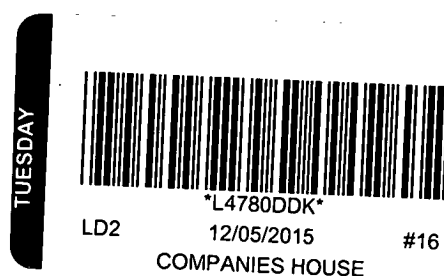


ipgroup plc

Evolving
great ideas
into world-changing businesses



Annual Report and Accounts
for the year ended 31 December 2014
Stock Code: IPO

Welcome to IP Group

IP Group plc develops intellectual property-based businesses.

We are passionate about evolving great ideas into world-changing businesses and we achieve this by systematically helping to create, build and support outstanding intellectual property-based companies.

We provide our portfolio companies with financial capital from our balance sheet and also from funds that we manage on behalf of others. Our **pioneering** approach to supporting our portfolio companies differentiates us from traditional venture capital companies. Beyond financial capital provision, we support our portfolio companies with strategic and commercial expertise, executive search and development, corporate finance and capital raising, and a range of administrative services.

We run the Company in a **principled** manner and we are committed to building a successful and sustainable business that will provide attractive returns over the long term for our shareholders and other stakeholders.

Investor proposition/key strengths

A significant market opportunity

Read more on page 08

A strong balance sheet

Read more on page 32

Long-term partnerships create barriers to entry for competitors

Read more on pages 03, 09 and 17

A proven track record of sustained growth

Read more opposite

A strong senior management team

Read more on page 46

Access to a wide range of capital funding

Read more on pages 11 and 17

Getting around the report

For further information within this document

Additional information online at:
www.ipgroupplc.com

Highlights

Net Assets (£m)

£526.2m (2013: £336.6m)

Positive progress against key strategic objectives

- Net assets increased to £526.2m (2013: £336.6m)
- 70% increase in capital provided to portfolio companies: £46.8m (2012: £27.5m)
- Portfolio of 90 companies (2013: 72)
- £100m (before expenses) raised through issue of new equity capital in February 2014
- Acquisition of Fusion IP plc completed and now fully integrated within the Group, bringing additional expertise and broader portfolio
- Further expansion into the US; now engaged with Princeton, Pennsylvania and Columbia universities.

Share price performance

+21% (2013: +42%)

Capital deployed into portfolio companies (£m)

£46.8m (2013: £27.5m)

Financial highlights

- Net assets excluding intangibles and the Oxford equity rights asset increased to £451.3m (2013: £315.5m)
- Net cash and deposits as at 31 December 2014: £97.3m (2013: £24.1m)
- Adjusted profit before tax of £16.2m (2013: £77.6m), excluding £6.7m reduction in fair value of Oxford Equity Rights asset and amortisation of intangible assets (2013: £5.0m)

Post-year-end highlights

- Significantly oversubscribed proposed firm placing, placing and open offer to raise gross proceeds of £128m to help fuel the next phase of the Group's growth

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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 39.

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.

Group at a Glance

IP Group's portfolio

£349.9m

Fair Value

90

Companies in total

Of which: Top ten worth

£255.1m

£77.9m other post-seed
= 42 companies

£16.9m early stage
= 38 companies

Most valuable:
Oxford Nanopore

£128.3m

>£200m

Total funds raised by
portfolio companies in 2014

Portfolio overview

Sectors

Portfolio value (% of total)

Healthcare

£213.1m (61%)

[Read more on page 22](#)

Technology

£58.6m (17%)

[Read more on page 24](#)

Cleantech

£56.2m (16%)

[Read more on page 26](#)

Biotech

£16.4m (5%)

[Read more on page 28](#)

Multiple sectors

£5.6m (1%)

[Read more on the sector reporting changes on page 21 in the Portfolio review](#)

2014 net fair value change ¹	Stage				Research partners
	Incubation	Seed	Post-seed (private)	Post-seed (public)	
£7.7m	5	7	14	5	UK Partners <ul style="list-style-type: none"> ■ University of Bath ■ University of Bristol ■ University of Cardiff ■ University of Glasgow ■ University of Leeds ■ King's College London ■ Queen Mary University of London ■ University of Manchester ■ University of Nottingham ■ University of Oxford ■ University of Sheffield ■ University of Southampton ■ University of Surrey ■ Swansea University ■ University of York
£(0.8)m	5	7	7	6	
£6.7m	1	7	5	5	
£1.0m	2	3	6	2	
£6.1m	–	1	1	1	US pilot agreements <ul style="list-style-type: none"> ■ Columbia University ■ University of Pennsylvania ■ Princeton University
Total	13	25	33	19	

¹ Unrealised increase/(decrease) in value excluding investments and divestments in the period.

Create

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

Strategic Report

Our Business & Strategy

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Chairman's letter

A busy year of fuelling growth

In my last statement as Chairman, I am pleased to report that 2014 has been a busy year for IP Group and March 2015's £128m equity funding will help to fuel the next phase in the Group's development. Since its admission to AIM in 2003, the year I first became Chairman, the Group has experienced significant growth, with a tenfold increase in its market capitalisation to over £1bn today.

Dr Bruce Smith Chairman

IP Group's mission is to evolve great ideas into world-changing businesses. Until 2013, the Group concentrated solely on opportunities in the UK. However, during that year, it established a presence in the US - a country that the Board believes offers a rich source of accessible world-class IP. The Group now has pilot commercialisation agreements with three US Ivy League universities and announced its first spin-out from the University of Pennsylvania in December.

The Group's UK operations have also seen significant developments during 2014. In March, the Group acquired Fusion IP plc, a complementary business in which the Group had held a strategic stake since 2009. The acquisition has created a Group with an enlarged specialised team and greater breadth of coverage, enabling deeper access to a pool of intellectual property while also allowing the Group to improve the service offering to existing and potential research institutions. Looking at the UK business overall, on balance I consider that the Group's portfolio companies are progressing well and many have achieved significant milestones during the year. Of these, I particularly highlight Modern Biosciences' collaboration with Johnson & Johnson Innovation Centre and Janssen Biotech, Inc.

Financial performance

In 2014, although the macroeconomic environment improved in the UK and the US, and equity markets were generally positive, AIM, where approximately 40% of the Group's portfolio companies by value are quoted, lost 17.5% of its value. When considered against this backdrop, the Group's financial performance in 2014 was satisfactory although much lower than compared to 2013. Net assets, excluding intangibles and the Oxford Equity Rights asset, increased to £451.3m (2013: £315.5m) while the Group recorded an adjusted profit before tax of £16.2m excluding the £6.7m reduction in the value of the Oxford Equity Rights Asset and amortisation of intangible assets (2013: £77.6m profit; £5.0m reduction in the value of the Oxford Equity Rights Asset). Profit after tax was £9.5m (2013: £72.6m). As highlighted in my 2013 statement, shareholders should continue to consider IP Group as a long-term business and therefore profits and cash realisations will fluctuate from year to year.

Organisational structure

The operational integration of Fusion IP plc has increased the Group's size and depth of expertise. In order to support this and the Group's continued growth, the two-tiered governance and management structure comprising the Group Board and the Executive Committee has been formalised. In order to further deepen the Group's sectoral knowledge and capability, the core opportunity evaluation and business building team has now been formally divided into four specialist divisions - Biotech, Cleantech, Healthcare and Technology. The Board believes that this new Group structure allows the business to operate more effectively and to the benefit of the Group, and its partners and stakeholders as a whole.

2014: Year in Review

January	February	March	April
Oxford Nanopore Technologies Ltd MiniON Access Programme oversubscribed. Group extends agreement with University of Manchester.	Group completes £100m fundraising. Actual Experience plc admitted to AIM.	Acquisition of Fusion IP plc. Xeros Technology Group plc IPO and admission to AIM.	Pilot deal agreed with Princeton University.

Board changes

As I announced in my 2013 statement, Professor Lynn Gladden joined the Board in 2014 and brings with her an impressive background in academia and industry. I was also pleased to welcome David Baynes and Doug Liversidge - who joined the Group from Fusion IP plc - to the Board as Chief Operating Officer and Non-executive Director respectively. David and Doug bring with them a wealth of knowledge and expertise and, along with Lynn, have already made a significant contribution to the Company.

During the year, Charles Winward stepped down from the Group's Board as an Executive Director to pursue other opportunities and Francis Carpenter stepped down as Non-executive Director of the Group following the completion of his second three-year term in office. It was announced in October that I would be stepping down as Non-executive Chairman and a director of the Company once a suitably qualified and experienced successor had been appointed. As announced today, after a rigorous process, the Board has approved the Nominations Committee's recommendation to appoint Mike Humphrey as the Group's Non-executive Chairman. Mike, currently the Group's Senior Independent Director and Chair of its Remuneration Committee, will assume office with effect from the end of the Group's Board meeting to be held on 24 March 2015. The Board considered Mike's experience internationally and with institutional investors, and in leading and growing a major corporation built on innovation into the FTSE100, made him an exceptional candidate for the role. The role of Senior Independent Director will be assumed by Doug Liversidge and Jonathan Brooks will become Chairman of the Remuneration Committee with effect from this same date. The Group intends to appoint a further Non-executive Director and will update shareholders to this end in due course.

Our stakeholders

The success of the Group relies on the hard work and dedication of many people and, over the twelve years I have served on the Board of IP Group, it has been my privilege to meet and work with so many talented teams. I would like to extend my sincere thanks to the Board, IP Group's staff, its academic partners and the management teams of its portfolio companies for these efforts. I would also like to express my sincere gratitude to the Company's shareholders and limited partners for their support over the years.

Building a sustainable business

Building a sustainable, viable business is fundamental to the Group's future success and we continually strive to run our operations, and respond to issues, in a responsible manner with consideration for all our stakeholders' needs. The Group is also committed to minimising the business' environmental impact as well as having a positive influence on the communities where it operates. Major portfolio themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. Sustainable and ethical practices are integrated into our business model and will continue to underpin how the Group operates and does business with its partners.

Since I joined the Board in 2002, and first became Chairman in 2003 and again in 2007, the Group has undergone a period of rapid growth and transformation and I am very proud of what has been achieved by the team. Together we have created a business that today has a large specialised team, access to intellectual property from 15 of the UK's, and three of the US's, top research universities and a portfolio with a value of £350m and approximately £97m in cash. This is my last Chairman's statement and I would like to wish IP Group's Board, staff, partners and shareholders every success for the future.

Dr Bruce Smith
Chairman
9 March 2015



June Diurnal Limited reports positive Phase 2 results.	July Ceres Power Holdings plc raises £20m.	August MedaPhor Group plc IPO and admission to AIM. Oxford Nanopore Technologies Limited raises £35.0m.	Retroscreen Virology Group plc raises £33.6m. Diurnal Limited raises £6m.	September Getech Group plc announces largest ever single new contract win worth \$5m.	October Ceres Power signs joint development agreement with a leading Japanese power systems company.	November Modern Biosciences plc agrees deal worth up to £176m with Johnson & Johnson Innovation Centre. Genomics Limited raises £10.3m. Group enters initiative with US-based FedIMPACT.	December Group completes first spin-out from a US University (University of Pennsylvania).
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Marketplace

IP Group continues to see a wealth of world-class commercialisation opportunities emanating from scientific research

Current economic climate

In 2014, recovery was uneven in the global economy and many countries experienced weak growth. Although there were encouraging signs of GDP growth in the first half of the year, the eurozone was under pressure by the close of 2014 and, at the beginning of 2015, the European Central Bank announced its intention to launch a quantitative easing programme in an attempt to stimulate the economy.

Outside the eurozone, the US and UK economies achieved solid growth in 2014. For 2015, although forecasts remain cautious, the UK is still currently expected to have the second fastest-growing economy in the developed world behind the US.

Global research landscape

The UK and the US are still recognised as being at the forefront of producing world-class scientific research and have been responsible for some of the most significant scientific breakthroughs in recent history. The most prestigious research institutions in both countries continue to attract outstanding researchers and innovators from around the world who wish to work with the best in their field. However, in recent years, research and development ('R&D') has become a more important feature of economies in Asia, Africa and Latin America, who all plan to increase their expenditure in this area. In 2012, China invested 2.0%* of its GDP in R&D compared to 1.7%* in the UK and 2.8%* in the US. The outcome of this increased focus on R&D may, in the future, result in potential IP opportunities for the Group in other jurisdictions.

In its recent report 'Our plan for growth: science and innovation', the UK's Department for Business, Innovation & Skills outlined its plans to maintain and advance the UK's leading position in scientific research. The UK Government has committed £5.9bn to science capital up until 2021 and additionally maintains its focus on the 'Eight Great Technologies' (see table on the right).

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 pilot arrangements with three Ivy League universities in the North East Corridor of the US.

The UK Government's Eight Great Technologies

- Big data and energy efficient computing
- Satellites and commercial applications of space
- Robotics and autonomous systems
- Synthetic biology
- Regenerative medicine
- Agri-science
- Advanced materials and nano-technology
- Energy and its storage

* Source: Organisation for Economic Co-operation and Development, 2012.

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

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.

Accessing quality research

While it is important to have a presence in the countries where leading research is produced, the Group considers it important to establish credible partnerships with the top research institutions in order to access research with commercial potential. Although the Company has increased its focus on the US in recent times, its core activities have primarily been conducted 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. Based on this assessment, IP Group currently seeks to commercialise IP developed at 11 of the top 20 institutions. 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.

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 faces 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 providing capital to early-stage businesses is one of the ways in which it differentiates itself from the more traditional venture funds, which have tended to support early-stage businesses, already with a management team in place, through "fixed-life" funds. The Group also differentiates itself by actively supporting 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, 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, as well as executive search assistance and ongoing, innovative programmes designed to help the companies' senior executives to develop their management and communication skills and, as a result, improve company performance.

Business model

Creating value sustainability

IP Group's business model is based on evolving great ideas into world-changing businesses. As a result, the Group delivers economic, social and environmental value to all its stakeholders:

Economic value

We seek to achieve attractive returns for our **shareholders and our funds' limited partners** over the long term. A **diversified portfolio of companies** reduces risk and over-exposure to a single business or sector.

Our **portfolio companies** benefit from the Group's patient capital approach: sustainable long-term funding to businesses that can be over ten or more years

By providing support beyond financial capital to our **portfolio companies**, we seek to minimise the most common factors that can contribute to early-stage company failure. The reduction in administrative burden also allows **portfolio company founders** to concentrate on exploiting IP.

Our mission: to evolve great ideas into world-changing businesses

Deal flow

- maintaining a pipeline of potentially disruptive commercialisable intellectual property

IP Group seeks to access a wide range of leading scientific research through the formation of long-term partnerships and relationships with the top research universities in the UK and the US. The Group's specialist in-house sourcing team works with its partners, as well as academics from other universities and research institutions, to identify and pursue compelling opportunities across four core sectors.

Business Building

- a rigorous and systematic approach to opportunity appraisal, development and business building

During the early stages of an opportunity's development, members of the Group's team work closely with its founders to help shape its strategic direction, often taking an interim management role until such time as the business reaches a sufficient stage of maturity and has the resources to recruit a full external leadership team. The Group team members continue to provide strategic guidance in an executive or non-executive capacity.

The Group supports businesses from cradle to maturity with:

- Strategic and commercial expertise
- Building management teams
- Recruitment of high-calibre individuals through its in-house executive search consultancy, IP Exec
- Innovative and structured programmes for CEOs and boards of portfolio companies through IP Impact, the Group's in-house unit that seeks to help accelerate company growth
- Administrative and company secretarial support
- Legal expertise

Social value

We have partnerships with 15 of the UK's, and three of the US's, leading universities which seek to enable preferential access to intellectual property. Through these we assist our university partners in the commercial development of IP arising from their research efforts. Our approach demonstrates our alignment with government initiatives in science and innovation.

Developing new potentially high-growth SMEs across the UK contributes to entrepreneurship, the creation of new jobs and stimulation of both the local and wider economies.

We seek to create a stable, viable business that attracts and retains top talent.

Capital

- access to sources of capital to finance businesses as they develop

IP Group provides patient capital for the development of its portfolio companies from its own balance sheet. In addition, IP Group has an FCA-regulated venture capital fund management subsidiary, Top Technology Ventures ('TTV'), which specialises in providing funding for early stage technology businesses. TTV currently manages three funds: IP Venture Fund, IP Venture Fund II L.P. and the Finance for Business North East Technology Fund which, subject to investment guidelines, can provide further additional sources of capital to the Group's portfolio companies. TTV and the Group also work with a wide network of co-investors which can provide further capital alongside the Group.

Long-term value

- systematic commercialisation of intellectual property

IP Group seeks to form, or assist in the formation of, a diversified range of spin-out companies based on scientific innovation. IP Group's approach is to take a significant minority equity stake in those spin-out companies, to grow the value of that equity over time - by taking an active role in company development - and to ultimately achieve strong equity returns over the medium to long term.

Environmental value

A substantial element of the research efforts of our university partners seek to address many of the major challenges faced by the world's population. In addition, we actively identify opportunities that potentially address significant social and environmental issues. Many of our portfolio businesses are focused on developing clean technology, environmental improvement and resource efficiency that will hopefully have a positive impact on our communities.

Strategy

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 2014

- Provided initial capital to 11 technology companies (2013: 9)
- Integrated Fusion IP plc's partner university relationships into the Group
- Expanded further into the US via a pilot project with Princeton University and completed our first US-based spin-out with the University of Pennsylvania
- Deployed an increased level of capital into the Group's Biotech division – including £4m to support Diurnal Limited through Phase 3 clinical trials.
- Net portfolio fair value increased to £349.9m, a net fair value gain of £20.7m
- Completed acquisition of Fusion IP plc, integrated staff into the Group and formally organised the business building team into four specialist sector divisions
- Portfolio increased to 90 companies
- Board representation on more than 80% of companies by number
- Expanded IP Exec team and completed 16 senior appointments, of which five were non-executive directorships, with portfolio companies
- Ran three IP Impact CEO programmes with a total of 22 participants
- Continued to provide other spin-out support services including business support, corporate finance and legal advice to portfolio companies.
- Net portfolio fair value gains of £20.7m
- £97.4m (net of expenses) capital raising successfully completed
- Deployed capital of £46.8m to portfolio
- Portfolio stands at 90 companies with a combined total value in excess of £1.9bn
- Total funds under management of approximately £85m
- Proceeds from sale of equity and debt of £9.7m
- Positive share price performance in 2014: an increase in excess of 20% and outperformed the FTSE 250 Index.

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 2015

- Continue to seek and maintain relationships with top US and UK research institutions
- Replenish the pipeline with a similar level of opportunities.

- Seek to maintain approach of direct IP Group representation on spin-out company boards
- Increase number of executive search mandates within IP Exec and assist portfolio companies to increase diversity of boards
- Continue to provide specialist support services such as IP Exec, IP Impact, business support and corporate finance advice.

- £128m capital raising in early 2015 will facilitate increased rate of capital deployment in 2015
- 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
- Where appropriate, generate cash realisations from portfolio
- Continue to monitor opportunities for additional capital or funds under management
- 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	2014 performance
Financial KPIs		
Total equity ("net assets")	The value of the Group's assets less the value of its liabilities, including minority interest	£526.2m (2013: £336.6m)
Profit/(loss) attributable to equity holders	Profit/(loss) after tax for the year, attributable to owners of the parent	£9.5m (2013: £72.6m)
Purchase of equity and debt investments	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	£46.8m (2013: £27.5m)
Change in fair value of equity and debt investments	Movement in the value of holdings in the portfolio due to share price movements or impairments in value	£20.7m (2013: £82.4m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	£9.7m (2013: £5.5m)
Non-financial KPIs		
Number of new portfolio companies	The number of portfolio companies that received initial capital from the Group during the year	11 (2013: 9)

Strategic element	Risks potentially impacting KPI (see pages 36 to 39)	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	<ul style="list-style-type: none"> ■ LTIP 2012–2014 ■ 2014 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	<ul style="list-style-type: none"> ■ 2014 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses.	2 3 4	<ul style="list-style-type: none"> ■ Indirectly impacts both net assets and Group profit/loss (See above)
To develop IP-based businesses and grow their value.	1 2	<ul style="list-style-type: none"> ■ 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 5	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ 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 39	For more information on Directors' remuneration see pages 58 to 74

Operational review

A busy period: expanding our partnerships and identifying opportunities

During 2014, the Group continued to strengthen its financial position and expand its access to commercialisable science, both in the UK and the US, in order to pursue its purpose of evolving great ideas into world-changing businesses. This will remain our focus for 2015 and beyond.

Fusion IP plc ('Fusion IP') is now fully integrated within the Group and we are already benefitting from the additional expertise and the larger, more diversified portfolio that this acquisition has brought to the business. The March 2015 placing of £128m (before expenses) will enable the Group to deploy further capital into its portfolio companies as well as allowing it to expand its access to research and compelling commercialisation opportunities across all its sectors in the UK and the US.

Three core objectives support the Group's purpose: 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 and to deliver attractive financial returns on our assets and third party funds. Our performance against these objectives is considered in more detail below.

Alan Aubrey Chief Executive Officer

Portfolio company performance

The fair value of the Group's portfolio increased to £349.9m (2013: £285.9m) across 90 businesses that are supported and managed by four specialist sector teams. Tracsis plc, Ilika plc and new entrants to AIM Xeros Technology Group plc, Actual Experience plc and MedaPhor Group plc all contributed significantly to an uplift in the fair value of the portfolio. However, there were some reductions in fair value, which were primarily due to the negative share price performance of some of the quoted companies with Applied Graphene Materials plc, Retroscreen Virology Group plc and Avacta Group plc among the most significant detractors. Some of the key developments of the Group's portfolio companies during the year were as follows:

- Oxford Nanopore Technologies Limited ('Oxford Nanopore') completed a significantly oversubscribed £35m fundraising round and launched a community-focused access programme - the 'MinION Access Programme' - to allow researchers to begin using its nanopore sequencing technology. All aspects of the technology have been trialled, improved and developed during the programme with the changes leading to an increase in performance and helping to expand the range of applications being developed by the community. In late 2014, publications outlining novel applications for the MinION began to appear. Two waves of participants joined the programme during the year and, at the beginning of 2015, Oxford Nanopore opened the programme to fresh applications.
- Modern Biosciences plc ('MBS'), the Group's 61.1% owned subsidiary, agreed a collaboration with Johnson & Johnson Innovation Centre and Janssen Biotech, Inc in relation to MBS' lead programme for the development of novel bone-protective compounds in the treatment of rheumatoid arthritis. The collaboration could be worth up to £176m comprising an upfront payment, an option fee exercisable after or during the Phase 1 programme and development-related milestone payments. Assuming developmental and regulatory success, the majority of the £176m could be received over the next 7-10 years. In addition, MBS will receive royalties on any future sales of products that may result from the alliance upon successful launch and commercialisation of any treatment. During the year, MBS was also awarded a further £2.4m grant by the UK Government's Biomedical Catalyst.
- With respect to the portfolio acquired with Fusion IP, Diurnal Limited successfully completed Phase 2 trials for the treatment of Congenital Adrenal Hyperplasia, and raised £6m to support Phase 3 trials, while MedaPhor Group plc, a provider of advanced ultrasound education and training simulators for medical professionals, successfully floated on AIM. Overall, however, due to fair value reductions in a few of the private companies, the Group's holdings in spin-out companies from Fusion IP's partnerships experienced a net fair value reduction of approximately £2m. We remain positive about the prospects for the businesses over the long term.

