funds under management	3	3
Management fee	2%-3.5%	2%-3.5%
Cost inflation	2%	3%
Percentage of assets under management	2%-7%	2%-7%

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

### Impairment review of the university partnership CGU

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

For the purposes of impairment testing, the university partnership CGU comprises those elements connected with the Group's university partnership business other than those that specifically arose as a result of the Group's now expired contract with the University of Oxford's Department of Chemistry which were used in the valuation of that asset prior to its expiry. The Directors consider that for each of the key variables which would be relevant in determining a recoverable value for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2015 £m	2014 £m
Number of spin-out companies per year	10-15	10-15
Annual investment rate	£40m-£60m	£40m-£60m
Rate of return achieved	18%-22%	18%-22%
Initial equity stake acquired by the Group under the university partnership	15%-35%	15%-35%
Proportion of spin-out companies failing	32%-45%	32%-45%
Weighted average holding period (years)	3-5	3-5
Dilution rates prior to exit as a result of financing for spin-out companies	40%-60%	40%-60%
Proportion of IPO exits	25%-35%	25%-35%
IPO exit valuations	£30m-£40m	£30m-£40m
Proportion of disposal exits	28%-32%	28%-32%
Disposal valuations	£25m-£35m	£25m-£35m
Discount rate	9%-11%	9%-11%

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

# Notes to the consolidated financial statements

continued

## 12. Intangible Assets

	£m
<b>Cost</b>	
At 1 January 2015	21.4
<b>At 31 December 2015</b>	<b>21.4</b>
<b>Accumulated amortisation</b>	
At 1 January 2015	4.9
Charge for the year	6.0
<b>At 31 December 2015</b>	<b>10.9</b>
<b>Net book value</b>	
<b>At 31 December 2015</b>	<b>10.5</b>
At 31 December 2014	16.5

The intangible assets represent contractual arrangements and memorandums of understanding with four UK universities acquired through acquisition of a subsidiary. The contractual arrangements have fixed terms and, consequently, the intangible assets have a finite life which align with the remaining terms which, at the end of the period, range from 11 months to 32 months. The individual contractual arrangements are amortised in a straight line over the remainder of their terms with the expense being presented directly on the primary statements.

## 13. Categorisation of Financial Instruments

	At fair value through profit or loss		Loans and receivables £m	Total £m
	Held for trading £m	Designated upon initial recognition £m		
<b>Financial assets</b>				
<b>At 31 December 2015</b>				
Equity rights	—	—	—	—
Equity investments	—	543.1	—	543.1
Debt investments	—	9.1	—	9.1
Other financial assets	—	—	—	—
Contingent value rights	—	1.4	—	1.4
Limited and limited liability partnership interests	—	4.4	—	4.4
Trade and other receivables	—	—	3.2	3.2
Deposits	—	—	70.0	70.0
Cash and cash equivalents	—	—	108.8	108.8
<b>Total</b>	<b>—</b>	<b>558.0</b>	<b>182.0</b>	<b>740.0</b>
<b>At 31 December 2014</b>				
Equity rights	1.3	—	—	1.3
Equity investments	—	345.9	—	345.9
Debt investments	—	4.0	—	4.0
Other financial assets	—	—	—	—
Contingent value rights	—	1.4	—	1.4
Limited and limited liability partnership interests	—	4.6	—	4.6
Trade and other receivables	—	—	4.8	4.8
Deposits	—	—	30.0	30.0
Cash and cash equivalents	—	—	67.3	67.3
<b>Total</b>	<b>1.3</b>	<b>355.9</b>	<b>102.1</b>	<b>459.3</b>

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

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2014: £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 (2014: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

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

## 14. Investment Portfolio

	Level 1	Level 2	Level 3		
	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	
				Total £m	
At 1 January 2015	138.2	193.2	4.0	14.5	349.9
Investments during the year	26.2	82.3	7.1	0.3	115.9
Transaction-based reclassifications during the year	2.3	(1.4)	(0.9)	—	—
Other transfers between hierarchy levels during the year	24.6	(50.9)	0.1	26.2	—
Disposals	—	—	(0.3)	(0.5)	(0.8)
Fees settled via equity	—	0.7	—	—	0.7
Change in fair value in the year <sup>(1)</sup>	10.0	84.7	(0.9)	(7.3)	86.5
<b>At 31 December 2015</b>	<b>201.3</b>	<b>308.6</b>	<b>9.1</b>	<b>33.2</b>	<b>552.2</b>
At 1 January 2014	135.1	131.0	2.8	17.0	285.9
Investments during the year	11.4	32.8	2.6	—	46.8
Acquired with Fusion	—	11.1	2.4	11.4	24.9
Fusion reclassified as subsidiary	(20.5)	—	—	—	(20.5)
Transaction-based reclassifications during the year	—	3.1	(3.1)	—	—
Other transfers between hierarchy levels during the year	20.4	(12.3)	—	(8.1)	—
Disposals	(5.7)	(2.2)	—	—	(7.9)
Change in fair value in the year	(2.5)	29.7	(0.7)	(5.8)	20.7
<b>At 31 December 2014</b>	<b>138.2</b>	<b>193.2</b>	<b>4.0</b>	<b>14.5</b>	<b>349.9</b>

<sup>(1)</sup> The change in fair value in the year includes a gain of £0.1m in exchange differences on translating foreign currency investments, which is entirely attributable to Level 2 equity.

# Notes to the consolidated financial statements

continued

## 14. Investment Portfolio continued

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 21 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions.

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

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

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

If the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company. The effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

Transfers between Level 2 and Level 1 occur when a previously unquoted investment undertakes an initial public offering, resulting in its equity becoming quoted on an active market. In the current period, transfers of this nature amounted to £35.0m.

Transfers between Level 1 and Level 2 would occur when a quoted investment's market becomes inactive, or the portfolio company elects to delist. There has been one such instance in the current period which amounted to £0.1m.

