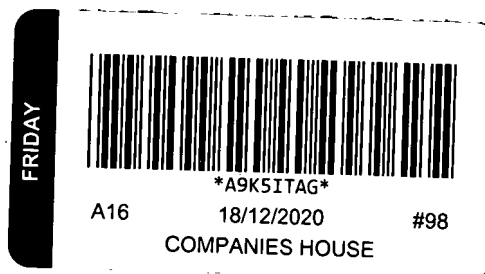


BenevolentAI Cambridge Limited

Directors' report and financial
statements

Registered number 04977050

31 December 2019



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Directors' report

The directors present their report and the audited financial statements of BenevolentAI Cambridge Limited (the "Company") for the year from 1 January 2019 to 31 December 2019.

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' regime under section 415A of the Companies Act 2006. The directors have not presented a Strategic report in accordance with section 414B of the Companies Act 2006.

Principal activity and business review

The purpose of the Company, in collaboration with its fellow subsidiaries, is to improve the lives of patients suffering from diseases with effective treatment and to apply computational medicine and machine intelligence technologies to transform the way medicines are discovered, designed, developed, tested and brought to market. The Benevolent Platform® is used by scientists and technologists to find new ways to treat disease, improve the efficacy and lower the development time and costs of new treatments.

The year under review has shown progress using the leverage of the combined group in-house expertise and laboratory facilities with the development of the Benevolent Platform®. The Company made a loss of £5.9m in the year (period ended 31 December 2018: £5.0m loss). This includes a non-cash employee benefit charge of £0.3m (period ended 31 December 2018: £0.2m) which relates to the BenevolentAI Group share option plan.

Going concern

The Company made a loss of £5.9m (period ended 31 December 2018: £5.0m) and has net liabilities of £12.1m (period ended 31 December 2018: £6.5m) as at 31 December 2019, which includes £16.2m (2018: £8.3m) due to group companies. The Company has obtained a letter of support from its parent company BenevolentAI Limited confirming that it has no intention to seek repayment of the balance owed to the group and will provide continuing financial support for at least 12 months from the date of approval of the financial statements.

The Company is dependent on continuing financing being made available by its parent company, BenevolentAI Limited, to enable it to continue operating and to meet its liabilities. The Company's activities are an integral part of the parent company's group operations and the directors are confident, through their review of group wide and company cash flow forecasts and business planning, that the Company will have sufficient funds to meet its liabilities for at least 12 months from the date of approval of the financial statements. BenevolentAI Limited, will as part of its business plan seek further capital to support the group's growth. The directors acknowledge that there is no guarantee of ongoing support but believe this risk to be low. The directors fully expect this support to continue and therefore have adopted the going concern basis of accounting in preparing the financial statements.

Proposed dividend

The directors do not recommend the payment of a dividend (period ended 31 December 2018: Nil).

EU Exit Review 'Brexit'

The directors have undertaken a review across the business for the impact of an exit from the EU. There are no significant issues notable for the Company, but it has identified small risks in terms of procurement of laboratory consumables cross border and data transfer from the UK to the EU (if the UK is not seen to offer an adequate level of data protection by the end of December 2020) and possible cost inflation post exit. All of these have been explored and suitable mitigants put in place to satisfy preparedness from the view of directors.

Directors' report *(continued)*

Coronavirus COVID-19

The Directors have undertaken a review across the business for the impact of the spread of the coronavirus across the world, to the extent possible given the rapidly changing situation. The majority of work continues to be carried out through remote working. At the time of writing this report, there are some delays to laboratory-based operations as a consequence of temporary and partial restricted access to the laboratory facilities in Cambridge and those of certain suppliers' laboratory-based operations, the impact of which may slow down research and development spend and defer outcomes of experimental work. Identified risks and changes have been explored and suitable mitigants identified or put in place to the extent possible. The Directors are satisfied that the impact on the Company is manageable and does not impact its presentation as a going concern.

Directors

The directors who held office during the year were as follows:

Tom Holgate

Ian Churcher (resigned 3 January 2019)

Anne Phelan (appointed 3 January 2019)

Michael Brennan (appointed 29 May 2019)

Ivan Griffin (appointed 29 May 2019)

Joanna Shields (appointed 29 May 2019)

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during this financial year (period ended 31 December 2018: Nil).