Further detailed analysis is provided in the Portfolio review on pages 18 to 29.

Supporting our portfolio companies

A key differentiator for the Group in its sectors, and an integral part of its business model, is the active involvement of its people in the development of its spin-out companies. During the early stages of an opportunity, members of the Group's team work closely with its founders to help shape its strategic direction, often taking an interim management role until such time as it is appropriate to recruit a full external leadership team. The Group's business-building team members continue to provide strategic guidance in an executive or non-executive capacity. The Group currently has board representation on more than 80% of the portfolio companies. IP Exec, the Group's specialist in-house executive search function, assists portfolio companies with the recruitment of experienced and able leadership, sourcing high quality candidates from a range of backgrounds and disciplines. During the year, IP Exec expanded its team to support the Group's portfolio companies more effectively and placed 16 senior executives with the Group's portfolio companies during the year, an increase on the previous year. IP Impact, which has developed a series of innovative programmes to work with CEOs and boards of portfolio companies, has also had a successful year and continues to contribute to the Group's growth. CEOs from more than 20 of the Group's portfolio companies have now participated in these specialist programmes. In 2014, the Group's specialist business support team provided administrative services to 42 of the Group's portfolio companies.

Expanding and nurturing our partnerships

IP Group's ability to access a wide range of innovative scientific research, by creating and developing long-term relationships with leading research institutions in the UK and US, are considered to be an important element of its business model. Some of our achievements in 2014 in this regard are highlighted below:

- At the beginning of the year, the Group announced that it had expanded its 'proof of concept' partnership with the University of Manchester to include graphene projects and had extended the term to 2019.
- During the year, the number of US partnerships was increased following the signing of an IP commercialisation agreement with Princeton University. The partnership, which has an initial pilot phase of 18 months, will concentrate on developing early-stage, proof of principle opportunities based on intellectual property developed at the university. The Group now has partnerships with three Ivy League universities in the US including the University of Pennsylvania and Columbia University.
- In November, the Group formed a pilot initiative with FedIMPACT to identify and develop early-stage technologies from a select group of US Department of Energy ("DOE") Laboratories. FedIMPACT will combine its insight and knowledge of the DOE network with IP Group's unique model of commercialising early-stage technology.

The Group's first commercialisation contract was signed with the University of Oxford's Department of Chemistry in 2000 and will expire in November 2015. The Group will continue to benefit from access to spin-out companies arising from the University of Oxford's Institute of Biomedical Engineering ("IBME") as a result of its strategic stake in, and informal commercialisation alliance with, Technikos LLP ("Technikos"), a venture capital fund specialising in early-stage medical technologies. Technikos' long-term commercial agreement with the IBME is in place until 2023. The acquisition of Fusion IP has enabled a greater degree of exposure to spin-out opportunities emanating from its four partner universities.

Maintaining a strong pipeline

The Group seeks to maintain a pipeline of new opportunities across a wide variety of scientific disciplines and we continue to see many potentially exciting IP commercialisation opportunities across all of our partnerships. In 2014, 10 opportunities received initial incubation or seed funding during the year (2013: 8). At the end of 2014, we completed our first spin-out in the US from our partnership with the University of Pennsylvania. The Group agreed to provide initial capital of up to \$1m for a significant minority stake in Exyn Technologies Inc. which has developed software to control multi-sensory rotorcraft micro aerial vehicles as well as communication between flying vehicles.

Deploying capital to support our portfolio

An important component of the Group's business model is its ability to support both its existing portfolio companies and new early-stage opportunities through the provision of patient capital. The £97.4m (net of expenses) raised by the Group through the issue of new equity at the beginning of the year, added further strength to the Group's financial position and, as per our commitment at that time, the rate of capital deployment into our portfolio companies increased significantly to £46.8m for the year (2013: £27.5m). The Group also assisted its portfolio companies to access capital from a variety of sources and, during the year, they raised approximately £165m, in aggregate (2013: £160m). The £128m total capital raising announced today will enable the Group to continue this trend towards increased support for its most promising portfolio company holdings both in the UK and US.

In addition, the Group provides capital from its managed funds: Top Technology Ventures Limited, the Group's FCA-regulated subsidiary, manages three venture capital funds – IP Venture Fund, The North East Technology Fund ("NETF") and IP Venture Fund II, with assets under management totalling £85m at 31 December 2014. IP Venture Fund, which is no longer making investments in new portfolio companies, achieved realisations of £11.1m this year. Having launched in 2013, IP Venture Fund II has invested a total of £4.5m across 17 spin-out companies alongside the Group. NETF completed a total of 32 investments during the year into companies in the North East of England bringing its total investments since inception close to its committed capital of £25m. The Group has access to additional follow-on finance for technology companies in the North East of England during 2015.

Outlook

Leading research institutions in the UK and the US continue to carry out world-class research and this provides a wealth of scientific discoveries for the Group to seek to commercialise alongside its partners. The sector in which the Group operates appears to have attracted a number of new entrants during the period and, as a result, the availability of, and competition for, capital and opportunities has increased. However, IP Group has a solid track record, experienced board and senior management team and a strong financial position including £97.3m of cash and a diverse portfolio valued at £349.9m and this gives the Board confidence that the Company has the necessary credentials to continue to exploit this significant opportunity and ultimately deliver attractive returns to shareholders over the long term.

Portfolio review

Our portfolio: continuing to develop and mature

The Group's ten largest portfolio companies account for almost 73% of the total portfolio value (2013: 79%).

Overview

At 31 December 2014 the value of the Group's portfolio had increased to £349.9m, from £285.9m in 2013, as a result of a significant increase in net investment following the Group's equity capital raising of £100m (before expenses), portfolio companies acquired with Fusion IP plc ("Fusion IP") and the fair value movements set out opposite. The portfolio comprised holdings in 90 companies, compared with 72 at 31 December 2013, with the ten most valuable portfolio companies accounting for almost 73% of the total portfolio value (2013: 79%).

During the year to 31 December 2014, the Group provided pre-seed, seed and post-seed capital totalling approximately £46.8m to its portfolio companies, including a £5.5m investment into what were previously Fusion IP portfolio companies. This rate of deployment is a 70% increase on the £27.5m provided in 2013 and is consistent with the commitments made by management at the time of the Group's 2014 placing. 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 a significant fair value increase in the portfolio over the medium to long term.

The Group not only increased total capital deployed into its portfolio in 2014 but additionally increased the number of new spin-out opportunities supported, with initial capital being deployed by the Group into 11 companies during the year (2013: 9). Four companies were sold during the period, one of which was to another portfolio company, while a further two companies were closed or fully provided against with a total historic cost of £2.7m.

Overview

Fair value of portfolio

£349.9m (2013: £285.9m)

Capital provided to portfolio

£46.8m (2013: £27.5m)

Number of portfolio companies

90 (2013: 72)

Realisations from portfolio

£9.7m (2013: £5.5m)

Number of new portfolio companies

11 (2013: 9)

During the year, cash proceeds from the realisation of investments increased to £9.7m (2013: £5.5m). The proceeds predominantly arose from realisations of the Group's holdings in Synairgen plc, Rock Deformation Research Limited and Velocys plc, whilst the prior year was primarily driven by the partial disposal of interests in Tracsis plc and Velocys plc.

Performance summary

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

	2014 £m	2013 £m
Unrealised gains on the revaluation of investments	63.2	90.3
Unrealised losses on the revaluation of investments	(42.5)	(7.9)
Net fair value gains	20.7	82.4
Profit/(loss) on disposals of equity investments	1.6	(0.2)
Change in fair value of Limited Partnership interests	0.5	0.8
Net portfolio gains	22.8	83.0

The most significant contributors to unrealised gains on the revaluation of investments comprised Oxford Nanopore Technologies Limited (£18.0m), Actual Experience plc (£9.4m) and Xeros Technology Group plc (£8.4m). The major contributors to the unrealised losses on the revaluation of investments were Applied Graphene Materials plc (£8.7m), Retroscreen Virology Group plc (£6.1m – net of the £0.5m uplift in the fair value of Activiomics Limited upon its acquisition) and Avacta Group plc (£6.3m).

The performance of the Group's holdings in companies quoted on either AIM or ISDX saw a net unrealised fair value decrease of £2.5m while the Group's holdings in unquoted companies experienced a net fair value increase of £23.2m. Excluding fair value increases to portfolio companies that listed on AIM during the year, which include Actual Experience plc and Xeros Technology Group plc as noted in the Operational review on pages 16 and 17, the performance of the Group's listed portfolio was consistent with the overall performance of the AIM market during 2014. Management believes that despite the poor performance of the quoted market in 2014, the increasing maturity, and technical and commercial progress, of many of its underlying portfolio businesses, both quoted and unquoted, will continue to contribute to significant future increases in fair value.

Portfolio review

continued

Investments and realisations

The Group's rate of capital deployment increased during 2014, with a total of £46.8m being deployed across 51 new and existing projects (2013: £27.5m; 44 projects), as follows:

Cash investment analysis by company stage	2014 £m	2013 £m
Incubation opportunities	0.8	0.2
Seed businesses	8.2	4.2
Post-seed private businesses	22.3	13.7
Post-seed quoted businesses	15.5	9.4
Total	46.8	27.5
Proceeds from sales of equity investments	9.7	5.5

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 either AIM or the ISDX markets.

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 IPVF, the dedicated follow-on venture capital fund managed by the Group. IPVF invested a total of £2.7m into existing Group portfolio businesses during the year (2013: £1.4m). This fund has sufficient capital commitments from its limited partners to invest approximately £0.2m further into its existing portfolio.

Since its inception in May 2013, IP Venture Fund II, the £30m venture capital successor fund to IP Venture Fund, has invested alongside the Group in 17 companies spun-out from IP Group's university partnerships and other collaborations. At 31 December 2014, IPVFII had invested £4.5m into spin-out companies from

incubation stage through seed and post-seed stage, 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 companies were added to the Group's portfolio as a result of the Fusion IP acquisition. In addition, ten opportunities received initial incubation or seed funding during the year (2013: eight) and one initial opportunity received post-seed funding. During the period one existing incubation project progressed to seed stage (2013: two).

The eleven new opportunities included:

- Genomics Limited (University of Oxford) has developed a unique analytical platform for genomic sequence data analysis and interpretation and has already been awarded two grants funded by the Department of Health and managed by Genomics England to develop its technology. The company is also working with pharmaceutical companies to bring the benefits of genomic analysis to the drug development process;
- Ultrahaptics Limited (University of Bristol) has developed a unique technology that uses ultrasound to project sensations through the air and directly onto the user. Users can "feel" touchless buttons, get feedback for mid-air gestures or interact with virtual objects;
- Intelligent Ultrasound Limited (University of Oxford), aims to improve the reliability and timeliness of diagnosis for patients requiring ultrasound scans, won the award for Best Emerging Medtech Company at the OBN Annual Awards in October; and
- OxSyBio Limited (University of Oxford) will develop 3D printing techniques to produce tissue-like synthetic materials for wound healing and drug delivery. In the longer term the company aims to print synthetic tissues for organ repair or replacement.

The average level of capital deployed per company increased from £620,000 to £920,000 in 2014. Excluding the Group's participation in Oxford Nanopore Technologies Limited's 2013 and 2014 financing rounds, the average investment per company increased to £820,000 from £530,000 in 2013. The average investment per company is expected to increase in the future.

Portfolio analysis

Portfolio analysis — by stage of company maturity

At 31 December 2014, the Group's portfolio fair value of £349.9m was distributed across stages of company maturity as follows:

Company stage	As at 31 December 2014				As at 31 December 2013			
	Fair value £m	%	Number	%	Fair value £m	%	Number	%
Incubation opportunities	0.9	—	13	13%	0.1	—	8	11%
Seed businesses	16.0	5%	25	29%	11.3	4%	20	28%
Post-seed private businesses	194.8	56%	33	37%	139.4	49%	26	36%
Post-seed quoted businesses	138.2	39%	19	21%	135.1	47%	18	25%
All portfolio businesses	349.9 ¹	100%	90	100%	285.9	100%	72	100%

¹ Total fair value includes £4.2m (2013: £0.1m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII.

Of the 90 companies in the Group's portfolio, 73% (2013: 79%) 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 £255.1m (2013: £225.2m).

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. During 2014, after the acquisition of Fusion IP, the Group formally split its core opportunity evaluation and business building team into four specialist divisions, being Biotech, Cleantech, Healthcare and Technology. The new divisional structure for monitoring and categorising the portfolio is depicted in the following table:

Sector	As at 31 December 2014				As at 31 December 2013			
	Fair value £m	%	Number	%	Fair value £m	%	Number	%
Healthcare	213.1	61%	31	34%	176.3	62%	24	33%
Technology	58.6	17%	25	28%	48.8	17%	21	29%
Cleantech	56.2	16%	18	20%	34.2	12%	18	25%
Biotech	16.4	5%	13	15%	6.8	2%	5	7%
Multiple sectors	5.6	1%	3	3%	19.8	7%	4	6%
	349.9 ¹	100%	90	100%	285.9	100%	72	100%

¹ Total fair value includes £4.2m (2013: £0.1m) 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 the 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, Retroscreen Virology Group plc and Tissue Regenix Group plc.

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

Portfolio review continued

Case study: **Alesi Surgical Limited**
Sector: **Healthcare**
Stage: Post-seed private business

Healthcare

Companies in the Healthcare division saw the most significant amount of capital contribution and fair value increase during the year. The major contributors to the healthcare portfolio's fair value increase were Oxford Nanopore Technologies Limited (£18.0m) and Genomics Limited (£2.5m), which both raised money at a premium to their previous financing rounds. However, these fair value increases were offset by the poor performance of the share prices of the division's quoted portfolio, specifically Retroscreen Virology Group plc (£6.1m unrealised fair value decrease – net of the £0.5m uplift in the fair value of Activiomics Limited upon its acquisition), Avacta Group plc (£6.3m decrease) and Tissue Regenix Group plc (£2.7m decrease).

Oxford Nanopore Technologies Limited ("Oxford Nanopore"), a spin-out company from the University of Oxford, which specialises in nanopore-based electronic molecular analysis systems, announced in August 2014 that it had completed a significantly oversubscribed £35m fundraising. Funds from the financing are being used to further develop Oxford Nanopore's commercial and manufacturing infrastructure that has been serving early customers through its MinION Access Programme ("MAP"), its programme designed to give life science researchers access to nanopore sequencing technology. The financing resulted in a fair value uplift in the Group's resultant 19.9% interest of £17.8m. Early in the year, Oxford Nanopore announced that excellent progress had been made in the early phase of MAP and, since the period end, Oxford Nanopore has opened the programme to fresh applications.

In August, Retroscreen Virology Group plc ("Retroscreen Virology"), a spin-out from Queen Mary University of London, announced that it had raised £33.6m before expenses in an oversubscribed placing. The Group contributed £4.0m to the placing, which resulted in a holding of 17.5%. Retroscreen Virology, which pioneered the commercialisation of the hVIVO

Human Challenge Models of disease, seeks to leverage its hVIVO platform as a powerful tool in biomarker discovery and the development of new disease models.

In May, Avacta Group plc ("Avacta"), a provider of innovative diagnostic tools, consumables and reagents for human and animal healthcare, raised £10.1m before expenses. The proceeds are being used to accelerate Avacta's development and commercialisation of affimers, engineered proteins that mimic specificity and binding affinities of antibodies.

MedaPhor Group plc ("MedaPhor"), a spin-out from the University of Cardiff, announced its admission to AIM in August. MedaPhor is a provider of advanced ultrasound education and training simulators for medical professionals. Its lead product is the ScanTrainer ultrasound simulator training platform which assists students, doctors and sonographers to acquire ultrasound scanning skills with minimal expert supervision and without the need for a patient on which to practise. In January 2015, the company announced the availability of its first radiology-focused Super Assessment module for its award-winning ScanTrainer simulator. The module will form part of the new Upper Abdomen Education Packages which are a range of solution bundles, designed specifically for radiology, aimed at teaching complex trans-abdominal ultrasound scanning skills in a self-learning environment.

Genomics Limited ("Genomics"), a spin-out from the University of Oxford, has developed a unique analytical platform for genomic sequence data analysis and interpretation and has already been awarded two grants, funded by the Department of Health and managed by Genomics England, to develop its technology. Genomics is also working with pharmaceutical companies to bring the benefits of genomic analysis to the drug development process. In November, the company completed a £10.3m fundraising of which the Group (including the Group's share of IPVFIL's investment) contributed £2.3m.

In June 2014, Tissue Regenix Group plc ("Tissue Regenix"), the regenerative medical devices company, launched its DermaPure™ "de-cellularised" dermis product in the US. In February 2015, the company completed a £20m placing of which the Group contributed £2.5m. Tissue Regenix continues to expand its distribution network around the US and currently has a network of over 60 representatives there.

A revolutionary new system for controlling surgical smoke

Alesi Surgical Limited* ("Alesi") is a spin-out from Cardiff University and its vision is to become a world leader in the development of advanced medical devices. Initially focusing on Minimally Invasive Surgery, Alesi is working with leading surgeons to identify and find solutions for the issues they most commonly experience when performing complex surgical procedures. "Ultravision" – the first product to be launched by Alesi – removes surgical smoke from the operative visual field and prevents its release into the operating theatre during laparoscopic ("keyhole") surgery. As a result, surgery can be carried out more quickly and in a more efficient and cost-effective manner than with current vacuum-based solutions. Ultravision also reduces the surgical team's exposure to surgical smoke, which is both unpleasant and could have long-term health implications.

* Formerly known as Asalus Medical Instruments Limited

Ultravision has already received overwhelming interest from the surgical community and, during the year, Alesi established a distribution network to supply the device to hospitals across Europe, the Middle East, New Zealand and Australia.

In 2014, Alesi's Ultravision product won several prestigious awards including the Royal College of Surgeons' Cutlers' Surgical Prize for best surgical innovation and a 'Business Impact (Aspiring) Award' at PraxisUnico's Impact Awards.

Read more online at www.ipgroupplc.com/portfolio

Company name	Description	Group stake at 31 Dec 2014 ⁽ⁱ⁾ %	Fair value of Group holding at 31 Dec 2013 £m	Year to 31 December 2014			Fair value of Group holding at 31 Dec 2014 £m
				Net investment/ (divestment) £m	Acquired with Fusion IP £m	Fair value movement £m	
Oxford Nanopore Technologies Limited	Single-molecule detection. 1st application in 3rd generation DNA sequencing ("S1000 genome")	19.9%	104.3	6.0	–	18.0	128.3
Retroscreen Virology Group plc	Viral challenge and 'virometrics' specialist ("conquering viral disease")	17.5%	30.5 ⁽ⁱⁱ⁾	4.0	–	(6.1)	28.4
Tissue Regenix Group plc	Regenerative dCELL® soft tissue body parts	13.7%	20.7	–	–	(2.7)	18.0
Avacta Group plc	Reagents, arrays and instruments for human and animal healthcare	26.9%	12.2	2.5	–	(6.3)	8.4
Genomics Limited	Platform for analysis and interpretation of genomic sequence data	18.6%	–	2.3	–	2.5	4.8
MedaPhor Group plc	Advanced ultrasound education and training simulators	41.6%	0.5	1.4	1.5	1.2	4.6
Other companies			8.1	5.2	4.3	0.3	17.9
IP Group total			176.3	21.4	5.8	6.9	210.4
Value not attributable to equity holders			–	1.9	–	0.8	2.7
Total			176.3	23.3	5.8	7.7	213.1

⁽ⁱ⁾ Represents the Group's undiluted beneficial equity interest (excluding debt) including the portion of IPVFII's stake attributable to the Group.

⁽ⁱⁱ⁾ Includes Activiomics Limited, another Group portfolio company, which was acquired by Retroscreen Virology in March 2014, for paper valued at £1.4m, representing an uplift of £0.5m on its opening value. The opening value of Retroscreen Virology has been increased to reflect the opening fair value of Activiomics Limited.

An analysis of the number and value of portfolio companies in the sector by stage of development is as follows:

Stage	Number	Value (£m)
Incubation	5	0.2
Seed	7	5.2
Post-seed	14	145.5
Quoted	5	59.5
Value not attributable to equity holders	n/a	2.7
Total	31	213.1

Portfolio review continued

Case study: **Ultrahaptics Limited**
Sector: **Technology**
Stage: Seed

Technology

Companies in the Technology division received net investment of £4.6m and saw a fair value decrease of £0.8m during the year. Significant unrealised fair value gains were achieved as a result of an increase in Actual Experience plc's share price since its admission to AIM as well as Tracsis plc's share performance. However, this was offset by the poor performance of Applied Graphene Materials plc's share price, by Phase Focus Limited's funding at a price lower than its previous funding round and impairments to a number of the division's smaller portfolio companies.

In February, Actual Experience plc, an "analytics as a service" spin-out from Queen Mary University of London, listed on AIM. Actual Experience plc's technology enables the measurement of digital performance quality, allowing customers to improve the performance of the software business applications that they provide to their staff and their own clients. This reduces costs while improving the experience of the user. In January 2015, the company announced that it had made material commercial progress with its channel partners and had achieved national media coverage of its analysis, following its publication in Ofcom's triennial infrastructure report. In addition, Actual Experience plc strengthened its sales and senior management teams, and established a US operation.

Developments at Tracsis plc ("Tracsis"), a leading provider of operational planning software to the passenger transport industries, included its acquisition of rail software company Datasys Integration Limited, the establishment of its North American pilot programme and increases in its revenues of 106% to £22.4m (2013: £10.8m). In contrast to the general performance of AIM in 2014, Tracsis's share price performed well and saw over 100% appreciation in value.

In July, Surrey NanoSystems Limited announced that it had launched the world's darkest material, Vantablack®, that can be used to enhance the range and sensitivity of optics. The company's patented nanotechnology has the highest thermal conductivity and lowest mass-volume of any material that can be used in high-emissivity applications.

In March, Schlumberger announced that it had acquired Rock Deformation Research, a company specialising in geological software development and structural geology consultancy for the oil and gas industry.

Feeling without touching

The ability to feel virtual objects in mid-air has now been turned into a reality by Ultrahaptics Limited ("Ultrahaptics"), a leading developer of ultrasonic free-space haptics technology. The unique technology, created by the University of Bristol spin-out, uses ultrasound to project sensations through the air and directly onto the user. There is no requirement for the user to wear or touch anything in order to receive tactile feedback.