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

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

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

### Change in fair value in the year

	2015 £m	2014 £m
Fair value gains	115.4	63.2
Fair value losses	(29.0)	(42.5)
	86.4	20.7

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

## 15. Trade and Other Receivables

	2015 £m	2014 £m
Trade debtors	3.0	4.6
Prepayments	0.2	0.2
Other receivables	—	—
	<b>3.2</b>	<b>4.8</b>

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.

## 16. Contingent Value Rights

As a result of the disposal of Proximagen Group plc in August 2012, the Group received contingent consideration, in the form of contingent value rights ("CVRs"), based upon future net revenues of two associated drug programmes. In line with the Group's policies, these have been recognised as financial assets at fair value through profit and loss, and have been fair valued at £1.4m (2014: £1.4m). The Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years. If the assumptions used in the valuation techniques are varied by using a range of possible alternatives, there is no material difference to the statement of financial position nor the consolidated statement of comprehensive income.

## 17. Trade and Other Payables

	2015 £m	2014 £m
<b>Current liabilities</b>		
Trade payables	0.7	1.3
Social security expenses	0.2	0.2
Other accruals and deferred income	3.0	0.6
	<b>3.9</b>	<b>2.1</b>

## 18. Borrowings

	2015 £m	2014 £m
<b>Non-current liabilities</b>		
Loans drawn down from the Limited Partners of consolidated funds	7.1	4.5
EIB debt facility	14.9	—
Contingent loans from university partners	—	0.3
	<b>22.0</b>	<b>4.8</b>

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

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

# Notes to the consolidated financial statements

continued

## 18. Borrowings continued

### EIB debt facility

On 8 July 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank. The facility is to be disbursed in two tranches, with the first tranche of £15m being drawn down during the period (£14.9m net of expenses). The Group will use the proceeds to continue to fund UK university spin-out companies as they develop and mature.

A non-utilisation fee of 0.15% is charged over the undrawn element of the facility. In 2015, due to the timings of the arrangement of the facility, the non-utilisation fee charged was £nil.

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

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

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

## 19. Share Capital

	2015		2014	
	Number	£m	Number	£m
<b>Issued and fully paid:</b>				
<b>Ordinary Shares of 2p each</b>				
At 1 January	479,524,397	9.6	375,258,859	7.5
Issued under share placings	83,388,888	1.7	60,606,060	1.2
Issued under Fusion IP plc acquisition	—	—	39,150,484	0.8
Issued under employee share plans	1,734,883	—	4,508,994	0.1
<b>At 31 December</b>	<b>564,648,168</b>	<b>11.3</b>	<b>479,524,397</b>	<b>9.6</b>

The Company has one class of ordinary shares with a par value of 2p ("Ordinary Shares") which carry equal voting rights, equal rights to income and distributions of assets on liquidation, or otherwise, and no right to fixed income.

In March 2015, the Group issued 56,888,888 new Ordinary Shares as part of a fundraising which raised £128.0m (before expenses) at a price of £2.25 per share. Later in March 2015, the Group issued 1,552,144 new Ordinary Shares in order to settle the 2012 LTIP scheme for which the vesting conditions were fully achieved and consequently the resulting shares became issuable to the Group's employees. In May 2015, the Group issued 26,500,000 new Ordinary Shares as part of a fundraising which raised £55.1m (before expenses) at a price of £2.08 per share. Later in May 2015, the Group issued 153,940 new Ordinary Shares in order to settle the exercise of certain options that had been issued under the Group's Deferred Bonus Share Plan ("DBSP", see Note 21). Finally, in November 2015, the Group issued 28,799 new Ordinary Shares in order to settle the exercise of certain DBSP options and former Fusion IP unapproved options.

## 20. Operating Lease Arrangements

	2015 £m	2014 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	0.4	0.4

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

	2015 £m	2014 £m
Within one year	0.3	0.3
In the second to fifth years inclusive	0.1	0.3
	0.4	0.6

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

## 21. Share-Based Payments

In 2015, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 62 to 86.

### 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:

	2015	2014
At 1 January	362,608	—
Awarded as a result of deferral of previous year's AIS award during the year	—	362,608
Exercised during the year	(174,739)	—
Lapsed during the year	—	—
At 31 December	187,869	362,608

As the 2015 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 2015.

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

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report on pages 62 to 86.

# Notes to the consolidated financial statements

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## 21. Share-Based Payments continued

The 2015 LTIP awards were made on 21 May 2015. The awards will ordinarily vest on 31 March 2018, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2015 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2015 to 31 December 2017, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2018, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2013 and 2014 LTIP awards were both made in 2014. The awards will respectively ordinarily vest on 31 March 2016 and 31 March 2017, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2015 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2014 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2014 to 31 December 2016 (2013 LTIP: 1 January 2013 to 31 December 2015), and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2017 (2013 LTIP: to 31 March 2016), 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 2012 LTIP awards vested on 31 March 2015 and thereafter shares in IP Group were issued via the Group's employee benefit trust to the relevant members of the Group's staff accordingly. The table below sets out the performance measures relating to the 2012 LTIP awards and the actual performance achieved.

Performance condition	Target performance	Actual performance
Hard NAV (at 31 Dec 2014) <sup>i</sup>	8%: £365.4m 15%: £421.8m	£451.3m (18.4% p.a. growth)
Annual TSR <sup>ii</sup> (share price)	8%: 164.1p 15%: 196.0p	235.6p (22.7% p.a. growth)
Comparative TSR <sup>ii</sup>	FTSE Small cap +71%	IP Group +78%

(i) Hard NAV target increased by Committee to reflect £21.7m Fusion IP net assets acquired in 2014 and £97.4m net proceeds of the Group's placing in 2014.

(ii) Group TSR performance based on three-month average prior to date of award and prior to 31 March 2015

As the performance measures were achieved in full and the underpin was exceeded, 100% of the 2012 LTIP awards vested on 31 March 2015.



