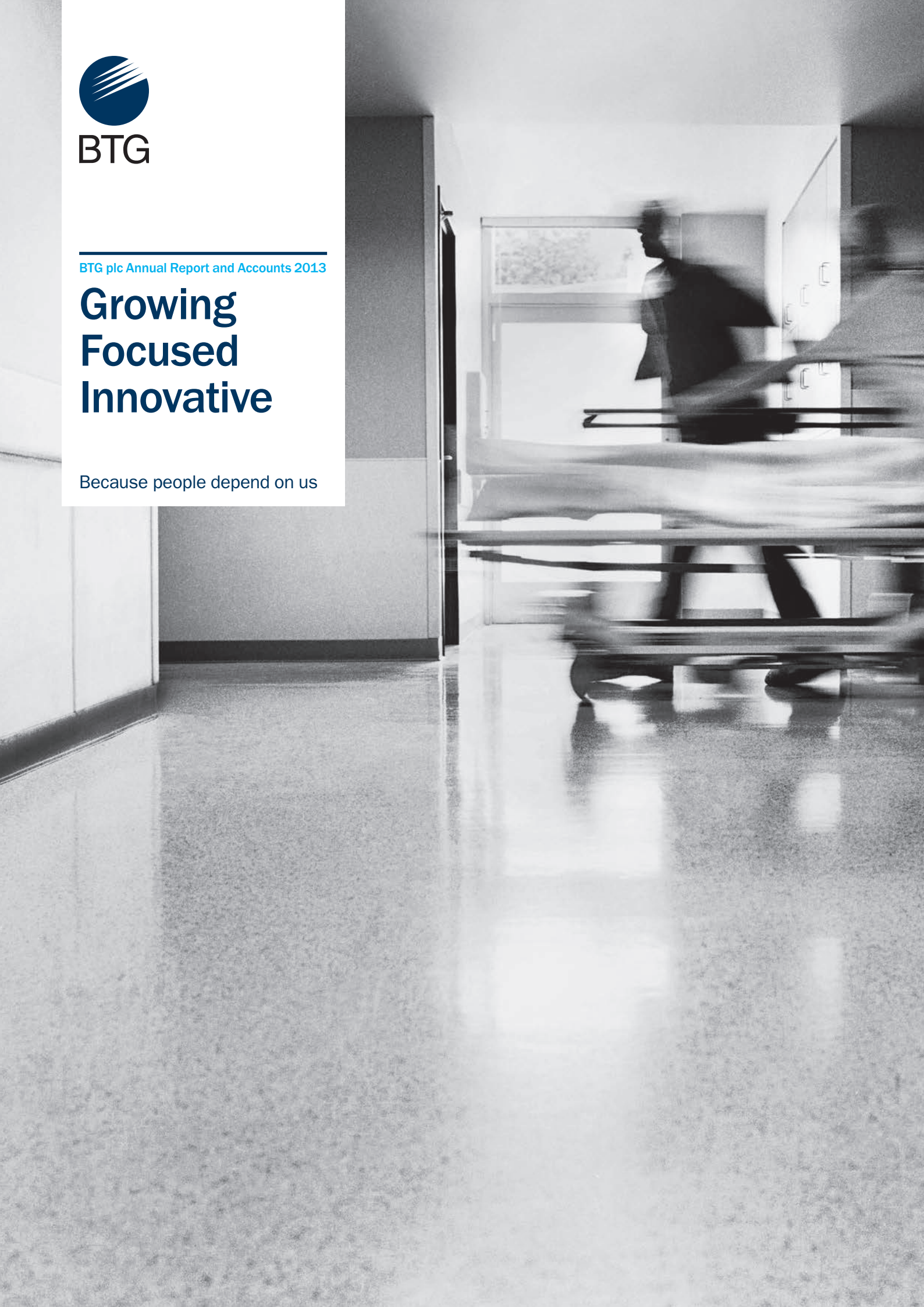
BTG

BTG plc Annual Report and Accounts 2013

# Growing
# Focused
# Innovative

Because people depend on us



# Introduction

## Growing

BTG is a growing international specialist healthcare company with a mission to bring to market medical products that meet the needs of specialist healthcare physicians and their patients.

## Focused

We operate in three business areas: Specialty Pharmaceuticals, Interventional Medicine and Licensing & Biotechnology. We sell our products directly in the US and elsewhere through partners.

## Innovative

We seek to acquire, develop and market differentiated products that make a real difference.

In everything we do we are guided by our core values and Code of Conduct. We believe that by doing the right thing every time, we can deliver sustainable growth and value to all our stakeholders.

**Why go online?**
If you haven't already tried it, download our easy to use PDF Annual Report. This year 9,650 shareholders have signed up for electronic communications and are benefiting from more accessible information, as well as helping the environment.

**Our corporate website**
www.btgplc.com

**Our values**
www.btgplc.com/about-us/our-values

# Contents

# 2013 highlights

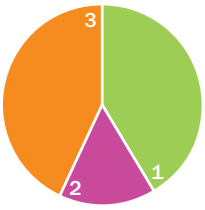
Below we summarise our 2012/13 financial highlights. The full financial results are described on pages 27 to 31 and we report on progress against non-financial performance indicators on page 26. Opposite we summarise BTG's business and show where more detail can be found on each aspect.

## Total revenue

**£233.7m**

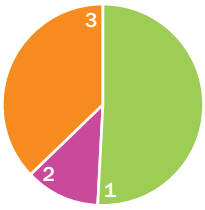
| | |
|---|---|
| **12/13** | **£233.7m** |
| 11/12 | £197.0m |
| 10/11 | £111.4m |
| 09/10 | £98.5m |
| 08/09 | £84.8m |

## Total revenue by business area




1. Specialty Pharmaceuticals **£97.2m**
2. Interventional Medicine **£36.1m**
3. Licensing & Biotechnology **£100.4m**

## Contribution by business area




1. Specialty Pharmaceuticals **£55.4m**
2. Interventional Medicine **£13.0m**
3. Licensing & Biotechnology **£40.1m**

## Gross margin

**71.0%**

| | |
|---|---|
| **12/13** | **71.0%** |
| 11/12 | 71.4% |
| 10/11 | 69.4% |
| 09/10 | 66.7% |
| 08/09 | 56.3% |

## Underlying operating profit[1]

**£69.0m**

| | |
|---|---|
| **12/13** | **£69.0m** |
| 11/12 | £54.0m |
| 10/11 | £1.7m |
| 09/10 | £10.8m |
| 08/09 | £7.0m |

## Cash and cash equivalents[2]

**£158.7m**

| | |
|---|---|
| **12/13** | **£158.7m** |
| 11/12 | £111.9m |
| 10/11 | £73.9m |
| 09/10 | £82.6m |
| 08/09 | £78.2m |

1 Operating profit excluding acquisition adjustments and reorganisation costs.
2 Including held to maturity financial assets.

# Our business



## Core purpose

Bring to market differentiated products that meet the needs of specialist physicians and their patients.

For a description of our products and the markets in which we operate, see pages 17 to 26.

## Core activities

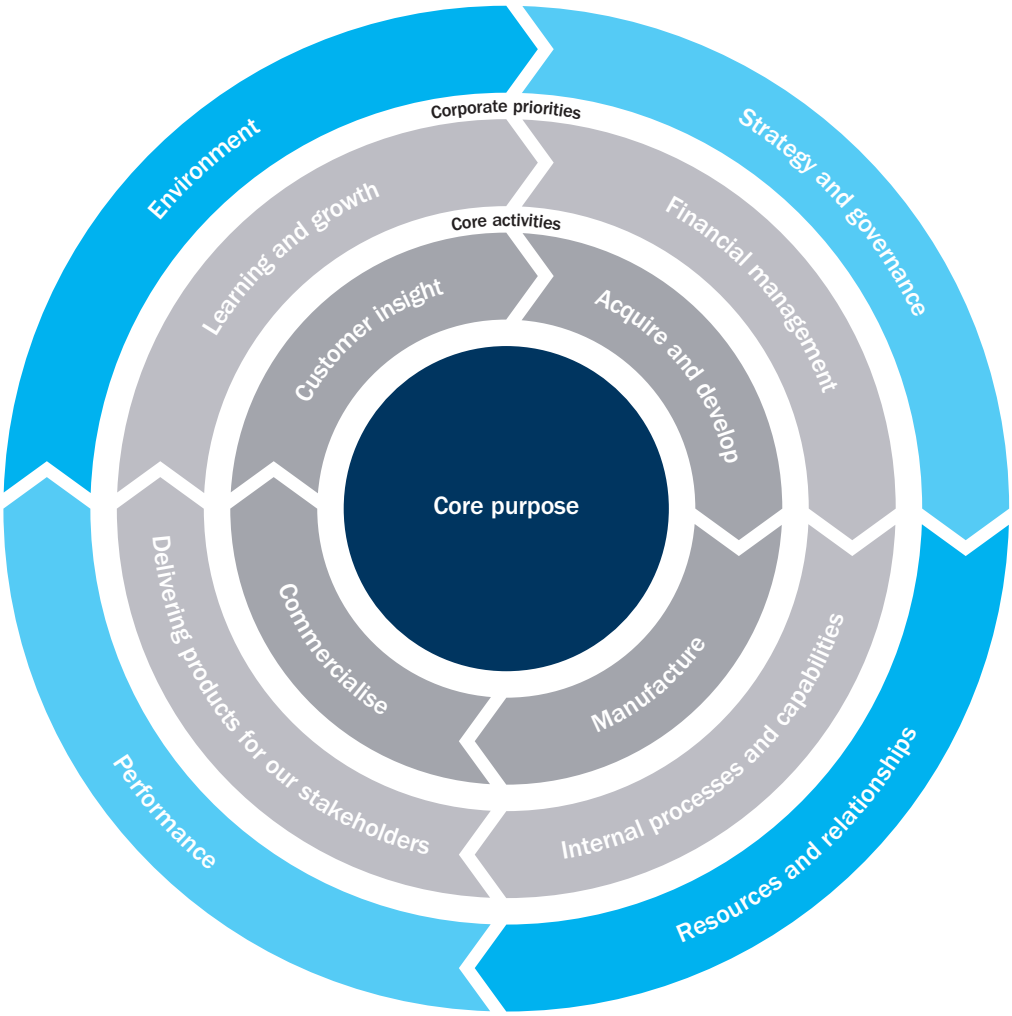
Acquire, develop, manufacture and commercialise specialist medical products, using insights from customers and other stakeholders to develop new business opportunities.

Our core activities are described in detail on page 20.

## Corporate priorities

Our medium-term goals are grouped into four categories: financial management; internal processes and capabilities; delivering products for our key stakeholders; and learning and growth.

An update on progress with these priorities is given on pages 20 to 26.




## Strategy and governance

Deliver sustainable growth by building leading market positions in specialist medical markets, operating compliantly and inline with our values.

See pages 21 for further information on strategy, pages 36 to 40 for corporate responsibility and pages 48 to 56 for our corporate governance report.

## Resources and relationships

Our financial and human resources are key enablers for us to deliver on our growth strategy.

These and other enablers are discussed on pages 22 to 25.

## Performance

We monitor performance using financial and non-financial indicators.

These are described on page 26. See also the highlights on page 2 and the financial review on pages 27 to 31.

## Environment

We operate in a highly regulated industry that is subject to external influences including healthcare reform, regulatory changes, competition and product innovation.

Further details are given on pages 25 to 26. See also the risks section on pages 32 to 35.

# Our areas of business

## Our commercial sales

### Specialty Pharmaceuticals

Revenue

**£97.2m**


**CroFab® (crotalidae polyvalent immune fab (ovine))**
The only approved treatment for the management of patients with North American pit viper envenomation.

**DigiFab® (digoxin immune fab (ovine))**
A treatment for patients with life-threatening or potentially life-threatening toxicity associated with the heart medication digoxin.

**Voraxaze® (glucarpidase)**
A treatment for the toxicity that can occur in cancer patients with renal impairment who are receiving high-dose methotrexate therapy.

### Interventional Medicine

Revenue

**£36.1m**


**LC Bead™, DC Bead® and Bead Block®**
Embolisation and drug-eluting beads that are used to treat patients with hypervascularised tumours.

**Brachytherapy implants**
Low-dose radioactive seeds used primarily to treat early-stage prostate cancer.

### Licensing & Biotechnology

Revenue

**£100.4m**


**Zytiga® (abiraterone acetate)**
A treatment for advanced prostate cancer which is marketed by the Janssen Pharmaceutical Companies of Johnson & Johnson.

**Two-Part Hip Cup**
A prosthetic hip joint replacement licensed to most major hip-replacement technology manufacturers.

| Late-stage development | Growth strategy |
| --- | --- |
| **Uridine triacetate**<br>A treatment in development with Wellstat Therapeutics Corporation for toxicity associated with use of the chemotherapeutic 5-fluorouracil. BTG has acquired US and an option for EU commercial rights. | We are seeking to in-license or acquire additional antidotes, as well as other products used by Acute Care and other specialist physicians. |
| **Varisolve® (polidocanol endovenous microfoam (PEM))**<br>A potential comprehensive treatment to reduce the symptoms and appearance of varicose veins. A regulatory application is under review in the US.<br><br>**PARAGON Bead®**<br>A drug-eluting bead pre-loaded with the chemotherapeutic drug irinotecan. In development for the treatment of colorectal cancer which has metastasised to the liver (mCRC). Humanitarian Use Device (HUD) designation granted in intrahepatic cholangiocarcinoma.<br><br>**PRECISION Bead®**<br>A drug-eluting bead pre-loaded with the chemotherapeutic drug doxorubicin. In development for the treatment of primary liver cancer or hepatocellular carcinoma (HCC). HUD designation granted in uveal melanoma. | We plan to continue investing in clinical development of the bead products to expand their indicated uses and geographic availability. We are also seeking to acquire additional products used by interventional radiologists, medical oncologists and vascular surgeons. |
| **Lemtrada™ (alemtuzumab)**<br>A potential treatment for relapsing multiple sclerosis. US and EU regulatory applications have been submitted by partner Sanofi. | |

# Specialty Pharmaceuticals

The current focus within Specialty Pharmaceuticals is on antidote products that are used within hospitals. We market and sell our products directly in the US, and elsewhere we work with distribution partners.