The Ultrahaptics Evaluation Program, which allows members of the program to evaluate, experiment and develop concept products featuring mid-air tactile feedback, has been met with overwhelming demand and a number of large multinational companies have already purchased the prototype.

This touchless haptics innovation has registered global interest and, at the beginning of 2015, Ultrahaptics was awarded a CES 2015 Top Picks Award by Laptop Mag for 'Best Enabling Technology'. The technology will be licensed into a diverse array of markets including consumer electronics, home appliances and the automotive sector, and could transform how people interact with computers, automobiles and games in the future.

Read more online at www.ipgroupplc.com/portfolio

Company name	Description	Group stake at 31 Dec 2014 ⁽ⁱ⁾ %	Fair value of Group holding at 31 Dec 2013 £m	Year to 31 December 2014			Fair value of Group holding at 31 Dec 2014 £m
				Net investment/(divestment) £m	Acquired with Fusion IP £m	Fair value movement £m	
Actual Experience plc	Optimising the human experience of networked applications	29.7%	4.7	—	—	9.4	14.1
Tracsis plc	Resource optimisation software for the transport industry	10.5%	5.5	—	—	5.8	11.3
Applied Graphene Materials plc	Producer of speciality graphene materials	20.3%	14.9	—	—	(8.7)	6.2
Surrey Nanosystems Limited	Low temperature carbon nanotube growth	21.6%	2.3	0.6	—	0.7	3.6
Phase Focus Limited	Aberration-free quantitative phase imaging	38.4%	—	1.0	3.3	(1.4)	2.9
Other companies			21.3	2.8	2.7	(6.6)	20.2
IP Group total			48.7	4.4	6.0	(0.8)	58.3
Value not attributable to equity holders			0.1	0.2	—	—	0.3
Total			48.8	4.6	6.0	(0.8)	58.6

⁽ⁱ⁾ Represents the Group's undiluted beneficial equity interest (excluding debt) including the portion of IPVFII's stake attributable to the Group.

An analysis of the number and value of portfolio companies in the sector by stage of development is as follows:

Stage	Number	Value (£m)
Incubation	5	0.3
Seed	7	4.7
Post-seed	7	15.8
Quoted	6	37.5
Value not attributable to equity holders	n/a	0.3
Total	25	58.6

Portfolio review continued

Case study: Xeros Technology Group plc
Sector: **Cleantech**
Stage: Post-seed quoted

Cleantech

The unrealised fair value gain of 19% seen by the Cleantech division portfolio was largely as a result of an increase in value of Xeros Technology Group plc (£8.4m), following its IPO on AIM, as well as Ilika plc (£3.4m) and Ceres Power Holdings plc (£1.9m), whose share prices performed positively during the year. This increase was partially offset by a decrease of £7.1m from the remainder of the division's portfolio.

Ceres Power Holdings plc ("Ceres"), a world-leading developer of low cost, next generation fuel cell technology for use in distributed generation and other applications, announced in July that it had raised £20m (gross of expenses) by way of an oversubscribed placing. The purpose of the placing was to provide the company with sufficient working capital to enable it to respond to the commercial interest it has generated, to continue to develop its technology roadmap and to enhance its manufacturing capability.

In March, Xeros Technology Group plc ("Xeros"), a spin-out from the University of Leeds that has developed a patented polymer bead cleaning system, gained admission to AIM and raised gross proceeds of £27.6m. The admission and fundraising allowed Xeros to accelerate the roll-out of its technology in commercial laundries and to fund the research and development process through to commercialisation in other identified applications, not least the home. In May, Xeros announced that the first major utility company in the US had launched energy incentive programmes for customers who commit to reducing their energy consumption through the use of a Xeros Commercial Laundry System. To date, eight utility companies in the US have launched similar energy incentive programmes.

During 2014, the Group exited its remaining interest in Velocys plc. From the Group's initial investment date into Velocys in 2005 to the final exit date in 2014, the Group had invested £0.4m in the company and realised cumulative proceeds of £12.9m.

Bringing innovation to the laundry industry for the first time in more than 60 years

Xeros Technology Group plc ("Xeros") has received many accolades for its revolutionary clothes-cleaning technology. The innovative system, which uses reusable and recyclable polymer beads, has been shown to offer many benefits when compared to conventional washing methods: it consumes significantly less water, is able to clean clothes at lower temperatures (therefore reducing energy consumption) and reduces colour fading and damage to fabric. Xeros' system is already being used in commercial laundries, in the UK and the US, with the Company also targeting the domestic laundry market.

Read more online at www.ipgroupplc.com/portfolio

A spin-out from the University of Leeds, Xeros hit many milestones during the year, which included:

- Listing on the AIM market of the London Stock Exchange in March, having raised £27.6m before expenses
- Announcing that the first major utility company in the US had launched energy incentive programmes for customers who commit to reducing their energy consumption through the use of a Xeros Commercial Laundry System. To date, eight utility companies in the US have launched similar energy incentive programmes.
- Being awarded a EU grant of €700,000 to support early take-up of the Xeros polymer bead cleaning system by European commercial laundries
- Securing four of the five largest hotel groups in the world as customers
- Developing late stage prototypes for its domestic laundry machine.

Xeros has identified a number of other applications for this technology and has selected the leather processing market, worth \$50bn globally, as the next area to explore.

Company name	Description	Group stake at 31 Dec 2014 ⁽¹⁾ %	Fair value of Group holding at 31 Dec 2013 £m	Year to 31 December 2014			Fair value of Group holding at 31 Dec 2014 £m
				Net investment/ (divestment) £m	Acquired with Fusion IP £m	Fair value movement £m	
Ceres Power Holdings plc	Ceramic fuel cell technology for distributed generation	23.5%	10.3	4.2	—	1.9	16.4
Xeros Technology Group plc	Polymer bead cleaning systems	11.9%	3.2	2.2	—	8.4	13.8
Ilika plc	Development of new materials for energy and electronics applications	7.6%	0.9	0.5	—	3.4	4.8
Seren Photonics Limited	Nano-engineered structures to enhance the properties of LEDs	66.3%	0.9	0.5	2.3	—	3.7
Magnomatics Limited	High torque magnetic transmissions	51.8%	1.0	0.6	1.9	—	3.5
Velocys plc	Speciality catalysts for the generation of clean fuels	—	1.2	(1.2)	—	—	—
Other companies			16.7	2.0	1.2	(7.1)	12.8
IP Group total			34.2	8.8	5.4	6.6	55.0
Value not attributable to equity holders			—	1.1	—	0.1	1.2
Total			34.2	9.9	5.4	6.7	56.2

⁽¹⁾ Represents the Group's undiluted beneficial equity interest (excluding debt) including the portion of IPVFII's stake attributable to the Group.

An analysis of the number and value of portfolio companies in the sector by stage of development is as follows:

Stage	Number	Value (£m)
Incubation	1	0.1
Seed	7	5.0
Post-seed	5	9.8
Quoted	5	40.1
Value not attributable to equity holders	n/a	1.2
Total	18	56.2

Portfolio review continued

Case study: **Diurnal Limited**
Sector: **Biotech**
Stage: Private (post-seed)

Biotech

While there was a modest increase in the fair value of the Group's holdings in Biotech portfolio companies, largely as a result of Diurnal Limited's £6m fundraising being completed at a premium to its previous financing round, additionally there were significant underlying developments within Diurnal Limited itself and portfolio companies Modern Biosciences plc and Synairgen plc.

Diurnal Limited ("Diurnal"), a spin-out company from the University of Sheffield, announced positive Phase 2 data for its lead product, Chronocort®. Chronocort is in development for the treatment of Congenital Adrenal Hyperplasia ("CAH"), a rare condition characterised by a lack of the natural steroid-hormone, cortisone. Chronocort represents an entirely novel approach to a debilitating disease that is inadequately controlled by current drugs and is the subject of Orphan Drug designation from the European Medicines Agency. During 2014, the Group took the decision to lead a round designed to fund Chronocort's pivotal Phase 3 studies, with a view to eventually taking the product to market. The Group anticipates that Diurnal's lead product Chronocort and its second product, Infacort®, for the treatment of childhood CAH, will enter Phase 3 studies during 2015.

Modern Biosciences plc ("MBS"), a subsidiary company of the Group that in-licenses and develops intellectual property relating to new therapeutic compounds using a virtual drug-discovery model, entered into an R&D alliance and global option and licence agreement with Janssen Biotech, Inc. in relation to MBS's novel bone-protective compounds for the treatment of rheumatoid arthritis ("RA"). The goal of the collaboration, facilitated by the Johnson & Johnson Innovation Centre in London, is to develop new drugs for the treatment of RA. The collaboration could be worth up to £176m comprising an upfront payment, an option fee exercisable after or during the Phase 1 programme and development-related milestone payments. Assuming developmental and regulatory success, the majority of the £176m could be received over the next 7-10 years. In addition, MBS will be eligible to receive royalties on future sales of any products that may result from the alliance upon successful launch and commercialisation. As MBS is currently consolidated into the Group's results, it is not attributed any value in the Group's portfolio.

Synairgen plc ("Synairgen"), a spin-out from the University of Southampton focused on respiratory disease, also announced a global licensing deal for its lead asthma/COPD drug SNG001 with AstraZeneca. Total deal size was \$232.5m, including a \$7.25m upfront payment and potential developmental, regulatory and commercial milestones, plus royalties. Shortly after the announcement of this deal, the Group exited its position in Synairgen, realising proceeds of £4.3m against total capital deployed of £1.3m.

Seeking to optimise health through physiological hormone replacement

Diurnal Limited ("Diurnal"), a spin-out from the University of Sheffield, is leveraging its expertise in circadian-based endocrinology (mimicking the body's natural hormone levels) to develop products for the treatment of hormone deficiency. Specific focus is on the life-long treatment for chronic conditions including: adrenal insufficiency, hypogonadism, and hypothyroidism.

Adrenal insufficiency and its genetic form Congenital Adrenal Hyperplasia ("CAH") occur when the body is unable to produce cortisol, an essential hormone for regulating metabolism and responding to stress, and it is thought that there are over 250,000 sufferers worldwide. Current therapy – the replacement of the hormone with synthetic steroids – is unable to simulate the distinctive daily rhythm of cortisol release. Poor control of the disease can result in precocious puberty in infants, virilization, infertility and fatigue while overuse of the steroids can result in obesity, hypertension, diabetes and osteoporosis.

Diurnal is seeking to address this with its lead product Chronocort, which is specifically designed to provide physiological cortisol replacement throughout the day in a manner that mimics the natural circadian rhythm. The drug is taken in oral form and has the potential to significantly improve patients' quality of life.

In 2014, a six month Phase 2 clinical study of Chronocort was successfully completed on adults suffering from CAH. Pivotal Phase 3 trials of Chronocort are due to start in 2015 as Diurnal seeks to progress the drug towards market authorisation.

Read more online at www.ipgroupplc.com/portfolio

Company name	Description	Group stake at 31 Dec 2014 ⁽¹⁾ %	Fair value of Group holding at 31 Dec 2013 £m	Year to 31 December 2014			Fair value of Group holding at 31 Dec 2014 £m
				Net investment/ (divestment) £m	Acquired with Fusion IP £m	Fair value movement £m	
Diurnal Limited	Novel treatments of hormone deficiency	51.7%	—	4.0	5.1	1.0	10.1
Absynth Biologics Limited	Vaccines and therapeutic antibodies	45.0%	—	0.3	1.5	—	1.8
Karus Therapeutics Limited	Inflammatory disease and cancer	8.6%	0.9	0.6	—	—	1.5
Synairgen plc	Respiratory diseases	—	4.3	(4.3)	—	—	—
Other companies			1.6	0.5	0.9	—	3.0
IP Group total			6.8	1.1	7.5	1.0	16.4
Value not attributable to equity holders			—	—	—	—	—
Total			6.8	1.1	7.5	1.0	16.4

⁽¹⁾ Represents the Group's undiluted beneficial equity interest (excluding debt including the portion of IPVFII's stake attributable to the Group).

An analysis of the number and value of portfolio companies in the sector by stage of development is as follows:

Stage	Number	Value (£m)
Incubation	2	0.1
Seed	3	—
Post-seed	6	16.0
Quoted	2	0.3
Value not attributable to equity holders	n/a	—
Total	13	16.4

Financial review

Satisfactory financial performance and a strong balance sheet

The Group and its portfolio Companies saw a number of significant developments during the year. From a financial perspective, the Group had another profitable year, although it was less profitable than in 2013 and, following the acquisition of Fusion IP and equity fundraisings in the early part of both 2014 and 2015, the Group continues to benefit from a substantial balance sheet.

Greg Smith Chief Financial Officer

Statement of comprehensive income

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

	2014 £m	2013 £m
Net portfolio gains	22.8	83.0
Licensing income	3.0	—
Other income	2.6	2.4
Change in fair value of Oxford Equity Rights asset	(1.8)	(5.0)
Amortisation of intangible assets	(4.9)	—
Acquisition costs	(1.1)	—
Administrative expenses – Modern Biosciences plc	(1.8)	(0.5)
Administrative expenses – all other businesses	(9.9)	(7.7)
Finance income	0.6	0.4
Profit and total comprehensive income for the year	9.5	72.6

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 remained relatively consistent at £2.6m (2013: £2.4m). 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 ('IPVF') and North East Technology Fund ('NETF')). As a result of an extension by its limited partner during the period, NETF's "investment period" is now anticipated to continue until the end of 2015, while that of IPVF 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, IPVFI, are consolidated into those of the Group and accordingly the fund management fees received are not reflected in the statement of comprehensive income.

As a result of Modern Biosciences plc's R&D alliance and global option and licence agreement with Janssen Biotech, Inc. ('Janssen'), the Group became entitled to an upfront payment of £3.0m (£2.1m net of sub-licensing and other costs) during the period, which was subsequently received in cash in January 2015. The Group allocated an increased level of capital to the evaluation and development of certain early-stage therapeutic programmes, including through its subsidiary Modern Bioscience 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 statement of comprehensive income as they are incurred. MBS continued to benefit from the recovery of a proportion of the OxeoRx 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.

The Group's administrative expenses, excluding those relating to MBS, increased during the period to £9.9m (2013: £7.7m). This is predominantly due to an increase in the cost base, following the Fusion IP plc ('Fusion IP') acquisition, and is inclusive of an IFRS 2 share-based payments charge totalling £0.9m (2013: £0.9m), which relates to the Group's Long-Term Incentive Plan and Annual Incentive Scheme awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or net assets.

As a result of the Group's £97.4m equity capital raising (net of expenses) at the beginning of the year, and the resultant increased average cash balance during the year, the Group's interest receivable during the period increased to £0.6m (2013: £0.4m).

Total equity ("net assets") (£m)

£526.2m (2013: £336.6 m)

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

£9.5m (2013: £72.6m)

Cash, cash equivalents and deposits (£m)

£97.3m (2013: £24.1m)

Financial review

continued

Statement of financial position

The Group ended the period with net assets attributable to shareholders of £526.2m, representing an increase of £189.2m from the position at 1 January 2014 (£337.0m). As described above, the most significant contributing factors to the increase in net assets during the period was the £97.4m (net of expenses) capital raising, the acquisition of Fusion IP 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 £451.3m at 31 December 2014 (2013: £315.5m).

At 31 December 2014 the Group held cash and deposits of £97.3m (2013: £24.1m) and a diversified portfolio of equity and debt investments in 90 private and publicly listed technology companies (2013: 72), 13 of which were added to the Group's portfolio as a result of the Fusion IP acquisition.

The value of the Group's holdings in portfolio companies increased to £349.9m at year end (2013: £285.9m) after net unrealised fair value gains of £20.7m and net investment of £37.1m (2013: £82.4m net unrealised fair value gain; £22.0m 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 (2013: £18.4m), acquired intangible assets of £16.5m and an equity rights asset of £1.1m (2013: £2.9m). The goodwill and acquired intangible assets values arose as a result of the Group's acquisition of Fusion IP. The previous year's goodwill balance arose from historical acquisitions of Techtran Group Limited (university partnership business, £16.3m; 2013: £16.3m) and Top Technology Ventures Limited (venture capital fund management business, £2.1m; 2013: £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 will be amortised on a straight line basis over each partnership's useful economic life.

The equity rights asset represents amounts paid to the University of Oxford in 2000 and 2001 giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company and of any licensing income emanating from the University of Oxford's Department of Chemistry until November 2015. Based on the Directors' calculations, and as described more fully in note 14 to the Group's financial statements, the fair value of the contract at 31 December 2014 has reduced by £1.8m (2013: £5.0m) to £1.3m (2013: £3.1m) and its value by 31 December 2015 will be £nil.

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

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

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

	2014 £m	2013 £m
Net cash used in operating activities (excluding cash flows to/from deposits)	(6.4)	(1.9)
Net cash used in investing activities	(35.4)	(21.9)
Issued share capital	97.4	—
Acquisition of subsidiary	17.6	—
Movement during period	73.2	(23.8)

At 31 December 2014, the Group's Cash totalled £97.3m, an increase of £73.2m from a total of £24.1m at 31 December 2013 predominantly due to a net £97.4m increase from the issue of new equity capital and £17.6m through the acquisition of Fusion IP offset by net investment in the Group's spin-out companies.

The Group's net cash used in investing activities increased during 2014, reflecting both an increase in investments (2014: £46.8m; 2013: £27.5m) and an increase in realisations (2014: £9.7m; 2013: £5.5m). As described in more detail in the Portfolio review on pages 18 to 29, the Group allocated a total of £46.8m across 51 portfolio companies during the period (2013: £27.5m; 44 companies).

A further £0.3m was committed to IP Venture Fund (2013: £0.2m), which in turn invested £2.7m across eight portfolio companies (2013: £1.4m; 6 companies). The Group received a distribution of £1.1m following IP Venture Fund realising £11.1m from two exits and one partial disposal.

Overall, net cash used in investing activities totalled £35.4m (2013: £21.9m).

Primarily as a result of an increase in the Group's cost base post the acquisition of Fusion IP, cash used in operating activities increased to £6.4m (2013: £1.9m).

It remains the Group's policy to place cash, which is surplus to near-term working capital requirements, on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria 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 2014, the Group recognised £4.5m of loans (2013: £1.3m) from the limited partners of IPVFI, a fund raised during 2013 that is consolidated by the Group. These loans are repayable only upon IPVFI generating sufficient returns to repay the limited partners. Whilst the Group continued to have no borrowings, it may in the future consider introducing a modest level of gearing into the business if this is considered to be in the best interests of the Group.

At 31 December 2014 the Group had a total of £1.2m (2013: £0.1m) in US Dollars held 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.

The framework for evaluating 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 'line 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



Operational



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

The operations of the Group, and the implementation of its objectives and strategy, are subject to a number of key risks and uncertainties. All levels of management have responsibility for identifying and reporting on risks, which are reviewed by the Board at least twice a year, and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks.

Risk and description	Impact
<p>1 The returns and cash proceeds from the Group's early-stage companies can be very uncertain</p> <p>The following risks are typically associated with early-stage companies:</p> <ul style="list-style-type: none"> ■ may not be able to secure later rounds of funding; ■ may not be able to source or retain appropriately skilled staff; ■ competing technologies may enter the market; ■ technology can be materially unproven and may fail; ■ IP may be infringed, copied or stolen; ■ may be more susceptible to cyber-crime; and ■ other administrative, taxation or compliance issues may lead to company failure. 	<ul style="list-style-type: none"> ■ Portfolio company failure directly impacts the Group's value and profitability. ■ 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. ■ Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.
<p>2 It may be difficult for the Group and its early-stage companies to attract capital.</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"> ■ 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. ■ 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. ■ 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.
<p>3 Universities or other research intensive institutions may terminate their partnerships or other collaborative relationships with the Group</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 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"> ■ Termination or non-renewal of arrangements through failure to perform obligations may result in the loss of exclusive rights. ■ The loss of exclusive rights may limit the Group's ability to secure attractive IP opportunities to commercialise. ■ This could potentially have a material adverse effect on the Group's long-term business, results of operations, performance and prospects. ■ With several new entrants to our market, this may reduce our opportunities to create new spin-out businesses.

Were more than one of the risks to occur together, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out below. Further discussion of the key risks and uncertainties are given on pages 56 and 57 of the Corporate Governance Report.

Mitigation	Risk trend	Developments during the year	KPI
<ul style="list-style-type: none"> ■ The Group's staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including systematic opportunity evaluation and business building methodologies. ■ 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. ■ Support on operational, legal and company secretarial matters is offered to minimise failures due to common administrative factors. ■ The Group has spin-out company holdings across different sectors to reduce the impact of a single company failure or sector demise. ■ 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. 		<ul style="list-style-type: none"> ■ The Group increased its rate of capital deployment into its portfolio in the year. ■ Some signs of increased liquidity and shareholder risk appetite observed on AIM. ■ The Group raised £97.4m (net of expenses) during the year, and increased cash reserves through the acquisition of Fusion IP. ■ In addition, the Group announced a further proposed financing to raise £128m (gross) in March 2015. 	<ul style="list-style-type: none"> ■ Change in fair value of equity and debt investments. ■ Purchase of equity and debt investments. ■ Proceeds from the sale of equity investments.
<ul style="list-style-type: none"> ■ The Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities. ■ The Group operates a corporate finance function which carries out fundraising mandates for portfolio companies. ■ The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development. 		<ul style="list-style-type: none"> ■ Economic conditions improved in the UK and increased liquidity and risk appetite in the equity capital markets has been observed, albeit from a low base. ■ The Group raised £97.4m (net of expenses) in February leading to an increase in capital deployment into the portfolio. 	<ul style="list-style-type: none"> ■ Change in fair value of equity and debt investments. ■ Total equity ('net assets'). ■ Profit/loss attributable to equity holders.
<ul style="list-style-type: none"> ■ The Group continues to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research institutions. ■ The Group has been able to source opportunities through non-exclusive relationships and other sources. ■ Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive. ■ 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. 		<ul style="list-style-type: none"> ■ PoP agreement extended with University of Manchester. ■ Pilot agreement signed with Princeton University; the Group now has agreements with three Ivy League US universities. ■ Oxford Chemistry contract expires in November 2015. ■ Deeper access to Fusion IP university partners. ■ Commercialisation initiative with Department of Energy national labs in the US. 	<ul style="list-style-type: none"> ■ Number of new portfolio companies.

Risk management

continued

Risk and description	Impact
<p>4 The Group may lose key personnel or fail to attract and integrate new personnel</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"> ■ 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.
<p>5 There may be changes to, or impacts from, legislation, government policy and regulation</p> <p>There may be unforeseen changes in, or impacts from, government policy, regulation or legislation (including taxation legislation). This could include changes to funding levels or to the terms upon which public moneys are made available to universities and research institutions and the ownership of any resulting intellectual property.</p>	<ul style="list-style-type: none"> ■ Changes could result in universities and research institutions no longer being able to own, exploit or protect intellectual property. ■ Changes in government policy or legislation may make it unattractive for research academics to participate in the commercialisation of the IP that they create. ■ 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. ■ The Group operates an FCA-authorized subsidiary and regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions, loss of fund management contracts, reputational damage or fines.