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

	2015	2014
At 1 January	3,650,493	6,163,436
Forfeited during the year	(39,876)	(144,129)
Vested during the year	(1,552,144)	(4,508,994)
Notionally awarded during the year	1,320,122	2,140,180
At 31 December	3,378,595	3,650,493

The fair value of LTIP shares notionally awarded during 2015 was calculated using Monte Carlo pricing models with the following key assumptions:

	2015	2014
Share price at date of award	£2.188	£1.775
Exercise price	£nil	£nil
Fair value at grant date	£0.78	£0.52
Expected volatility (median of historical 50-day moving average)	32%	32%
Expected life (years)	2.83	2.83
Expected dividend yield	0%	0%
Risk-free interest rate	1.0%	1.0%

#### Former Fusion IP LTIP

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

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

	2015	2014
At 1 January	1,338,000	—
Recognised as a result of the acquisition of Fusion IP plc	—	1,338,000
At 31 December	1,338,000	1,338,000

#### Fair value charge

The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £1.5m (2014: £0.9m).

# Notes to the consolidated financial statements

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## 22. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2014	4.8
Additions during the year	0.4
Realisations in the year	(1.1)
Change in fair value during the year	0.5
At 1 January 2015	4.6
Additions during the year	—
Realisations in the year	(0.6)
Change in fair value during the year	0.4
<b>At 31 December 2015</b>	<b>4.4</b>

The Group considers interests in Limited and Limited Liability Partnerships to be Level 3 in the fair value hierarchy throughout the current and previous financial years. If the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company. The effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

## 23. Related Party Transactions

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

### a) Limited Partnerships

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

	2015 £m	2014 £m
<b>Statement of comprehensive income</b>		
Revenue from services	1.3	1.3
<b>Statement of financial position</b>		
Investment in limited partnerships	3.1	3.2
Amounts due from related parties	—	—

## b) Key management transactions

Key management had investments in the following spin-out companies as at 31 December 2015:

Director/PDMR	Company name	Number of shares held at 1 January 2015	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2015	%
Alan Aubrey	Alesi Surgical Limited	—	18	18	0.3%
	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	20,276,113	—	20,276,113	0.3%
	Capsant Neurotechnologies Limited	11,631	—	11,631	0.8%
	Cloud Sustainability Limited	19	7	26	0.7%
	Crysalin Limited	1,447	—	1,447	0.1%
	Diurnal Group plc	—	15,000	15,000	<0.1%
	EmDot Limited	15	—	15	0.9%
	Evocutis plc	767,310	—	767,310	0.1%
	Getech Group plc	15,000	—	15,000	<0.1%
	Green Chemicals plc	108,350	—	108,350	0.9%
	Ilika plc	69,290	—	69,290	0.1%
	Karus Therapeutics Limited	223	—	223	<0.1%
	Mirriad Advertising Limited	—	33,333	33,333	<0.1%
	Mode Diagnostics Limited — Ordinary shares	3,226	—	3,226	0.4%
	Mode Diagnostics Limited — A shares	229	—	229	0.5%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	519,269	—	519,269	0.7%
	Cronin Group plc <sup>(i)</sup>	2,172,809	—	2,172,809	0.4%
	Oxford Nanopore Technologies Limited	115,666	(14,458)	101,208	0.4%
	Oxtox Limited	25,363	—	25,363	0.1%
	Boxarr Limited <sup>(ii)</sup>	1,732	—	1,732	0.3%
	hVivo plc <sup>(iii)</sup>	37,160	—	37,160	<0.1%
	Revolymmer plc	88,890	—	88,890	0.2%
	Salunda Limited	53,639	—	53,639	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	453	—	453	0.3%
	Tissue Regenix Group plc	2,389,259	—	2,389,259	0.3%
	Xeros Technology Group plc	40,166	—	40,166	<0.1%
	Zeetta Networks Limited	—	212	212	0.2%
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	931,367	—	931,367	<0.1%
	Capsant Neurotechnologies Limited	11,282	—	11,282	0.8%
	Cloud Sustainability Limited	18	7	25	0.6%

# Notes to the consolidated financial statements

continued

## 23. Related Party Transactions continued

Director/PDMR	Company name	Number of shares held at 1 January 2015	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2015	%
Mike Townend continued	Crysalin Limited	1,286	—	1,286	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%
	Green Chemicals plc	113,222	—	113,222	0.9%
	Ilika plc	10,000	—	10,000	<0.1%
	Mirriad Advertising Limited	—	25,000	25,000	<0.1%
	Mode Diagnostics Limited	1,756	—	1,756	0.1%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	575,000	—	575,000	0.7%
	Cronin Group plc <sup>(9)</sup>	932,994	(50)	932,944	0.2%
	Oxford Advanced Surfaces Limited	5,000	—	5,000	0.2%
	Oxford Nanopore Technologies Limited	35,280	(4,313)	30,967	0.1%
	Oxtox Limited	25,363	—	25,363	0.1%
	hVivo plc <sup>(iii)</sup>	37,160	—	37,160	<0.1%
	Quantum Imaging Limited	—	117	117	<0.1%
	Revolymmer plc	35,940	—	35,940	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	404	—	404	0.2%
	Tissue Regenix Group plc	1,950,862	—	1,950,862	0.3%
	Ultrahaptics Limited	—	35	35	<0.1%
	Xeros Technology Group plc	35,499	—	35,499	<0.1%
Greg Smith	Alesi Surgical Limited	—	2	2	<0.1%
	Avacta Group plc	390,400	—	390,400	<0.1%
	Capsant Neurotechnologies Limited	896	—	896	<0.1%
	Cloud Sustainability Limited	6	2	8	0.2%
	Crysalin Limited	149	—	149	<0.1%
	Diurnal Group plc	—	15,000	15,000	<0.1%
	EmDot Limited	4	—	4	0.2%
	Encos Limited	5,671	—	5,671	0.4%
	Getech Group plc	8,000	—	8,000	<0.1%
	Green Chemicals plc	4,830	—	4,830	<0.1%
	Mirriad Advertising Limited	—	16,667	16,667	<0.1%
	Mode Diagnostics Limited — Ordinary shares	361	—	361	<0.1%
	Mode Diagnostics Limited — A shares	28	—	28	<0.1%
	Modern Biosciences plc	313,425	—	313,425	0.5%
	Modern Water plc	7,250	—	7,250	<0.1%
	Oxford Nanopore Technologies Limited	1,500	81	1,581	<0.1%
	hVivo plc <sup>(iii)</sup>	61,340	—	61,340	<0.1%
	Revolymmer plc	4,500	—	4,500	<0.1%
	Summit Therapeutics plc	798	—	798	<0.1%
	Surrey Nanosystems Limited	88	—	88	<0.1%
	Tissue Regenix Group plc	175,358	(125,358)	50,000	<0.1%
	Xeros Technology Group plc	5,499	(4,107)	1,392	<0.1%
David Baynes	Alesi Surgical Limited	—	4	4	<0.1%
	Arkivum Limited	—	377	377	<0.1%
	Diurnal Group plc	59,000	14,000	73,000	0.1%
	Mirriad Advertising Limited	—	16,667	16,667	<0.1%
	Quantum Imaging Limited	—	46	46	<0.1%
	Ultrahaptics Limited	—	26	26	<0.1%
	Zeetta Networks Limited	—	212	212	0.2%