### Specialty Pharmaceuticals revenue

**£97.2m** 12/13

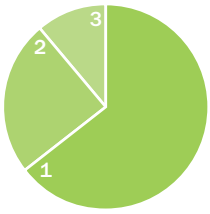
£76.7m 11/12

### Specialty Pharmaceuticals contribution

**£55.4m** 12/13

£39.4m 11/12

### Specialty Pharmaceuticals revenue split




1. CroFab® **£62.7m**
2. DigiFab® **£23.8m**
3. Voraxaze® **£10.7m**



"Our strategy is to deliver value beyond our products' attributes to promote even stronger customer relationships."

**Matthew Gantz**
Executive Vice President, US

## CroFab®

CroFab® (crotalidae polyvalent immune fab (ovine)) is a treatment for the management of patients with North American pit viper envenomation. CroFab® has been clinically proven to halt envenomation progression from venomous North American pit viper bites.

## Voraxaze®

Voraxaze® (glucarpidase) is indicated for the treatment of toxic plasma methotrexate concentrations in patients with delayed methotrexate clearance due to impaired renal function. Voraxaze® breaks down the chemotherapeutic methotrexate into inactive metabolites which are then eliminated from the body. Voraxaze® is the first and only drug available to reduce toxic plasma methotrexate levels.

## DigiFab®

DigiFab® (digoxin immune fab (ovine)) is a treatment for patients with life-threatening or potentially life-threatening digoxin toxicity or overdose and is clinically proven to effectively clear digoxin from the body. Digoxin is widely used as a treatment for various heart conditions.

# Interventional Medicine

Our key products are embolisation and drug-eluting beads used primarily to treat patients with liver tumours and Brachytherapy products used mainly for early-stage prostate cancer.

**Interventional Medicine revenue**

**£36.1m** 12/13

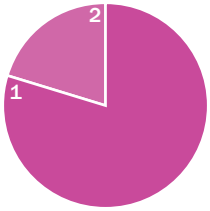
£28.7m 11/12

**Interventional Medicine contribution**

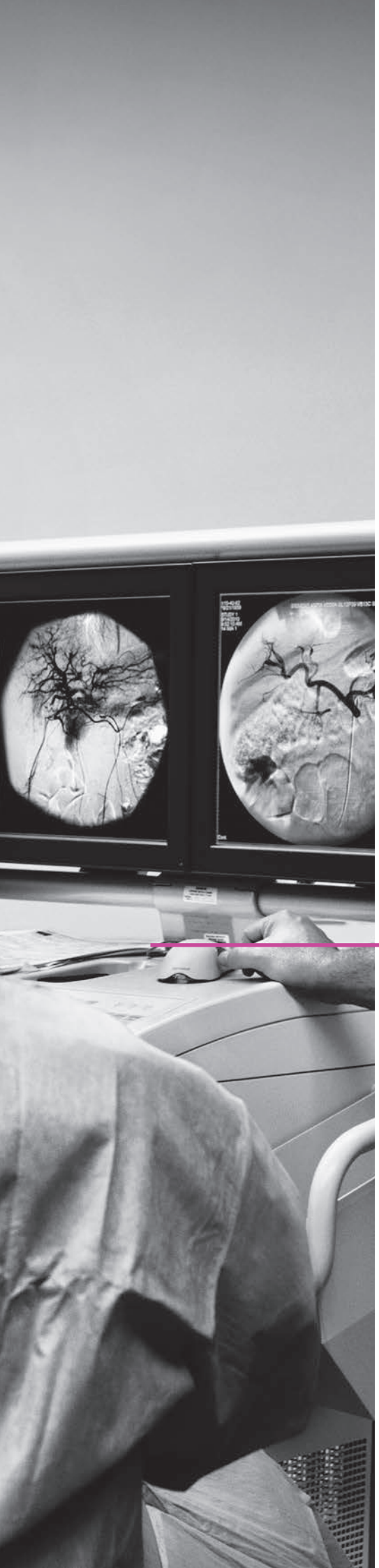
**£13.0m** 12/13

£6.8m 11/12

**Interventional Medicine revenue split**




| | |
|---|---|
| 1. Beads | **£28.8m** |
| 2. Brachytherapy | **£7.3m** |




## LC Bead™, DC Bead® and Bead Block®

Embolisation beads, approved for the embolisation of hypervascularised tumours and arteriovenous malformations in the US and for the embolisation or chemoembolisation of malignant hypervascular tumours in the EU.

## PARAGON Bead® and PRECISION Bead®

Embolising and drug-eluting beads preloaded with chemotherapeutics. In development for colorectal cancer which has metastasised to the liver (mCRC) and primary liver cancer (heptocellular carcinoma). Humanitarian Use Device (HUD) designations granted in intrahepatic cholangiocarcinoma and uveal melanoma respectively.

## Brachytherapy implants

A variety of customised radioactive implants for the treatment of early-stage prostate cancer.

"We see considerable growth opportunities for our embolisation and drug-eluting beads in the Far East where there is an especially high incidence of primary liver cancer."

**John Sylvester**
Chief Commercial Officer

# Licensing & Biotechnology

This business area comprises licensed products and programmes and generates significant royalties for BTG. We out-license assets that we do not intend to market ourselves.

### Licensing & Biotechnology revenue

**£100.4m** 12/13

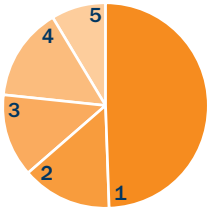
£91.6m 11/12

### Licensing & Biotechnology contribution

**£40.1m** 12/13

£45.6m 11/12

### Licensing & Biotechnology revenue split



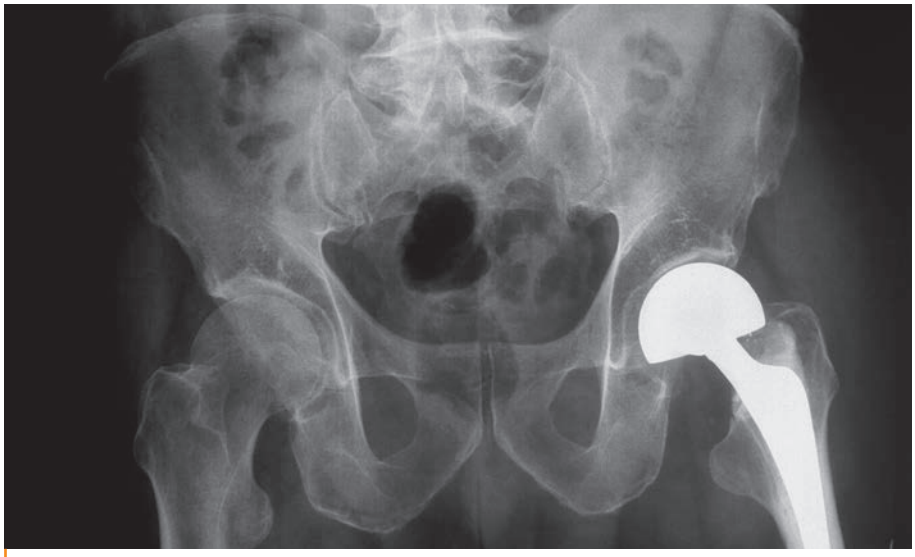

| | |
|---|---|
| 1. Zytiga® | **£49.9m** |
| 2. BeneFIX® | **£14.0m** |
| 3. Two-Part Hip Cup | **£13.3m** |
| 4. Other | **£14.6m** |
| 5. Milestones/one-offs | **£8.6m** |

## Zytiga®

Zytiga® (abiraterone acetate) is a treatment for advanced, metastatic castration-resistant prostate cancer. Approved in the US and EU, both for patients who have, and those who have not received prior chemotherapy containing docetaxel and marketed by the Janssen Pharmaceutical Companies of Johnson & Johnson.

"We have received substantial royalties from a number of products that are subject to intellectual property and technology licence agreements."

**Rolf Soderstrom**
Chief Financial Officer



## Two-Part Hip Cup

A prosthetic hip joint replacement which allows for a range of motion that helps to avoid dislocation. Licensed to all major orthopaedic companies.

## Lemtrada™

Lemtrada™ (alemtuzumab) is in development as a potential treatment for relapsing multiple sclerosis. Sanofi and its subsidiary Genzyme have submitted regulatory applications in the US and EU.

# Chairman's statement

**Garry Watts**
Chairman

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**Our latest share prices**
www.btgplc.com/investors/share-price-data

**I am pleased to report that our business has performed very well during 2012/13. Revenues, underlying profitability and cash generation increased substantially and we made good progress with the operating priorities we set out in last year's Report.**

The strong growth in revenue reflects a robust performance in our Specialty Pharmaceuticals business, the impact of the transition to direct sales of our interventional oncology products in the US and increased royalties from licensed products. Operating achievements during the year include the submission of a new drug application for Varisolve® PEM in the US and the US launch of Voraxaze® (glucarpidase) by our Acute Care team.

To deliver further growth, we continue to pursue our strategy of investing in and expanding our portfolio of specialist healthcare products. Our strong cash reserves and increasing cash generation enable us to invest both in internal development activities and in the acquisition of complementary products and late-stage development programmes. During the year, we outlined a planned programme of studies to expand the approved uses of our interventional oncology products. In addition, we continue to review a number of acquisition opportunities that arose during the year.

These focused investments give us the platform to create a leading international specialist healthcare business that makes a real difference to physicians and patients alike, that delivers significant value to our stakeholders and that creates fulfilling careers for our employees.

Investing for growth is expected to create significant value over the longer term and remains our current focus, so we do not recommend payment of a dividend. However, the Board intends to review its dividend policy regularly as the business continues to evolve.

Our key challenge is to grow in a sustainable way. For us, sustainability means combining the right strategy with strong execution, financial discipline, a culture of continuous improvement, strong governance and good corporate citizenship. These themes are the focus of our medium-term priorities, which we discuss on page 20 of this Report. They also feature in the Chief Executive Officer's review, the business review, the corporate responsibility report and the sections on risk management and corporate governance.

In the corporate governance report on page 48 we state that the Company has complied fully with the 2010 edition of the UK Corporate Governance Code. Our next Annual Report will comment on compliance with the new provisions of the Code as it applies to reporting periods beginning on or after 1 October 2012.

I am grateful to the Board of directors for the guidance, oversight, support and challenge they bring, which contributes significantly to the Company's overall success. On behalf of the Board, my thanks go to Peter Chambré, who retired in September 2012 after six years as a non-executive director, having helped steer the business through a period of strategic change and expansion. Richard Wohanka, who was appointed as a non-executive director in January 2013, brings significant additional business experience to the Board.

I would especially like to thank our employees, on whose talent and energy our success ultimately depends, for their continued dedication and focus on delivery. I welcome those employees who joined us over the past year.

On behalf of the whole Company, I also wish to thank you, our shareholders, for your continued support as we implement our growth plans.

BTG has made excellent progress in recent years. We have the financial resources, capabilities and opportunities to continue to build the business and deliver sustainable growth.

**Garry Watts**
Chairman

"BTG has made excellent progress in recent years. We have the financial resources, capabilities and opportunities to continue to build the business and deliver sustainable growth."

**Garry Watts**
Chairman

# Chief Executive Officer's review

**Louise Makin**
Chief Executive Officer

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**Our latest share prices**
www.btgplc.com/investors/share-price-data

**The past year was one of significant progress for BTG. In addition to a strong overall business performance, each of our three business areas performed well financially and key operational goals were achieved.**

In Specialty Pharmaceuticals, where we currently focus on antidote products, revenue grew by 27% to £97.2m, resulting in a 41% increase in pre-R&D profit contribution to £55.4m.

The Interventional Medicine business, which currently provides interventional oncology products used to treat patients with liver tumours and early-stage prostate cancer, delivered a 26% increase in revenues to £36.1m and a 91% higher profit contribution of £13.0m.

The Licensing & Biotechnology segment delivered a strong performance with revenue 10% higher at £100.4m. The profit contribution was 12% lower at £40.1m as a result of the reduced revenue from BeneFIX®, which was a high-margin royalty stream, and an increase in the central costs allocated to this business segment as we have built our internal capabilities.

Operating highlights include the submission of a new drug application (NDA) in the US seeking approval of PEM as a comprehensive treatment for moderate to severe varicose veins; a strong launch for Voraxaze® (glucarpidase) by the US Acute Care team; and the supplementary approvals of Johnson & Johnson's Zytiga® (abiraterone acetate) for use in chemo-naïve patients with metastatic castration-resistant prostate cancer.

Over the medium-term, we are investing the cash generated in our three business segments in three principal areas: product development, product acquisitions and building our capabilities.

During the year, we outlined our plans to invest in a number of studies designed to support the expanded use of our Bead products. These include investigational studies to explore use in different patient populations, together with larger-scale randomised clinical trials that are designed to support pre-market approval (PMA) applications to extend the indicated uses of the products.