Mitigation	Risk trend	Developments during the year	KPI
<ul style="list-style-type: none"> ■ Senior team succession plans are in place and updated regularly. ■ The Group carries out regular market comparisons for staff and executive remuneration. ■ The Group 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. ■ The long-term incentives for all senior staff are in the form of shares in the Group and all executives are shareholders in the business. ■ The Group encourages staff development and inclusion through coaching and mentoring. 		<ul style="list-style-type: none"> ■ The Group continues to dedicate resources to remuneration and incentivisation. ■ Staff base increased through acquisition of Fusion IP. ■ Staff attrition remained low and the Group recruited 13 new members to the team excluding staff joining from Fusion IP. Approximately 40% of staff have been with the Company for at least five years. ■ Deepening of sector expertise and increased autonomy through divisional approach. 	<ul style="list-style-type: none"> ■ Total equity ('net assets') ■ Number of new portfolio companies
<ul style="list-style-type: none"> ■ University partners are incentivised to protect their IP for exploitation as the partnership agreements share returns between universities, academic founders and the Group. ■ The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes. ■ The Group utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax or other legislation. ■ The Group has internal policies and procedures to ensure its compliance with applicable FCA regulations and these are subject to external review. 		<ul style="list-style-type: none"> ■ Ongoing focus on regulatory compliance including third party reviews. ■ UK and US Governments have emphasised their ongoing support for scientific research with UK funding ring-fenced to 2021. 	<ul style="list-style-type: none"> ■ Total equity ('net assets').

Building a sustainable business

Our values:

- Passionate
- Pioneering
- Principled

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.

Greg Smith Chief Financial Officer

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 with UK universities and now has arrangements covering 15 of the UK's leading universities as well as pilot schemes with three of the US's Ivy League universities. The Group seeks to ensure that these partnerships are mutually beneficial and maintains an open two-way dialogue as it seeks to identify exciting opportunities. 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.

Although the adverse social and environmental impact of the Group's day-to-day activities is relatively limited, we do recognise that the more significant impact occurs indirectly through the nature and operations of the companies that we choose to 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.

IP Group employees cycled from London to Paris in two days to raise money for Teach First and PACE

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.

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. When selecting a supplier, we aim to ensure that the procurement process is clear and that all parties have equal access to information. 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.

Employee diversity and employment policies

The Group operates an equal opportunity policy in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise. For the year ended 31 December 2014, the Group employed an average of 49 employees and five non-executive directors, and a breakdown of staff by gender can be seen in the table above right. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and ensures that all transactions the Group enters into uphold these principles.

Breakdown of staff by gender as at date of report

Total Staff: 59 (excl. NEDs)	Female	Male
Staff	48%	52%
Executive Committee	29%	71%
Board of Directors	11%	89%

Health and Safety

Staff and management at all levels 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 members of the Group's staff to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the years ended 31 December 2014 and 31 December 2013, no reportable accidents occurred under UK Health and Safety regulations.

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

Sourcing and retaining talent

The Group operates in a specialised area of industry and therefore the Group's ability to attract and retain highly qualified and experienced employees is considered to be fundamental to its success. We recruit from a variety of sources. Many of our employees have a deep scientific background, professional qualifications and/or have extensive industry experience. Once we have recruited highly talented members of staff, it is important that we retain them. We achieve this by providing a dynamic and entrepreneurial environment in which our employees are able to develop their skills – usually through work-based learning with senior members of staff acting as coaches and mentors – and where knowledge-sharing is encouraged. Regular all-staff update meetings enable employees to receive an update on company progress and objectives.

In addition to providing an attractive work environment, the Group also recognises the requirement for staff to be rewarded via appropriate remuneration packages. The Group seeks to offer a balanced incentive package comprising a mix of salary, benefits and performance-based long-term incentives as well as flexible working arrangements. Regular market comparisons are carried out in this respect.

Building a sustainable business

continued

During the year, the Group held a series of workshops in which staff were invited to give feedback on their view of the Company. Overall, employees stated that they were proud to work for IP Group and believed in the Company's approach to building sustainable businesses, which are producing new technologies to solve various social and environmental issues. Employees highlighted the working environment, work/life balance and celebrating our successes as areas for improvement and the Directors are considering how these may be addressed. The Group's success in retaining employees is reflected in its low staff attrition rate and approximately 40% of our employees having been with the Company for five years or more.

Operating in an environmentally responsible manner

IP Group's operations are office-based, with 59 employees in five main locations in the UK and shared office space in the US; therefore, we consider that the direct environmental impact of our employees is relatively low. However, we firmly recognise our responsibility to ensure that the business operates in an environmentally responsible and sustainable manner. Employees are encouraged to reduce their impact on the environment by hosting meetings via video conference where possible, thereby only engaging in business travel when necessary, using public transport and by minimising the usage of paper. Recycling facilities are provided in our offices. While the Board as a whole has primary responsibility for environmental issues, it has allocated day-to-day responsibility for the review of environmental and social issues to the Chief Financial Officer, Greg Smith.

This section includes our mandatory reporting of greenhouse gas emissions, as well as wider details on the Group's environmental impact. The reporting period for emissions and waste production is the same as the Group's fiscal year.

Organisation boundary and scope of emissions

The section below 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 statements.

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

Methodology

As in 2013, the Group employed the services of 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 CO₂e;
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents).

Intensity ratio

As well as reporting the absolute emissions, the Group's GHG emissions are reported opposite 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. In 2013, the Group also reported on metric tonnes of CO₂e per employee. The management team has decided that this is no longer an appropriate metric, as there is no significant relationship between the number of employees and carbon efficiency.

Case study:

Reaching out to young people

Career Ready is a national charity which links schools and colleges with employers to help prepare young people for the world of work. Career Ready students are often from urban areas of social need.

During the autumn half-term holiday of 2014, the Group worked with Career Ready to run a pilot work experience programme in London for sixth form students who might not normally get to experience working life in the city.

At the start of the programme, a selection of Career Ready students were invited to an open morning and a presentation to learn about what IP Group does and some of the companies the Group is involved with developing. Following the open morning, the students were invited to apply for work experience by sending a cover letter and CV.

Four students were shortlisted for a telephone interview and two were subsequently selected for work experience.

The two successful students joined the team in London for a week, spending time with different departments and meeting a wide range of colleagues. A day was also spent at RetroScreen Virology, one of IP Group's portfolio companies, and the students visited the BBC Television Centre for a tour of the buildings to find out what life in communications might be like. Feedback from both the students and IP Group's staff was positive and the Group looks forward to running future programmes of this nature.

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 2014, the intensity metric has increased from 0.11 tCO₂e per m² to 0.13 tCO₂e per m². This is primarily due to the increased energy intensity associated with newly occupied office space in Sheffield. If like-for-like premises across the two periods are considered only, the performance for 2014 is 0.12 tCO₂e per m².

	2014 Tonnes CO ₂ e	2013 ⁵ Tonnes CO ₂ e	2014 ⁴ Tonnes CO ₂ e per m ²	2013 ⁵ Tonnes CO ₂ e per m ²		2014 Tonnes	2013 ⁵ Tonnes
GHG emissions					Waste production		
Scope 1 ¹	6.9	6.7	0.01	0.01	Landfill waste	4.5	4.4
Scope 2 ²	103.9	75.1	0.13	0.10	Recycled waste	1.8	1.9
Subtotal	110.8	81.8	0.13	0.11			
Scope 3 ³	177.6	146.8	0.21	0.19			
Total GHG emissions	288.4	228.6	0.34	0.30	Total Waste	6.3	6.3

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

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

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

⁴ Occupied office space: 831m²

⁵ 2013 emissions have been restated to correct a calculation error made by Verco in the prior year. The variance was primarily associated with scope 3 emissions, primarily that the carbon factor for Business Air Travel had been incorrectly applied. The Group's GHG reporting and review procedures have now been amended to ensure the figures provided by Verco are subject to a more robust review.

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 2014 were Teach First, which trains and supports committed individuals to become inspirational classroom leaders in low-income communities, and PACE, a charity that transforms the lives of children and young people with motor disorders, such as cerebral palsy. Further details of the activities of these charities are set out on the Group's website: www.ipgroupplc.com.

In 2014, IP Group employees raised a total of £13,500 for charity through various activities which included the sponsorship of 14 employees cycling from London to Paris in two days. In line with its stated policy, the Group donated an additional £27,500.

For the first time, in 2014, the Group partnered with Career Ready, a UK national charity which links schools and colleges with employers to help prepare young people for the world of work, and invited two sixth form students to take part in one week's work experience with the Group. See case study opposite.

Board approval

The Strategic Report, as set out on pages 01 to 43, has been approved by the Board.

ON BEHALF OF THE BOARD

Dr Bruce Smith
Chairman

9 March 2015



Develop

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

Our Governance

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Board of Directors

Dr Bruce Smith, CBE Non-executive Chairman

Effective date of current letter of appointment
3 September 2007¹

Age
75

Independent
N/A²

Tenure
12 years

Term of office
3 years, with 3 months' notice

Re-election to Board
Annually at AGM

Experience
Founder of Smith System Engineering Ltd. Fellow of Royal Academy of Engineering, Institution of Engineering and Technology and Institute of Physics. Domus Fellow of St Catherine's College, Oxford

Current external appointments³
Chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering

Committee memberships
Nomination (chair)

Alan Aubrey Chief Executive Officer

Effective date of current service contract
20 January 2005

Age
53

Independent
No

Tenure
10 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 appointments³
Non-executive Chairman Proactis Holdings plc
Committee memberships
None

Mike Townend Chief Investment Officer

Effective date of current service contract
5 March 2007

Age
52

Independent
No

Tenure
8 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 appointments³
None
Committee memberships
None

Greg Smith Chief Financial Officer

Effective date of current service contract
2 June 2011

Age
36

Independent
No

Tenure
3 years

Term of office
Permanent, 6 months' notice

Re-election to Board
Annually at AGM

Experience
KPMG background, FCA 10+ years

Current external appointments³
None
Committee memberships
None

David Baynes Chief Operating Officer

Effective date of current service contract
20 March 2014

Age
51

Independent
No

Tenure
1 year

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 appointments³
Non-executive Director Arthurian Life Sciences Limited
Committee memberships
None

¹ Refers to current appointment. Dr Smith was first appointed to the Group's Board on 4 September 2003.

² Dr Smith was considered by the Board to be independent on appointment.

³ Excludes appointments to Group portfolio company boards.

Mike Humphrey
Senior Independent
Director

Effective date of current
letter of appointment
14 October 2011

Age
63

Independent
Yes

Tenure
3 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
appointments³
None

Committee memberships
Nomination, Audit and
Remuneration (chair)

Jonathan Brooks
Non-executive Director

Effective date of current
letter of appointment
31 August 2011

Age
58

Independent
Yes

Tenure
3 years

Term of office
3 years, 3 months' notice

Re-election to Board
Annually at AGM

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

Current external
appointments³
Audit Committee Chairman
Aveva plc

Committee memberships
Nomination, Audit (chair)
and Remuneration

Doug Liversidge, CBE
Non-executive Director

Effective date of current
letter of appointment
20 March 2014

Age
78

Independent
Yes

Tenure
1 year

Term of office
3 years, 3 months' notice

Re-election to Board
Annually at AGM

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

Current external
appointments³
Chairman of Surgical
Innovations plc

Committee memberships
Nomination, Audit and
Remuneration

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

Effective date of current
letter of appointment
26 March 2014

Age
53

Independent
Yes

Tenure
1 year

Term of office
3 years, 3 months' notice

Re-election to Board
Annually at AGM

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

Current external
appointments³
Pro-Vice-Chancellor for
Research, University of
Cambridge, Shell Professor
of Chemical Engineering,
Director, Cambridge
Enterprise Ltd

Committee memberships
Nomination, Audit and
Remuneration

Corporate Governance

A year of progress: evolving our organisational structure

2014 has been a busy year for IP Group with its UK operations seeing significant developments and progress being made in its nascent 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.

Dr Bruce Smith 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 2014 is that issued by the Financial Reporting Council in September 2012, and the Directors consider that the Company has been in compliance with all the provisions set out in that edition of the Code. The Code has been further revised in September 2014 for accounting periods beginning on or after 1 October 2014 and the Directors are working towards reporting compliance with its provisions in next year's report.

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 and monitoring policies and performance on corporate social responsibility. 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, 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 system of internal controls and risk management, as described on pages 56 and 57. 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 a newly constituted (in June 2014) Executive Committee comprising the Chief Executive Officer, the other Executive Directors and three members of the senior management team: the Group's Director of Strategy, the Group's Head of Partnerships 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 schedule was reviewed in detail in 2014 and supplemented as the Board considered appropriate, with a final amended schedule being adopted by the Board in August 2014. 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. The terms of reference for the Executive Committee were considered carefully by the Board, alongside the matters reserved for Board decision and approval, to ensure that they worked seamlessly together without overlap.

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 each of the Committees, which were updated in 2014, are fully compliant with the provisions of the Code and reflect best practice, were reviewed by the relevant committee throughout the year and no amendments were considered necessary. These will continue to be reviewed annually and updated where necessary. All of these are available on request from the Company Secretary or within the Corporate Governance section of the Group's website at www.ipgroupplc.com.

Corporate Governance

continued

Matters Reserved for the Board

- 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.
- Strategic acquisitions or disposals by the Group.
- Major portfolio capital allocation decisions, being those in excess of £5m per investment.
- The entry into by the Group of strategic partnerships and collaborations with universities and other research institutions.
- Major disposals from the Group's portfolio.
- Approval and monitoring of the Group's strategic aims and objectives.
- Approval of the annual budget.
- Considering and, where appropriate, approving Directors' conflicts of interest.
- Approving Board appointments and removals and approving policies relating to Directors' remuneration.
- Approval of terms of reference and membership of Board committees.
- Approval, subject to shareholder approval, of the appointment and remuneration of the auditors.
- 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.
- Changes to the Group's capital structure, the issue of any securities and material borrowing of the Group.
- The division of responsibility between the Chairman and the Chief Executive Officer.
- Major changes in employee share schemes.
- Material borrowings by the Group.
- Litigation.

Available from the Company Secretary or on our corporate website

www.ipgroupplc.com

Board Committees

The terms of reference of each Committee establish its responsibilities and are available from the Company Secretary and on our corporate website: www.ipgroupplc.com.

Executive Committee

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: www.ipgroupplc.com.

Board size and composition

As at 31 December 2014, 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 46 and 47. During the year, there were a number of changes to the Board as follows:

- Professor Lynn Gladden CBE joined the Board as a Non-executive Director with effect from 26 March 2014;
- Following successful completion of the acquisition by the Group of Fusion IP plc ("Fusion IP") in March 2014, David Baynes, previously Fusion IP's CEO, joined the Board as an Executive Director of the Company and Doug Liversidge, previously Fusion IP's Chairman, joined the Board as an additional Non-executive Director. In April 2014, David Baynes was then appointed as Chief Operating Officer of the Company;

- On 23 April 2014, Charles Winward stepped down from the Board as an Executive Director to pursue other opportunities; and
- On 01 July 2014, Francis Carpenter stepped down as a Non-executive Director, following completion of his second three-year term of office.

In addition, on 29 October 2014, Dr Bruce Smith announced his intention to step down from his position as Chairman of the Board and Director of the Company once a suitably qualified and experienced successor had been appointed.

In light of all of these changes, the Nomination Committee and the Board undertook a review of the size and composition of the current Board, building on recent work by the Nomination Committee on succession planning. The conclusion of this process was that the Nomination Committee recommended to the Board that Mike Humphrey, the Group's current Senior Independent Director, be appointed as Chairman with effect from 24 March 2015, with Dr Smith stepping down from the Board on the same date. In addition, given the vacancy that will be left by Mr Humphrey, the Nomination Committee will seek to recommend at least one additional non-executive director for appointment during 2015. Further detail on the process undertaken by the Nomination Committee in identifying a successor Chairman for the Group, including the identity of the third party executive search consultant engaged to assist in this process, is set out on pages 55 and 56.

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 60 to 63.

In accordance with the Code, all Directors will submit themselves for annual re-election by shareholders at the Annual General Meeting of the Company to be held on 12 May 2015. The Board recommends to shareholders the reappointment of all Directors retiring at the meeting and offering themselves for re-election on the basis that the annual Board evaluation 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 agrees that gender remains an important aspect in creating an optimal board in terms of balance and composition. In identifying suitable candidates for anticipated Board appointments during 2015, the Nomination Committee will have due regard to the benefits of diversity and seek candidates from different genders and a range of backgrounds. It will, however, remain the Board's policy to make any new appointments based on merit against objective criteria. The Nomination Committee gave due 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 new appointments as aforementioned.

Although it does not have a target in relation to the number of women on the Board, the Company currently has one female director on its Board and will aim to maintain female representation on the Board at least at this current level and give due consideration to increasing the level when making the anticipated addition(s) to the Board through 2015. 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.

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 41.

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 2015 will 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 directors must ensure that their external appointments do not involve excessive time commitment or cause a conflict of interest.

Corporate Governance

continued

The roles of Chairman and Chief Executive Officer

Dr Bruce Smith 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, 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

Mike Humphrey was the Senior Independent Director throughout 2014. 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, which was the case with Mr Humphrey (see pages 55 and 56 for further details in this regard). Further, the Senior Independent Director will lead the Board in their deliberations on any matters on which the Chairman is conflicted.

In light of Mr Humphrey's appointment to the role of Chairman with effect from 24 March 2015, the Board has approved the recommendation of the Nomination Committee for Doug Liversidge to be appointed as Senior Independent Director in Mr Humphrey's place with effect from the same date.

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 2014. In addition to these scheduled Board meetings, the Board also had a day together in June 2014 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 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 and Company Secretary work together to ensure that the Directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes monthly management accounts containing analysis of performance against budget and other forecasts. Additional information is provided as appropriate or if requested. At each meeting, the Board receives information, reports and presentations from the Chief Executive Officer, the other Executive Directors and, by invitation, other members

Board and committee attendance

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

	Scheduled Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Dr Bruce Smith				
Alan Aubrey				
Mike Townend				
Greg Smith				
David Baynes ¹				
Mike Humphrey				
Jonathan Brooks				
Doug Liversidge ²				
Prof. Lynn Gladden ³				
<i>Francis Carpenter⁴</i>				
<i>Charles Winward⁵</i>				

1. David Baynes was appointed to the Board with effect from 20 March 2014.
2. Doug Liversidge was appointed to the Board with effect from 20 March 2014 and appointed to the Audit, Remuneration and Nomination Committees from 01 July 2014.
3. Prof Lynn Gladden was appointed to the Board with effect from 26 March 2014 and appointed to the Audit, Remuneration and Nomination Committees from 01 July 2014
4. Francis Carpenter stepped down from the Board with effect from 01 July 2014.
5. Charles Winward stepped down from the Board with effect from 23 April 2014

Corporate Governance

continued

of senior management or the Group's divisional 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 divisional 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, at either the Company's offices in Leeds, Oxford, Sheffield, Cardiff or Newcastle or at the location of one of the Group's partner universities in order to encourage further interaction with the Group's stakeholders. Meetings between the Chairman and the Non-executive Directors, both with and without the presence of the Chief Executive Officer, are also held as the need arises.

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 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. Through 2015, at least one of the Group's Board meetings or its strategy day 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 2015, other function heads (such as the heads of IP Exec, IP Impact, Communications and Business Support) 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

A performance evaluation of the Board and its Committees is carried out annually to ensure that they continue to be effective and that each of the directors demonstrates commitment to his or her respective role and has sufficient time to meet his or her commitment to the Company. During the 2014 financial year, the Board assessed its own effectiveness through an internal Board evaluation process; this followed an internally facilitated evaluation for 2013 and an external evaluation for 2012. The 2014 evaluation was led by the Chairman, assisted by the Company Secretary, and consisted of one-to-one discussions between the Chairman and each of the individual Directors covering the effectiveness of the Board as a whole, conduct of Board meetings; risk appetite; development of strategy; Board composition and member performance; and the performance of the Board's Committees. This supplemented the detailed work that was carried out in the last quarter of 2014 by the Nomination Committee and the Board as a whole with the assistance of the Company Secretary and the Head of IP Exec, the Group's

in-house executive search function, to closely analyse the composition of the Board in connection with the recruitment process for a new Chairman. That work focused on the current mix of skills, knowledge and experience on the Board as well as on identifying the areas to be strengthened or where additions are or will be required following the departure of Dr Bruce Smith as Chairman.

The Chairman subsequently reported the results of the review back to the full Board. Overall it was agreed that, whilst it had been a year of change in terms of the composition of the Board, the Board and its Committees continued to operate effectively throughout the period, both in terms of culture and decision-making. The experience of the Board members is seen as a key strength and it was noted that the most recently appointed members of the Board had integrated well and that the number of Board meetings was considered to be appropriate, with both the flow and availability of information between meetings supporting that position. It was also agreed that good progress had been made in the year against the action points identified in the 2013 Board evaluation, particularly as far as strategy planning and further definition of the short, medium and long term objectives of the Group were concerned. There are, however, always opportunities for improvement and, for the coming year, in addition to the further planned addition(s) to the Board's composition, the Nomination Committee and the Board as a whole plan to focus on succession planning for the Executive Directors and senior management team and to continue to ensure that sufficient time is set aside to focus on strategy and the Board's risk appetite.

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 49.

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 58 to 59 and pages 75 to 78 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 Dr Bruce Smith. Its other members, as at 31 December 2014, were Jonathan Brooks, Mike Humphrey, Professor Lynn Gladden and Douglas Liversidge, 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 twice during 2014. The decision of Dr Bruce Smith to step down from his position as Non-executive Chairman of the Board and director of the Company once a suitably qualified and experienced successor had been appointed, as announced on 29 October 2014, catalysed a period of intense work by 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 attendance by each member of the Committee at the meetings during 2014 is set out on page 53. The Committee followed the following process in its search for a successor Chairman:

- Mike Humphrey, as the Senior Independent Director, initially took charge of the process but, following his decision to put himself forward as a potential candidate, Jonathan Brooks, as the next most senior Non-executive Director, took over to lead the process with the other members of the Committee.
- In the context of the Group's strategy and the challenges likely to be faced by the Board in the near to medium term, the Committee evaluated each of the following in detail: (i) the balance of current skills, knowledge, experience and diversity (including gender) on the current Board; (ii) what skills and capabilities would be required of a new Chairperson candidate. This included identifying 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 result from the retirement of the current Chairman; and (iii) any other potential additional skills, capabilities and attributes which may be necessary or desirable on the Board to supplement the existing members and/or to replace Mike Humphrey in the event that the decision was made to appoint him as replacement Chairman. The Committee was assisted in its evaluation by the Company Secretary and the Head of IP Exec, the Group's in-house executive search function.