Director/PDMR	Company name	Number of shares held at 1 January 2015	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2015	%
Angela Leach	Alesi Surgical Limited	—	2	2	<0.1%
	Avacta Group plc	74,152	115,562	189,714	<0.1%
	Boxarr Limited <sup>(i)</sup>	—	102	102	<0.1%
	Capsant Neurotechnologies Limited	1,858	—	1,858	0.1%
	Cloud Sustainability Limited <sup>(i)</sup>	6	4	10	0.3%
	Diurnal Group plc	—	11,500	11,500	<0.1%
	Evocutis plc	7,990	—	7,990	<0.1%
	First Light Fusion Limited	—	17	17	<0.1%
	Getech Group plc	2,083	—	2,083	<0.1%
	Mirriad Advertising Limited	—	16,667	16,667	<0.1%
	Mode Diagnostics Limited — Ordinary Shares	606	—	606	<0.1%
	Mode Diagnostics Limited — A Shares	102	—	102	<0.1%
	Modern Water plc	15,570	—	15,570	<0.1%
	Modern Biosciences plc	322,923	—	322,923	0.5%
	Cronin Group plc <sup>(i)</sup>	68,101	—	68,101	<0.1%
	Oxford Nanopore Technologies Limited	1,516	205	1,721	<0.1%
	hVivo plc <sup>(iii)</sup>	25,903	—	25,903	<0.1%
	Quantum Imaging Limited	—	23	23	<0.1%
	Revolymmer plc	4,500	—	4,500	<0.1%
	Structure Vision Limited	21	—	21	0.1%
	Surrey Nanosystems Limited	90	—	90	<0.1%
	Tissue Regenix Group plc	329,172	—	329,172	<0.1%
	Ultrahaptics Limited	—	5	5	<0.1%
	Xeros Technology Group plc	5,666	—	5,666	<0.1%

(i) Cronin Group plc was formerly known as Oxford Advanced Surfaces plc prior to its acquisition of Cronin 3D Limited during the year.

(ii) Boxarr Limited was formerly known as Plexus Planning Limited

(iii) hVivo plc was formerly known as Retroscreen Virology Group plc

Compensation to key management comprises that paid to executive and non-executive directors of the Group. Full details of Directors' compensation are disclosed in the Directors' Remuneration Report on pages 62 to 86 and these amounts are included within the employee costs set out in Note 8.

# Notes to the consolidated financial statements

continued

## 23. Related Party Transactions continued

### c) Portfolio companies

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. Through the lack of control over portfolio companies these fees are considered arms-length transactions. The following amounts have been included in respect of these fees:

	2015 £m	2014 £m
<b>Statement of comprehensive income</b>		
Revenue from services	2.0	0.9
<b>Statement of financial position</b>		
Trade receivables	1.5	0.6

### d) Subsidiary companies

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

	2015 £m	2014 £m
<b>Statement of financial position</b>		
Intercompany balances with other Group companies	10.5	8.5

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

## 24. Capital Management

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

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

During 2015, the Group's strategy, which was unchanged from 2014, was to maintain healthy cash and short-term deposit balances that enable it to provide capital to all portfolio companies, as determined by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

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

## 25. Capital Commitments

### Commitments to university partnerships

A number of the Group's partnerships with research intensive universities in the UK include certain arrangements to provide seed capital to spin-out companies arising from such universities. As at 31 December 2015, the balances were as follows:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton <sup>(i)</sup>	2002	5.0	3.6	1.4
King's College London <sup>(ii)</sup>	2003	5.0	1.8	3.2
University of York – CNAP <sup>(iii)</sup>	2003	0.8	0.2	0.6
University of Leeds <sup>(iv)</sup>	2005	4.2	1.0	3.2
University of Bristol <sup>(v)</sup>	2005	5.0	1.1	3.9
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	4.5
University of York <sup>(iii)</sup>	2006	5.0	0.2	4.8
Queen Mary University of London <sup>(vii)</sup>	2006	5.0	0.7	4.3
University of Bath <sup>(viii)</sup>	2006	5.0	0.2	4.8
University of Glasgow <sup>(ix)</sup>	2006	5.0	1.6	3.4
University of Manchester <sup>(x)</sup>	2013	7.5	0.1	7.4
		<b>52.5</b>	<b>11.0</b>	<b>41.5</b>

<sup>(i)</sup> 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.