Financial risk management

The Company's finance department manages the risk inherent in the availability of liquid funds in accordance with the corporate policies of its parent company. The Company does so by regular cash flow management and timely requisitioning of allocated funds from its parent company.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Anne Phelan
Director

Date: 2 July 2020



4-8 Maple Street
London
W1T 5HD

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BENEVOLENTAI CAMBRIDGE LIMITED

Opinion

We have audited the financial statements of BenevolentAI Cambridge Limited ("the Company") for the year to 31 December 2019 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

Directors' report

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BENEVOLENTAI CAMBRIDGE LIMITED
(continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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



Mark Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

06/07/2020

Statement of Profit and Loss and other Comprehensive Income
for the year to 31 December 2019

	Note	2019	21 February to 31 December 2018
		£000	£000
Revenue	3	1,391	6,682
Gross profit		1,391	6,682
Administrative and research and development expenses	4	(9,936)	(12,311)
Other (expense) / income	5	(13)	412
Operating loss		(8,558)	(5,217)
Financial (expense) / income	8	(77)	3
Loss before taxation		(8,635)	(5,214)
Taxation	9	2,767	204
Loss for the period		(5,868)	(5,010)
Total comprehensive loss for the period		(5,868)	(5,010)


The notes on pages 11 to 27 form an integral part of these statements

Statement of Financial Position
at 31 December 2019

	Note	31 December 2019 £000	31 December 2018 £000
Non-current assets			
Property, plant and equipment	10	1,303	1,302
Trade and other receivables	12	116	113
Right-of-use assets	11	1,454	-
		<u>2,873</u>	<u>1,415</u>
Current assets			
Trade and other receivables	12	3,782	1,554
Cash and cash equivalents	13	268	242
		<u>4,050</u>	<u>1,796</u>
Total assets		<u>6,923</u>	<u>3,211</u>
Current liabilities			
Trade and other payables	14	17,597	9,672
Lease liabilities	14	364	-
		<u>17,961</u>	<u>9,672</u>
Non-current liabilities			
Lease liabilities	14	1,054	-
Total liabilities		<u>19,015</u>	<u>9,672</u>
Net liabilities		<u>(12,092)</u>	<u>(6,461)</u>
Equity			
Share capital	16	640	640
Capital contributions		1,525	1,268
Retained earnings		(14,257)	(8,369)
Total equity		<u>(12,092)</u>	<u>(6,461)</u>

The notes on pages 11 to 27 form an integral part of these statements

These financial statements were approved by the board of directors on 2 July 2020 and were signed on its behalf by:

Anne Phelan 
Director
Company registered number: 04977050

Statement of Changes in Equity

for the year to 31 December 2019

	Called up Share capital	Capital contributions	Retained earnings	Total equity
	£000	£000	£000	£000
Balance at 21 February 2018 (no changes arising from effect of IFRS 1)	640	1,079	(3,359)	(1,640)
Total comprehensive loss for the period	-	-	(5,010)	(5,010)
Transactions with owners, recorded directly in equity				
Equity-settled share-based payment transactions	-	189	-	189
Balance at 31 December 2018	640	1,268	(8,369)	(6,461)
Balance at 1 January 2019	640	1,268	(8,369)	(6,461)
Adjustment for change in accounting policy (note 1.15)	-	-	(20)	(20)
Balance at 1 January 2019 restated	640	1,268	(8,389)	(6,481)
Total comprehensive loss for the year	-	-	(5,868)	(5,868)
Profit or loss	-	-	(5,868)	(5,868)
Total comprehensive loss for the year	-	-	(5,868)	(5,868)
Transactions with owners, recorded directly in equity				
Equity-settled share-based payment transactions	-	257	-	257
Total contributions by and distributions to owners	-	257	-	257
Balance at 31 December 2019	640	1,525	(14,257)	(12,092)