Corporate Governance

continued

- The Committee appointed an external recruitment consultancy, Spencer Stuart ("SS"), to assist with the identification of appropriate candidates with the requisite skills, knowledge and experience for the position. SS is an international executive search consulting firm, which has a strong Board practice and has no other connection with the Group other than this engagement.
- SS compiled a longlist, which the Committee narrowed down to a shortlist, of preferred external candidates, which was also shared with the Chief Executive Officer. Following a rigorous assessment of all the available candidates, the Committee concluded that, given Mike Humphrey's experience both internationally and with institutional investors, as well as the benefits of continuity given the other changes in the Board structure through 2014, he should be recommended to the Board as having met the criteria required to succeed Dr Bruce Smith as Chairman, as well as having sufficient time to discharge the requirements of the role. The Board approved this recommendation and Mr Humphrey will formally succeed Dr Smith at the conclusion of the Board meeting on 24 March 2015.
- In light of the vacancy left by Mr Humphrey's appointment to Chairman, and the other areas which the Nomination Committee identified as areas to be supplemented and/or strengthened during the Chairman appointment process, the Committee is actively proceeding with its search for an additional independent non-executive director and hopes to be in a position to recommend a candidate for appointment by the Board during 2015. The Committee will continue to be assisted by the Head of IP Exec in this recruitment process.

In connection with any proposed future appointments through 2015, the Committee will continue to adopt a formal, rigorous and transparent procedure. Consideration will always be given to whether identified candidates have enough time available to devote to the role. When the Committee has found a suitable candidate or candidates, the Chairman of the Committee will make a proposal to the whole Board and the appointment is then the responsibility of the whole Board following recommendation from the Committee.

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, replaced the Financial Reporting Council's Turnbull Guidance and other guidance on going concern and liquidity risk. The Group's internal controls, which were Group-wide and were in place during the whole of 2014, were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2014.

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 2014.

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 39. 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 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 and the Chief Financial Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Chief Investment Officer and the Chief Executive Officer. The Senior Independent Director and other Directors make themselves available, as appropriate, for contact with major shareholders and other stakeholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the Board and the structure of the Executive Directors' remuneration.

The Company uses the Annual General Meeting ("AGM") as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 2.00pm on 12 May 2015 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) 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 13 May 2014, 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 13 May 2014 up to the conclusion of the 2015 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 2015 AGM, to be held on 12 May 2015, 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

Dr Bruce Smith
Chairman

9 March 2015



Alan Aubrey
Chief Executive Officer



Directors' Remuneration Report

Remuneration Statement

Performance out-turns: appropriately reflecting the Group's financial performance

On behalf of your Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 31 December 2014. Our Remuneration Policy, which was unanimously approved by shareholders at our 2014 AGM, will continue to be applied for 2015. Shareholders will again have the opportunity to vote on the Annual Remuneration Report at the Group's AGM to be held on 12 May 2015.

Performance out-turns for 2014

As has been described earlier in this Annual Report, during 2014 the Group saw a number of transformational developments including the acquisition of Fusion IP, a significant capital raising and a number of material updates from our portfolio companies. However, while the Group was again profitable, its financial performance was more subdued, particularly when compared against the two preceding financial years.

As a result the minimum 8% return on hard net assets required under the Group's 2014 annual incentive scheme was not achieved and no bonus is payable to the Executive Directors or any of the Group's staff under this scheme as a result.

The Group's share price performed well, increasing by over 20% during the year and the Group's market capitalisation exceeded £1bn for the first time in the Group's history. The cumulative three-year performance of the Group's hard net assets was 18.4% per annum, in excess of the 15% maximum target under the Group's Long-Term Incentive Plan ('LTIP'). The absolute Total Shareholder Return ('TSR') performance is also currently above the 15% maximum target and, subject to the performance of the Group's share price during the final month of the performance period in March 2015 (which may impact the underpin), it is currently anticipated that the awards granted in 2012 will vest either in full or close to in full.

The Committee considers that the annual bonus and LTIP outcomes for the Executive Directors appropriately reflect the Group's financial performance over the year and the most recent three-year period, respectively.

Evolution of our remuneration framework

2014 saw the implementation of the remuneration framework agreed after consultation with shareholders in 2013, the integration of Fusion IP's staff into the Group and the alignment of Fusion IP's remuneration policies with our own. The Committee continued to seek to further evolve the Group's remuneration and incentive structures in order to attract and retain management and staff of the highest quality and to retain an appropriate level of entrepreneurial culture while ensuring that its structures remain in accordance with best practice for a FTSE 250 listed business.

The remuneration framework for 2014 remained consistent with that of 2013 comprising basic salary and benefits, an annual incentive scheme and the Group's LTIP, as set out in the remuneration policy approved by shareholders. The Committee

considers that these elements are appropriately aligned with the Group's strategy of sourcing and developing technology-based businesses and seeking to generate long-term value through the growth in value of the Group's holdings in such businesses while being mindful of the Group's financial performance in each twelve month period. This framework will remain in place for 2015 with maximum incentive opportunities unchanged.

The Committee continues to consider that, in order to align its staff with its core strategic objective of evolving great ideas into world-changing businesses, the Group's remuneration structure requires incentive levers covering both the short term (1-3 years) and the longer term (3-5 years) and, for those staff most closely connected with individual portfolio company assets, incentives directly aligned with the returns achieved on those specific assets, potentially over an even longer term (5-10 years). During 2014, the Committee has given initial consideration to a scheme that seeks to address this third lever. The Committee intends to complete its assessment of this potential new scheme and then consult with the Group's key shareholders during the coming months as to the benefits it would deliver and to its implementation (including the potential participation of the executive directors).

Granting of 2013 and 2014 LTIP awards in the year

As described in the 2013 DRR, it was not possible to grant the 2013 LTIP awards to all eligible staff, as a result of corporate activity during the second half of 2013, and the awards were therefore made in May 2014 alongside the 2014 LTIP awards. The 2013 and 2014 LTIP awards each had a face value on grant of 100% of the Chief Executive Officer's base salary, while for the other Executive Directors, each award had a face value of 90% of salary, 10% lower than the level stated in the 2013 DRR. The 2014 awards are subject to performance over the 2014-2016 financial years, and will vest in March 2017, whilst the 2013 awards are subject to performance over the 2013-2015 financial years, and will vest in March 2016. Any vested shares will be subject to an additional one-year holding period for the 2013 LTIP and a two-year holding period for the 2014 LTIP.

Executive Directors' base salaries for 2015

The Committee considers that the Group's Executive Directors and other senior management are of paramount importance to its continued success and accordingly considers that, as part of a competitive overall package, base salaries should be within a market-competitive range (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, scale and international reach of operations, the salaries for certain Executive Directors remain significantly below this market-competitive range.

In this context, the Committee is currently completing its review of the 2015 salary for the Chief Executive Officer and intends to consult with major shareholders, if appropriate, before determining the salary.

The Committee has determined that the Chief Operating Officer and Chief Investment Officer will receive increases of 2% with effect from 1 April 2015 in line with the wider business while, as previously communicated in consultation with major shareholders and reflecting the context above, the Chief Financial Officer will

receive an increase of 14% reflecting continued progression towards market positioning since joined the Board (the new salary of £212,000 remains below the lower quartile).

Share ownership throughout the business

To further encourage share ownership throughout the Group, the Committee approved a share save scheme in 2014.

All staff, including Executive Directors, are eligible to participate in the scheme and approximately 40% of those eligible chose to participate.

Board changes

Charles Winward stepped down from the Board with effect from 23 April 2014 and agreed to support the Group in any required handover activities during his six-month contractual notice period. He received the value of his contractual base salary, benefits and pension contributions to the end of his contractual notice period. The Committee determined that, in recognition of his contribution to the Group, Mr Winward would remain entitled to his outstanding award under the 2012 LTIP, reduced pro-rata for time and subject to original vesting schedule and performance conditions, but would receive no new awards under either the AIS or LTIP in 2014.

Malus and clawback

During the period the Committee reviewed the Group's Remuneration Policy, in light of the changes to the Corporate Governance Code, and determined that its variable incentive schemes already contained the requisite malus and clawback provisions in accordance with the Code.

Committee Chairmanship

I assumed chairmanship of the Committee from Francis Carpenter upon his retirement from the Board in 2014. As described earlier in this report, I will be assuming the role of Chairman of the Group with effect from the end of the March Board meeting and accordingly will step down as Committee Chairman at that point. Jonathan Brooks has agreed to temporarily assume the role of Committee Chairman and the Group intends to appoint a further independent non-executive director to the Board in 2015.

Approval of Remuneration Report

Our Remuneration Policy and 2013 Remuneration Report each received 99.9% of votes cast in favour at our AGM in May 2014. 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.

Structure of this report

The following pages contain an extract of our Remuneration Policy (as approved by shareholders), a summary of how we intend to implement the policy during 2015, and the disclosure of outcomes in respect of 2014.

ON BEHALF OF THE BOARD

Mike Humphrey

Chairman of the Remuneration Committee

9 March 2015

Directors' Remuneration Report

Remuneration Policy extract

The Remuneration Policy was approved at the 2014 AGM held in May 2014 and was effective as of that date. An extract of the policy table for executive directors contained in that policy is re-produced below for information only. The full Remuneration Policy report is contained on pages 55 to 61 of the 2013 annual report which is available in the investor relations section of the Group's website. Where relevant, references previously to 2013 and 2014 have been updated to reflect the application in 2014 and 2015.

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"> ■ scale, scope and responsibility of the role; ■ skills and experience of the individual; ■ retention risk; ■ base salary of other employees; ■ base salary of individuals undertaking similar roles in companies of comparable size and complexity; and ■ appropriate market benchmarks. 	<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.</p>	None, although performance of the individual is considered by the Committee when setting and reviewing salaries annually.

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Pension	Provide a competitive post-retirement benefit in a way that manages the overall cost to the Group in order to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	Contribution to Group Pension Plan (defined contribution scheme) or to personal pension plan of the relevant executive's choosing or an equivalent cash alternative.	10% of base salary for all executive directors in 2014 and 2015. No element other than base salary is pensionable. Absolute maximum pension is 15% of base salary.	Not applicable
Benefits	Provide a competitive and appropriate benefits package to assist individuals in carrying out their duties effectively and to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	<p>Ongoing benefits typically comprise, but are not limited to, health and travel insurance, income protection and life assurance and may also comprise a car benefit (or cash equivalent) and telecommunications such as broadband.</p> <p>The Group also offers certain salary sacrifice schemes including childcare vouchers, purchase of additional holiday and Ride to Work.</p> <p>Executive directors may also participate in any all-employee share plans that may be operated by the Group from time to time on the same terms as other employees.</p> <p>Additional benefits, which may include relocation expenses, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, including as may be required on recruitment.</p>	<p>The cost of benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits under the Policy.</p> <p>There is therefore no overall maximum opportunity under this 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

Remuneration Policy extract continued

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Annual Incentive Scheme ("AIS")	<p>To provide a simple, competitive, performance-linked annual incentive mechanism that will:</p> <ul style="list-style-type: none"> ■ attract, retain and motivate individuals with the required personal attributes, skills and experience; ■ provide a real incentive to achieve our strategic objectives; and ■ align the interests of management and shareholders. 	<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") which is being proposed for approval by shareholders at the Group's forthcoming AGM.</p> <p>In the case of intended fraud or misconduct by a participant that contributes to a significant error in financial information, the Company will be entitled to claw back the value of any cash amount paid under the AIS for that year and to cancel the vesting of any deferred share element, for a period of up to three years following the date of award or payment.</p>	<p>The maximum annual level of award is 100% of salary.</p> <p>Each year the committee determines the maximum opportunity for each executive director within the above Policy limit. The maximum opportunity for each director in 2015 is set at 100% for the Chief Executive Officer and 75% for all other executive directors (see the Annual Remuneration Report on page 66).</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"> ■ Relative or absolute TSR; ■ Hard net assets; ■ Financial performance; ■ Appropriate non-financial measures; and ■ Attainment of personal objectives. <p>Weighting will be primarily towards Group financial performance for executive directors.</p> <p>Performance will typically be measured over one year.</p>

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Long-term incentive plan ("LTIP")	<p>To provide a competitive, performance-linked long-term incentive mechanism that will:</p> <ul style="list-style-type: none"> ■ attract, retain and motivate individuals with the required personal attributes, skills and experience; ■ provide a real incentive to achieve our strategic objectives; and ■ align the interests of management and shareholders. 	<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 will be 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 an error in financial information that materially affects the Company's share value, the Company will be entitled to reduce the number of shares in respect of an unvested award and/or claw back the value of any shares subject to this 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"> ■ 150% of salary for the Chief executive officer; and ■ A lower percentage for other Executive Directors ■ Each year the Committee determines the maximum opportunity for each executive director within the below scheme limits. The maximum opportunity for each director in 2013 and 2014 was set at 100% of base salary for the Chief Executive Officer and 90% for all other executives. For 2015, the awards will not exceed the policy maxima. <p>As described on page 67 of the Annual Remuneration Report, the Committee determined that the 2013 LTIP awards (that could not be granted in 2013) would be granted in 2014.</p> <p>The overall maximum under the LTIP approved by shareholders is 400% of salary. However, the policy limits set out above will apply and this plan limit will only be used in exceptional circumstances (such as a buyout on recruitment or in the circumstances described above regarding the 2013 LTIP).</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"> ■ Relative or absolute TSR; and ■ Hard net assets. <p>These performance criteria shall be presented in a matrix format similar to that set out in the Annual Remuneration Report.</p> <p>The level of vesting for threshold performance is 30% of the maximum.</p> <p>Where absolute TSR is used as a performance metric, awards may be subject to a relative performance underpin against an appropriate benchmark index or comparator group.</p> <p>Performance will ordinarily be measured based on a performance period of at least three years.</p>

Directors' Remuneration Report

Annual Remuneration Report

Statement of implementation of remuneration policy in the following financial year

Salary and fixed components

With effect from 1 April 2015, the base salaries of the Executive Directors will be:

	Base salary	Increase
Mike Townend (CIO)	£236,650	2% (£4,650)
Greg Smith (CFO)	£212,000	14% (£26,000)
David Baynes (COO)	£236,650	2% (£4,650)

The Committee considers that, as part of a competitive overall package, base salaries should be within a market-competitive range (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.

In this context, the Committee is currently assessing the base salary that should apply from 1 April 2015 for the Group's CEO, Alan Aubrey (currently £261,000). If appropriate, the Committee will consult with major shareholders before determining the salary.

The increases for Mike Townend and David Baynes are in line with the general rate of increase across the business. The increase for Greg Smith reflects an increase that, as described earlier in this report, is being phased over a number of years to bring him closer to a market competitive salary commensurate with his increased experience having initially joined the Board on a lower base salary.

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

Incentives

There will be no change to the maximum opportunity under our AIS, being set by the Committee at 100% of base salary for the Chief Executive Officer and 75% of base salary for the other Executive Directors. As with the 2013 and 2014 AIS, the performance measure shall remain the return achieved on the Group's hard NAV. Threshold vesting of 25% of the maximum award will be available provided a minimum return of 8% is achieved while the maximum awards pool will be available should a return of 18% or greater be achieved. The Committee considered that the lower maximum target level (compared to 22.5% in previous years) is appropriate to account for the Group's increased cash balances on which it is not currently possible to achieve a return in excess of 1-2%.

The 2015 LTIP awards will be made at the same levels that apply for the 2014 awards, being 100% of base salary for the Chief Executive Officer and 90% of base salary for all other Executive Directors. Performance will continue to be assessed against growth in hard NAV and TSR performance (with the underpin based on relative TSR against the FTSE250) as per the vesting tables for the 2013 and 2014 LTIPs set out above.

Chairman and Non-executive Directors

The Group recently appointed a new Chairman, currently anticipated to be with effect from 24 March 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 selection process, as well as reviewing available market benchmarks. As a result of this exercise, the Committee determined that the fees of the new Chairman would be £150,000. The new Chairman, who is an internal candidate currently serving on the Committee, was not part of the Committee's decision with respect to these fees.

The fees of the Non-executive Directors will be £38,750 (reflecting a 2% increase compared to 2014/15). 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 2014 and 2013.

All £000s	Base salary/fees		Benefits		Pension ¹		Annual Bonus (AIS) ²		LTIP ³		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Executive Directors												
Alan Aubrey ⁴	191	189	4	4	23	25	—	254	620	1,759	838	2,231
Mike Townend	231	222	7	5	23	21	—	170	472	1,340	733	1,758
Greg Smith	180	149	4	2	18	14	—	120	292	830	494	1,115
David Baynes ⁵	181	—	4	—	16	—	—	—	—	—	201	—
Charles Winward ^{6,7}	129	142	2	4	6	16	—	124	210	894	347	1,180
Non-executive directors												
Bruce Smith	65	62	—	—	—	—	—	—	—	—	65	62
Mike Humphrey	45	42	—	—	—	—	—	—	—	—	45	42
Jonathan Brooks	45	42	—	—	—	—	—	—	—	—	45	42
Doug Liversidge ⁸	29	—	—	—	—	—	—	—	—	—	29	—
Lynn Gladden ⁹	29	—	—	—	—	—	—	—	—	—	29	—
Francis Carpenter ¹⁰	22	41	—	—	—	—	—	—	—	—	22	41

1. Pension includes payments made to defined benefit schemes on behalf of the Directors or the value of any cash equivalent if applicable.

2. 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 how the level of 2014 awards is provided in the additional disclosures section overleaf.

3. The 2014 LTIP value is based on the 2012 LTIP award due to vest in March 2015. The value of the award is based on performance to 31 December 2014. The 2013 LTIP value has been updated to reflect the actual share price on vesting, being £2.00 per share. Further information about the level of vesting for both of these awards is provided in the additional disclosures section overleaf.

4. In addition, Alan Aubrey retained board fees in 2014 totalling £68,333 (2013: £60,000) from portfolio companies in which the Group is a shareholder that were deducted from his base salary, as described further under 'Outside appointments for executive directors' on page 72.

5. David Baynes was appointed to the Board with effect from 20 March 2014.

6. Charles Winward stepped down from the Board with effect from 23 April 2014. Further information on the treatment of his outstanding LTIP awards is described further on page 68.

7. In addition, Charles Winward retained board fees up to his resignation date in 2014 totalling £5,000 (2013: £13,750) from portfolio companies in which the Group is a shareholder that were deducted from his base salary, as described further under 'Outside appointments for executive directors' on page 72.

8. Doug Liversidge was appointed to the Board with effect from 20 March 2014.

9. Lynn Gladden was appointed to the Board with effect from 26 March 2014.

10. Francis Carpenter retired from the Board with effect from 01 July 2014.

Directors' Remuneration Report

Annual Remuneration Report continued

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

Base salary

2014

Following the consultation process with shareholders during the first half of 2013, the following changes in base salary (before any deductions for director fees received directly from Group portfolio companies) were introduced with effect from 1 April 2014:

	Former base salary (2013/14)	New base salary (2014/15)	% change
Alan Aubrey	£254,250	£261,000	3%
Mike Townend	£226,000	£232,000	3%
Greg Smith	£160,000	£186,000	16%
David Baynes ¹	-	£232,000	N/A

¹ David Baynes was appointed to the Board with effect from 20 March 2014.

The average increase across all staff, excluding Directors and new joiners (including former Fusion IP plc employees), was 13.1% which was generally reflective of a 2.5% base level with additional increases to reflect promotions, increases in role scope and increases in an individual's skills and experience. As a result of the review undertaken in 2013, the Committee considered that some of the Directors' salaries were considerably below 'market' and as the Executives' tenure and experience continues to grow, the Committee continues to take steps to increase the base salaries accordingly towards the target salaries of between lower quartile and median of the relevant benchmarks.

The Chairman's and Non-executive Directors' fees were increased by 2.5% during the year, whilst additional fees for chairing a sub-committee increased from £5,000 to £7,500.

Annual incentive scheme

2014

The targets for the 2014 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 £315.5m at 1 January 2014 but were subsequently increased by the Committee to reflect the additional assets acquired through the acquisition of Fusion IP plc and the £97.4m net proceeds of the Group's capital raise. The targets for 2014 and the outturn against these were as follows:

Performance condition	Vesting criteria	Actual performance
Return on Hard NAV	8% return (£33.4m): 25% of maximum opportunity ('threshold') 22.5% return (£93.6m): 100% of maximum opportunity	4.0% return (£16.7m)

As shown in the table, and as noted previously, the financial performance of the Group in 2014 was subdued relative to previous years with a 4% actual return on hard NAV being achieved. Therefore, there was no awards pool available for allocation by the Committee and no amounts were received by the Executives for the 2014 year.

Long-term incentive scheme

2012 LTIP awards due to vest in March 2015

The 2012 LTIP awards were 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 2014 and Total Shareholder Return ('TSR') from date of award to the ordinary vesting date, being 31 March 2015. Both performance measures were 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 Small Cap index, which can reduce the awards by up to 50%

	15%	60%	75%	90%	100%
TSR (p.a.)	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 ¹ (at 31 Dec 2014)	8%: £365.4m 15%: £421.8m	£451.3m (18.4% p.a. growth)
Annual TSR ² (share price)	8%: 164.1p 15%: 196.0p	204.4p (18.4% p.a. growth)
Comparative TSR	FTSE Small cap +61%	IP Group +55%

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

² TSR performance shown to 31 December 2014. Actual performance period to 31 March 2015.

The actual performance of the Group in terms of Hard NAV growth was in excess of the upper target and, based on the positions as at 31 December 2014 and more particularly the date of this report, it appears that the upper TSR target will also be exceeded at the end of the performance period. The underpin calculation at 31 December 2014 suggests that some level of modification to the overall vesting may be required, however as at the date of this report, the Group's TSR currently exceeds that of the FTSE SmallCap and as a result of this, it is anticipated that 100%, or near to 100%, of the 2012 LTIP awards will ordinarily vest on 31 March 2015.

2011 LTIP awards that vested in March 2014

The following table sets out the outcomes of the performance measures relating to the 2011 LTIP awards against the vesting criteria.

	15%	60%	75%	90%	100%
TSR (p.a.)	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 (at 31 Dec 2013)	8%: £236.7m 15%: £285.8m	£315.5m (18.8% p.a. growth)
Annual TSR ¹ (share price)	8%: 63.0p 15%: 76.0p	194.0p (73% p.a. growth)
Comparative TSR ¹	FTSE Small cap +72%	IP Group +288%

¹ Annual and comparative TSR for IP Group subject to three-month average at start and end of period, start adjusted upwards to 50p to reflect price of Group's 2011 placing.

As the performance measures were achieved in full and the underpin was exceeded, 100% of the 2011 LTIP awards vested on 31 March 2014.