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

<sup>(iii)</sup> In 2003, the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006, the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with the University of York was amended during 2013 so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of the University of York's proceeds from out-licensing has been removed from the agreement.

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

# Notes to the consolidated financial statements

continued

## 25. Capital Commitments continued

- (v) In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.
- (vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey, the Group has committed to invest up to a total of £5.0m in spin-out companies based on the University of Surrey's intellectual property.
- (vii) In July 2006, the Group entered into an agreement with Queen Mary University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies. The agreement was amended in January 2014, primarily to remove the Group's entitlement to licence fees save where it is involved in the development or licensing of the relevant IP and, in most cases, to replace the Group's automatic entitlement to a share of the initial equity in any spin-out company with an equivalent warrant exercisable at the seed stage of the relevant company.
- (viii) In September 2006, the Group entered into an agreement with the University of Bath to invest in University of Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Bath spin-out companies. The agreement with the University of Bath was amended during 2009 so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by the University of Bath from the commercialisation of its intellectual property in the event that the Group and its employees have not been actively involved in developing the relevant opportunity.
- (ix) In October 2006, the Group entered into an agreement with the University of Glasgow to invest in University of Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Glasgow spin-out companies.
- (x) In February 2013, the Group entered into a commercialisation agreement with the University of Manchester. Initially the Group had agreed to make available an initial facility of up to £5.0m to provide capital to new proof of principle projects (excluding graphene projects) intended for commercialisation through spin-out companies. During January 2014, the Group extended its agreement to include funding for graphene projects; increased the capital commitment by a further £2.5m, bringing the total to £7.5m; and extended the agreement to 2019.

## Commitments to limited partnerships

Pursuant to the terms of their limited partnership agreements, the Group has committed to invest the following amounts into limited partnerships as at 31 December 2015:

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	2.8	7.2
		13.1	5.8	7.3

## 26. Post Balance Sheet Events

Between 31 December 2015 and the date of these reports and accounts the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value decrease of £19.2m.



# Company balance sheet

As at 31 December 2015

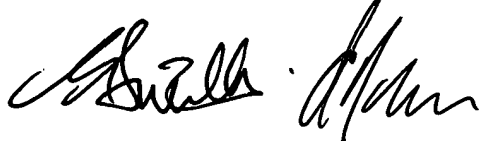
	Note	2015 £m	2014 £m
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	127.6	127.6
Equity and debt investments	3	1.1	3.1
Other investments	4	0.6	0.6
Loans to subsidiary undertakings	5	409.8	216.5
Trade and other receivables		0.1	0.1
<b>Total assets</b>		<b>539.2</b>	<b>347.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	6	11.3	9.6
Share premium account	6	504.7	327.6
Merger reserve	6	12.8	12.8
Retained earnings		(4.5)	(2.1)
<b>Total equity</b>		<b>524.3</b>	<b>347.9</b>
<b>Non-current liabilities</b>			
EIB debt facility		14.9	—
<b>Total liabilities</b>		<b>14.9</b>	<b>—</b>
<b>Total equity and liabilities</b>		<b>539.2</b>	<b>347.9</b>

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 135 to 145 were approved by the Board of Directors and authorised for issue on 29 February 2016 and were signed on its behalf by:

**Greg Smith**  
Chief Financial Officer

**Alan Aubrey**  
Chief Executive Officer



# Statement of changes in equity

As at 31 December 2015

	Attributable to equity holders of the parent				
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	Total £m
At 1 January 2014	7.5	150.4	12.8	(3.4)	167.3
Comprehensive income	—	—	—	1.4	1.4
Issue of equity	2.0	177.2	—	—	179.2
Issue of shares in connection with LTIP	0.1	—	—	(0.1)	—
<b>At 1 January 2015</b>	<b>9.6</b>	<b>327.6</b>	<b>12.8</b>	<b>(2.1)</b>	<b>347.9</b>
Comprehensive income	—	—	—	(2.4)	(2.4)
Issue of equity	1.7	177.1	—	—	178.8
Issue of shares in connection with LTIP	—	—	—	—	—
<b>At 31 December 2015</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>(4.5)</b>	<b>524.3</b>

(i) Share premium — Amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

(ii) Merger reserve — Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings.

(iii) Retained earnings — Cumulative net gains and losses recognised in the consolidated statement of comprehensive income net of associated share-based payments credits.

# Notes to the financial statements

## 1. Accounting Policies

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

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

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 9.

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2015 for the purposes of the transition to FRS 101.

### Investments

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

The valuation methods applied are the same as those at the Group level; details of which can be found in note 1 to the Group's financial accounts on page 106 to 109.

### Intercompany loans

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

### Financial instruments

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

# Notes to the financial statements

continued

## 2. Investments in Subsidiary Undertakings

	£m
At 1 January 2015	127.6
Additions	—
Impairment	—
Disposals	—
<b>At 31 December 2015</b>	<b>127.6</b>

Details of the Company's subsidiary undertakings as at 31 December 2015 are detailed in Note 10 of the Company financial statements.

## 3. Equity and debt investments

	£m
At 1 January 2015	3.1
Additions	—
Change in fair value of equity and debt investments	(2.0)
Disposals	—
<b>At 31 December 2015</b>	<b>1.1</b>

Details of the Company's associated undertakings and significant holdings as at 31 December 2015 are detailed Note 11 of the Company financial statements.