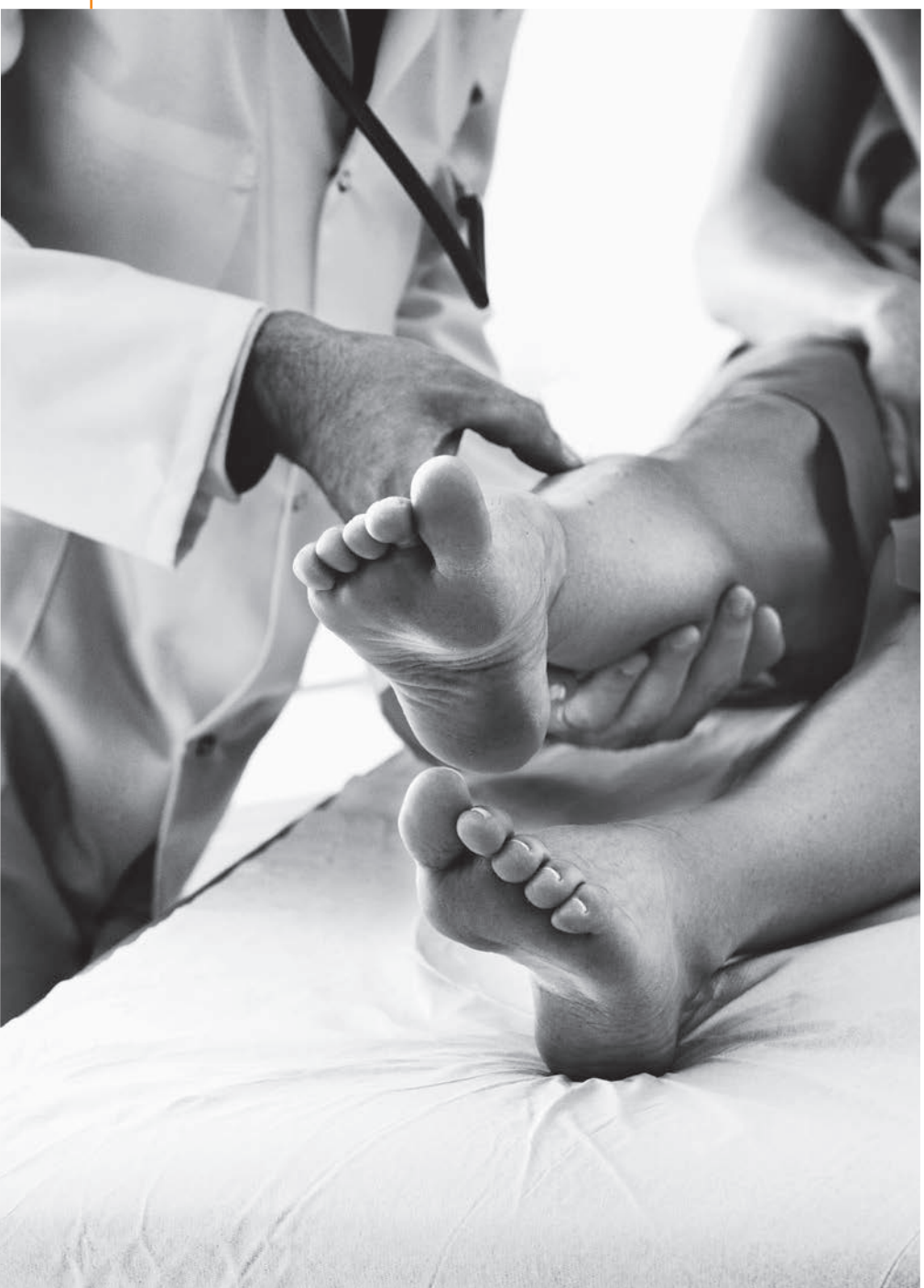
Through the Beads expansion activities and PEM, we have significant organic growth potential. Expanding our portfolio through the acquisition of complementary products that meet our financial and strategic criteria is also a key growth driver.

We are very clear on the criteria we use when considering acquisitions. They must, of course, have the potential to deliver an appropriate return on investment, but they must also leverage existing capabilities such as our sales forces, commercial infrastructure or developing expertise in drug-device combinations. We continue to review a number of opportunities and have also experienced an increase in the number of opportunities that are being brought to us.

BTG operates in a highly regulated business environment. To expand our portfolio, enter new markets and adapt to healthcare reforms, we must continuously enhance our internal processes and capabilities. This is a corporate priority which we are addressing, partly through our Learning and Development programme for employees, and partly through hiring new employees with specific skill sets and experience. The average number of employees increased during the year from 498 to 569, and we anticipate further growth as we continue to prepare for the anticipated US approval and launch of PEM.

## Varisolve® (polidocanol endovenous microfoam (PEM))

A new drug application (NDA) has been submitted to the FDA in the US, seeking approval of PEM as a potential comprehensive treatment to reduce the symptoms and appearance of varicose veins.



"With a clear strategy to build our interventional oncology business, the potential approval of PEM, and the resources to acquire complementary products, we have the opportunity to create significant additional value in the business."

**Louise Makin**
Chief Executive Officer

With the approval of Voraxaze® and the completion of our PEM Phase III trials, the balance of our development activities is shifting towards the Bead products and in particular the development of our novel pre-loaded Beads and the studies we plan to initiate to support the expansion of their indicated uses.

We have realigned our research and development function to best support the current and medium-term plans. We have also created an innovation function. This group's role is to engage with customers and the wider medical community to identify market opportunities and to conduct feasibility studies. These opportunities may exploit our existing platforms and products, or they may link to our acquisition activities.

We set a new goal last year of being an excellent corporate citizen by embedding compliance, quality and environmental, Health and Safety matters in all activities. Nowhere is this more important than in our manufacturing activities, the integrity of which is crucial to maintaining the safety and availability of our products. We have made good progress and will continue to invest in training, process improvements and adding new people where we identify gaps. Our corporate responsibility report on pages 36 to 40 provides more information.

People are our most important asset and being able to recruit, retain and motivate the talent we need is critical to our long-term success. How we conduct our business is as important as the results we achieve; living our values begins with the recruitment process and is embedded throughout the organisation.

Our business has enjoyed strong growth in recent years, whether measured by revenue, underlying profitability or market capitalisation, or by reference to the number of products we sell, the market segments we serve or the people we employ. The business is in good shape and the outlook is positive. With a clear strategy to build our interventional oncology business, the potential approval of PEM, and the resources to acquire complementary products, we have the opportunity to create significant additional value in the business.

**Louise Makin**
Chief Executive Officer

# Business review

**In this section we review the performance and trends in our three operating segments; we give an overview of our business activities and the business environment; we include a detailed financial review and corporate responsibility report; and we provide an update on risk management.**

**Performance in 2012/13**
BTG has delivered a strong financial and operational performance in 2012/13. The financial review on pages 27 to 31 gives the results in detail, and on page 26 we describe progress against the key financial and non-financial indicators we use to monitor overall business performance. Below we describe the performance and trends in our three operating segments.

## Specialty Pharmaceuticals

In the US we now sell three marketed products, CroFab®, DigiFab® and Voraxaze®, through our Acute Care field force of 19 representatives. Whereas CroFab® is only sold in the US, DigiFab® and Voraxaze® are sold through partners in other countries where approved or available on a named patient basis.

Revenues in this segment grew from £76.7m to £97.2m. A strong CroFab® performance was enhanced by wholesalers rebuilding inventory from the comparatively low levels held in the previous year. DigiFab® sales continue to grow, in part due to continued geographic expansion and a price increase. Voraxaze® sales were significantly higher than in the previous year following US approval and the US nationwide launch in April 2012.

All of these products address markets bounded by the number of toxic events. In the case of CroFab®, there are on average 5,500 treated envenomations per annum in the US; our goal is to ensure every bite that needs treating is treated optimally in terms of initial dosing and maintenance.

DigiFab® is used when life-threatening toxicity or overdose occur following digoxin administration. The number of global digoxin prescriptions is fairly static from year-to-year at around 16 million globally, with between 1% and 4% of patients experiencing toxicity. Through educational activities, we aim to ensure that physicians are aware of the signs of life-threatening digoxin toxicity and that it is treated when detected. We are also seeking to extend the geographical approvals of the product, or to make it available on a named patient basis where achieving regulatory approval is not practical.

Voraxaze® is approved in the US to treat life-threatening toxicity following treatment with the chemotherapeutic high-dose methotrexate, which we estimate affects around 200 to 300 patients in the US each year. We are exploring additional regulatory approvals in other geographies and seek to make the product available on a named patient basis where appropriate.

Specialty Pharmaceuticals is a highly cash-generative business segment. We anticipate that revenue from the current product portfolio has the potential to grow annually at a rate of mid-to-high single digits on average. Revenue growth above this level would reflect the addition of new products, which would also be expected to enhance commercial operating efficiency.

We currently have one late-stage product in the pipeline: uridine triacetate, which is being developed by Wellstat Therapeutics Corporation. This is another antidote, a potential treatment for life-threatening toxicity following administration of the chemotherapeutic 5-fluorouracil. If the US New Drug Application (NDA) is submitted as expected around mid-2014, with a priority review this could result in approval and launch by the end of 2014.

**Profit contribution**

**£55.4m** 12/13

£39.4m 11/12

A strong performance in Speciality Pharmaceuticals resulted in a 41% increase in pre-investment profit contribution.

**Profit contribution**

**£13.0m** 12/13

£6.8m 11/12

The transition to direct US sales has increased the profit contribution in Interventional Medicine by 91%.

## Interventional Medicine

In the US we now sell our embolising Bead products, which are used to treat liver tumours, and Brachytherapy products, which are used to treat early-stage prostate cancer, directly through a team of 20 account managers. The business is supported by 12 medical science liaisons. The products are sold in other territories through distribution partners; we are seeking to expand their geographical availability by pursuing additional regulatory approvals in key markets such as Asia, working with appropriate local partners.

Interventional Medicine revenues increased from £28.7m to £36.1m. The switch to direct sales of LC Bead™ in the US has gone well. Product that was in the supply chain from the previous distribution arrangement has now been depleted, and ordering patterns from customers have normalised.

Over the near- to medium-term, we expect underlying low double-digit annual growth for our bead products. This is expected to result from the general increasing trend towards using loco-regional therapies to treat liver tumours and from the continued generation of clinical data supporting the use of transarterial chemoembolisation (TACE) in patients with liver cancer. TACE is currently included as the standard of care for intermediate-stage patients in guidelines such as the Barcelona Centre Liver Cancer staging system for hepatocellular carcinoma (HCC), the most common form of primary liver cancer.

During the year, we outlined a planned series of investments designed to expand further the indicated uses of the Beads.

We aim to seek Humanitarian Device Exemptions (HDEs) in the US for PRECISION Bead® and PARAGON Bead®, novel drug-device combination products that are pre-loaded with appropriate chemotherapeutics, for treating patients with uveal melanoma metastases and intrahepatic cholangiocarcinoma, respectively. HDE approvals are based on demonstrated safety and probable clinical benefit demonstrated in exploratory studies in niche indications where there is currently no treatment option. Subject to ongoing dialogue with the FDA. The HDE submissions, which have 75 day review cycles, are expected during H2 2013.

We will continue to fund investigator-led studies to explore use in different patient populations with primary or metastatic liver cancer. In addition to proposing certain studies ourselves, we also invite physicians to submit proposals to us for funding to conduct studies which are intended to inform our future development strategy. We also intend to generate data from larger-scale randomised, controlled clinical trials which, if successful, would support expanded approvals such as pre-market approvals (PMAs) in specific indications.

In primary liver cancer we are planning studies in earlier-stage patients to maintain their eligibility for transplant, and in later-stage patients to explore the use of the Beads in combination with sorafenib, the current standard of care chemotherapeutic for advanced-stage primary liver cancer. We are finalising the designs of appropriate studies and aim to start one study, subject to regulatory approvals, by the end of 2013. Expanding the use of our Beads from intermediate-stage patients to earlier- and later-stage patients could approximately double the addressable patient population.

In secondary liver cancer, we recently completed the PARAGON II study in patients with metastatic colorectal cancer (mCRC) to assess the safety of PARAGON Bead® in surgical resection. We are also reviewing data from a US Phase II study using our Beads loaded with irinotecan in combination with systemic chemotherapy (FOLFOX-DEBIRI) in patients with mCRC. TACE is not currently indicated for use in patients with mCRC and success in this study would open up a significant new opportunity for further development of the Beads.

Sales of our Brachytherapy products were slightly lower than in the previous year, which was a good performance in a challenging market that declined by around 20%. US healthcare reform has resulted in fewer men receiving prostate specific antigen (PSA) tests with fewer subsequent referrals for treatment.

During the year we completed a review of options for CellMed, which we acquired with Biocompatibles. Having reviewed manufacturing options for our novel pre-loaded Bead products, we have decided to refocus the CellMed facility (renamed as BTG International Germany GmbH) primarily to support the development and manufacturing of these products.

There was good progress during the year with Varisolve® (PEM), which is under development to treat varicose veins. Full data from the pivotal US Phase III trials, in which all endpoints were met, were presented at the American College of Phlebology's annual meeting in November 2012. A NDA seeking approval of PEM as a comprehensive treatment to improve the symptoms and appearance of varicose veins was submitted in February 2013 and accepted for full review in April 2013. We anticipate potential US approval and product launch in H1 2014. If approved, PEM will be the only comprehensive treatment for the symptoms and appearance of varicose veins in patients with great saphenous vein incompetence.

Secondary manufacturing was successfully transferred to our Farnham site, where we have constructed a dedicated facility.

Commercial activities are progressing ahead of the anticipated US approval. These include pricing and reimbursement research, physician research and planning for the recruitment of a dedicated PEM sales team. There are approximately 1,000 private vein clinics in the US, which we estimate can be served by a sales team of around 40 people.

We estimate the global peak sales potential of PEM to be $500m. Around half of this is represented by the US reimbursed sector, which will be our first target market following approval. The balance relates to self-pay markets in the US and in other countries where there are established self-pay markets for healthcare products.