2014 LTIP

Hard NAV growth will be measured over the three-year period to 31 December 2016 (starting point: £315.5m, adjusted upwards for the £21.7m Fusion IP plc net assets acquired and £97.4m net proceeds of the Group's placing) and TSR shall be measured from March 2014 to March 2017 with a one-month average (starting point: 210.8p). 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	Threshold vesting*	End of performance period
Alan Aubrey	2014 LTIP	100%	£261k	30%	31 Dec 2016 (NAV) / 28 Mar 2017 (TSR)
Mike Townend	2014 LTIP	90%	£209k	30%	31 Dec 2016 (NAV) / 28 Mar 2017 (TSR)
Greg Smith	2014 LTIP	90%	£167k	30%	31 Dec 2016 (NAV) / 28 Mar 2017 (TSR)
David Baynes	2014 LTIP	90%	£209k	30%	31 Dec 2016 (NAV) / 28 Mar 2017 (TSR)

* Represents threshold vesting against both elements of the performance matrix. Lower vesting is possible if only one element of the matrix is partially met.

** The face value is calculated using the share price used to determine the number of shares awarded, being 177.5p, the closing price of the Group's shares on the day immediately prior to the date of award. Awards were calculated by reference to the salary effective for the 2014/15 salary year.

2014 and 2013 LTIP awards

During 2013, the Committee undertook a consultation with its largest shareholders on the rebalancing of the Group's incentive mix and the Committee's intention had been to implement this new incentive framework in 2013. However, as a result of the corporate activity during the second half of 2013 (culminating in the Group's recommended offer for Fusion IP plc and a capital raising in early 2014), there was no appropriate opportunity to grant the agreed 2013 LTIP awards during that year.

As described in the 2013 DRR, the Committee therefore granted the 2013 LTIP awards at the same time as the 2014 LTIP awards. The 2013 and 2014 LTIP awards each had a face value of 100% of salary for the Chief Executive Officer and 90% of salary for other Executive Directors, based on the share price at date of grant and vesting subject to performance. The award levels for the other Executive Directors for both years were 10% lower than those communicated during consultation in order to maintain a level of differentiation from the Chief Executive Officer's award. Any shares that vest (net of tax) shall be subject to a further one-year holding period for the 2013 LTIPs and a two-year holding period for the 2014 LTIPs.

The performance conditions that apply to both of these awards will follow the same matrix structure with the same vesting parameters as that set out above for the previous awards, with the starting point as set out below.

Directors' Remuneration Report

Annual Remuneration Report continued

2013 LTIP

Hard NAV growth will be measured over the three-year period to 31 December 2015 (starting point: £236.6m, adjusted upwards for the £21.7m Fusion IP plc net assets acquired and £97.4m net proceeds of the Group's placing) and TSR shall be measured from March 2013 to March 2016 with a one-month average (starting point: 143p). 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	Threshold vesting*	End of performance period
Alan Aubrey	2013 LTIP	100%	£254k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)
Mike Townend	2013 LTIP	90%	£203k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)
Greg Smith	2013 LTIP	90%	£144k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)

* Represents threshold vesting against both elements of the performance matrix. Lower vesting is possible if only one element of the matrix is partially met.

** The face value is calculated using the share price used to determine the number of shares awarded, being 177.5p, the closing price of the Group's shares on the day immediately prior to the date of award. Awards were calculated by reference to the salary effective for the 2013/14 salary year.

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.

Remuneration for the MD of TTV who stepped down from the Board in 2014 (audited information)

As described earlier in this report, Charles Winward stepped down from the Board with effect from 23 April 2014 and agreed to support the Group in any required handover activities during his six-month contractual notice period. Mr Winward received the value of his contractual base salary, benefits and pension contributions to the end of his contractual notice period. The Committee determined that, in recognition of his contribution to the Group during the relevant performance periods, Mr Winward remained entitled to the deferred cash and deferred share elements of his 2013 annual incentive scheme award but would not be eligible for an annual incentive award for 2014. The Committee further determined that his outstanding award under the Group's 2012 LTIP would remain in force, but reduced on a prorated basis for time, and would remain subject to the original performance targets and vesting timeline of the award. The Committee determined that Mr Winward would not be eligible to be granted a 2013 or 2014 LTIP award as a result of his stepping down prior to these being made to the rest of the Group's eligible staff. Mr Winward received no additional remuneration as a result of his stepping down from the Board.

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

The table below sets out the increase in total remuneration of the Chief Executive Officer and that of our UK employees (excluding Directors):

	% change in base salary 2013 to 2014	% change in bonus 2013 to 2014	% change in benefits (exc. pensions) 2013 to 2014
CEO	2.7%	(100%)	3.7%
UK employees	12.8%	(100%)	34.7%

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 six years.

The chart below shows the Group's TSR performance against the performance of the FTSE All-Share and FTSE SmallCap indices over the six-year period to 31 December 2014. The Directors have selected the FTSE All-Share and FTSE SmallCap indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during the majority of the period in question and against which total shareholder return of IP Group plc should be measured. A chart showing the TSR performance of the FTSE 250 index has also been included as additional information since the Group became a constituent of this index during 2012.

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 five years.

Chief Executive Officer: Alan Aubrey	2009	2010	2011	2012	2013	2014 ¹
CEO single figure of remuneration (£000s)	223	193	209	3,257	2,231	838
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%	0%
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%	100%

¹ LTIP vesting is based on the current expectations of the performance against the 2012 LTIP targets as discussed on page 66.

Relative spend on pay

The chart below shows the total employee costs, change in "hard" NAV and change in share price from 2013 to 2014.

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

Total employee pay: Total staff costs from note 8 on page 101, 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 88.

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 2013 to 31 December 2014.

Directors' Remuneration Report

Annual Remuneration Report continued

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 2014 had the following beneficial interests in the ordinary shares of the Company:

	31 December 2014 Number of shares
Alan Aubrey	2,368,537
Mike Townend	1,011,023
Greg Smith	289,919
David Baynes	426,066
Bruce Smith	236,592
Jonathan Brooks	60,000
Mike Humphrey	80,000
Doug Liversidge	75,297
Lynn Gladden	—
Former directors (interests as at date of leaving the Board)	
Charles Winward (resigned 23 April 2014)	329,467
Francis Carpenter (retired 01 July 2014)	239,151

There have been no changes in the interests of the current Executive Directors set out above between 31 December 2014 and 9 March 2015.

Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2014	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2014	Share price at date of conditional award (p)	Earliest vesting date(s)
Alan Aubrey							
2011 LTIP	879,654	—	(879,654)	—	—	54	
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
	1,182,349	290,281	(879,654)	—	592,976		
Mike Townend							
2011 LTIP	670,213	—	(670,213)	—	—	54	
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
	900,838	232,226	(670,213)	—	462,851		

	Number of shares conditionally held at 1 January 2014	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2014	Share price at date of conditional award (p)	Earliest vesting date(s)
Greg Smith							
2011 LTIP	414,894	—	(414,894)	—	—	54	
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
	557,662	175,437	(414,894)	—	318,205		
David Baynes¹							
2014 LTIP	—	117,634	—	—	117,634	177.5	31 March 2017
	—	117,634	—	—	117,634		
Charles Winward²							
2011 LTIP	446,809	—	(446,809)	—	—	54	
2012 LTIP	153,750	—	—	(51,250)	102,500	135.5	31 March 2015
	600,559	—	(446,809)	(51,250)	102,500		

¹ David Baynes joined the Board with effect from 20 March 2014.

² Charles Winward stepped down from the Board with effect from 23 April 2014. Upon resignation he forfeited his entitlement to one third of his potential 2012 LTIP awards and received no awards in connection with 2013 and 2014.

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 2014 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2014 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2014 £000
Executive Directors							
Alan Aubrey	56	0.18%	48	5	53	20	24
Mike Townend	56	0.18%	48	5	53	20	24
Greg Smith	35	0.11%	27	5	32	12	14
Charles Winward ¹	56	0.18%	48	5	53	20	24
Total	203	0.65%	171	20	191	72	86

¹ As described earlier in this report, Charles Winward stepped down from the Board with effect from 23 April 2014. Mr Winward retained the liability to meet his capital commitments to IPVF.

Directors' Remuneration Report

Annual Remuneration Report continued

Carried interest arrangements

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

	Fund ⁽ⁱ⁾	Carried interest ⁽ⁱⁱ⁾ at 1 January 2014	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme interest at 31 December 2014 ⁽ⁱⁱⁱ⁾	Accrued value ^(iv) of scheme interest at 31 December 2014 £000
Executive Directors							
Alan Aubrey	IPVF	1.81%	—	—	—	1.81%	366
	NETF	1.55%	—	—	—	1.55%	—
Mike Townend	IPVF	1.81%	—	—	—	1.81%	366
	NETF	1.15%	—	—	—	1.15%	—
Greg Smith	IPVF	1.14%	—	—	—	1.14%	231
	NETF	0.85%	—	—	—	0.85%	—
Charles Winward ^(v)	IPVF	1.81%	—	—	—	1.81%	366
	NETF	0.45%	—	—	—	0.45%	—

⁽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.

^(v) As described earlier in this report, Charles Winward stepped down from the Board with effect from 23 April 2014. Mr Winward had served as a Group employee throughout IPVF's five-year investment period and accordingly met the criteria to retain all of his interests in this fund.

Former Fusion IP LTIP

As an executive director of Fusion IP plc, 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 2014	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2014	Share price at date of conditional award(p)	Earliest vesting date(s)
David Baynes	—	446,000	—	—	446,000	n/a	31 December 2017
Total	—	446,000	—	—	446,000		

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 limited circumstances where the executive director receives such fees directly, such sums are 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.

Service agreements

The Executive Directors have service contracts that commenced on the dates set out in the chart above 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 above, 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.

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 2014.

As at 31 December 2014, 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. 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 46 and 47:

Francis Carpenter (Chair, until retirement on 1 July 2014)
Mike Humphrey (Chair, from 1 July 2014)
Jonathan Brooks
Doug Liversidge (from 1 July 2014)
Lynn Gladden (from 1 July 2014)

Committee meetings are administered and minuted by the Company Secretary. In addition, the Committee received assistance from the Chief Financial Officer and Chief Executive Officer who attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

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

- Consideration of the Group's overall remuneration structure 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 for the period 1 April 2014 to 31 March 2015 and giving further consideration to base salaries with effect from 1 April 2015.
- Consideration of LTIP awards and vesting targets for 2013 and 2014 and outturns for 2011.
- Consideration of AIS awards, vesting targets and outturns for 2014.
- Consideration of longer term incentive scheme for possible implementation in 2015 for various members of the Group's staff.
- Review of the Group's Remuneration Policy.
- Approval of the Group's DRR.

Directors' Remuneration Report

Annual Remuneration Report continued

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 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 2014 were £19,750. Deloitte LLP also provided advice to the Group in 2013 and 2014 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 a potential long-term incentive scheme. Fees paid to MM&K in relation to 2014 were £16,000.

Statement of shareholder voting

The table below sets out the proxy results of the vote on the Group's Remuneration Report and Remuneration Policy at the Group's 2014 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	% of votes cast	Number	% of votes cast		
Remuneration Report	372,720,408	99.9%	480,783	0.1%	373,204,925	10,906,048
Remuneration Policy	380,876,152	99.9%	273,305	0.1%	381,153,191	2,957,782

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 Committee

Responding to change: Audit tender and integration of Fusion IP

The main activities of the Committee during 2014 can be seen by referring to the summary agenda items overleaf. In addition to the normal cycle of events, the Committee undertook two important additional activities. The first of these was the management of the audit tender that was concluded in April 2014, the second was monitoring the integration of Fusion IP plc during the year following its acquisition by the Group during the first quarter of 2014.

Jonathan Brooks Chairman of the Audit Committee

Audit 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.

Committee membership

Between January 2014 and the AGM, the Committee comprised three 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. For the first half of 2014, the other two members of the Committee were Mike Humphrey, who is the Senior Independent Director, and Francis Carpenter. At the AGM in May, Francis Carpenter stood down and two new independent directors were appointed to the Audit Committee: Doug Liversidge, who had previously been the Chairman of Fusion IP plc, which the Group acquired in the first quarter of the year, and Professor Lynn Gladden, CBE, who is Pro-Vice Chancellor of Research at Cambridge University.

The Committee met four times during the year, with the first two meetings comprising three independent Non-executive Directors and the third and fourth meetings comprising four independent Non-executive Directors.

The Chief Executive Officer, Chief Financial Officer, Group Financial Controller, and the external auditor were 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.

Report of the Audit Committee

continued

Activities during the year

The main activities of the Committee during 2014 can be seen by referring to the summary agenda items on the right. In addition to the normal cycle of events, the Committee undertook two important additional activities. The first of these was the management of the audit tender that was concluded in April 2014, and the second was monitoring the integration of Fusion IP plc during the year following its acquisition by the Group in the first quarter of 2014.

In terms of the audit tender, three firms were invited to tender, including the incumbent firm, with KPMG LLP emerging as the successful firm to be appointed following the Group's AGM in May 2014. The Committee was particularly impressed by the proposed team, their grasp of the Group's business and the expertise it was felt they could offer both in terms of the Group's international expansion and also the development of its overall systems of control as it grows in complexity.

With respect to the integration of Fusion IP plc, the management team was asked to prepare a thorough list of integration tasks which was reviewed and approved by the Committee and then used to monitor progress at each of its subsequent meetings in 2014.

The other activities undertaken by the Committee were the normal recurring items, the most important of which are noted below.

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 £207.7m. 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.

At year end the fair value of the Group's intangible assets was £16.5m and 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. During the year the Committee reviewed a report from the finance team on the accounting treatment adopted for the acquisition of Fusion IP, and considered the estimates and assumptions made in determining the initial fair values of the identified intangible assets and goodwill, as well as those assumptions and models used for determining if any impairment indicators were present at year end.

Summary agendas for Audit committee meetings in 2014

February

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

May

- Submission by management of Fusion integration plans
- Review of Risk Register
- Planning of internal audit projects
- MLRO/Compliance officer reports on regulated businesses
- External review of FCA-authorised businesses
- Review of Group Treasury Policy
- Half year results planning with new audit firm

August

- Half year financial statements and review with auditor
- Fusion integration progress report
- Review of anti-bribery policy and procedures
- Cyber-security and IT Data update
- Review of D&O and PI insurances

October

- Review of auditor's 2014 audit planning document
- Fusion integration progress report
- Audit 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
- Cyber security update
- Group KPI review
- Discussion on adoption of FRS 101 or 102 for subsidiary companies

The change of auditor in 2014 was also very helpful in allowing a fresh pair of eyes to examine the methodologies for valuations and there has been a very thorough testing of management assumptions on the valuation of a very broad range of the Group's investments.

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 2014, 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 2014 Annual Report and Accounts and its 2014 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 which took place at the start of 2014, the Group has sufficient cash reserves to continue to provide capital to its existing portfolio and to create and fund new businesses at a similar rate to previous years for approximately two years assuming broadly similar levels of net operating expenditure and portfolio realisations. An inability to raise future funds may require the Group to modify its level of capital deployment into the portfolio or to more actively seek to realise one or more portfolio company holdings but these would not in themselves threaten the viability of the overall business.

During 2015, the Committee will have a role in supporting the Group's compliance with the revised UK Corporate Governance Code, which applies to the Group for the 2015 financial year. Amongst other things, the Board will be required to make a statement regarding the Group's longer-term viability and the Committee will work with management to ensure that there is a robust process in place to support the statement to be made by the Board. Similarly, the Committee will work with management to ensure that the current processes underpinning its oversight of internal controls provide appropriate support for the required Board statement on the effectiveness of risk management and internal controls.

Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on pages 56 and 57. The principal risks the Group faces are set out on pages 36 to 39. Annually, the Audit Committee and the full Board considers the Group risk register and related management controls. In addition, during the year the Committee considered the Board's risk appetite towards certain of its key strategic priorities for the year.

Throughout this process we:

- Give consideration to whether areas should be looked at more closely through internal audit or specific control reviews;
- Identify areas where enhancement of internal controls is required; and
- Agree action plans to deliver the necessary or recommended enhancements.

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.

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 and during 2013 undertook a review of these processes which it updated in 2014. Following the acquisition of Fusion IP and the divisionalisation of the Group into sector-focused teams, these policies and processes have been further formalised.

Report of the Audit Committee

continued

External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In October, the Committee discussed the Auditor's audit plan for 2014. 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 intangible assets and goodwill, notably following the acquisition of Fusion IP 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. During 2013 the previous auditor, BDO LLP, did perform some non-audit work which mainly consisted of tax compliance work for subsidiaries of the Group, as well as some other statutory filing work. In early 2014 BDO LLP carried out financial due diligence on Fusion IP in connection with its acquisition by the Group and also acted as reporting accountants in connection with the Group's placing. 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. An analysis of audit and non-audit fees is provided in note 6 to the financial statements on page 100.

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 new auditor, appointed in May 2014, has been maintained.

Auditor Effectiveness

The Committee intends to complete its formal assessment of the effectiveness of the Group's new external auditor following the completion of the 2014 audit cycle and will report on this assessment in the 2015 annual report. Based on the Committee's interactions with the auditor to date, including the speed with which the auditor has understood the Group's business model and risks, the quality and scope of their audit planning, their approach to asset valuation of the companies in which the Group invests, and the half-yearly report review process, it is expected that the Committee will conclude that the auditor has been effective.

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

Jonathan Brooks
Chairman of the Audit Committee
9 March 2015

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 2014.

Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 48 to 57 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 2014 of £9.5m (2013: £72.6m profit). The directors do not recommend the payment of a dividend (2013: £nil).

Directors

The names of directors who currently hold office or did so during 2014 are as follows:

Executive Directors

Alan Aubrey
Mike Townend
Greg Smith
David Baynes (appointed with effect from 20 March 2014)
Charles Winward (resigned on 23 April 2014)

Non-executive Directors

Dr Bruce Smith (Chairman)
Jonathan Brooks
Doug Liversidge (appointed with effect from 20 March 2014)
Prof Lynn Gladden (appointed with effect from 26 March 2014)
Francis Carpenter (resigned on 01 July 2014)

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 70.

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 39 and in the Corporate Governance report on pages 56 and 57. 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 15 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 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 13 May 2014 (the '2014 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 7 April 2014 at any time up to the earlier of the conclusion of the next Annual General Meeting ('AGM') of the Company and 1 August 2015. In addition, at the 2014 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 7 April 2014 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 2015. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2014 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 7 April 2014 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 7 April 2014, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 1 August 2015. Neither of these authorities has been used during the year. The Directors will seek to renew these authorities for a similar period at the next AGM to be held on 12 May 2015.

Directors' report

continued

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 2014 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 7 April 2014 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 2015. 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 2015.

Articles of Association

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

Substantial shareholders

As at 9 March 2015, 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	25.7
Lansdowne Partners	15.1
Bailie Gifford & Co	10.5
Woodford Investment Management LLP	7.1
Sandaire Limited	5.5
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	4.3

Political donations

The Group did not make any political donations during 2014.

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 40 to 43.

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 27 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

Following the audit tender process during the first quarter of 2014 which concluded with BDO LLP retiring at the 2014 AGM and KPMG LLP being appointed in their place, a resolution to reappoint KPMG LLP, together with a resolution to authorise the Directors to determine their remuneration, will be proposed at the 2015 AGM.

ON BEHALF OF THE BOARD

Angela Leach
Company Secretary
9 March 2015



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

Dr Bruce Smith
Chairman
9 March 2015



Deliver

To deliver attractive financial returns
from our assets

Our Financials

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Independent auditor's report

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 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet and the related notes. 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 2014 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;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; 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:

Carrying value of unquoted equity investments (£207.7m)
Refer to page 76 (Audit Committee Report), pages 94 and 95 (accounting policy) and pages 106 and 107 (financial disclosures).

- The risk – 39.7% of the Group's total assets (by value) is held in investments where no quoted market price is available. 99.8% of the unquoted investments are measured at fair value, which is established in accordance with International Private Equity and Venture Capital Valuation Guidelines. As per the guidelines, the Group uses the price of recent investments as the appropriate measurement of fair value. The principle risks associated with this measurement technique are outlined below:
 - 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. Due to the relatively low number of investors partaking in funding rounds, this is considered to be a risk to the fair value of IP Group's unquoted investment portfolio.

- Significant events since the recent investment on which the fair value is based may indicate that the price of the investment, unadjusted, is no longer representative of fair value. 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.
- Our response – In this area our audit procedures included, among others:
 - Challenging whether the price of recent investment is an appropriate basis for the measurement of the fair value applied to year end valuations by assessing the proportion of funds raised by external parties in the relevant funding rounds.
 - For a sample of investments, we enquired through discussion with IP Group's business building team whether any events had occurred since the most recent investment that may affect the fair value. We independently verified the events communicated by IP Group's business building team, for example to external news sources and critically assessed these events as potential indicators of fair value adjustment.
 - We attended the year-end valuation meeting with the Directors and certain members of senior finance personnel to assess the robustness of the discussion and review of the investment valuations.
 - We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures related to unquoted investments. We reviewed the disclosure of sensitivities to the valuation.

Fair value of intangible asset on business combination (£21.4m)
Refer to page 76 (Audit Committee Report), page 93 (accounting policy) and pages 103 and 115 to 116 (financial disclosures).

- The risk – On acquisition of Fusion IP plc, the Group recognised an intangible asset for university agreement contracts at fair value. There are a number of assumptions made by the directors to determine the fair value of the intangible asset including the inflation rate and venture capital industry activity adjustment. Determining the fair value of the intangible asset is a key judgmental area that our audit focused on. There is a risk that the valuation basis and assumptions used may not be appropriate.
- Our response – In this area our audit procedures included, among others:
 - Critically assessing the appropriateness of the valuation basis used by the Group in determining the fair value of the intangible asset by reviewing the valuation methodology used.

- We used our own corporate finance specialist to assist us in evaluating the assumptions and methodologies used by the Group to value the intangible assets acquired.
- We agreed key assumptions in the valuation model to external corroborating information, for example the venture capital industry activity (as produced by the British Private Equity & Venture Capital Association) and the inflation rate used.
- We also considered the adequacy of the Group's disclosures in respect of the appropriateness of the valuation basis used for the intangible asset.

Carrying value of goodwill (£57.1m)

Refer to page 76 (Audit Committee Report), page 93 (accounting policy) and pages 102 and 103 and 115 to 116 (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 comparison of this amount 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. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.
- Our response – In this area our audit procedures included, among others:
 - Critically assessing the principles and integrity of the value in use discounted cash flow model.
 - We used our own corporate finance specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate.
 - We reviewed the assumptions around IPO exit valuations and agreed the assumptions to historic exit valuations achieved for reasonableness. We compared the annual investment rate to both historical information and company cash flow forecasts for the upcoming year for reasonableness. We 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.
 - We considered 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.
 - We assessed whether the Group's disclosures of the sensitivity of the outcome of the impairment reviews to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

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

The materiality for the Group financial statements as a whole was set at £8m, determined with reference to a benchmark of the Group's total assets as disclosed in the consolidated statement of financial position, of £533.1m, of which it represents 1.5%.