The notes on pages 11 to 27 form an integral part of these statements

Cash Flow Statement
for the year to 31 December 2019

	Note	2019 £000	21 February to 31 December 2018 £000
Cash flows from operating activities			
Loss for the period		(5,868)	(5,010)
Adjustments for:			
Depreciation, amortisation and impairment		847	342
Foreign exchange (gain) / loss		(6)	22
Equity settled share-based payment expenses	15	257	189
Net finance expense / (income)		77	(3)
		<hr/>	<hr/>
(Increase) / decrease in trade and other receivables		(2,229)	2,411
Increase / (decrease) in trade and other payables	See below	7,413	2,664
		<hr/>	<hr/>
Net cash from operating activities		491	615
		<hr/>	<hr/>
Cash flows from investing activities			
Finance income		-	3
Acquisition of property, plant and equipment	10	(471)	(759)
Proceeds from sale of fixed assets		-	30
		<hr/>	<hr/>
Net cash from investing activities		(471)	(726)
		<hr/>	<hr/>
Net increase / (decrease) in cash and cash equivalents		20	(111)
Cash and cash equivalents at start of period		242	375
Effect of exchange rate fluctuations on cash held		6	(22)
		<hr/>	<hr/>
Cash and cash equivalents at 31 December 2019	13	268	242
		<hr/>	<hr/>

Note that the change in trade and other payables includes the non-cash adjustments accounting for right-of-use assets under IFRS 16 excluding depreciation which is already included in the above depreciation adjustment.

The notes on pages 11 to 27 form an integral part of these statements

Notes

(forming part of the financial statements)

1 Accounting policies

BenevolentAI Cambridge Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 04977050 and the registered address is 4-8 Maple Street, London W1T 5HD.

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2. All amounts in the financial statements have been rounded to the nearest £1,000.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except financial instruments classified as available for sale are stated at fair value.

1.3 Going concern

The financial statements are prepared on a going concern basis which the directors consider to be appropriate for the following reasons and where they have reviewed cash flow forecasts for both the BenevolentAI Group ("Group") and each of the subsidiaries, for a period of at least 18 months from the date of signing of the financial statements. In preparing those forecasts, the impact of Covid-19 and other potential scenarios have been considered, to assess and put in place suitable mitigating actions in relation to its cost base.

The Company made a loss of £5.9m for the year ended 31 December 2019 (period ended 31 December 2018: £5.0m) and at 31 December 2019 has net current liabilities of £13.9m (2018: £7.9m) and net liabilities of £12.1m (2018: £6.5m). The Company is a subsidiary of BenevolentAI Limited and the Company's activities are integral to the business plan of the Group in delivering its principal activities which are to apply computational medicine and machine intelligence technologies to transform the way medicines are discovered, designed, developed, tested and brought to market. In addition, the Company has intercompany funding repayable on demand of £16.2m (2018: £8.3m) from BenevolentAI Limited. As a result, the ability of the Company to continue as a going concern is based on the ability of the Group to continue as a going concern.

The Group has received significant cash funds from investors during the year resulting in a net assets position of £125.5m (2018: £80m) at 31 December 2019. The Group is largely in a pre-Revenue phase and as part of its business plan will seek further access to capital as required to support the needs of the Group and its continued growth.

The directors have also considered the ongoing testing and development activities of the Group as a result of Covid-19 and are satisfied that these have not been unduly disrupted by the impact of Covid-19. As a result, and in conjunction with the cashflow considerations and mitigation actions, they have concluded that even in a severe but plausible downside scenario, the Group will be able to continue as a going concern for at least the next 12 months. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

1.4 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Notes (continued)

1 Accounting policies (continued)

1.4 Foreign currency (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1.5 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- Laboratory equipment 4 - 10 years
- Computer equipment 3 years
- Fixtures and fittings 4 - 5 years
- Leasehold improvements life of the lease

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits

Notes (continued)

1 Accounting policies (continued)

1.8 Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

1.9 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

Share-based payment transactions

Share-based payment arrangements in which the entity receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The share-based payment scheme operates as a group scheme where employees are granted share options in BenevolentAI Limited for services rendered to the company and the subsidiaries. Employees of this Company are included within the group share based payment scheme and are granted options in the parent company. The share options granted will be settled by BenevolentAI Limited and therefore have been recognised as a capital contribution from the parent company to its subsidiary. The Company recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. The basis of such allocation is disclosed in note 15.

1.11 Revenue

The Company's revenue is generated from the following sources.

- Income from Licence Agreements
- Service Fees

Product licence transactions typically have an initial upfront payment, and the potential for further payments conditional on achieving specific milestones, plus royalties on product sales. Where the initial fee is received in connection with product licensing agreements, such fees are deferred and recognised as income by reference to the development costs incurred in developing the programme towards the next milestone.