## Licensing & Biotechnology

Revenue in the Licensing & Biotechnology segment results principally from royalties relating to sales of products that are subject to intellectual property and technology licence agreements between BTG and various partners. BTG has no role in, or influence over, those sales. Royalties vary but on average are around mid to high single digit percentages of partners' sales revenues; the gross royalty amounts received by BTG are usually shared on a 50:50 basis with originators of the relevant intellectual property or technology.

Revenue in this segment increased from £91.6m to £100.4m. The continued growth of Johnson & Johnson's Zytiga® (abiraterone acetate), used for treating patients with metastatic castration-resistant prostate cancer, was the chief driver of higher royalties.

**Profit contribution**

**£40.1m** 12/13

£45.6m 11/12

The Licensing & Biotechnology segment delivered a strong profit contribution despite the expected loss of BeneFix® revenues from the second half of the year.

Over the medium-term, the performance of this business segment will be strongly influenced by Zytiga® royalties and the potential 2013 EU and US approvals of Sanofi's Lemtrada™ (alemtuzumab), which is under review as a treatment for patients with multiple sclerosis.

Attrition rates are high in drug development and, during the year, an experimental treatment for severe sepsis, AZD9773 (CytoFab™), did not achieve the endpoints in a Phase II study being conducted by AstraZeneca. Development, and the associated licence agreement, were terminated.

**Overview and business model**

BTG is a specialist healthcare company whose core purpose is to bring to market medical products that meet the needs of specialist physicians and their patients. We operate through three business areas: Specialty Pharmaceuticals, Interventional Medicine and Licensing & Biotechnology.

In the following pages we expand on the schematic of our business model shown on page 3. We describe our core activities and progress against our medium-term corporate priorities. We then comment on the key internal and external factors that enable and influence our performance and prospects.

Core activities

The Group acquires, develops, manufactures and commercialises specialist medical products, using insights from customers and others to identify new business and product opportunities.

*Customer insights*

Our products are used by specialist groups of physicians with whom we engage in a number of ways. We promote the approved uses of our products; we provide training in the use of our products; we offer dedicated medical support to physicians regarding the safety, efficacy or use of our products and to provide data when requested; we invite proposals for funding to explore the use of our products in different patient populations and we approach physicians with our own ideas for studies to invite them to participate.

In these interactions we gain valuable knowledge about how physicians use our products in practice, why they might choose not to use our products in certain patient populations, where they require more data to support use, and where they see gaps in current treatment options. Our innovation team specifically engages with customers and the wider scientific and medical community to gain insights into treatment practice and trends and to identify unmet medical needs.

We supplement these insights from customers and others with formal market research, using the information to identify potential new product opportunities.

*Acquisition and development*

The new opportunities we identify might be based around current products and platforms, or they may require acquisition or in-licensing activities. We conduct the latter through a dedicated business development team, supported by our medical, regulatory, development and commercial teams.

Prior to commencing a full development programme, we undertake feasibility studies, which are led by our innovation team. If these show promise, we commence full development programmes. At this stage we conduct non-clinical and clinical studies to assess factors including the safety and efficacy of our pharmaceutical and medical device product candidates.

We liaise with regulators over the development pathways for our products and their approvability. Our development personnel manage these activities and oversee the contract research organisations we contract to conduct many of our studies.

Our business development team is also seeking to in-licence or acquire additional products (or late-stage programmes) that we can sell through our existing sales channels, or potentially through a new sales team that can be supported by our existing commercial infrastructure if the potential financial returns support that investment.

*Manufacturing*

Manufacturing of pharmaceuticals and medical devices is highly regulated and requires specialist skills and knowledge. Our manufacturing activities have increased significantly following the acquisition of Protherics and Biocompatibles, and as PEM has progressed towards potential regulatory approval in the US.

We manufacture the ovine polyclonal antibodies CroFab® and DigiFab®. The supply chains are complex, involving raising antibodies in dedicated sheep flocks in Australia, processing and bulk substance manufacture at our manufacturing plant in Wales, then filling and freeze-drying by a third-party in the US.

We also manufacture our embolic and drug-eluting beads at our Farnham site, with additional activity supporting our novel pre-loaded Beads taking place at our site in Germany. We manufacture our bespoke Brachytherapy products in Oxford, CT, USA.

We contract out certain aspects of our manufacturing supply chain, though we remain responsible for meeting regulatory and quality requirements and for the overall safety of our products. We are continuing to invest in upgrading our manufacturing operations and capabilities.

*Commercialisation*

We sell our products directly in the US and through partners elsewhere. This model is most financially efficient but we will continue to review options to sell directly in territories outside the US as we build sufficient critical mass of product and sales to justify the additional investment.

In the US we sell CroFab®, DigiFab® and Voraxaze® through a 19-person Acute Care sales force. We sell Bead Block®, LC Bead™ and our Brachytherapy products through a separate 32-person Interventional Medicine team of account managers and MSLs. DigiFab®, Voraxaze®, Bead Block® and DC Bead® are sold through distributors outside the US where approved or through named-patient protocols.

Although no longer a core part of our activities, we may also commercialise programmes that we do not intend to develop into products to sell ourselves, or products that are non-core. These may be retained assets from the history of BTG or the companies it has acquired, or they may be non-core parts of transactions we undertake.

## Strategy and governance

The Board of directors sets the strategic direction for the Company, monitors performance and standards of behaviour and maintains appropriate corporate governance, compliance and risk management procedures. Further details are contained in the corporate governance report on page 48, the risk management update on page 32 and the corporate responsibility report on page 36.

"Our innovation team engages with customers and the wider scientific and medical community to identify unmet medical needs."

**Peter Stratford**
Chief Technical Officer, Interventional Medicine

"We focus on niche market segments where we believe we can build leading market positions."

**John Sylvester**
Chief Commercial Officer,
Interventional Medicine

Our strategy to deliver long-term value is to be a focused, integrated, international specialist healthcare business. We focus on niche medical areas in which we can build leading market positions. By integrating our research and development, manufacturing, sales and marketing and business development activities, we aim to capture the full value of our marketed products and development programmes.

We operate internationally, selling directly in the US and working elsewhere with local partners. We undertake regulatory and development activities to expand the geographic and approved uses of our products. We choose to operate in specialist healthcare segments, so that we can operate with small sales forces, develop strong relationships with our customers and build leading market positions.

BTG's annual strategic planning cycle commences with 'horizon scanning' activities. These seek to understand trends in the global healthcare environment and changes in the competitive landscape, so that opportunities and challenges to our business can be identified. The Board and Leadership Team review corporate strategy and plans in light of this information. Corporate priorities are defined for the short and medium-term, which are cascaded into divisional, team and individual goals and used for budget development (see page 26).

Resources and relationships

*Financial resources*

BTG ended the 2012/13 year with cash and cash equivalents of £158.7m, having generated £46.8m of cash in the period. We manage our financial resources such that the cash we generate will be sufficient to cover our overheads and planned development expenditure, and to enable appropriate investment in growth activities such as the acquisition of assets to expand our portfolio of marketed products and development programmes.

The cash we generate enables us to fund product acquisition opportunities of a significant size. As a growing business with a maturing financial profile, in April 2013 we put in place a £60m multi-currency revolving credit facility for a period of three years by April 2016, as yet undrawn but available to fund day-to-day working capital requirements should our cash reserves substantially reduce as a result of investing activities.

*Marketplace and competition*

We choose to operate in niche markets and selected geographies within the global healthcare market, which share certain characteristics.

These include that the physician customer groups are relatively small and can be serviced by small sales forces and support functions. In addition, market sizes for particular specialisms are generally modest as products often address relatively small patient populations; hence competition from medium and larger companies is lower. In addition, the size and cost of clinical trials to gain approval are manageable for a company of BTG's scale and resources, and reimbursement can usually be achieved as the products often address unmet needs.

Our current focus areas are Specialty Pharmaceuticals, principally antidote products, and Interventional Medicine, principally interventional oncology products for treating tumours in the liver and prostate.

Within Specialty Pharmaceuticals, we have three marketed products: CroFab®, which is currently the only approved treatment for bites from North American crotalid snakes (although one potential competitor is in development); DigiFab®, which is the only approved and available product for treating life-threatening toxicity resulting from treatment with digoxin; and Voraxaze®, which is the only approved treatment for life-threatening toxicity due to renal impairment resulting from treatment with high-dose methotrexate.

The market opportunity for these products relates to the number of incidents that occur – the number of snake bites for CroFab® and the number of toxic events associated with digoxin and high-dose methotrexate use. Annual growth is anticipated to be in the range mid to high single digits. Overall growth in this franchise would result from the addition of new products. A potential future product addition is uridine triacetate, under development for treating toxicity associated with use of the chemotherapeutic 5-FU. There is no currently approved product in this indication.

Within Interventional Medicine, our marketed products are: Bead Block® and LC Bead™, both used for embolising hypervascularised tumours and arteriovenous malformations; DC Bead®, used for chemoembolisation of hypervascularised tumours; and brachytherapy products, primarily implantable seeds used to deliver low-dose radiation to localised prostate tumours.

We estimate, based on our own sales and published data from other manufacturers of interventional oncology products, that the global sales of these loco-regional treatments for liver cancer have experienced double-digit growth between 2007 and 2011, reaching $188m at the end of 2011. This market opportunity would increase to $400m with sustained 8% annual growth through 2021. However, we believe the opportunity could exceed $800m by 2021, driven by the generation of new clinical data resulting in indication expansion, geographic expansion, in particular into important Asian markets where penetration rates are currently very low, and product innovations that increase their usefulness to treating physicians.

BTG seeks to differentiate itself from competitors in the implantable oncology device market in a number of ways. We have designed our beads to have technical advantages over competing products. For example, we are developing beads that are pre-loaded with chemotherapeutic agents that will eliminate the need for the pharmacist to load the beads *in situ*. We recognise that data from high-quality clinical studies is important to the physicians who manage patients with liver tumours, so we are continuing to invest in investigator-led studies to generate data and we intend to invest in pre-market approval studies to expand the approved indications for our products. We also aim to provide the best customer service and follow-up in our sector.

The US remains one of the world's largest markets for healthcare products and go-to-market costs are lower than in other fragmented markets such as Europe. Around 80% of BTG's total revenues are currently denominated in US dollars, making it our most important geographic market (although a proportion of our dollar-denominated revenues, for example royalties on Zytiga®, derive from worldwide sales but are presented to BTG in dollars by a US-based licensee).

Our strategy is to sell our products directly in the US, where we have two sales forces, in Specialty Pharmaceuticals and Interventional Medicine, and where we are preparing to set up a third sales force to support the launch of PEM, which is under review as a comprehensive treatment to reduce the symptoms and improve the appearance of varicose veins. Outside the US we currently sell through distributors, but we will review this as we build our product portfolio and our ex-US revenue base.

**Cash generation**

**£46.8m** 12/13

£43.1m 11/12

"We continue our track record of strong cash generation during the year."

**Rolf Soderstrom**
Chief Financial Officer

While CroFab® is used only in the US, DigiFab® and Voraxaze® have the potential for worldwide sales. DigiFab® is now approved in Canada, Switzerland and the UK, and following the US approval of Voraxaze® we will work with other regulators to seek to make Voraxaze® available in a range of territories.

We believe there is significant scope to expand the geographic use of our Bead products. In Asia, the underlying incidence and prevalence of primary liver cancer is several times higher than in western countries. This primarily reflects the higher incidence in Asia of hepatitis, a major cause of liver cancer. Penetration of interventional oncology devices into Asian markets is currently very low.

BTG is working with partners in key Asian markets to gain approvals and reimbursement. The approvals processes in Asian markets can be longer than in the US and EU. The potential economic burden to the healthcare systems in Asian countries from these new treatments is significant. To control the growth of these costs, other steps following approval usually include agreeing, or being assigned, a price and limiting treatment or reimbursement coverage to sub-sets of patients. It is therefore anticipated that it will take several years to realise the significant potential of these products within Asian markets.

In Japan, where our partner is Eisai, DC Bead® received regulatory approval in April 2013. We await pricing and reimbursement decisions and marketing approval. In China our partner is SciClone and our regulatory application is under review by the Chinese regulator. In South Korea, regulatory approval and limited reimbursement have been achieved, and we are working with our local partner to try to extend reimbursement coverage.

As we look to acquire products and programmes from third-parties, we are usually in competition with other companies to acquire those assets. We assess the financial returns and strategic fit of all external opportunities, and through a combination of both, try to position ourselves as the most appropriate acquirer.

*Relationships*

We operate in a highly regulated environment and are required to adhere to specific regulations in addition to the legal and regulatory frameworks that apply to most businesses. Some of these relate to our relationships with stakeholders in the medical supply chain including doctors, government officials and agencies, patients, trade bodies, suppliers and the worldwide media.

BTG's policy is straightforward in that we will uphold the law and all regulations in territories where we work, and we will act with transparency and integrity in our dealings with all our stakeholders. Our Code of Conduct describes our approach in detail (available via our website: www.btgplc.com/about-us/corporate-governance/code-of-conduct).

*Our people*

BTG's success relies on it attracting, retaining and motivating talented people. It is as important for us to employ people who adhere to our values as it is that they have the right technical skills and experience. We aim to foster a high-performance culture and have built performance monitoring systems and rewards programmes to support that goal.

We employ around 570 people in the UK, US, Australia and Germany, the majority of whom are engaged in commercial, research and development, manufacturing and corporate and support roles.

For more information on our human resources policies see our corporate responsibility report on pages 36 to 40 and our remuneration report on pages 63 to 81.

*Sustainability*

We are building a business that we believe is capable of delivering sustainable, profitable growth. Our strategy for this is to continue to develop our business as a specialist healthcare company focused on leadership in specialty pharmaceuticals and Interventional Medicine.

Sustainability is being achieved through continued focus on: strategic planning, so we can respond to opportunities and challenges; research and development, to bring new products to market and to expand the use of existing products; manufacturing excellence, to assure the safety and efficacy of our products; business development, to acquire or in-licence new products and programmes; financial discipline, to make efficient use of our resources to drive growth and deliver shareholder value; and strong governance, so we conduct all our affairs in a responsible, compliant way.