In addition, we applied materiality of £784k to revenue from services and other income and other administrative expenses, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the economic decisions of the Group taken on the basis of the financial statements.

We report to the Audit Committee any corrected or uncorrected identified misstatements relating to the statement of financial position exceeding £400k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's reporting components, we subjected 8 to audits for Group reporting purposes. These 8 entities account for 95% of the Group's revenue, 92% of the total profits and losses that made up the Group's profit before tax and 98% of the Group's total assets.

None of the remaining 5% of total Group revenue, 8% of total profits and losses that made up Group profit before tax and 2% of total Group assets individually represented more than 5% of any of total Group revenue, total profits and losses that made up Group profit before tax or total Group assets.

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

5 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 performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 57, in relation to going concern; and
- the part of the Corporate Governance statement on pages 48 to 57 relating to the Group's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

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

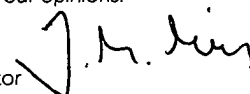
Scope and responsibilities

As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 81, 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. 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, 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
9 March 2015



Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	20.7	82.4
Profit/(loss) on disposal of equity investments		1.6	(0.2)
Change in fair value of limited and limited liability partnership interests	22	0.5	0.8
Other portfolio income		0.2	—
Licensing Income		3.0	—
Revenue from services and other income		2.4	2.4
		28.4	85.4
Administrative expenses			
Research and development costs		(1.5)	(0.4)
Share-based payment charge	21	(0.9)	(0.9)
Change in fair value of Oxford Equity Rights asset		(1.8)	(5.0)
Amortisation of intangible assets		(4.9)	—
Acquisition costs		(1.1)	—
Other administrative expenses		(9.3)	(6.9)
		(19.5)	(13.2)
Operating profit	7	8.9	72.2
Finance income — interest receivable		0.6	0.4
Profit before taxation		9.5	72.6
Taxation	9	—	—
Profit and total comprehensive income for the year		9.5	72.6
Attributable to:			
Equity holders of the parent		9.1	73.0
Non-controlling interest		0.4	(0.4)
		9.5	72.6
Earnings per share			
Basic (p)	10	1.97	19.60
Diluted (p)	10	1.96	19.27

Consolidated statement of financial position

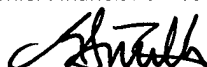
As at 31 December 2014

	Note	2014 £m	2013 £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	11	57.1	18.4
Acquired intangible assets	12	16.5	—
Property, plant and equipment		0.2	0.2
Oxford Equity Rights asset and related contract costs	14	1.3	3.1
Portfolio:			
Equity investments	15	345.9	283.1
Debt investments	15	4.0	2.8
Limited and limited liability partnership interests	22	4.6	4.8
Other financial asset		—	0.7
Contingent value rights	17	1.4	1.4
Total non-current assets		431.0	314.5
Current assets			
Trade and other receivables	16	4.8	0.8
Deposits		30.0	5.0
Cash and cash equivalents		67.3	19.1
Total current assets		102.1	24.9
Total assets		533.1	339.4
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	19	9.6	7.5
Share premium account		327.6	150.4
Merger reserve		12.8	12.8
Retained earnings		176.2	166.3
Total equity attributable to equity holders		526.2	337.0
Non-controlling interest		—	(0.4)
Total equity		526.2	336.6
Current liabilities			
Trade and other payables	18	2.1	1.5
Non-current liabilities			
Loans from limited partners of consolidated funds		4.5	1.3
Contingent loans from university partners		0.3	—
Total equity and liabilities		533.1	339.4

Registered number: 4204490

The financial statements on pages 87 to 116 were approved by the Board of Directors and authorised for issue on 9 March 2015 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 2014

	2014 £m	2013 £m
Operating activities		
Profit before taxation	9.5	72.6
Adjusted for:		
Finance income – interest receivable	(0.6)	(0.4)
Change in fair value of equity and debt investments	(20.7)	(82.4)
Change in fair value of limited and limited liability partnership interests	(0.5)	(0.8)
(Profit)/loss on disposal of equity investments	(1.6)	0.2
Depreciation of property, plant and equipment	0.1	0.1
Amortisation of intangible non-current assets	4.9	–
Change in fair value of Oxford equity rights asset	1.8	5.0
Share-based payment charge	0.9	0.9
Other portfolio income classified as investing activities cash flows	(0.2)	(0.3)
Changes in working capital		
(Increase)/decrease in trade and other receivables	(3.2)	0.1
(Decrease)/increase in trade and other payables	(0.5)	1.1
Increase in non-current liabilities	3.2	1.3
Net cash flow (to)/from deposits	(25.0)	27.5
Other operating cash flows		
Interest received	0.5	0.7
Net cash (outflow)/inflow from operating activities	(31.4)	25.6
Investing activities		
Purchase of property, plant and equipment	(0.1)	–
Purchase of equity and debt investments	(46.8)	(27.5)
Investment in limited and limited liability partnerships	(0.3)	(0.2)
Proceeds from sale of equity investments	9.7	5.5
Distributions from limited and limited liability partnerships	1.1	0.2
Proceeds from other financial asset	0.8	–
Other portfolio income received	0.2	0.1
Net cash outflow from investing activities	(35.4)	(21.9)
Financing activities		
Proceeds from the issue of share capital	97.4	–
Proceeds from acquisition of subsidiary	17.6	–
Net cash inflow from financing activities	115.0	–
Net increase in cash and cash equivalents	48.2	3.7
Cash and cash equivalents at the beginning of the year	19.1	15.4
Cash and cash equivalents at the end of the year	67.3	19.1

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Attributable to equity holders of the parent				Non-controlling interest ^(iv) £m	Total equity £m
	Share capital £m	Share premium ⁽ⁱ⁾ £m	Merger reserve ⁽ⁱⁱ⁾ £m	Retained earnings ⁽ⁱⁱⁱ⁾ £m	Total £m	
At 1 January 2013	7.3	150.4	12.8	92.6	263.1	263.1
Comprehensive income	—	—	—	73.0	73.0	72.6
Issue of equity	0.2	—	—	(0.2)	—	—
Equity settled share based payments	—	—	—	0.9	0.9	0.9
At 1 January 2014	7.5	150.4	12.8	166.3	337.0	336.6
Comprehensive income	—	—	—	9.1	9.1	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
At 31 December 2014	9.6	327.6	12.8	176.2	526.2	526.2

⁽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 losses attributable to the Limited Partners of IP Venture Fund II L.P. — a consolidated fund which was created in May 2013.

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 2014. 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.

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2014

Amendment to IFRS 10 – Investment Entities: The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements. The Group, after examination, does not qualify for the investment entity exemption and consequently the amendment has not resulted in changes to the preparation and presentation of the Group's subsidiaries, associates or Limited Partnerships.

No other new standards, interpretations and amendments effective for the first time from 1 January 2014 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 2017 with the year ending 31 December 2017 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 previous effective date of 1 January 2015 has been withdrawn and is now expected to be implemented in 2018.

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

Basis of consolidation

(i) 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.

(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.

Notes to the consolidated financial statements

Continued

1. Accounting Policies continued

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 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, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. 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 statement of financial position as the Group elects to hold such investments at fair value in the 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 scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

(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 L.P. ("IPVFII")	33.3
IP Venture Fund ("IPVF")	10.0
The North East Technology Fund L.P. ("NETF")	—

The Group receives compensation for its role as investment manager to these limited partnerships including fixed fees and performance fees. The Directors consider that these amounts are in substance and form "normal market rate" compensation for its role as investment manager.

In 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 17.8% 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.

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).

Notes to the consolidated financial statements

Continued

1. Accounting Policies continued

Financial assets

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

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

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

(i) At fair value through profit or loss

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

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

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

Fair value hierarchy

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

Level 1 – Quoted prices in active markets.

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

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

Equity Investments

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

Cost

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

Price of recent investment

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

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.

Equity rights

The equity rights asset represents consideration paid to the University of Oxford between December 2000 and June 2001 that gives 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. Further details on the treatment of this asset are included in note 14.

Debt investments

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

Contingent value rights

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

(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.

Notes to the consolidated financial statements

Continued

1. Accounting Policies continued

Financial liabilities

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

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

Share capital

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

Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial 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 difference between the fair value of the employee services received in respect of the shares granted and the price payable is recognised as an expense over the appropriate performance and vesting period. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

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

Deferred tax

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

Leases

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

2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 34 to 39, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

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

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

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

The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established 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 (18 companies) or ISDX (1 company) 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 2014 of £20.7m represents a 7% change against the opening balance (2013: net increase of £82.4m, 45%) 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.

	Quoted £m	2014 Unquoted -£m	Total £m	Quoted £m	2013 Unquoted £m	Total £m
Equity investments and investments in limited partnerships	1.4	2.1	3.5	1.4	1.5	2.9

(ii) Interest rate risk

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

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

	2014				2013			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
Financial assets								
Equity rights	—	—	1.1	1.1	—	—	2.9	2.9
Equity investments	—	—	345.9	345.9	—	—	283.1	283.1
Debt investments	0.2	—	3.8	4.0	0.6	—	2.2	2.8
Limited and limited liability partnership interests	—	—	4.6	4.6	—	—	4.8	4.8
Contingent value rights	—	—	1.4	1.4	—	—	1.4	1.4
Deposits	30.0	—	—	30.0	5.0	—	—	5.0
Cash and cash equivalents	—	67.3	—	67.3	—	19.1	—	19.1
Other financial assets	—	—	—	—	—	—	0.7	0.7
Trade receivables	—	—	4.8	4.8	—	—	0.4	0.4
Other receivables	—	—	—	—	—	—	0.4	0.4
	30.2	67.3	361.6	459.1	5.6	19.1	295.9	320.6
Financial liabilities								
Trade payables	—	—	(1.5)	(1.5)	—	—	(0.1)	(0.1)
Other accruals and deferred income	—	—	(0.6)	(0.6)	—	—	(1.4)	(1.4)
Loans from limited partners of consolidated funds	—	—	—	—	—	—	(1.3)	(1.3)
	—	—	(2.1)	(2.1)	—	—	(2.8)	(2.8)

At 31 December 2014, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.7m (2013: £0.2m) higher/lower as a result of higher interest received on floating rate cash deposits.

Notes to the consolidated financial statements

Continued

2. Financial Risk Management continued

(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 £3bn and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of 'P1', 'P2' and 'P3' indicate respectively that the rating agency considers the counterparty to have a 'superior', 'strong' or 'acceptable' ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2014 £m	2013 £m
P1	68.7	14.2
P2	28.6	9.9
AA	—	—
Total deposits and cash and cash equivalents	97.3	24.1

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 2014 was £25m (2013: £10m).

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.

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 2014 and the year ended 31 December 2013, 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 01 to 43.

Year ended 31 December 2014	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	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)
Operating profit	7.6	0.2	1.1	8.9
Finance income – interest receivable	0.6	—	—	0.6
Profit before taxation	8.2	0.2	1.1	9.5
Taxation	—	—	—	—
Profit and total comprehensive income for the year	8.2	0.2	1.1	9.5

STATEMENT OF FINANCIAL POSITION

Assets	520.6	9.4	3.1	533.1
Liabilities	(5.8)	(0.1)	(1.0)	(6.9)
Net assets	514.8	9.3	2.1	526.2
Other segment items				
Capital expenditure	(0.1)	—	—	(0.1)
Depreciation	(0.1)	—	—	(0.1)

Notes to the consolidated financial statements

Continued

5. Operating Segments continued

Year ended 31 December 2013	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	82.4	—	—	82.4
Loss on disposal of equity investments	(0.2)	—	—	(0.2)
Change in fair value of limited and limited liability partnership interests	0.8	—	—	0.8
Revenue from advisory services and other portfolio 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	(5.0)	—	—	(5.0)
Administrative expenses	(6.9)	(0.8)	(0.5)	(8.2)
Operating profit/(loss)	71.9	0.8	(0.5)	72.2
Finance income – interest receivable	0.4	—	—	0.4
Profit/(loss) before taxation	72.3	0.8	(0.5)	72.6
Taxation	—	—	—	—
Profit/(loss) and total comprehensive income for the year	72.3	0.8	(0.5)	72.6
STATEMENT OF FINANCIAL POSITION				
Assets	332.8	6.4	0.2	339.4
Liabilities	(1.3)	(1.4)	(0.1)	(2.8)
Net assets	331.5	5.0	0.1	336.6
Other segment items				
Capital expenditure	—	—	—	—
Depreciation	0.1	—	—	0.1

6. Auditor's Remuneration

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

	2014 £m	2013 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	70	64
The audit of the Company's subsidiaries, pursuant to legislation	94	36
Total fees for audit services	164	100
Audit-related assurance services	33	23
Total assurance services	197	123
Tax compliance services	—	46
Taxation advisory services	—	26
All other services	—	7
Total non-assurance services	—	79
	197	202

During 2014, KPMG LLP was appointed as auditor of IP Group plc to replace BDO LLP. BDO LLP remain engaged by the Group as tax advisors.

7. Profit/(loss) From Operations

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

	2014 £m	2013 £m
Amortisation of intangible assets	(4.9)	—
Depreciation of tangible assets	(0.1)	(0.1)
Employee costs (see note 8)	(6.1)	(5.1)
Operating leases – property	(0.4)	(0.4)
Profit/(loss) on disposal of equity investments	1.6	(0.2)

8. Employee Costs

Employee costs (including Directors) comprise:

	2014 £m	2013 £m
Salaries	4.4	3.7
Defined contribution pension cost	0.3	0.1
Share-based payment charge (see note 21)	0.9	0.9
Equity bonuses (released)/accrued in the year	(0.1)	—
Social security	0.6	0.4
	6.1	5.1

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 49, all of whom were involved in management and administration activities (2013: 35). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 58 to 74.

9. Taxation

	2014 £m	2013 £m
Current tax	—	—
Deferred tax	—	—

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

	2014 £m	2013 £m
Profit before tax	9.5	72.6
Tax at the UK corporation tax rate of 21.5% (2013: 23.5%)	2.0	16.9
Expenses not deductible for tax purposes	1.3	—
Non taxable income	—	(19.9)
Fair Value movement on investments qualifying for SSE	(3.4)	—
Movement on share based payments	(1.0)	—
Unrecognised other temporary differences	(2.1)	—
Movement in tax losses arising not recognised	3.2	3.0
Tax credit	—	—

At 31 December 2014, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £62.7m (2013: £53.0m). An analysis is shown below:

	2014		2013	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs	5.0	1.0	13.7	2.7
Unused tax losses	57.7	11.5	39.3	7.9
	62.7	12.5	53.0	10.6

Notes to the consolidated financial statements

Continued

9. Taxation continued

At 31 December 2014, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2013: £nil). An analysis is shown below:

	2014		2013	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	11.3	2.3	—	—
Unused tax losses	(11.3)	(2.3)	—	—
	—	—	—	—

10. Earnings Per Share

Earnings	2014 £m	2013 £m
Earnings for the purposes of basic and dilutive earnings per share	9.1	73.0
	2014 Number of shares	2013 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	462,466,944	372,513,387
Effect of dilutive potential ordinary shares:		
Long-Term Incentive Plan	2,523,968	6,515,903
Weighted average number of ordinary shares for the purposes of diluted earnings per share	464,990,912	379,029,290

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

11. Goodwill

	£m
At 1 January 2013	18.4
At 1 January 2014	18.4
Recognised on acquisition of subsidiary (see note 26)	38.7
At 31 December 2014	57.1

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.

	2014 £m	2013 £m
University partnership CGU	55.0	16.3
Fund management CGU	2.1	2.1
	57.1	18.4

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:

	2014	2013
Discount rate	9%–11%	9%–11%
Number of funds under management	3	3
Management fee	2%–3.5%	2%–3.5%
Cost inflation	3%	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 relate to the Group's contract with the University of Oxford's Department of Chemistry (see note 14). The Directors consider that for each of the key variables which would be relevant in determining a recoverable value for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2014 £m	2013 £m
Number of spin-out companies per year	10–15	7–10
Annual investment rate	£40m–£60m	£20m–£35m
Rate of return achieved	18%–22%	18%–22%
Initial equity stake acquired by the Group under the university partnership	15%–35%	12%–30%
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	£35m–£45m
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.

12. Intangible Assets

	Total £m
Cost	
At 1 January 2014	–
Additions through acquisition of subsidiary (see note 26)	21.4
At 31 December 2014	21.4
Accumulated amortisation	
At 1 January 2014	–
Charge for the year	4.9
At 31 December 2014	4.9
Net book value	
At 31 December 2014	16.5
At 31 December 2013	–

The intangible assets represents 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 two months to 39 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.

Notes to the consolidated financial statements

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13. Categorisation of Financial Instruments

Financial assets	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
At 31 December 2014				
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
Total	1.3	355.9	102.1	459.3
At 31 December 2013				
Equity rights	3.1	—	—	3.1
Equity investments	—	283.1	—	283.1
Debt investments	—	2.8	—	2.8
Other financial assets	0.7	—	—	0.7
Contingent value rights	—	1.4	—	1.4
Limited and limited liability partnership interests	—	4.8	—	4.8
Trade and other receivables	—	—	0.8	0.8
Deposits	—	—	5.0	5.0
Cash and cash equivalents	—	—	19.1	19.1
Total	3.8	292.1	24.9	320.8

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 (2013: £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 (2013: 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. Equity Rights and Related Contract Costs

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2014 and 31 December 2014	19.9	0.5	20.4
Aggregate amortisation and change in fair value of contract costs			
At 1 January 2014	(17.0)	(0.3)	(17.3)
Change in fair value during the year	(1.8)	—	(1.8)
At 31 December 2014	(18.8)	(0.3)	(19.1)
Net book value			
At 31 December 2014	1.1	0.2	1.3
At 31 December 2013	2.9	0.2	3.1

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2013 and 31 December 2013	19.9	0.5	20.4
Aggregate amortisation and change in fair value of contract costs			
At 1 January 2013	(12.0)	(0.3)	(12.3)
Change in fair value during the year	(5.0)	—	(5.0)
At 31 December 2013	(17.0)	(0.3)	(17.3)
Net book value			
At 31 December 2013	2.9	0.2	3.1
At 31 December 2012	7.9	0.2	8.1

Carrying amount of equity rights

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

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

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

The contract expires on 23 November 2015.

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

	2014	2013
Number of spin-out companies per year from University of Oxford's Department of Chemistry	1	1–2
Initial equity stake acquired by the Group under the equity rights contract	20%–25%	20%–25%
Proportion of spin-out companies failing	30%–40%	30%–40%
Dilution rates prior to exit as a result of financing for spin-out companies	35%–60%	35%–60%
Proportion of IPO exits	30%–40%	30%–40%
IPO exit valuations	£30m–£50m	£30m–£50m
Proportion of disposal exits	25%–35%	25%–35%
Disposal valuations	£30m–£40m	£30m–£40m
Discount rate	9%–11%	9%–11%

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement, from £nil to £2.9m using a range of reasonably possible variables, with the number of spin-outs being the variable giving rise to the widest variation in estimated fair values. In order to calculate a more accurate valuation figure, given the multitude of reliable scenarios generated when altering the discounted cash flows variables, a probability weighting expected return method is utilised. Having applied probabilities to the various possible scenarios, the method returned an estimated asset value of £1.3m at 31 December 2014 (2013: £3.1m).

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15. Investment Portfolio

Group	Level 1	Level 2	Level 3	Total £m	
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m		Equity investments in unquoted spin-out companies £m
At 1 January 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
At 31 December 2014	138.2	193.2	4.0	14.5	349.9
At 1 January 2013	84.6	86.5	3.9	6.8	181.8
Investments during the year	9.4	14.1	4.0	–	27.5
Transaction-based reclassifications during the year	–	3.6	(3.7)	0.1	–
Other transfers between hierarchy levels during the year	0.6	(12.0)	(0.4)	11.8	–
Disposals	(5.6)	(0.2)	–	–	(5.8)
Change in fair value in the year	46.1	39.0	(1.0)	(1.7)	82.4
At 31 December 2013	135.1	131.0	2.8	17.0	285.9

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined, in part or in full, by valuation techniques that are not supported by observable market prices or rates. Investments in 27 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions.

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 £1.5m, 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 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 £20.4m.

Transfers between Level 1 and Level 2 would occur when a quoted investment's market becomes inactive. There have been no such instances in the current period.

Transfers between Level 3 and Level 2 occur when an investment which previously had a most recent investment of over twelve months ago undertake an investment, resulting in an observable market rate. In the current period, transfer of this nature amounted to £20.5m.

Transfers between Level 2 and Level 3 occur when an investment's recent investment becomes more than twelve months old, with the price becoming deemed unobservable. In the current period, transfers of this nature amounted to £12.4m.

Fair value changes in Level 3 investments have been a loss of £5.8m in the period, recognised in 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

	2014 £m	2013 £m
Fair value gains	63.2	90.3
Fair value losses	(42.5)	(7.9)
	20.7	82.4

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

16. Trade and Other Receivables

	2014 £m	2013 £m
Trade debtors	4.6	0.3
Prepayments	0.2	0.1
Other receivables	—	0.4
	4.8	0.8

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.

17. 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 (2013: £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.

18. Trade and Other Payables

	2014 £m	2013 £m
Current liabilities		
Trade payables	1.3	0.1
Social security expenses	0.2	0.1
Other accruals and deferred income	0.6	1.3
	2.1	1.5
Non-current liabilities		
Loans drawn down from the Limited Partners of consolidated funds	4.5	1.3
Contingent loans from university partners	0.3	—
	4.8	1.3

Notes to the consolidated financial statements

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19. Share Capital

Issued and fully paid:	2014		2013	
	Number	£m	Number	£m
Ordinary Shares of 2p each				
At 1 January	375,258,859	7.5	365,763,664	7.3
Issued under share placing	60,606,060	1.2	—	—
Issued under Fusion IP plc acquisition	39,150,484	0.8	—	—
Issued under employee share plans	4,508,994	0.1	9,495,195	0.2
At 31 December	479,524,397	9.6	375,258,859	7.5

In February 2014, the Group issued 60,606,060 new ordinary shares with a par value of 2p as part of a fundraising which raised £97.4m net of expenses. In March 2014, the Group issued 39,150,484 shares to the shareholders of Fusion IP plc in exchange for the remaining 79.9% equity stake in the company. In March 2014, the Group issued 4,508,994 new ordinary shares with a par value of 2p in order to settle the 2011 LTIP scheme which partially achieved its vesting conditions and consequently became payable to the Group's employees. The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation, or otherwise, and no right to fixed income.

20. Operating Lease Arrangements

	2014 £m	2013 £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:

	2014 £m	2013 £m
Within one year	0.3	0.3
In the second to fifth years inclusive	0.3	0.6
	0.6	0.9

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

Annual Incentive Scheme ("AIS")

In 2014, the Group continued to incentivise employees through its Long-Term Incentive Plan and Annual Incentive Schemes. The AIS awards include an element of IP Group shares, which are subject to further time-based vesting over two years (typically 50% after year one and 50% after year two). As at 31 December 2014, the 2013 AIS options or shares had been granted and are expected to vest in 2015 and 2016. However, as the number shares to be granted are based as a percentage of employees' salary, the share-based payments line includes the associated expense incurred in 2014. No associated expense has been incurred for the 2014 AIS as the financial performance targets were not achieved.