## 4. Other Investments

	£m
At 1 January 2015	0.6
Additions	—
Change in fair value of investments in limited liability partnerships	—
Disposals	—
<b>At 31 December 2015</b>	<b>0.6</b>

## 5. Loans to Subsidiary Undertakings

	£m
At 1 January 2015	216.5
Additions during the year	193.3
Repayment during the year	—
<b>At 31 December 2015</b>	<b>409.8</b>

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

## 6. Share Capital and Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m
At 1 January 2015 (restated)	9.6	327.6	12.8	(2.1)
Loss for the year	—	—	—	(2.4)
Issue of equity	1.7	177.1	—	—
<b>At 31 December 2015</b>	<b>11.3</b>	<b>504.7</b>	<b>12.8</b>	<b>(4.5)</b>

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

## 7. Profit and Loss Account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £2.4m (2014: £1.4m profit).

	31 December 2015			31 December 2014		
	UK GAAP £m	Effect of transition to FRS 101 £m	FRS 101 £m	UK GAAP £m	Effect of transition to FRS 101 £m	FRS 101 £m
<b>(Loss)/profit</b>	<b>(0.3)</b>	<b>(2.1)</b>	<b>(2.4)</b>	12.5	(11.1)	1.4

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

## 8. Directors' Emoluments, Employee Information and Share-Based Payments

The remuneration of the Directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 62 to 86. Full details of the share-based payments charge and related disclosures can be found in note 21 to the consolidated financial statements.

The Company had no employees during 2015 or 2014.

# Notes to the financial statements

continued

## 9. Transition from UKGAAP to FRS 101

FRS 101 is effective for periods beginning on or after 1 January 2015. On this date the Company transitioned from UK Generally Accepted Accounting Principles to FRS 101. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and cash flows is set out in the following tables and the notes that accompany the tables.

The only significant difference in the standards concerned the valuation of financial investments which, have being previously held at cost, is now held at fair value. The methodology for fair valuing the investments are detailed in note 1 of the Group accounts.

	1 January 2015			31 December 2015		
	UK GAAP	Effect of transition to FRS 101	FRS 101	UK GAAP	Effect of transition to FRS 101	FRS 101
<b>ASSETS</b>						
<b>Fixed assets</b>						
Investment in subsidiary undertakings	127.6	—	127.6	127.6	—	127.6
Equity and debt investments	3.7	(0.6)	3.1	3.7	(2.6)	1.1
Other investments	0.6	—	0.6	0.6	—	0.6
Loans to subsidiary undertakings	216.5	—	216.5	409.8	—	409.8
Trade and other receivables	0.1	—	0.1	0.1	—	0.1
<b>Total assets</b>	<b>348.5</b>	<b>(0.6)</b>	<b>347.9</b>	<b>541.8</b>	<b>(2.6)</b>	<b>539.2</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Capital and reserves</b>						
Called up share capital	9.6	—	9.6	11.3	—	11.3
Share premium account	327.6	—	327.6	504.7	—	504.7
Merger reserve	12.8	—	12.8	12.8	—	12.8
Profit and loss reserve	(1.5)	(0.6)	(2.1)	(1.9)	(2.6)	(4.5)
<b>Total equity</b>	<b>348.5</b>	<b>(0.6)</b>	<b>347.9</b>	<b>526.9</b>	<b>(2.6)</b>	<b>524.3</b>
<b>Non-current liabilities</b>						
EIB debt facility	—	—	—	14.9	—	14.9
<b>Total liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14.9</b>	<b>—</b>	<b>14.9</b>
<b>Total equity and liabilities</b>	<b>348.5</b>	<b>(0.6)</b>	<b>347.9</b>	<b>541.8</b>	<b>(2.6)</b>	<b>539.2</b>

## 10. Details of subsidiary undertakings

Name of subsidiary undertakings	Proportion of ownership interest % <sup>1</sup>	Proportion of voting power held % <sup>1</sup>	Proportion of nominal value held %	Direct/ Indirect
IP2IPO Limited	100.0	100.0	100.0	Direct
IP2IPO Management Limited	100.0	100.0	100.0	Indirect
IP2IPO Management II Limited	100.0	100.0	100.0	Indirect
IP2IPO Management III Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
IP2IPO Management IV Limited	100.0	100.0	100.0	Indirect
IP2IPO Management V Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
IP2IPO Management VI Limited	100.0	100.0	100.0	Indirect
IP2IPO Management VII Limited	100.0	100.0	100.0	Indirect
IP2IPO Management VIII Limited	100.0	100.0	100.0	Indirect
IP2IPO Americas Limited	100.0	100.0	100.0	Direct
IP2IPO (Europe) Limited	100.0	100.0	100.0	Indirect
IP2IPO Guarantee Limited <sup>(iv)</sup>	100.0	100.0	100.0	Indirect
IP Group Inc.	100.0	100.0	100.0	Indirect
Top Technology Ventures Limited <sup>(iii)</sup>	100.0	100.0	100.0	Direct
Fusion IP plc <sup>(vi)</sup>	100.0	100.0	100.0	Direct
Fusion IP Sheffield Limited <sup>(vi)</sup>	100.0	100.0	100.0	Indirect
Fusion IP Cardiff Limited <sup>(vi)</sup>	100.0	100.0	100.0	Indirect
IP Venture Fund GP Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
IP Ventures (Scotland) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
North East Technology (GP) Limited <sup>(iii)</sup>	100.0	100.0	100.0	Indirect
Techtran Group Limited	100.0	100.0	100.0	Direct
Techtran Investments Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
Techtran Services Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
Techtran Corporate Finance Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
Techtran Limited <sup>(ii)</sup>	100.0	100.0	100.0	Indirect
Modern Biosciences plc — Ordinary shares	63.0	74.9	63.0	Direct
Modern Biosciences plc — Deferred shares <sup>(iv)</sup>	n/a	n/a	100.0	Direct
Modern Biosciences plc <sup>(iv)</sup> — Total	63.0	74.9	84.9	Direct
PIMCO 2664 Limited <sup>(iv)</sup>	63.0	74.9	63.0	Indirect
Modern Biosciences Nominees Limited <sup>(ii)</sup>	63.0	74.9	63.0	Indirect
MBS Secretarial Limited <sup>(ii)</sup>	63.0	74.9	63.0	Indirect
MBS Director Limited <sup>(ii)</sup>	63.0	74.9	63.0	Indirect
IP2IPO Nominees Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
IP2IPO Services Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
LifeUK (IP2IPO) Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
IP Industry Partners Limited <sup>(ii)</sup>	100.0	100.0	100.0	Direct
Union Life Sciences Limited — Ordinary shares	95.0	95.0	95.0	Indirect
Union Life Sciences Limited — Preference shares <sup>(iv)</sup>	100.0	100.0	100.0	Direct
Union Life Sciences Limited — Total	95.0	95.0	99.9	Indirect
Biofusion Licensing (Sheffield) Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect
Fusion IP Nottingham Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect

# Notes to the financial statements

continued

## 10. Details of subsidiary undertakings continued

Name of subsidiary undertakings	Proportion of ownership interest % <sup>1</sup>	Proportion of voting power held % <sup>1</sup>	Proportion of nominal value held %	Direct/Indirect
Fusion IP Two Limited <sup>(ii),(vi)</sup>	100.0	100.0	100.0	Indirect
Mantelum Limited <sup>(ii),(vi),(viii)</sup>	100.0	100.0	100.0	Indirect
Resagen Limited <sup>(vi),(viii)</sup>	100.0	100.0	100.0	Indirect
Rhemotric Microsystems Limited <sup>(ii),(vi),(viii)</sup>	100.0	100.0	100.0	Indirect
Asterion Limited <sup>(vi)</sup>	67.5	67.5	67.5	Indirect
BioHydrogen Limited <sup>(ii),(vi)</sup>	60.0	60.0	60.0	Indirect
Medella Therapeutics Limited Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
PH Therapeutics Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
Lifestyle Choices Limited <sup>(ii),(vi),(viii)</sup>	51.0	51.0	51.0	Indirect
Rhedyn Limited <sup>(ii),6,8</sup>	100.0	100.0	100.0	Indirect
Wound Genetics Limited <sup>(ii),6,8</sup>	100.0	100.0	100.0	Indirect
Wound Genetics Prognostics Limited <sup>(ii),(vi),(viii)</sup>	100.0	100.0	100.0	Indirect
Wound Genetics Therapeutics Limited <sup>(ii),(vi),(viii)</sup>	100.0	100.0	100.0	Indirect
Extraject Technologies Limited <sup>(vi)</sup>	60.0	60.0	60.0	Indirect
Progenteq Limited <sup>(vi),(viii)</sup>	60.0	60.0	60.0	Indirect
Proflu Limited <sup>(ii),(vi),(viii)</sup>	60.0	60.0	60.0	Indirect
Stratium Limited <sup>(viii)</sup>	60.0	60.0	60.0	Indirect
IP Venture Fund II L.P. <sup>(vii)</sup>	33.3	33.3	33.3	Indirect

(i) All holdings are via Ordinary Shares unless separate classes are specified in the table.

(ii) Dormant/non-trading company.

(iii) Company engaged in fund management activity.

(iv) Company engaged in in-licensing of drugable intellectual property activity.

(v) Company limited by guarantee.

(vi) Acquired as part of the Fusion IP plc acquisition.

(vii) As detailed in Note 1 of the Group financial statements, though less than 33.3% of beneficial and nominal interest is held by the Group, the Group's position as Fund Manager means IP Venture Fund II L.P. fulfils the criteria of IFRS10 and is thus consolidated.

(viii) Not consolidated due to immateriality.

(ix) Shares which have no economic or voting rights attributed to them.

All companies above are incorporated in England and Wales with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland and IP Group Inc. which is incorporated in Delaware, USA. All companies above undertake the activity of commercialising intellectual property unless stated otherwise. All companies are consolidated into the Group's financial performance and position following the acquisition method bar those specified which are omitted due being immaterial.



## 11. Details of significant holdings and associated undertakings

Name of undertaking	Proportion of nominal value held % <sup>(a)</sup>	Held by Parent/Group
IP Venture Fund <sup>(a)</sup>	10%	Group
A Ordinary	43.8%	Group
B Ordinary	100.0%	Group
Ordinary	52.0%	Group
Absynth Biologics Limited	27.6%	Group
Actual Experience plc	25.2%	Group
Adjuvantix Limited	42.6%	Group
B Shares	100.0%	Group
Ordinary shares	57.0%	Group
Preferred Ordinary shares	40.3%	Group
Alesi Surgical Limited	43.5%	Group
A Shares	45.0%	Group
Ordinary shares	40.8%	Group
Anacail Limited	42.5%	Group
Applied Graphene Materials plc	20.3%	Group
Arkivum Limited	44.9%	Group
Avacta Group plc	23.4%	Group
A Ordinary shares	38.9%	Group
Ordinary shares	31.4%	Group
Azellon Limited	32.5%	Group
Azuri Technologies Limited	29.5%	Group
Boxarr Limited	44.3%	Group
Capsant Neurotechnologies Limited	49.9%	Group
A Shares	0.0%	Group
Ordinary shares	40.8%	Group
C-Capture Limited	36.7%	Group
Ceres Power Holdings plc	23.5%	Group
CH4E Limited	41.2%	Group
A Ord shares	100.0%	Group
Ordinary shares	43.8%	Group
Cloud Sustainability Limited	44.0%	Group
Cronin Group plc	22.6%	Group
A Shares	0.0%	Group
B Shares	0.0%	Group
C Ordinary shares	0.0%	Group
D Ordinary shares	0.0%	Group
Ordinary shares	26.8%	Group
Crysalin Limited	25.1%	Group
Demasq Limited	47.5%	Group
Diurnal Group plc	45.0%	Group
Dukosi Limited	41.8%	Group
A Preferred Shares	31.1%	Group
Ordinary shares	0.0%	Group
Eight19 Limited	28.1%	Group
Emdot Limited	26.3%	Group
Empiricom Technologies Limited	49.9%	Group
A Ord shares	93.5%	Group
Ordinary shares	47.5%	Group
Encos Limited	48.3%	Group
Escubed Limited	20.0%	Group
Evocutis plc	4.0%	Group
Exonate Limited	5.1%	Group
Exyn Technologies Inc – Common Stock	40.0%	Group
A Shares	97.0%	Group
Ordinary shares	43.5%	Group
Fault Current Limited	44.0%	Group
A Shares	0.0%	Group
Ordinary shares	36.0%	Group
First Light Fusion Limited	34.9%	Group
Free Running Buildings Limited	30.0%	Group
Getech Group plc	21.5%	Group
A Ordinary shares	50.0%	Group
Ordinary shares	23.1%	Group
Glythera Limited	32.2%	Group
Convertible Preference Shares	100.0%	Group