When the Company receives milestone payments for achieving pre-defined targets during pre-clinical and clinical development, these milestones are recognised when receivable (i.e. on achievement of the pre-defined target) except where the milestone or a proportion of the milestone is to be applied to the development of the programme which is the subject of the licensing agreement. In such circumstances, the income is deferred and recognised as income by reference to the development costs incurred in developing the programme towards the next milestone.

Service Fees represents revenue from rendering services and is recognised over the term of the contract.

Notes (continued)

1 Accounting policies (continued)

1.12 Other Income

Other Income is represented by Grant Income and is recognised in the profit and loss account to match it with the expenditure towards which it is intended to contribute.

1.13 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease where these are short-term leases with a period remaining of less than 12 months or for low value. Other leases that are assessed under IFRS 16 as finance leases have been accounted for in accordance with IFRS. See accounting policy note 1.15 below.

1.14 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.15 New IFRS standards adopted

The Company has adopted IFRS16 Lease which is mandatory from 1 January 2019. The standard replaces IAS17 "Leases" and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in administration expenses) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS16 will be higher when compared to lease expenses under IAS17.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

IFRS16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

Notes (continued)

1 Accounting policies (continued)

1.15 New IFRS standards adopted (continued)

The impact of adoption on operating retained profits as at 1 January 2019 is as follows:

Statement of Financial Position	£000
<i>Non-current assets</i>	
Right-of-use assets Cost	1,984
Right-of-use assets Accumulated depreciation	(152)
	<hr/>
Net book value	1,832
<i>Liabilities</i>	
Lease liabilities – current	(346)
Lease liabilities – non-current	(1,418)
	<hr/>
	(1,764)
Profit and Loss Account	
<i>Administration expenses</i>	
Operating rental cost previously recognised, written back to P&L	(172)
Depreciation charge for period to 31 December 2018 on right-of-use assets	152
Discount interest expense	40
	<hr/>
Reduction in opening retained profits as at 1 January 2019	20
	<hr/>

When adopting IFRS 16 from 1 January 2019, the Company has applied the following practical expedients:

- Applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- Accounts for leases with a remaining lease term of 12 months as at 1 January 2019 as short-term leases;
- Excluding any initial direct costs from the measurement of right-of-use assets; and
- Using hindsight in determining the lease term when the contract contains options to extend or terminate the lease

Notes (continued)

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events. The preparation of the financial statements requires management to make estimates and assumptions concerning the future. The following is a summary of the critical accounting estimates that were made in preparing these financial statements.

Share-based payments provision

The ultimate parent company operates an unapproved Share Option Plan. All employees are offered options upon joining the Company. The fair value of share options granted is measured using the Black-Scholes model at each reporting date taking into account various assumptions detailed in note 15. The full charge of the vested options during the period is recognised in the profit and loss.

3 Revenue

	2019 £000	21 February to 31 December 2018 £000
Licence Revenue	609	6,161
Service Fees	782	521
	<hr/>	<hr/>
Total revenues	1,391	6,682
	<hr/>	<hr/>
By geographical market		
Europe	1,391	6,682
	<hr/>	<hr/>
Total revenues	1,391	6,682
	<hr/>	<hr/>

4 Expenses and auditor's remuneration

<i>Included in profit/loss are the following:</i>	2019 £000	21 February to 31 December 2018 £000
Research and development expensed as incurred	6,778	9,798
	<hr/>	<hr/>

Auditor's remuneration:

	2019 £000	21 February to 31 December 2018 £000
Audit of these financial statements	24	24
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	10	11
	<hr/>	<hr/>

Notes (continued)

5 Other (expense) /income

	2019 £000	21 February to 31 December 2018 £000
Grant Income	(13)	412
	<u>(13)</u>	<u>412</u>

6 Staff numbers and costs

The average number of persons employed by the Company during the period, analysed by category, was as follows:

	Number of employees	
	2019	21 February to 31 December 2018
Research and development	37	34
Administration	5	4
	<u>42</u>	<u>38</u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	21 February to 31 December 2018 £000
Wages and salaries	2,030	1,666
Share based payments (note 15)	257	189
Social security costs	242	159
Contributions to defined contribution plans	111	239
	<u>2,640</u>	<u>2,253</u>

7 Directors' remuneration

The emoluments of the directors, who served during the period, are paid by the ultimate parent and fellow subsidiaries. The directors who served during the period support the ultimate parent company and fellow subsidiaries, alongside their operational duties surrounding their role specialisms. The total emoluments of the directors who served during the year are included in the aggregate of emoluments included in the financial statements of those companies which employ them, without apportionment, reflecting the time and cost of director related activities outside of the entity being negligible.