Environment

The pharmaceutical and medical devices industries are subject to many external influences that we must monitor and react to. Horizon-scanning is embedded into our strategic planning cycle and is intended to highlight changes in the business environment so that we can develop appropriate strategies and plans.

Our research, development, regulatory, manufacturing and commercial activities are all subject to specific regulations, which requires us to have sophisticated and extensive quality and compliance systems and procedures in place and to recruit highly skilled and experienced employees. The environment for recruiting is good for BTG, with mergers and acquisitions and company restructurings resulting in a large pool of talented people who are looking for new opportunities. People are also attracted to BTG as a growing company that has strong core values and where they can make a difference.

The industries we operate in are highly competitive. There is competition for acquiring good assets, recruiting employees, being first to market with new product categories, developing products with better safety or efficacy to gain marketing advantage. By focusing on specialist healthcare segments usually means we face less competition.

Our Specialty Pharmaceutical products currently have no competitor products, whereas our interventional oncology products sometimes compete with other products for use in certain patient populations. Our strategy is to differentiate our products by generating supportive clinical data.

Healthcare reform has become a key external influence on our industry. The ultimate goal is for governments and other payers to control expenditure, which is leading to pressures on pricing power and reimbursement. We have enhanced our capabilities to ensure we can monitor and understand the potential impact of these reforms on our business. When reviewing new product development opportunities, we factor in healthcare reform and trends and progress only those opportunities we believe are either aligned with trends or are relatively immune to them. An example of the former is PEM, our treatment for varicose veins, which we believe meets the needs of payers in the US to find a better value for money treatment that can help contain the rising cost of treating moderate to severe varicose veins as more patients seek treatment. Examples of the latter are our antidote products, which have no competition and are used in potentially life-threatening conditions.

"Our Code of Conduct is designed to promote understanding of, and adherence to, the ethical behaviours that we expect of all employees."

**Louise Makin**
Chief Executive Officer

There are increasing societal pressures on healthcare companies to change their practice in areas such as publication of all clinical trial data, access to medicines and treatments in poorer communities, patient strategies and the focus of development activities. We are guided by our values and Code of Conduct, and we have made being a good corporate citizen one of our four medium-term corporate priorities. We are a small company in comparison to the major pharmaceutical and device companies. We are therefore unlikely to lead change, and our approach is to monitor such developments and make changes where appropriate and practicable for us.

**Key performance indicators and corporate priorities**

The key financial indicators we use to monitor performance are: revenue, gross margin, underlying operating profit and cash management. Similar financial indicators are used in the Group's annual bonus scheme (see the remuneration report on pages 63 to 81).

BTG's corporate medium-term goals are grouped into four categories: financial; delivering products for our customers and other stakeholders; enhancing internal processes and capabilities; learning and growth. Many of the objectives span a number of annual reporting periods. We will report progress against each goal annually.

| Corporate objectives | Progress in 2012/13 |
|---|---|
| **Financial management** | |
| ▌Achieve revenue, gross margin, profit and cash targets. | ▌Delivered revenue of £233.7m (11/12: £197.0m); gross margin of 71% (11/12: 71%); underlying operating profit of £69.0m (11/12: £54.0m); generated £46.8m of cash (11/12: £43.1m). |
| **Delivering products for our key stakeholders** | |
| ▌Submit PEM US NDA and prepare for commercial launch.<br>▌Build a leading position in the interventional oncology space.<br>▌Maintain leadership in antidote/rescue therapies and expand Specialty Pharmaceuticals business.<br>▌Identify and acquire new products to complement existing franchises. | ▌PEM US NDA accepted for review.<br>▌Transition to direct US sales of interventional oncology products fully executed and clinical development strategy defined.<br>▌Strong performance; Voraxaze® launched nationwide in the US.<br>▌Acquisition targets identified and progressed. |
| **Internal processes/capabilities** | |
| ▌Focus R&D activities to best support growth in Interventional Medicine and Specialty Pharmaceuticals businesses.<br>▌Be an excellent corporate citizen by embedding compliance, quality and EHS in all activities. | ▌R & D reorganisation – innovation function created.<br>▌Launched investigator-initiated study policy; launched several Good Practice training initiatives. |
| **Learning and growth** | |
| ▌Enhance capabilities and capacity to support growth plans.<br>▌Define and implement global manufacturing strategy to efficiently support current business and deliver on growth strategy. | ▌New hires made in commercial, quality, development, technical.<br>▌Strategy defined and implemented; training modules launched. |

# Financial review

**BTG has continued with its track record of delivering strong financial results. Revenue has grown by 19% to £233.7m reflecting the transition to direct sales of LC Bead™ in the US, the growth of the Zytiga® royalty stream and another successful year from the Specialty Pharmaceuticals products.**

Gross margin of 71% is inline with prior year as the positive impact of selling LC Bead™ directly in the US is offset by a reduction in margin from Licensing & Biotechnology following the receipt of final royalties from BeneFix®.

Operating profit of £25.7m compares to £19.9m in the prior year. Operating profit excluding acquisition adjustments and reorganisation costs has grown by 28% to £69.0m.

The Group generated £46.8m of cash, resulting in cash and cash equivalents, together with cash on fixed-term deposits of £158.7m at 31 March 2013 (31 March 2012: £111.9m).

### Specialty Pharmaceuticals

The Specialty Pharmaceuticals operating segment has delivered a strong trading performance during the year. Revenue of £97.2m is 27% above the prior year total of £76.7m. This is principally due to a first full year of commercial sales from Voraxaze® and to strong performances from both CroFab® and DigiFab®, with the latter benefitting from geographic expansion and a price increase.

Gross margin at 78% (11/12: 76%), which is broadly inline with prior year and with our ongoing expectations for this operating segment, generated £75.6m of gross profit (11/12: £58.0m). After deducting selling, general and administrative (SG&A) expenses of £20.2m (11/12: £18.6m) this segment generates a profit contribution of £55.4m (11/12: £39.4m) reflecting a 57% operating margin (11/12: 51%).

### Interventional Medicine

The Interventional Medicine operating segment represents the portfolio of Beads and Brachytherapy products.

Revenue of £36.1m (11/12: £28.7m) reflects the first full year of selling LC Bead™ directly in the US. This generated gross profit of £30.5m (11/12: £20.1m), an increase of 52% on the prior year. The gross margin was 84% (11/12: 70%). Prior year cost of sales includes the final release of a fair value uplift adjustment to inventory recognised upon acquisition of £2.1m. Excluding this adjustment, the prior year gross margin was 77%.

The increase in SG&A to £17.5m (11/12: £13.3m) reflects the full year run-rate of having the direct sales force in the US.

Overall profit contribution margin from this operating segment has increased to 36% (11/12: 24%; 31% excluding fair value acquisition adjustments).

### Licensing & Biotechnology

The Licensing & Biotechnology operating segment principally includes revenues from the Group's licensed portfolio of intellectual property. Revenue is split between recurring income from royalties from products already being sold by licensees and one-off income relating to milestones.

| | **2013 £m** | 2012 £m |
|---|---|---|
| Recurring revenue | **91.8** | 80.5 |
| Milestones and one-offs | **8.6** | 11.1 |
| | **100.4** | 91.6 |

Recurring revenue includes royalties from Zytiga® of £49.9m (11/12: £18.6m), the Two-Part Hip Cup of £13.3m (11/12: £13.0m) and BeneFIX® of £14.0m (11/12: £29.4m).

**Rolf Soderstrom**
Chief Financial Officer

**Read more about our strategy**
www.btgplc.com/about-us/strategy

**Our latest share prices**
www.btgplc.com/investors/share-price-data

The final Factor IX patent relating to BeneFix® expired in March 2011 and BTG continued to receive royalties on sales of inventory held by Pfizer at the patent expiry date. The receipt of £14.0m in the current year represents the final royalty payment from Pfizer.

Milestones and one-offs in the year relate to AZD9773. The release of deferred income of £6.1m (11/12: £1.5m) was supplemented by a £2.5m payment from AstraZeneca following termination of the license. In the prior year, in addition to the release of deferred income in relation to AZD9773, the approval of Zytiga® triggered two milestones payments and deferred income was also released in respect GLP-1 licence that was terminated by AstraZeneca in that year.

Gross margin at 60% is below the prior year comparative of 68% due principally to the lower level of income from BeneFix®, which had a 90% margin. Typically, royalty streams have onwards obligations to the original inventors of the product and the relative mix of income between products influences gross margin. This is expected to reduce further next financial year as there will be no income from BeneFix®.

SG&A includes the overheads specific to the management of the royalty business but also most centrally managed support functions and corporate costs. This has shown an increase over the prior year due to selected investments in central support functions to ensure that the business is well positioned for growth.

The overall contribution of this business was £40.1m (11/12: £45.6m) reflecting a margin of 40% (11/12: 50%).

**Research and development**

The Group's investment in research and development activities during the year was £41.2m, slightly above the prior year total of £39.7m. Activities during the year have continued to focus on PEM, with the NDA submission and Chemistry, Manufacturing and Controls activities being the major work streams, and the continued investment in relation to the Bead products to support investigator-led studies and the progression of our novel pre-loaded Beads towards regulatory submissions.

**Operating profit**

Before acquisition adjustments and reorganisation costs the Group delivered a 28% increase in underlying operating profit from £54.0m to £69.0m. The key driver of this improvement in operational performance is an additional £16.7m of profit contribution from the three operating segments as described above.

Foreign exchange gains of £3.1m were recorded in the year compared to gains of £2.6m in the prior year. Asset impairment charges of £1.8m were recognised against fixed assets used in the manufacture of AZD9773 during the year following termination of the licence agreement by AstraZeneca. In the prior year, impairment charges of £3.0m were recognised against the carrying value of fixed assets used in the manufacture of Novabel® following termination of the licence agreement by Merz.

Acquisition adjustments and reorganisation costs were £43.3m (11/12: £34.1m). These include underlying amortisation of acquired intangible assets of £14.4m (11/12: £18.3m), a charge of £22.5m (11/12: nil) relating to impairment of the carrying value of the AZD9773 contract with AstraZeneca that was terminated during the year, and other impairment charges totalling £6.5m (11/12: £12.4m). In the prior year impairment charges were taken against the Group's carrying values of GLP-1 and Novabel®, two assets acquired with Biocompatibles.

### Net financial expense

Net financial expense of £1.6m (11/12: income of £3.1m) includes interest receivable on cash deposits of £1.1m (11/12: £0.7m) and a loss on the mark-to-market of foreign exchange forward contracts of £2.6m (11/12: £1.5m). Also included in the prior year comparative is net financial income of £2.9m, relating to the writeback of a loan from Merz in relation to Novabel® manufacturing fixed assets, and the writeback of £1.1m in relation to the Contingent Value Notes issued to certain Biocompatibles shareholders upon acquisition which was not payable.

### Profit before tax

The Group's profit before tax, which increased by £1.1m to £24.1m (11/12: £23.0m), was adversely impacted by the impairment charge taken against AZD9773.

### Tax

The tax charge for the year is £7.7m (11/12: £8.4m). This reflects an effective tax rate of 32% (11/12: 37%). Current tax is £4.1m (11/12: £3.9m) and deferred tax is £3.6m (11/12: £4.5m). Current tax principally arises in the UK, where the Group has incurred corporation tax of £3.6m during the year. The deferred tax charge reflects the utilisation of tax losses recognised on the balance sheet offset by a deferred tax credit arising from the amortisation and impairment of intangible assets.

### Earnings per share

Basic earnings per share was 5.0p (11/12: 4.5p) on profit after tax of £16.4m (11/12: £14.6m). Adjusted earnings per share, excluding acquisition adjustments and restructuring costs, increased by 3.1p to 14.5p.

### Balance sheet

Non-current assets have reduced from £331.5m at 31 March 2012 to £302.4m at 31 March 2013. Amortisation, depreciation and impairment charges total £50.0m in the year to 31 March 2013, including the impairment charges recognised in relation to AZD9773 (£22.5m within intangible assets and £1.8m within property, plant and equipment). Additions to non-current assets were £10.2m, including £3.0m in relation to our Farnham manufacturing site. The retranslation of assets denominated in foreign currencies added a net £6.4m to the carrying value in the balance sheet.

**Underlying operating profit**

**£69.0m** 12/13

£54.0m 11/12

"The Group delivered a 28% increase in underlying operating profit."

**Rolf Soderstrom**
Chief Financial Officer

The Group's defined benefit pension scheme, as measured under IAS19 – Employee Benefits, has changed from a £0.1m liability at 31 March 2012 to an asset of £4.7m at 31 March 2013, which has been recorded within non-current assets. The movements in this position are due to Company contributions during the year of £5.1m plus an actuarial gain of £0.1m offset by an income statement charge of £0.4m. The actuarial deficit at 31 March 2010, the date of the last formal actuarial valuation and measured in accordance with guidelines set by the Pensions Regulator, was £13.9m. The next formal actuarial valuation will be measured as at 31 March 2013. The results of this valuation exercise, undertaken by the Trustees of the scheme, are expected in 2014.

Within current assets, cash, cash equivalents and held to maturity financial assets (fixed-term cash deposits) have increased by £46.8m to £158.7m (31 March 2012: £111.9m) and trade and other receivables have increased by £14.4m to £54.5m (31 March 2012: £40.1m). The increase in receivables is principally due to higher royalty accruals at 31 March 2013 in relation to Zytiga® in particular and also to the business's overall increase in sales leading to higher trade receivable balances than at 31 March 2012.

Subsequent to the year end, the Group signed a £60m multi-currency revolving credit facility providing access to funds for a period of three years to April 2016.