Long-Term Incentive Plan ("LTIP") awards

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report on pages 58 to 74.

For reasons detailed in the Directors Remuneration Report, 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 on page 67. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE250 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.

No LTIP awards were made in 2013.

The 2012 LTIP awards will ordinarily vest on 31 March 2015 to the extent that the performance conditions have been met. The awards are based on the performance of Group's Hard NAV and TSR. Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report on page 66. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE Small Cap index, which can reduce the awards by up to 50%. The matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2012 to 31 December 2014, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2015, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ('threshold performance'). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2011 LTIP awards vested on 31 March 2014 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 2011 LTIP awards and the actual performance achieved.

Performance condition	Target performance	Actual/forecast performance
Hard NAV (at 31 Dec 2013)	8%: £236.7m 15%: £285.8m	£315.5m (18.8% p.a. growth)
Annual TSR ¹ (share price)	8%: 63.0p 15%: 76.0p	194.0p (73% p.a. growth)
Comparative TSR ¹	FTSE Small cap +72%	IP Group +288%

¹ Annual and comparative TSR for IP Group subject to a three month average at the start and end of period, start adjusted upwards to 50p to reflect price of Group's 2011 placing.

As the performance measures were achieved in full and the underpin was exceeded, 100% of the 2011 LTIP awards vested on 31 March 2014.

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

	2014	2013
At 1 January	6,163,436	18,000,923
Forfeited during the year	(144,129)	(2,342,292)
Vested during the year	(4,508,994)	(9,495,195)
Notionally awarded during the year	2,140,180	—
Notionally awarded during the year – as part of the Fusion IP acquisition	1,338,000	—
At 31 December	4,988,493	6,163,436

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21. Share-Based Payments continued

The fair value of shares notionally awarded during 2014 were calculated using Monte Carlo pricing models with the following key assumptions:

	2014	2013
Share price at date of award	£1.775	£1.775
Exercise price	£nil	£nil
Fair value at grant date	£0.52	£0.85
Expected volatility (median of historical 50-day moving average)	32%	32%
Expected life (years)	2.83	1.83
Expected dividend yield	0%	0%
Risk-free interest rate	1.0%	1.0%

The fair value charge recognised in the statement of comprehensive income during the year in respect of share awards was £0.9m (2013: £0.9m).

22. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2013	4.0
Additions during the year	0.2
Realisations in the year	(0.2)
Change in fair value during the year	0.8
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 31 December 2014	4.6

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:

	2014 £m	2013 £m
Statement of comprehensive income		
Revenue from services	1.3	1.3
Statement of financial position		
Investment in limited partnerships	3.2	3.6
Amounts due from related parties	—	—

b) Key management transactions

Key management had investments in the following spin-out companies as at 31 December 2014:

Director	Company name	Number of shares held at 1 January 2014	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2014	%
Alan Aubrey	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	0.4%
	Capsant Neurotechnologies Limited	11,631	—	11,631	0.8%
	Chamelic Limited	26	—	26	0.4%
	Cloud Sustainability Limited ¹	19	—	19	0.5%
	Crysalin Limited	1,447	—	1,447	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	0.8%
	Ilika plc	117,500	(48,210)	69,290	0.2%
	Karus Therapeutics Limited	223	—	223	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%
	Oxford Advanced Surfaces Group plc	2,172,809	—	2,172,809	1.1%
	Oxford Nanopore Technologies Limited	114,420	1,246	115,666	0.5%
	Oxtox Limited	25,363	—	25,363	0.1%
	Plexus Planning Limited	1,732	—	1,732	0.6%
	Retroscreen Virology Group plc	37,160	—	37,160	<0.1%
	Revolymr 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	393	60	453	0.2%
	Sustainable Resource Solutions Limited	30	—	30	1.3%
	Tissue Regenix Group plc	2,389,259	—	2,389,259	0.4%
	Tracsis plc	121,189	—	121,189	0.5%
	Velocys plc	21,518	(21,518)	—	0.0%
	Xeros Technology Group plc	40,166	—	40,166	<0.1%

1. Cloud Sustainability Limited was formerly known as Revise Limited.

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23. Related Party Transactions continued

Director	Company name	Number of shares held at 1 January 2014	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2014	%
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%
	Chamelic Limited	23	–	23	0.3%
	Cloud Sustainability Limited ¹	18	–	18	0.5%
	Crysalin Limited	1,286	–	1,286	0.1%
	EmDot Limited	14	–	14	0.8%
	Getech Group plc	20,000	–	20,000	<0.1%
	Green Chemicals plc	113,222	–	113,222	0.8%
	Ilika plc	10,000	–	10,000	<0.1%
	Mode Diagnostics Limited	1,756	–	1,756	0.2%
	Modern Biosciences plc	1,185,150	–	1,185,150	1.7%
	Modern Water plc	575,000	–	575,000	0.7%
	Oxford Advanced Surfaces Group plc	932,994	–	932,994	0.5%
	Oxford Advanced Surfaces Limited	–	5,000	5,000	0.2%
	Oxford Nanopore Technologies Limited	34,900	380	35,280	<0.1%
	Oxtox Limited	25,363	–	25,363	0.1%
	Retroscreen Virology Group plc	37,160	–	37,160	<0.1%
	Revolymr plc	35,940	–	35,940	<0.1%
	Structure Vision Limited	212	–	212	1.0%
	Surrey Nanosystems Limited	350	54	404	0.2%
	Sustainable Resource Solutions Limited	28	–	28	1.2%
	Synairgen plc	20,000	–	20,000	<0.1%
	Tissue Regenix Group plc	1,950,862	–	1,950,862	0.3%
	Tracsis plc	25,430	–	25,430	<0.1%
	Velocys plc	5,000	(5,000)	–	0.0%
	Xeros Technology Group plc	35,499	–	35,499	<0.1%
Greg Smith	Avacta Group plc	390,407	–	390,407	<0.1%
	Capsant Neurotechnologies Limited	896	–	896	<0.1%
	Chamelic Limited	3	–	3	<0.1%
	Cloud Sustainability Limited ¹	6	–	6	0.2%
	Crysalin Limited	149	–	149	<0.1%
	EmDot Limited	4	–	4	0.2%
	Encos Limited	5,671	–	5,671	0.3%
	Getech Group plc	8,000	–	8,000	<0.1%
	Green Chemicals plc	4,830	–	4,830	<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	0.6%
	Modern Water plc	7,250	–	7,250	<0.1%
	Oxford Nanopore Technologies Limited	1,500	–	1,500	<0.1%
	Retroscreen Virology Group plc	61,340	–	61,340	0.1%
	Revolymr plc	4,500	–	4,500	<0.1%
	Summit Therapeutics plc ²	798	–	798	<0.1%
	Surrey Nanosystems Limited	76	12	88	<0.1%
	Sustainable Resource Solutions Limited	9	–	9	0.4%
	Tissue Regenix Group plc	175,358	–	175,358	<0.1%
	Velocys plc	2,559	–	2,559	<0.1%
	Xeros Technology Group plc	5,499	–	5,499	<0.1%

1. Cloud Sustainability Limited was formerly known as Revise Limited.

2. Summit Therapeutics plc was formerly known as Summit Corporation plc and completed a 20:1 share consolidation in 2014. Share numbers shown are post-consolidation.

Director	Company name	Number of shares held at 1 January 2014	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2014	%
David Baynes	Diurnal Limited	82	36	118	0.2%
Bruce Smith	Capsant Neurotechnologies Limited	20,724	—	20,724	1.4%
	Evocutis plc	15,241	—	15,241	<0.1%
	Getech Group plc	15,000	—	15,000	0.1%
	iOur Limited	2,000	—	2,000	0.8%
	Synairgen plc	200,000	—	200,000	0.3%
	Velocys plc	10,000	—	10,000	<0.1%
Angela Leach	Avacta Group plc	74,152	—	74,152	<0.1%
	Capsant Neurotechnologies Limited	1,858	—	1,858	0.1%
	Chamelic Limited	3	—	3	<0.1%
	Cloud Sustainability Limited ¹	6	—	6	0.2%
	Evocutis plc	7,990	—	7,990	<0.1%
	Getech Group plc	2,083	—	2,083	<0.1%
	Mode Diagnostics Limited - Ordinary Shares	606	—	606	<0.1%
	Mode Diagnostics Limited - A Shares	—	102	102	<0.1%
	Modern Water plc	29,800	—	29,800	<0.1%
	Oxford Advanced Surfaces Group plc	68,101	—	68,101	<0.1%
	Oxford Nanopore Technologies Limited	1,500	16	1,516	<0.1%
	Retroscreen Virology Group plc	25,903	—	25,903	<0.1%
	Revolymr plc	4,500	—	4,500	<0.1%
	Structure Vision Limited	21	—	21	0.1%
	Surrey Nanosystems Limited	78	12	90	<0.1%
	Sustainable Resource Solutions Limited	9	—	9	0.4%
	Tissue Regenix Group plc	329,172	—	329,172	<0.1%
	Xeros Technology Group plc	5,666	—	5,666	<0.1%

1. Cloud Sustainability Limited was formerly known as Revise Limited

Compensation to key management comprises that paid to Executive and Non-executive Directors of the Group. Full details of Directors' compensation are disclosed in the Directors' Remuneration Report on pages 58 to 74 and these amounts are included within the employee costs set out in note 8.

c) Portfolio companies

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

Statement of comprehensive income	2014 £m	2013 £m
Revenue from services	0.9	0.7
Statement of financial position	2014 £m	2013 £m
Trade receivables	0.6	0.3

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:

Statement of financial position	2014 £m	2013 £m
Intercompany balances with other Group companies	8.5	7.8

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

Notes to the consolidated financial statements

Continued

23. Related Party Transactions continued

e) 2014 capital raising and acquisition of Fusion IP plc

In February 2014, the Group completed a firm placing and placing, open offer and offer for subscription to raise gross proceeds of £100m (the "Fund Raise") and in March 2014 completed the acquisition, by way of a scheme of arrangement, of Fusion IP plc (the "Acquisition"). In accordance with Listing Rule 11.10(2)(c) the following related party transactions occurred as part of the Fund Raise and Acquisition:

- Invesco Perpetual, Lansdowne Partners Limited and Baillie Gifford & Co., all of whom each held in excess of 10% of the Group's issued share capital at the time, subscribed for £14.2m, £5.0m and £10.5m respectively in the Fund Raise.
- Lansdowne Partners Limited and Invesco Perpetual received 8,094,900 and 6,243,656 new consideration shares respectively as a result of the completion of the Acquisition.

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 issue new shares or dispose of interests in more mature portfolio companies.

During 2014, the Group's strategy, which was unchanged from 2013, 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.

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 2014, the balances were as follows:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton ⁽ⁱ⁾	2002	5.0	3.6	1.4
King's College London ⁽ⁱⁱ⁾	2003	5.0	1.8	3.2
University of York – CNAP ⁽ⁱⁱⁱ⁾	2003	0.8	0.2	0.6
University of Leeds ^(iv)	2005	4.2	0.7	3.5
University of Bristol ^(v)	2005	5.0	1.1	3.9
University of Surrey ^(vi)	2006	5.0	0.5	4.5
University of York ⁽ⁱⁱⁱ⁾	2006	5.0	0.1	4.9
Queen Mary University of London ^(vii)	2006	5.0	0.7	4.3
University of Bath ^(viii)	2006	5.0	0.2	4.8
University of Glasgow ^(ix)	2006	5.0	1.2	3.8
University of Manchester ^(x)	2013	7.5	0.1	7.4
		52.5	10.2	42.3

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

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

⁽ⁱⁱⁱ⁾ In 2003, the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006, the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with the University of York was amended during 2013 so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of the University of York's proceeds from out-licensing has been removed from the agreement.

^(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right with associated contractual commitment to invest up to £5.0m in University of Leeds spin-out companies. This agreement was varied in March 2011 to, amongst other things, remove the Group's entitlement to a share of out-licensing income generated by the University of Leeds except in certain specific circumstances where the Group is involved in the relevant out-licensing opportunity. Under the terms of the variation agreement, subject to quality and quantity of the investment opportunities, the Group, 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.

- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) 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.
- (viii) 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.
- (ix) 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 2014:

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	1.7	8.3
		13.1	4.7	8.4

26. Acquisition of subsidiaries

Acquisition of Fusion IP plc

In 2009, the Group subscribed for a 20.1% stake in Fusion IP plc ('Fusion IP'), a similar intellectual property commercialisation firm, and entered into an agreement with Fusion IP under which it acquired co-investment rights in all future Fusion IP portfolio companies. On 20 March 2014, the Group acquired the remaining 79.9% equity stake in Fusion IP, in exchange for 39,150,484 shares in IP Group plc. The acquisition has been accounted for using the acquisition method. The consolidated financial statements for the year ending 31 December 2014 include the results of Fusion IP for the nine-month period from the acquisition date.

	Fair value of net assets/(liabilities) £m
Net assets acquired:	
Acquired intangible assets	21.4
Investment portfolio	24.9
Trade and other receivables	1.1
Cash and cash equivalents	17.6
Trade and other payables less than one year	(1.1)
Trade and other payables more than one year	(0.3)
Net assets	63.6
Less: fair value of 20.1% interest previously held ⁽ⁱ⁾	(20.5)
Share of net assets acquired	43.1
Goodwill	38.7
Total consideration	81.8
Consideration satisfied by:	
Issue of share capital (39,150,484 shares at 209 pence ⁽ⁱⁱ⁾)	81.8

⁽ⁱ⁾ In the period from 1 January 2014 to the date of acquisition, the fair value of the Group's existing stake in Fusion IP increased in value by £6.0m and is recognised in the change in fair value of equity and debt investments in the consolidated statement of comprehensive income.

⁽ⁱⁱ⁾ Being the closing price of IP Group plc shares on 20 March 2014, the date of acquisition.

From the date of acquisition, Fusion IP has contributed £2.6m of gains through the acquired portfolio companies to the fair value gains, £0.2m to revenue from services and other income, and £2.7m in expenses for the year. If the acquisition had occurred on 1 January 2014, the acquisition would have contributed £3.0m to fair value gains, £0.4m to revenue from services and other income, and £3.4m expense for the period.

Notes to the consolidated financial statements

Continued

26. Acquisition of subsidiaries continued

The Group incurred acquisition costs of £1.1m relating to, amongst other items, broker's fees, legal costs and due diligence costs. These costs are reflected separately on the consolidated statement of comprehensive income.

The balances noted above for trade and other receivables, as well as trade and other payables less than one year, represent the fair value of the receivables at the date of acquisition and are not materially different from the carrying values held by Fusion IP prior to acquisition. The fair value of the acquired trade and other receivables is equivalent to the gross contractual amounts receivable, being the best estimate at the acquisition date of the contractual cash flows expected to be collected.

Prior to acquisition, Fusion IP recognised an additional £1.5m in trade and other payables due over more than one year relating to balances owed to university partners on the basis of the values of associated spin-out companies. On applying the Group's valuation policies (as described in note 1) to these spin-outs, a number were impaired and, correspondingly, the fair value of the associated liability has been adjusted to reflect these fair value changes. The remaining balances owed to Fusion IP's university partners are contingent upon both timing and value of the realisation of the associated spin-outs.

At the date of its acquisition by the Group, Fusion IP had contractual arrangements and memorandums of understanding with four UK universities. At the date of acquisition of Fusion IP, the acquired intangible assets were valued at £21.4m. The fair value of the acquired intangible assets was calculated on an indexed cost basis as there is a limited number of such arrangements with universities and there is no active market. As the contractual agreements are for a finite term, the intangible assets will be subsequently measured at amortised cost. Amortisation will occur over the remaining term, or useful life, of each contractual arrangement. Both the acquired intangible assets and the associated cost of amortisation are shown in individual lines on the consolidated statement of financial position and the consolidated statement of comprehensive income respectively.

Goodwill arising on the acquisition of Fusion IP primarily relates to the expertise, knowledge and processes concerning successful commercialisation of intellectual properties through early investment and development gained by the Group. The goodwill forms part of the university partnership CGU. None of the goodwill is expected to be deductible for tax purposes. Further detail on goodwill can be found in note 11.

27. Post Balance Sheet Events

On 10 March 2015, the Group announced a proposed firm placing, placing and open offer to raise gross proceeds of £128m.

Company balance sheet

As at 31 December 2014

	Note	2014 £m	2013 £m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	127.6	25.3
Investment in associated undertakings	3	3.7	10.5
Other investments	4	0.6	0.5
Loans to subsidiary undertakings	5	216.5	120.4
Trade and other receivables		0.1	—
Total assets		348.5	156.7
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	9.6	7.5
Share premium account	6	327.6	150.4
Merger reserve	6	12.8	12.8
Profit and loss reserve		(1.5)	(14.0)
Total equity shareholders' funds and liabilities		348.5	156.7

Registered number: 4204490

The financial statements on pages 117 to 120 were approved by the Board of Directors and authorised for issue on 9 March 2015 and were signed on its behalf by:

Greg Smith
Chief Financial Officer



Alan Aubrey
Chief Executive Officer



Notes to the financial statements

continued

1. Accounting Policies

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

Investments

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

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

Intercompany loans

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

Impairment

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

Financial instruments

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

2. Investments in Subsidiary Undertakings

	£m
At 1 January 2014	25.3
Additions	102.3
Impairment	—
Disposals	—
At 31 December 2014	127.6

Details of the Company's subsidiary undertakings at 31 December 2014 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VI Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VII Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VIII Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Americas Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited ^{1,5}	England and Wales	100.0	100.0	Acquisition
IP Group Inc. ¹	Delaware, USA	100.0	100.0	Acquisition
Top Technology Ventures Limited ³	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd ^{1,3}	England and Wales	100.0	100.0	Acquisition
Fusion IP plc ⁶	England and Wales	100.0	100.0	Acquisition
Fusion IP Sheffield Limited ⁶	England and Wales	100.0	100.0	Acquisition

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
Fusion IP Cardiff Limited ⁶	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited ^{1,3}	Scotland	100.0	100.0	Acquisition
North East Technology (GP) Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc ⁴	England and Wales	61.1	72.6	Acquisition
PIMCO 2664 Limited ^{1,4}	England and Wales	61.1	72.6	Acquisition
Modern Biosciences Nominees Limited ^{1,2}	England and Wales	61.1	72.6	Acquisition
MBS Secretarial Limited ^{1,2}	England and Wales	61.1	72.6	Acquisition
MBS Director Limited ^{1,2}	England and Wales	61.1	72.6	Acquisition
IP2IPO Nominees Limited ²	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited ²	England and Wales	100.0	100.0	Acquisition
LifeUK (IP2IPO) Limited ²	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited ²	England and Wales	100.0	100.0	Acquisition
Union Life Sciences Limited	England and Wales	80.0	80.0	Acquisition
Biofusion Licensing (Sheffield) Limited ^{2,6}	England and Wales	100.0	100.0	Acquisition
Fusion IP Nottingham Limited ⁶	England and Wales	100.0	100.0	Acquisition
Fusion IP Two Limited ⁶	England and Wales	100.0	100.0	Acquisition
Manelum Limited ^{2,6}	England and Wales	100.0	100.0	Acquisition
Resagen Limited ⁶	England and Wales	100.0	100.0	Acquisition
Rhemotric Microsystems Limited ⁶	England and Wales	100.0	100.0	Acquisition
Asterion Limited ⁶	England and Wales	67.5	67.5	Acquisition
BioHydrogen Limited ^{2,6}	England and Wales	60.0	60.0	Acquisition
Medella Therapeutics Limited Limited ⁶	England and Wales	60.0	60.0	Acquisition
PH Therapeutics Limited ⁶	England and Wales	60.0	60.0	Acquisition
Lifestyle Choices Limited ^{2,6}	England and Wales	51.0	51.0	Acquisition
Rhedyn Limited ⁶	England and Wales	100.0	100.0	Acquisition
Wound Genetics Limited ⁶	England and Wales	100.0	100.0	Acquisition
Wound Genetics Prognostics Limited ⁶	England and Wales	100.0	100.0	Acquisition
Wound Genetics Therapeutics Limited ⁶	England and Wales	100.0	100.0	Acquisition
Extraject Technologies Limited ⁶	England and Wales	60.0	60.0	Acquisition
Proflu Limited ⁶	England and Wales	60.0	60.0	Acquisition

1. Company held indirectly.

2. Dormant company.

3. Company engaged in fund management activity.

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

5. Company limited by guarantee.

6: Acquired as part of the Fusion IP plc acquisition.

All companies above are incorporated in England 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.

Notes to the financial statements

continued

3. Investment In Associated Undertakings

	£m
At 1 January 2014	10.5
Additions	—
Impairment	—
Disposals	(6.8)
At 31 December 2014	3.7

At 31 December 2014, the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets £000	Profit/(loss) before tax £000	Date of financial statements
Modern Water plc	20.0%	30,356	(4,766)	31 December 2013

During 2014, the remaining 79.9% equity stake in Fusion IP plc was acquired. The results of this company are now consolidated with the Group and therefore it is no longer presented as an associated undertaking.

All companies are incorporated in England and Wales.

4. Other Investments

	£m
At 1 January 2014	0.5
Additions	0.1
Impairment	—
Disposals	—
At 31 December 2014	0.6

5. Loans to Subsidiary Undertakings

	£m
At 1 January 2014	120.4
Additions during the year	96.0
Repayment during the year	0.1
At 31 December 2014	216.5

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 2014	7.5	150.4	12.8	(14.0)
Profit for the year	—	—	—	12.5
Issue of equity	2.1	177.2	—	—
At 31 December 2014	9.6	327.6	12.8	(1.5)

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 profit for the year was £12.5m (2013: £0.1m loss).

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

8. Directors' Emoluments, Employee Information and Share-Based Payments

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 58 to 74. 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 2014 or 2013.

Company information

Company registration number	4204490
Registered office	24 Cornhill London EC3V 3ND
Directors	Dr Bruce Gordon Smith CBE (Non-executive Chairman) Alan John Aubrey (Chief Executive Officer) Michael Charles Nettleton Townend (Chief Investment Officer) Gregory Simon Smith (Chief Financial Officer) David Baynes (Chief Operating Officer) Mike Humphrey (Senior Independent Director) Jonathan Brooks (Non-executive Director) Douglas Brian Liversidge CBE (Non-executive Director) Professor Lynn Gladden CBE (Non-executive Director)
Company secretary	Angela Leach
Brokers	Numis Securities Limited The London Stock Exchange 10 Paternoster Square London EC4M 7LT
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

**Create
Develop
Deliver**

IP Group plc
24 Cornhill
London
EC3V 3ND

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

www.ipgroupplc.com