8 Financial (expense) / income

	2019 £000	21 February to 31 December 2018 £000
Interest income	3	3
Interest expense	(80)	-
	<u>(77)</u>	<u>3</u>

Notes (continued)

9 Taxation

Recognised in the income statement

	2019	21 February to 31 December 2018
	£000	£000
Current tax on income for the period	(1,511)	78
Prior Period Adjustment	(1,256)	(282)
	<hr/>	<hr/>
Current tax credit	(2,767)	(204)
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2019	21 February to 31 December 2018
	£000	£000
Loss for the period	(5,868)	(5,010)
Tax credit	(2,767)	(204)
	<hr/>	<hr/>
Loss excluding taxation	(8,635)	(5,214)
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	(1,641)	(991)
	<hr/>	<hr/>
Effects of:		
Deferred tax not recognised	561	879
Adjust opening and closing deferred tax to average rate of 19.00%	66	104
Adjustments to tax charge in respect of previous periods	(1,256)	(282)
RDEC for current period	12	78
Non-deductible expenses	52	7
Fixed asset differences	1	1
Surrender of tax losses for R&D tax credit refund	(717)	-
Other tax adjustments, reliefs and transfers	155	-
	<hr/>	<hr/>
Total tax included in accounts	(2,767)	(204)
	<hr/>	<hr/>

A deferred tax asset of £14.6m (period ended 31 December 2018: £14.6m), relating to losses, has not been recognised due to uncertainties over future profitability.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was subsequently enacted on 6 September 2016 and the deferred tax asset recognised at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This may increase the Company's future tax charge accordingly.

Notes (continued)

10 Property, plant and equipment

	Laboratory Equipment	Leasehold improvement £000	Computer Equipment £000	Fixtures & fittings £000	Total £000
Cost					
Balance at 21 February 2018	1,720	23	170	18	1,931
Additions	613	29	101	16	759
Disposals	(150)	-	(60)	(2)	(212)
Balance at 31 December 2018	2,183	52	211	32	2,478
Balance at 1 January 2019	2,183	52	211	32	2,478
Additions	454	-	17	-	471
Disposals	-	-	(4)	-	(4)
Balance at 31 December 2019	2,637	52	224	32	2,945
Depreciation					
Balance at 21 February 2018	924	2	103	8	1,037
Depreciation charge for the period	269	7	42	3	321
Disposals	(147)	-	(33)	(2)	(182)
Balance at 31 December 2018	1,046	9	112	9	1,176
Balance at 1 January 2019	1,046	9	112	9	1,176
Depreciation charge for the year	402	13	49	6	470
Disposals	-	-	(4)	-	(4)
Balance at 31 December 2019	1,448	22	157	15	1,642
Net book value					
At 31 December 2018	1,137	43	99	23	1,302
At 31 December 2019	1,189	30	67	17	1,303

Notes (continued)

11 Right-of-use assets

	Leasehold property £000
Cost	
Balance at 31 December 2018	-
Restatement for IFRS 16	1,984
	<hr/>
Balance restated at 1 January 2019	1,984
	<hr/>
Balance at 1 January 2019	1,984
Additions	-
Disposals	-
	<hr/>
Balance at 31 December 2019	1,984
	<hr/>
Depreciation	
Balance at 31 December 2018	-
Restatement for IFRS 16	152
	<hr/>
Balance restated at 1 January 2019	152
	<hr/>
Balance at 1 January 2019	152
Depreciation charge for the year	378
Disposals	-
	<hr/>
Balance at 31 December 2019	530
	<hr/>
Net book value	
At 31 December 2018	-
	<hr/>
At 31 December 2019	1,454
	<hr/>

The Company leases buildings for its offices and laboratory facilities under agreements of between five and six years with options to break the terms. Where the Company leases agreements under one year or are low-value, these have been expensed as incurred and not capitalised as right-of-use assets. See also note 1.15.