The Group's total liabilities have increased by £8.7m to £108.3m at 31 March 2013 (31 March 2012: £99.6m). There has been an increase in the net deferred tax liability of £6.6m as the rate of utilisation of tax losses (which reduces the amount of deferred tax asset that can be applied against the deferred tax liability recognised on business combination intangible assets) has been faster than the reduction in the deferred tax liability that occurs inline with the amortisation of intangible assets. Trade and other payables have increased by £1.7m, primarily representing additional revenue sharing accruals (due to higher levels of royalty income) offset by the release of deferred income on AZD9773. The fair value of the Group's forward contracts as at 31 March 2013 was a liability of £2.2m compared to an asset of £0.5m at 31 March 2012. Other movements within liabilities are a reduction in tax accruals of £0.9m due to payments made on account by the Group during the year and a reduction in provisions of £0.8m.

**Cash flow**

The Group has continued its track record of strong cash generation during the year, with closing cash and short-term deposits at 31 March 2013 of £158.7m, an increase of £46.8m over the prior year closing position of £111.9m.

Operating profit of £25.7m (11/12: £19.9m) has generated a net cash inflow from operating activities of £61.0m (11/12: £48.3m). The principal reconciling items are non-cash income statement charges of £54.6m (11/12: £40.7m); a net cash outflow from working capital balances of £14.7m (11/12: £7.5m) and contributions made to the Group's defined benefit pension fund of £4.6m (11/12: £4.8m).

The working capital outflow is principally due to an increase in royalty accruals relating to Zytiga®.

The Group has invested £10.2m (11/12: £9.7m) in capital expenditure, securing the building within which both the Bead products and PEM are manufactured and investing in the required equipment for the secondary manufacture of PEM. Also included within investing activities is the purchase of EU rights to Wellstat's UTA product for

an initial payment of $3.0m. In the prior year the Group purchased the US commercial rights to the same product for an initial payment of $7.5m.

Tax payments of £5.5m (11/12: £1.1m) have been made, principally in the UK as profits in this jurisdiction have arisen in statutory entities where tax losses do not fully offset profits.

**Summary and outlook**

The Group delivered a strong financial performance during the year with revenues, underlying profitability and cash generation all increasing substantially. We also made significant progress with key operating goals of advancing our pipeline and building our capabilities.

Specifically, we intend to invest in a third specialist sales team to support our PEM product, which we anticipate could be approved and launched in the first half of 2014. We also plan to initiate a number of clinical studies to support expansion of the approved uses of our Bead products.

A core part of our strategy is to acquire products and programmes: we continue to review opportunities and we are in a strong position financially and in terms of capabilities to expand our portfolio with complementary products.

Overall, the business is in good shape: we have the financial resources, capabilities and opportunities to enable us to continue building value and to deliver further profitable growth.

"The Group has delivered a strong financial performance during the year. We have the resources, capabilities and opportunities to continue to build value in the business."

**Louise Makin**
Chief Executive Officer

# Principal risks and uncertainties

Our performance and prospects may be affected by risks and uncertainties relating to our business and operating environment. Our internal controls include a risk management process to identify key risks and, where possible, manage the risks through systems and processes and by implementing specific mitigation strategies.

The most significant risks identified in an annual update of the Group's risk register that could materially affect the Group's ability to achieve its financial and operating objectives are summarised in this section. Other risks are unknown or deemed less material.

## Risk: Interruption to product supply

**Impact:**
BTG relies on third-party contractors for the supply of many key materials and services, such as filling and freeze-drying of end products. These processes carry risks of failure and loss of product. Problems at contractors' facilities may lead to delays and disruptions in supplies. Some materials and services may be available from one source only and regulatory requirements make substitution costly, time-consuming or commercially unviable. BTG's polyclonal antibody products rely on serum produced from our sheep flocks in Australia, which could be subject to disease outbreaks or fire.

BTG relies on its single site in Wales for supply of manufactured antibody products, with the consequent possibilities for disruption to supplies. BTG manufactures its own Bead and Brachytherapy products at single sites in Farnham, UK, and Oxford, CT, USA, respectively, with the consequent possibilities for disruption to supplies.

BTG plans to undertake the manufacture of PEM at its Farnham site, requiring the completion of new manufacturing facilities to meet the requirements of Good Manufacturing Practice. This site will require regulatory approval and a licence to support the commercialisation of PEM. Any delay in completion of this facility or obtaining the necessary manufacturing licences may result in a delay in the approval of PEM reducing future earning potential. The continuity of potential PEM revenues will also be subject to single source risk.

**Mitigation:**
Rigorous monitoring of suppliers; dual sourcing implemented where practicable; inventories maintained and monitored through sales and operational planning process and production changes implemented where needed to ensure continued product supply; rigorous quality control procedures in place; regular checks made on sheep flock health; disaster recovery plans under regular review.

**Change in 2012/13:**
PEM has been transferred to our Farnham site with a successful UK regulatory inspection completed.

## Risk: Patent invalidity, patent infringement litigation and changes in patent laws

**Impact:**
BTG can be subject to patent challenge at any time. Challenges can relate to the validity of BTG's patents or to alleged infringement by BTG of intellectual property rights of others, which might result in litigation costs and/or loss of earnings. BTG might be obliged to sue third-parties for their infringement of its patents in order to protect revenue streams. Failure by BTG to maintain or renew key patents might lead to losses of earnings and liabilities to licensees or licensors. BTG may not be able to secure the necessary intellectual property rights in relation to products in development, limiting the potential to generate value from these products. Changes in patent laws and other intellectual property regulations in territories where BTG or its licensees conduct business that make it more difficult or time-consuming to prosecute patents, or which reduce the available term of granted patents or periods of market exclusivity protection, could adversely impact the Group's financial performance.

BTG's patent portfolio is currently subject to several challenges.

**Mitigation:**
Dedicated internal resource supplemented by external expertise monitors patent portfolios, third-party patent applications and intellectual property rights; development and implementation filing, defence and enforcement IP strategies; robust processes in place to automate patent renewals; internal controls established to avoid disclosure of patentable material prior to filing patent applications.

**Change in 2012/13:**
None.

## Risk:
## Patent expiry, competition may reduce current revenues

**Impact:**
BTG's key current royalty-generating products are expected to continue to provide royalty revenues until their patents or licence agreements expire. Any unforeseen patent loss, supply, safety or compliance issues with these products could result in premature cessation of the revenues. BTG earns revenues from sales of its Acute Care products CroFab®, DigiFab® and Voraxaze®. CroFab® is patent protected but DigiFab® and Voraxaze® have no patent protection at this time; CroFab® and DigiFab® are protected by significant know-how and complex manufacturing processes and BTG expects revenues to continue regardless of patent protection. However, future competition cannot be ruled out and competing products could materially adversely impact BTG's financial results. Instituto Bioclon has announced the completion of a Phase III clinical trial of a potential competitor product to CroFab®. BTG also earns revenues from sales of its bead and brachytherapy products, all of which are subject to competition. While these medical devices benefit from patent protection certain patents are subject to challenge.

**Mitigation:**
New royalty streams may emerge. For example, following expanded regulatory approval in the US and elsewhere of Zytiga® as a treatment for men with advanced prostate cancer during 2012, this has become BTG's largest royalty stream; additional future royalty streams would result if alemtuzumab is approved to treat multiple sclerosis. Mitigations with respect to the bead products include product development, geographic expansion, appropriate IP lifecycle management and the conduct of clinical studies to expand their indicated uses and sales.

**Change in 2012/13:**
Zytiga® received approvals to treat chemo-naïve prostate cancer patients and royalty revenue increased significantly, offsetting the final royalties received on BeneFIX®.

## Risk:
## Failure to comply with regulations may result in product delays, failures, regulatory actions and financial penalties

**Impact:**
The pharmaceutical industry is highly regulated and the Group must comply with a broad range of regulations relating to the development, approval, manufacturing and marketing of its products. This is particularly true in the US, from which the Group derives most of its revenues and where the Group has established its own sales and marketing operations. Specific requirements relating to quality assurance apply to the Group's manufacture of products, particularly in the pharmaceutical area. Regulatory regimes are complex and dynamic, and alterations to the regulations may result in delays in product development, approval or withdrawal. Ensuring compliance with such regulations necessitates allocation of significant financial and operating resources. Failure to comply with certain rules, laws and regulations may result in criminal and civil proceedings against the Group. Significant breaches could result in large financial penalties, which could materially adversely impact the Group's financial performance and prospects. Moreover, failure by BTG or a BTG partner company to comply with regulations may result in a product being withdrawn from the market with a subsequent loss of revenues.

**Mitigation:**
A Code of Conduct has been established, supported by a mandatory training programme; robust compliance systems are in place to ensure sales and marketing activities comply with regulations in the US and other territories; standard operating procedures are in place to ensure compliance with good clinical and manufacturing practice and to manage pharmacovigilance requirements, monitored through quality control systems. Internal expertise is maintained to manage these risks.

**Change in 2012/13:**
The Group had several regulatory inspections at its various sites during the year which have resulted in the Group needing to Conduct assessments and undertake remedial actions in relation to findings.

## Risk:
## Product liability and other key risks may not be capable of being adequately insured

**Impact:**
The manufacturing, testing, marketing and sale of BTG's products involve significant product liability. As the developer, manufacturer and/or seller of certain products, BTG may be held liable for death or personal injury to persons receiving the products during development or after the product is approved.

**Mitigation:**
BTG maintains product liability insurance and operates quality systems relating to the manufacture of its products and a pharmacovigilance system to monitor safety events arising with respect to products sold. It may not be commercially viable to adequately insure against the occurrence of other key risks.

**Change in 2012/13:**
None.

## Risk:
## Inability to access new products and programmes may limit future growth

**Impact:**
BTG conducts limited fundamental research to generate its own development programmes but instead seeks to acquire new products and late-stage development programmes from other organisations. There is significant competition from other companies also seeking to acquire new products and programmes who may have greater financial resources and sales and marketing reach than BTG. BTG may not be able to acquire suitable products and programmes, which will materially adversely impact the Group's financial future performance and growth prospects.

**Mitigation:**
Dedicated product acquisition team in place; strategy is to focus on niche opportunities that leverage BTG's US commercial operations and those that may be a better fit with BTG than with other organisations. Development teams working to develop follow-on products from existing technology platforms such as embolisation beads.

**Change in 2012/13:**
Strategy to expand the approved uses of Bead products outlined during the year.

## Risk:
## The success of development activities and market acceptance is uncertain

**Impact:**
The development of medical products and medical devices is inherently uncertain and the timelines and costs to approval may vary significantly from budget or expectation. The product may not demonstrate the expected safety and efficacy benefits and may not be approved by regulatory bodies, such as the US Food and Drug Administration. Manufacturing difficulties or patent litigation may cause programmes to be delayed or halted or products withdrawn. Failure of a late-stage programme such as PEM would materially adversely impact the Group's financial prospects. Regulatory approval requirements may change, resulting in further uncertainty. Even if a product is approved that is no assurance of commercial success.

**Mitigation:**
Experienced development team in place; focus is on acquiring late-stage programmes that have already demonstrated proof of concept and potentially have lower-risk development pathways; development programmes monitored to identify risks and challenges and recommend mitigating and corrective actions. Certain products are licensed to other companies who may have greater resources to support product development. Regulatory team in place, consultation undertaken with applicable regulatory authorities.

**Change in 2012/13:**
None.

## Risk: Competition may erode revenues

**Impact:**
The Group operates in competitive markets. The products on which BTG currently earns revenues, or from which it anticipates earning revenues once on the market, face competition from other products that are already approved or in development. Competing products may have superior efficacy and side effect profiles, cost less to produce or be offered at a lower price than BTG's products; such competition could materially adversely impact Group revenues.

**Mitigation:**
BTG focuses on niche opportunities, addressing specialist markets where there is limited competition and high barriers to entry; CroFab® and DigiFab® have no current competitors; both products are complex to manufacture. We seek to differentiate the embolisation and drug-eluting Bead products by supporting a range of clinical studies to generate safety and efficacy data to expand their indicated uses.

**Change in 2012/13:**
None.

## Risk: Pricing and reimbursement pressures are increasing

**Impact:**
There is increasing pressure on healthcare budgets causing payers to demand increasing treatment and economic benefits before agreeing to reimburse product suppliers at all or at appropriate prices. In March 2010, healthcare reform legislation was adopted in the US, requiring manufacturers to increase the rebates or discounts they give on products reimbursed or paid for by public payers, including Medicaid and Medicare. The purpose of the reform is to increase healthcare coverage in the US population and to manage treatment of chronic conditions efficiently and cost effectively. Management of acute conditions is generally not affected. BTG's Acute Care and interventional oncology products treat serious medical conditions and the impact of existing healthcare reform on current Group revenues is not expected to be material to the Group's financial position. If BTG acquires products in future that are more impacted by healthcare reforms, revenue expectations could be lower. Failure of a product to qualify for government or health insurance reimbursement or the failure to achieve an appropriate sales price could adversely impact the Group's financial performance. Future healthcare reforms may become more onerous and may have a negative impact on Group revenues.

**Mitigation:**
BTG focuses primarily on niche products that address serious unmet needs; early on in a product's development, the Group conducts pricing and reimbursement studies; the assessments of potential new products will include an assessment of healthcare reforms on pricing and reimbursement.

**Change in 2012/13:**
None.

## Risk: Currency and treasury effects can adversely impact results

**Impact:**
Many of BTG's revenues and receipts are denominated in US dollars and movements in foreign exchange rates could adversely impact results.

**Mitigation:**
BTG actively manages its exchange risks where feasible, using short-term hedging transactions guided by market expectations and economic forecasts to seek to match actual receipts and payments over a rolling 12-month period to those forecast. This policy can result in both exchange gains and losses but provides a level of certainty over cash receipts.