# Notes to the financial statements

continued

## 11. Details of significant holdings and associated undertakings continued

Name of undertaking	Proportion of nominal value held % <sup>(a)</sup>	Held by Parent/Group
Ordinary shares	24.1%	Group
Green Chemicals plc	31.4%	Group
A Ordinary	84.0%	Group
B Ordinary	13.3%	Group
I2L Research Limited	31.0%	Group
Deferred shares	0.0%	Group
Ordinary shares	21.8%	Group
Inhibox Limited	21.8%	Group
Intelligent Ultrasound Limited	21.1%	Group
B Ordinary shares	70.0%	Group
Ordinary shares	34.1%	Group
Ionix Advanced Technologies Limited	34.2%	Group
Ixico plc	20.2%	Group
A Shares	39.5%	Group
B Shares	100.0%	Group
C Ordinary shares	70.0%	Group
Ordinary shares	33.3%	Group
Magnomatics Limited	38.2%	Group
Marblar Limited	33.0%	Group
Medaphor Group plc	39.6%	Group
Mirriad Advertising Limited	41.3%	Group
A Ords	0.0%	Group
A Prefs	37.9%	Group
Ordinary shares	45.7%	Group
Mode Diagnostics Limited	40.1%	Group
Modern Water plc	20.0%	Parent
Oxehealth Limited	21.9%	Group
Oxford Nanopore Technologies Limited	19.9%	Group
A Shares	70.0%	Group
Ordinary shares	39.7%	Group
OxSyBio Limited	39.8%	Group
E Ordinary shares	0.0%	Group
Ordinary shares	30.6%	Group
OxTox Limited	29.6%	Group
Perlemax Limited	34.5%	Group
Ordinary shares	38.5%	Group
Preference shares	0.0%	Group
Series B Shares	13.4%	Group
Series C shares	39.0%	Group
Series C1 shares	0.0%	Group
Perpetuum Limited	28.3%	Group
A Ordinary	26.2%	Group
Ordinary shares	48.9%	Group
Phase Focus Limited	37.8%	Group
A Shares	0.0%	Group
B Shares	76.5%	Group
Ordinary shares	38.1%	Group
Photopharmica Limited	38.1%	Group
A Shares	100.0%	Group
Ordinary shares	46.6%	Group
POLAR OLED Limited	47.5%	Group
A Shares	65.2%	Group
Ordinary shares	35.7%	Group
Quantum Imaging Limited	35.8%	Group
Relitect Limited	23.9%	Group
Salunda Limited	28.5%	Group
A Ordinary shares	57.4%	Group
B Ordinary shares	0.7%	Group
C Ordinary shares	100.0%	Group
Non-Voting Ordinary shares	100.0%	Group

Name of undertaking	Proportion of nominal value held % <sup>(i)</sup>	Held by Parent/ Group
Ordinary shares	56.9%	Group
Seren Photonics Limited	48.9%	Group
Spinetic Energy Limited	24.9%	Group
Structure Vision Limited	43.6%	Group
A Ordinary shares	17.4%	Group
Ordinary shares	35.4%	Group
Surrey NanoSystems Limited	21.6%	Group
A Shares	100.0%	Group
Ordinary shares	43.7%	Group
TheySay Limited	43.7%	Group
Ubiquigent Limited	20.6%	Group
Ordinary shares	34.6%	Group
Preferred Shares	23.5%	Group
Ultrahaptics Limited	30.1%	Group
Ultramatis Limited	30.0%	Group
Ordinary shares	12.5%	Group
Preferred Shares	47.9%	Group
Zeetta Networks Limited	25.1%	Group

(i) All holdings are via Ordinary Shares unless separate classes are specified in the table.

(ii) A fund in which the Group is a limited partner. Proportion of nominal value stated is equivalent to capital contributed to the partnership in question.

All companies above are incorporated in the United Kingdom with the exception of Exyn Technologies, Inc. which is incorporated in Delaware, USA. The significant influence noted above has been determined in line with IAS 28 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

## Shareholder Notes

# Company information

Company registration number	4204490
Registered office	24 Cornhill London EC3V 3ND
Directors	<b>Mike Humphrey</b> (Non-executive Chairman) <b>Alan John Aubrey</b> (Chief Executive Officer) <b>Michael Charles Nettleton Townend</b> (Chief Investment Officer) <b>Gregory Simon Smith</b> (Chief Financial Officer) <b>David Baynes</b> (Chief Operating Officer) <b>Douglas Brian Liversidge</b> CBE (Senior Independent Director) <b>Jonathan Brooks</b> (Non-executive Director) <b>Professor Lynn Gladden</b> CBE (Non-executive Director) <b>Dr Elaine Sullivan</b> (Non-executive Director)
Company secretary	<b>Angela Leach</b>
Brokers	<b>Numis Securities Limited</b> The London Stock Exchange 10 Paternoster Square London EC4M 7LT
Registrars	<b>Capita Asset Services</b> The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	<b>Royal Bank of Scotland</b> PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	<b>Pinsent Masons</b> CityPoint One Ropemaker Street London EC2Y 9AH
Independent auditor	<b>KPMG LLP</b> 15 Canada Square London E14 5GL

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