Notes (continued)

12 Trade and other receivables

	31 December 2019 £000	31 December 2018 £000
Non-current		
Rent deposit	116	113
	<hr/> 116	<hr/> 113
Current		
Trade receivables	8	283
R&D claim	3,088	-
Rent deposit	-	3
Other taxation and social security	222	384
Prepayments and accrued income	96	884
Amounts owed from related parties (note 19)	368	-
	<hr/> 3,782	<hr/> 1,554

13 Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Cash at bank and in hand	268	242
	<hr/>	<hr/>

14 Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Non-current		
Lease liabilities	1,054	-
	<hr/>	<hr/>
Current		
Trade payables	502	398
Corporation tax	-	108
Social security and other taxes	55	43
Amounts owed to related parties (note 19)	16,529	8,310
Accruals	511	813
Lease liabilities	364	-
	<hr/> 17,961	<hr/> 9,672

Notes (continued)

15 Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to this plan in the current period was £111k (period ended 31 December 2018: £239k). There was an accrual of £nil at 31 December 2019 (period ended 31 December 2018: £nil k).

Share based payments (SBP)

The Company is a member of a group unapproved Share Option Plan. All employees are offered options upon joining the Company. During the year 1,318 options were granted to employees under the unapproved Share Option Plan and 1,511 share options were forfeited due to grantees no longer being employed by the Company or forfeiting their options.

The unapproved Share Option Plan was modified on 29 October 2019 with the following main features for options issued from then on being:

- An exercise (option) price set at £0.10 instead of the most recent share price established;
- Removal of the performance-condition requirement;
- The addition of leaver provisions allowing retention of equity benefits subject to certain service periods having been met.

Employees under the existing scheme were offered an opportunity to forfeit existing options and to receive a compressed amount of options under the new terms following a new grant. Modification accounting has been applied to such cases, where the Share Based Payment charges reflect the higher fair value charge between the forfeited grant and the respective new grant.

As at 31 December 2019, 348 options with an exercise price of £0.10 were committed to employees but not granted in connection with forfeited options. The recognised Share Based Payments charge that corresponds to these options once fully executed is £nil in 2019 and is included in the charge for the year.

In summary, 1,318 options were granted with an exercise price of £0.10 and 348 options committed but not yet granted matching to forfeited options under the scheme modification with an exercise price of £0.10.

SBP for options are recognised evenly over the service period from date of grant. If not exercised options lapse on the 10th anniversary of the date of grant. The ultimate vesting of options is connected to a trigger event, at which point the ability to exercise manifests with a method of settlement being through equity only. No options were exercised during the year.

The number and weighted average exercise prices of share options are as follows:

Options held in BenevolentAI Limited by staff in BenevolentAI Cambridge Limited	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Options Outstanding at the beginning of the period	819.1	1,657	-	-
Forfeited during the period	(819.1)	(1,511)	-	-
Exercised during the period	-	-	-	-
Granted during the period	0.1	1,318	819.14	1,657
Committed during the period	0.1	348	-	-
Outstanding at the end of the period	81.8	1,812	819.14	1,657
Exercisable at the end of the period	-	-	-	-

The fair value of services received in return for share options granted are measured by reference to the fair value of goods or services received or reference to the fair value of share options granted.

Notes (continued)

15 Employee benefits (continued)

As permitted under IFRS2, the Black-Scholes model has been used to calculate the fair value of each option at the date of grant. The fair value of each option is recognised equally over the service requirement period (usually 3 to 4 years) through the profit and loss and will not be remeasured at each reporting date.

In order to calculate the fair value of share options using the Black-Scholes model, the assumptions in the following table have been used. As the group grants new share options at regular intervals, the weighted average of outstanding share options at the end of the financial year has been disclosed.

The following assumptions have been used in the Black-Scholes model.

Weighted Avg. for outstanding options at the reporting date	2019	2018
Market value at date of grant	£382.1	£819.1
Exercise price at grant date	£66.1	£819.1
Volatility	60%	58%
Time to exercise (years)	4.0	5.7
Risk-free rate	0.57%	1.16%
Employee turnover	13%	9%

The expected volatility is based upon analysis of historic share price movements of the group's own securities. The expected period to exercise is based upon management's judgement, with reference to benchmark data of the typical time from incorporation to an Initial Public Offering amongst other companies in the Technology industries. The risk-free rate is based on the Bank of England's estimates of gilt yield curve as at the respective grant dates.