**Change in 2012/13:**
None.

# Corporate responsibility report

Environmental, social and governance issues are key considerations in all of the decisions that we make. This helps us to reduce risk, save money and build stronger relationships with our customers, all of which are essential elements in building a sustainable and successful business.

As our business grows we will encounter new challenges so it is vital that we review the impact of our activities regularly and aim to do the right thing.

We focus our activities in five key areas which we believe are most relevant to our business and address our principle business impacts.

## Areas of focus

1. Business ethics
2. Research and development
3. Suppliers and customers
4. People and communities
5. Environment

In this report we provide an overview of our achievements during the year, disclose our non-financial key performance indicators and provide a progress report on targets in each of our five focus areas. We also disclose our aims and objectives for the upcoming year.

Read more about corporate responsibility online: www.btgplc.com/responsibility

## 1. Business ethics

### Code of Conduct

Our Code of Conduct provides guidance on the ethical behaviours that we expect from all of our employees. It describes the principles, policies and procedures that we have developed. The core principle is that every one of us must take individual responsibility for behaving ethically and compliantly and that we are each accountable for our actions. It is regularly updated to reflect changes in legislation and best practice and annual training is a mandatory requirement for all employees.

The responsible and ethical commercialisation of our products is essential to what we do. During the last year we further standardised and embedded the processes we use to review and approve promotional materials and external requests for financial support. We also provided greater visibility in our interactions with healthcare professionals utilising monitoring and auditing techniques to identify areas of non-compliance with our policies.

### Anti-bribery and corruption

Our expanding international commercial activities mean that we operate in parts of the world where bribery and corruption are still prevalent. We take a zero-tolerance approach to this illegal activity and we are committed to implementing and enforcing effective systems to counter it. Our anti-bribery and anti-corruption policy provides a useful reference guide for employees and we engage the services of an agency to assist us with global anti-bribery compliance assessments. During the last year, in an effort to ensure that our business partners share our values, we completed due diligence, per our policies, on third-parties who conduct business on behalf of BTG.

### Human rights and anti-slavery

BTG adheres to numerous international standards including the United Nations Universal Declaration of Human Rights. We are developing a human rights policy, defining a company-wide standard for human rights, consistent with internationally recognised standards and aim to complete this activity in the new financial year.

## 2. Research and development

### Animal research

Our Animal Ethics Committee meets regularly to review the use of animals at BTG, both in animal research and in the production of our products. Animal welfare is always a key consideration in the decisions that we make. During the last year we updated our animal ethics and welfare standard and have audited relevant sites to demonstrate compliance. All research study contracts that involve animals are awarded to companies and facilities that employ, standards, policies and procedures, equivalent to the BTG standard. Alternatives to *in vivo* animal testing are always assessed and *in vitro* testing performed as an alternative wherever possible. Proper account is taken of all possibilities for reduction, refinement or replacement and high standards of animal husbandry are required.

### Clinical trials

We perform all of our clinical trials in accordance with the listed directives, applicable laws and the global standards of good practice. During the last year we updated and relaunched our internal procedures to evaluate and respond to any serious adverse events which occur in our clinical trials. We also finalised and launched an investigator-initiated study policy and standard operating procedure, and provided improved

FTSE4Good

FTSE Group confirms that BTG has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.

SRI

BTG is a constituent of the Kempen SNS SRI Universe, which indicates that we have passed stringent criteria and can be considered a company that demonstrates a clear strategy towards corporate responsibility.

"Taking everything into account, I would say that this is a great place to work."

**70% agree** 12/13

66% agree 10/11

**Charitable contributions made by the Group during the year**

**£15,201** 12/13

£5,989 11/12

transparency on the grant support process. During the last year we also launched mandatory training for all relevant employees on Good Practice (GxP), including Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practices (GMP).This has all been completed apart from GLP training which we aim to complete during the next financial year.

## 3. Suppliers and customers

**Suppliers**

This year we created a dedicated procurement function and launched a new responsible supply chain policy, including written supplier requirements. The results of the assessment are used by us to help identify potential risks associated with human rights, and to inform the supplier selection process. We provide information, instruction and training to our employees directly involved in the selection of new suppliers and ongoing management of existing suppliers. This training covers responsibilities for ensuring ethical business practices. Our business partner contracts ensure that all work conducted by business partners on our behalf is in accordance with all applicable laws, regulations, governmental requirements and industry guidelines.

**Customers**

We aim to forge good relationships with the specialist physicians who use our products. Examples of activities to support this include sponsorship of educational initiatives and providing funding to explore the use of our products. With respect to these activities and when promoting our products to customers, we abide by all relevant regulations. Compliance training is mandatory for all employees.

During the year we made progress establishing a Standard Operating Procedure to make unlicensed medicinal products available for compassionate use in the situation where there is no distributor in place and aim to finalise this initiative during the next financial year.

## 4. People and communities

**Employee engagement and well-being**

During 2012 we conducted our second biennial employee engagement survey with the Great Place to Work Institute® to provide global and local measurements of employee satisfaction and engagement.

Our global score has improved compared to two years ago despite significant change, including integration of the Biocompatibles business. Local groups have been formed to engage with employees and tackle any local issues which arose from the survey.

We operate a number of Employee Assistance Programmes (EAP) in territories where we have operations, to protect and enhance employee satisfaction, mental and physical health. We also believe that this contributes to the retention and productivity of our employees. These free services provide employees and their families with practical information and advice concerning a range of topics affecting health, family, money matters and work.

**Training and development**

Continuous learning is one of our company values as we recognise that enhancing our capabilities will support our future growth. Every employee has a training and development plan and there is an annual Learning and Development agenda for all employees, encompassing a range of core skills and mandatory training, IT training, EHS training, and Management development. We incentivise and reward values-based behaviour by including a values-based assessment as part of our annual employee appraisal process.

### Charitable giving

We implemented our new global Charitable Giving Policy during the year and we focus our activities on corporate charities that are relevant to our business or local to our offices and facilities. A number of events were organised during the year to raise money for our charities including a number of walk-a-thons, a relay for life and a treasure Hunt in the City of London. More information on each of these is available on our corporate website.

We encourage employees to support events to raise money for their chosen charities and we match individual donations up to a cap of £250. In the UK we also operate a Give As You Earn Scheme.

During the last year we made donations to a number of charities. A full list of these are available on our website.

In addition to the £15,201 of charitable contributions made by the Group during the year, BTG made a one-off donation of £125,000 to establish the BTG Junior Research Fellowship in the Biosciences at Lincoln College, Oxford, a registered charity. This position, which runs in perpetuity, recognises the long-standing relationship between BTG and the Sir William Dunn School of Pathology, Lincoln College, including the contribution made by the 'Factor IX protein' patent originally filed by inventors at the School in 1985 and licensed by BTG. This led to the commercial production of BeneFIX®, a Factor IX protein free of contamination by viruses such a HIV or Hepatitis C virus for treatment of Haemophilia B patients.

## 5. Environment

### Health and Safety

Last year we launched our global Environmental, Health and Safety Policy and provided training for all employees. A corporate auditing system of all sites commenced in 2012. Audits will be undertaken periodically, against our Environmental Health and Safety Policy and the underpinning standards.

We report our global accident rate as the number of lost days per 100,000 worked.

### Sustainability

Managing our resources is an essential part of our commitment to becoming more sustainable as a business. As a growing business, we do expect our resource usage to increase in absolute terms, hence our approach is to control growth through various initiatives.

During the last year we built a global environmental management system and applied the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. Further information on this is accessible in the Responsibility section of our website.

We measure water consumption at four of our production sites and implement water saving measures wherever possible to aid efficiency.

We measure waste produced from all of our production sites. As production has increased over the last year our total waste has increased. We aim to recycle as much as possible and reduce landfill over the longer term.

**Lost time accident rate per 100,000 hours worked[1]**

**1.17 days** 12/13

1.29 days 11/12

1 This includes all accidents where one or more days are lost. UK companies usually only report when three or more days are lost. Also includes accidents where people have returned to work and were given alternative duties as they were not able to fulfil their normal roles.

**Water consumption at production sites[1]**

**20,406m³** 12/13

21,430m³ 11/12

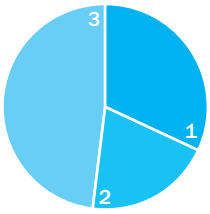
1 Water consumption measured at our sites in Australia, Wales, Oxford and Farnham.

**Waste from our production sites (tonnes)**

**1,573t** 12/13

872t 11/12

**Waste from our production sites (tonnes)**




**2012/13**

| | |
|---|---|
| 1. Recycled | **508t (32%)** |
| 2. Hazardous Waste (incineration/treatment) | **309t (20%)** |
| 3. Landfill | **756t (48%)** |

**2011/12**

| | |
|---|---|
| 1. Recycled | **345t (40%)** |
| 2. Hazardous Waste (incineration/treatment) | **200t (23%)** |
| 3. Landfill | **327t (37%)** |

### Electricity consumed

**6,451 MwH[1]** 12/13

6,441 MwH[1] 11/12

1 Data from all operational sites with more than 20 employees, excludes transport.

### MwH electricity per production unit during 2012/13

**0.33**

MwH per production unit

192,658 Total production units

### $CO_2$ equivalent emissions generated

**5,687 tonnes[1]** 12/13

4,573 tonnes[1] 11/12

1 Conversion factors used: Environment Agency 2012.

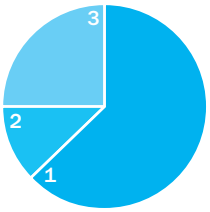
### Kg $CO_2$ per production unit during 2012/13

**30**

Kg $CO_2$ per production unit

192,658 Total production units

### $CO_2$ equivalent emissions generated




**2012/13**

| | |
|---|---|
| 1. Purchased Electricity | **3,578t (63%)** |
| 2. Oil Heating | **686t (12%)** |
| 3. Gas Heating | **1,423t (25%)** |

**2011/12**

| | |
|---|---|
| 1. Purchased Electricity | **3274t (72%)** |
| 2. Oil Heating | **676t (14%)** |
| 3. Gas Heating | **623t (14%)** |

### Energy Efficiency

We regularly assess the environmental impact of our business to ensure that we're taking advantage of all opportunities to improve our performance and efficiency.

We operate an international supply chain for the manufacture of our products and we aim to transport in bulk where possible and use the most efficient transportation to save money and reduce our carbon emissions.

We monitor electricity and gas consumption at manufacturing sites and offices which employ more than 20 people, and we try to reduce our carbon emissions and increase energy efficiency wherever possible. We participate in CDP, the Carbon Disclosure Project.

This year we have started to measure MwH of electricity produced per production unit and kg $CO_2$ produced per production unit. We aim to increase operational efficiency and reduce kg $CO_2$ per production unit over the longer term.

# Directors and governance

# Board of directors

01

02

## What are the responsibilities of the Board?

Our Board of directors are employed to ensure the Company's prosperity by directing the Company's affairs. They are not only responsible for governing the Company but are ultimately accountable to our shareholders for our activities, strategy and performance. Each year we hold an Annual General Meeting at which the directors must provide a report to shareholders on the performance of the business, what its future plans and strategies are and also submit themselves for re-election to the Board.

03

04

## Key to Committees

- Audit Committee
- ▲ Remuneration Committee
- ● Nomination Committee
- [1] Committee Chairman

05

06

## Board composition

| | | | |
|---|---|---|---|
| Executive | 2 | Male | 6 |
| Non-executive | 6 | Female | 2 |

07

08

## 01 Garry Watts FCA MBE ●[1]
**Chairman**

**Appointed to Board** January 2012

**External appointments** Chairman of Spire Healthcare, deputy Chairman of Stagecoach Group plc and non-executive director of Coca-Cola Enterprises, Inc.

**Previous experience** Until December 2010, Garry was for seven years CEO of SSL International plc and before that its CFO. He is also a former partner at KPMG. He was previously an executive director of Celltech plc and of Medeva plc and a non-executive director of Protherics PLC. Other roles have included 17 years as a member of the UK Medicines and Healthcare Products Regulatory Agency Supervisory Board.

## 02 Louise Makin MA PHD (CANTAB) MBA
**Chief Executive Officer**

**Appointed to Board** October 2004

**External appointments** Non-executive director of Intertek Group plc and a Trustee of the Outward Bound Trust.

**Previous experience** From 2001, Louise was President, Biopharmaceuticals Europe of Baxter Healthcare, where she was responsible for Europe, Africa and the Middle East. Louise joined Baxter Healthcare in 2000 as Vice President, Strategy & Business Development Europe. Before joining Baxter, she was Director of Global Ceramics at English China Clay and prior to that she held a variety of roles at ICI between 1985 and 1998.

## 03 Rolf Soderstrom BA ACA
**Chief Financial Officer**

**Appointed to Board** December 2008

**External appointments** N/A

**Previous experience** Rolf Soderstrom, joined BTG from Protherics PLC, where he was Finance Director from August 2007. From 2004, he was a Divisional Finance Director of Cobham plc, managing a portfolio of businesses across Europe and the USA. From 2000 he was a Director of Corporate Finance at Cable & Wireless plc. Prior to this, he worked in the Corporate Recovery and Corporate Finance Department of PricewaterhouseCoopers after qualifying as a Chartered Accountant.

## 04 Giles Kerr FCA ■[1]▲●
**Non-executive director**
**(Company's Senior Independent Director)**

**Appointed to Board** October 2007

**External appointments** Director of Finance with the University of Oxford, UK, Director of Victrex plc, Elan Corporation plc and Isis Innovation Ltd.

**Previous experience** Previously Giles was the Group Finance Director and Chief Financial Officer of Amersham plc, acquired by GE Healthcare in 2004. Prior to his role at Amersham, he was a partner with Arthur Andersen in the UK. He is a graduate of the University of York.