	2019	21 February to 31 December 2018
	£000	£000
Total share-based payment expense	257	189

16 Share Capital

	Ordinary shares	
	31 December 2019	31 December 2018
On issue at 21 February 2019 and at 31 December 2019 – fully paid	6,400,170,002	6,400,170,002
	<hr/>	<hr/>
	31 December 2019	31 December 2018
	£	£
<i>Allotted, called up and fully paid</i>		
6,400,170,002 ordinary shares of 0.01p each	640	640
Opening and Closing Balance - Shares classified in shareholders' funds	<hr/>	<hr/>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes (continued)

17 Financial instruments

Fair values of financial instruments

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 31 December 2019 £000	Carrying amount 31 December 2018 £000
Financial assets measured at fair value		
Amortised Cost		
Cash and cash equivalents (note 13)	268	242
Trade and other receivables (note 12)	376	716
	<hr/>	<hr/>
Total financial assets	644	958
	<hr/>	<hr/>
Financial liabilities measured at amortised cost (note 14)	(17,543)	(9,521)
	<hr/>	<hr/>
Total financial liabilities	(17,543)	(9,521)
	<hr/>	<hr/>

Risk Management

The company's principal financial instruments comprise cash at bank, trade receivables and trade payables and the main purpose of these financial instruments is to facilitate the company's operations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

The company currently does not have a provision for bad debt based on historic and current experience with relevant parties, consequently exposure to expected credit losses is nil.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The group expects to meet its financial obligations through operating and financing cashflows.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 December 2019	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities					
Trade and other payables	17,543	17,543	-	-	-
31 December 2018	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000
Non-derivative financial liabilities					
Trade and other payables	9,521	9,521	-	-	-

Notes (continued)

17 Financial instruments (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The company does not have any exposure to interest rate risk nor changes in quoted equity prices, but it is exposed to foreign exchange rates.

Foreign currency risk

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 December 2019	Euro £000	US Dollar £000	British Pound £000	Total £000
Cash and cash equivalents	63	56	149	268
Trade receivables	-	-	376	376
Trade payables	(82)	(9)	(412)	(503)
	<hr/>	<hr/>	<hr/>	<hr/>
Net exposure	(19)	47	113	141
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2018	Euro £000	US Dollar £000	British Pound £000	Total £000
Cash and cash equivalents	1	1	240	242
Trade receivables	-	-	283	283
Trade payables	(11)	(46)	(342)	(399)
	<hr/>	<hr/>	<hr/>	<hr/>
Net exposure	(10)	(45)	181	126
	<hr/>	<hr/>	<hr/>	<hr/>

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2019 would have increased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2018

Sensitivity analysis

	31 December 2019 £000	31 December 2018 £000
€	2	1
\$	(5)	5

A 10 percent strengthening of the above currencies against the pound at 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

Bank credit ratings

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB+ and above, based on Standard and Poor credit ratings as at 31 December 2019, which is at minimum a positive outlook. The company considers that its cash and cash equivalents have low credit risk based on the external ratings.

Notes (continued)

18 Operating leases

Non-cancellable operating lease rentals over the lease term are payable as follows:

	31 December 2019 £000	31 December 2018 £000
Less than one year	-	447
Between one and five years	-	1,652
	<hr/>	<hr/>
	-	2,099
	<hr/>	<hr/>

During the year to 31 December 2019 £nil was recognised as an expense in the income statement in respect of operating leases (period ended 31 December 2018: £403k) since the Company's leases are now accounted for under IFRS 16 as finance leases and reported in the right-of-use assets and liabilities in the Statement of Financial Position.

19 Related Parties

The Company's related party transactions are disclosed below.

	2019 £000	2018 £000
Amounts owed to parent	16,529	8,009
Amounts owed (by) / to fellow subsidiary	(368)	301
	<hr/>	<hr/>
	16,161	8,310
	<hr/>	<hr/>

These amounts are interest free and payable on demand.

There were no provisions for uncollectible receivables and bad debts expense recognised in the period in relation to related parties.

20 Ultimate parent company and parent company of larger group

The Company is controlled by its parent company BenevolentAI Ltd which is incorporated in the United Kingdom and has its registered office at 4-8 Maple Street, London W1T 5HD.

21 Subsequent event

No subsequent events to report.