## 05 Melanie Lee PHD CBE FMEDSCI DSC (HONS) ▲
**Non-executive director**

**Appointed to Board** November 2010

**External appointments** Chief Executive Officer of Syntaxin Limited, a Founder and Director of the pharmaceutical consultancy Think10, and a non-executive director of H Lundbeck A/S.

**Previous experience** Melanie was previously the Chair of Cancer Research Technology and a Trustee and Deputy-Chair of Cancer Research UK. During her career she has held a number of positions at Glaxo, GlaxoWellcome, Celltech and UCB. In 2008, Melanie was honoured with a CBE for her services to Medical Science.

## 06 Ian Much ■▲[1]●
**Non-executive director**

**Appointed to Board** August 2010

**External appointments** Non-executive director and the senior independent director of Chemring Group PLC and Senior plc.

**Previous experience** Ian was Chief Executive of De La Rue plc between 1998 and 2004 and Chief Executive of T&N plc between 1996 and 1998. Previous non-executive director appointments include Manchester United plc, Camelot plc and Admiral plc.

## 07 Jim O'Shea ●
**Non-executive director**

**Appointed to Board** April 2009

**External appointments** Director of Zalicus Inc., Trevi Therapeutics, Inc. and MAP Pharmaceuticals, Inc. and a former Chairman of the US National Pharmaceuticals Council.

**Previous experience** From 2007 to 2008, Jim was Vice Chairman of Sepracor, Inc., where he was also President and Chief Operating Officer from 1999 to 2007. Previously he was Senior Vice President of Sales & Marketing and Medical Affairs for Zeneca Pharmaceuticals (US), a business unit of Zeneca Inc. While at Zeneca, Jim held several management positions of increasing responsibility in international sales and marketing in the US and the UK.

## 08 Richard Wohanka ■
**Non-executive director**

**Appointed to Board** January 2013

**External appointments** Board member of the Nuclear Liabilities Fund and of the charity United Response.

**Previous experience** Richard has more than 20 years' experience in building asset management businesses. He was CEO of Union Bancaire Privée Asset Management between October 2009 and June 2012, and from 2001 to 2009 he was CEO of Fortis Investment Management.

# Directors' report

The directors present their report together with the financial statements and the independent auditor's report for the year ended 31 March 2013.

**Principal activities and business review**

The principal activity of the Group is the business of an international specialist healthcare company, focusing on three areas: Specialty Pharmaceuticals, Interventional Medicine and Licensing & Biotechnology. The mission of the Group is to bring to market medical products that meet the needs of specialist healthcare physicians and their patients. The results of the Group are set out in detail on pages 86 to 90 and the accompanying notes.

The Company is required by the Companies Act 2006 to set out a fair and balanced review of the business, including the performance and development of the Company during the year and at the year end and a description of the principal risks and uncertainties it faces. This information is contained in the following statements and reports, which are incorporated into this report by reference:

- The Chairman's Statement on pages 12 to 13, the Chief Executive Officer's Review on pages 14 to 16 and the business review on pages 17 to 26 provide details of the Group's principal activities and strategy, its performance during the year and its prospects for future development opportunities.
- Details of the principal risks and uncertainties facing the Group are set out on pages 32 to 35.
- Information relating to the environment, employees and stakeholders is set out in the corporate responsibility report on pages 36 to 40.

This information is prepared solely to assist shareholders to assess the Company's strategies, the risks inherent in them and the potential for those strategies to succeed. The directors' report should not be relied on by any other person or for any other purpose. Forward-looking statements contained in this report have been made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the uncertainties, including economic and business risk factors inherent in them.

Further information about the Group is available on the Company's website: www.btgplc.com. Notwithstanding the references made in this Annual Report to the Company's website, none of the information made available on the website constitutes part of, or should be deemed to be incorporated by reference into, this Annual Report.

**Results and dividends**

The results for the year and the financial position at 31 March 2013 are shown in the consolidated income statement on page 86 and the consolidated statement of financial position on page 88. The directors do not recommend the payment of a dividend for the year (11/12: nil). The results of the Group for the year are explained further on pages 27 to 31.

**Directors and their powers and interests**

The directors of the Company at the date of this report, together with their biographical details and dates of appointment, are shown on pages 42 to 43.

Richard Wohanka was appointed as a non-executive director of the Board on 1 January 2013 following a comprehensive recruitment process led by the Nomination Committee and external recruitment consultants. More information can be found in the Nomination Committee report on page 61.

The Board confirms that each of the directors who served during the year, with the exception of Richard Wohanka, has been appraised during the period. As Richard Wohanka had only recently joined the Company, it was considered too early for him to be appraised. All the directors continue to demonstrate commitment to the Group, the Board and to their role.

Peter Chambré, who joined the Board in 2006, retired from the Board on 25 September 2012 and the Board wishes to formally thank Peter for his significant contribution to the Company over that period.

In accordance with the UK Corporate Governance Code, all directors of the Company will stand for election or re-election annually. The Board is proposing the election of Richard Wohanka, who has been appointed to the Board since the last AGM, and the re-election of all the other directors.

In accordance with the Company's articles of association, throughout the year the Company has maintained insurance cover for its directors and officers and those of its subsidiary companies under a directors' and officers' liability policy as permitted by sections 232 to 235 of the Companies Act 2006. The Company has also, to the extent permitted by law, entered into separate Deeds of Indemnity in favour of each of its directors to provide them with appropriate protection with respect to potential liabilities arising from the discharge of their duties. Neither the insurance policies, nor the indemnities, provide cover where the relevant director or officer is found to have acted fraudulently or intentionally breached the law.

Information on directors' remuneration, contracts, options and their beneficial interests, including those of their immediate families, in the shares of the Company are shown in the remuneration report on pages 63 to 81. None of the directors had an interest in any contract of significance to which the Company or any of its subsidiaries was party during the year.

**Corporate governance**
A report on corporate governance may be found on pages 48 to 56.

**Corporate responsibility**
Information on the Company's social, environmental, Health and Safety and ethical considerations, charitable donations and policies regarding its employees may be found in the corporate responsibility report on pages 36 to 40.

**Share capital and shareholders**
As at 31 March 2013 the issued share capital of the Company was £32,827,687, divided into 328,276,871 shares of 10p each. During the year the share capital increased by 984,006 shares due to the exercise and vesting of share awards by employees and former employees under the Company's employee share schemes. The Company has only one class of shares and there are no restrictions on voting rights or on the holding or transfer of these securities.

Details of the movements in the Company's share capital are shown in note 19 to the financial statements on page 117. At 31 March 2013, the Company had 10,116 shareholders (2012: 10,727). Further details of shareholdings and Company reporting dates may be found on page 142.

Under the terms of the acquisition of the Biocompatibles Group in January 2011, Biocompatibles shareholders were entitled to receive 1.6733 new shares in the Company and either 10p cash or a Contingent Value Note (CVN). The CVN entitled the recipient to participate in value that potentially could have been achieved from Biocompatibles' programme to develop a GLP-1 analogue product known as CM-3 in the area of diabetes, which it had partnered with AstraZeneca. If that programme had been successful, the holder would have been entitled to receive the sterling equivalent of €0.56 in cash for each CVN held.

The Company announced on 13 May 2011 that AstraZeneca had terminated the development and option agreement relating to CM-3. As a result of AstraZeneca's decision and the fact that the Company and AstraZeneca did not enter into any alternative agreement with respect to the GLP-1 asset prior to 31 December 2012, the CVNs were cancelled on 1 January 2013 in accordance with their terms and the Company notified the holders of CVNs accordingly.

The BTG Employee Share Trust holds shares in the Company which may be used for the benefit of employees. The shares held by the Trust have the same rights as those held by all other shareholders. Further details of the Trust are set out in note 24 to the financial statements on page 125.

Details of outstanding share options and awards are set out in note 23 to the financial statements on pages 122 to 125.

As at 31 March 2013, and at the date of this report, the Company had been notified of the following interests held, directly or indirectly, in 3% or more of the Company's issued share capital.

| | Shareholding | % holding |
|---|---|---|
| Invesco Asset Management | 96,210,990 | 29.31 |
| M&G Investment Management Ltd | 40,997,839 | 12.49 |
| AXA Framlington Investment Management Ltd | 15,249,105 | 4.65 |
| Standard Life Investments Ltd | 11,528,317 | 3.51 |
| Legal & General Investment Management Ltd | 11,408,568 | 3.48 |

### Articles of association
The Board may exercise all the powers of the Company, subject to the provisions of relevant statutes, the Company's articles of association (the Articles) and any directions given by a special resolution of the shareholders. The Articles, for instance, contain certain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles and are subject to such authorities being approved annually by shareholders at the Annual General Meeting (AGM). There is no current intention of requesting the authority to buy back shares of the Company. The rules for the election and re-election of directors are set out in the Articles however, as reported on page 52 of the corporate governance report, the directors will stand for annual re-election at the AGM, in accordance with the UK Corporate Governance Code.

### Change of control
There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank facility agreements, guarantees, property agreements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment following a takeover of the Company.

### Research and development
Research and development (R&D) is an important part of the Group's activities. The focuses of the Group are the areas of Specialty Pharmaceuticals and Interventional Medicine and developing and bringing new products to market is a very important part of the Group's business. The Group spent £41.2m (11/12: £39.7m) on R&D during the year. See page 28 for more information on the Group's R&D activities and areas of focus.

### Policy on payment of creditors
It is the Group's policy to abide by the terms of payment agreed with suppliers. In many cases, the terms of payment are as stated in the supplier's own literature. In other cases, the terms of payment are determined by specific written or oral agreement.

At 31 March 2013 the total owed to trade creditors by the Group was equivalent to 34 days average purchases (11/12: 38 days). The Company had no trade creditors at that date (11/12: nil).

### Treasury management
The Group's policy on the use of financial instruments and the management of financial risks is set out in note 26 to the accounts on pages 126 to 130.

### Going concern
The Group's business activities and the factors affecting its performance, position and future development are set out in the Chief Executive's review on pages 14 to 16 and the business review on pages 17 to 26.

The directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance and taking into account the Group's cash balances. On the basis of this review, and after making due enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**Annual General Meeting**
The Annual General Meeting (AGM) of the Company will be held at 10.30 am on 16 July 2013 at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH. Matters to be considered at the meeting include resolutions to receive the Annual Report and Accounts, to appoint the auditor and elect or re-elect the directors. In addition, as a result of the review by the Remuneration Committee of the Board of the remuneration policy applicable to the executive directors of the Company, a revised policy and associated arrangements will be put to shareholders for approval at the AGM. A summary of the new policy can be found in the remuneration report on pages 63 to 81 and will be described in more detail in the Notice of AGM. The Notice convening the meeting, together with the special business to be considered and explanatory notes for each resolution to be put to the AGM will be distributed separately to shareholders. It is also available on the Company's website: www.btgplc.com, where copies can be viewed or downloaded in PDF format by following the link to Investors and then Reports and Accounts.

**Disclosure of information to the auditor**
The directors who held office at the date of approval of this 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**
Our Auditor, KPMG Audit plc has instigated an orderly winding down of the business which will then be undertaken by KPMG LLP. Resolutions will be proposed at the forthcoming Annual General Meeting, to appoint KPMG LLP as auditor and to authorise the directors to determine its remuneration.

By order of the Board

**Paul Mussenden**
Company Secretary

17 May 2013

# Corporate governance

Dear Shareholder

I am pleased to present the corporate governance report on behalf of the Board.

The Board is committed to achieving and maintaining high levels of corporate governance and recognises its responsibility to focus on strengthening the Company's management processes. The Company has complied fully with the 2010 edition of the UK Corporate Governance Code (the Code) throughout the year ended 31 March 2013. Next year's Annual Report will comment on the Company's compliance with the new provisions of the Code published by the Financial Reporting Council (FRC) in September 2012 as that applies to reporting periods beginning on or after 1 October 2012.

The Board is also committed to maintaining an open dialogue with our shareholders and it is important for me, as well as other members of the Board to make ourselves available to shareholders and to meet with any who wish to see us. During the year I have met with two investors, Louise Makin, our CEO, held over 70 meetings with investors and Rolf Soderstrom, our CFO, met with over 30 institutional investors. In addition, Louise Makin gave presentations at a number of conferences which were attended by existing and potential shareholders as well as industry representatives. Communications with shareholders are coordinated during the year by the Director of Investor Relations, who reports directly to the CFO.

At the Company's AGM on 16 July 2013, all directors will attend and be available to meet investors as usual for face-to face discussions.

The following pages explain in detail how the Company applies the Code in its day-to-day operations.

**Garry Watts**
Chairman

The Board believes it is fundamental that corporate governance and the Code are actively embedded within the culture of the organisation in order to continually improve standards and build a successful company. This report explains how the Company applies the principles of the Code. More information on the Code can be found on the FRC website, www.frc.org.uk.

## Board composition, responsibilities and balance

### Board composition

The Board comprises six non-executive directors, including the Chairman, and two executive directors. The Board has been chaired by Garry Watts since he joined the Board in this role on 1 January 2012. The Chairman is responsible for leading the Board and ensuring it is effective in all aspects of its role. The Chief Executive Officer (CEO), Louise Makin, is primarily responsible for the running of the Group. Rolf Soderstrom, Chief Financial Officer, is responsible for all financial reporting, tax and financial control aspects of the Group, providing support to the CEO and the wider business activities of the Group as required.

Giles Kerr has been the Company's Senior Independent Director (SID) since July 2008. His principal role as SID is to support the Chairman in his role, to work with the Chairman and other directors to resolve any significant issues that may arise, to lead non-executive directors in the oversight of the Chairman and to ensure there is a clear division of responsibility between the Chairman and CEO. He is also available to shareholders to express concerns which the normal channels have failed to resolve or which would be inappropriate.

The names and brief biographical details of all the directors are set out on pages 42 to 43. The Company recognises the importance of diversity, including gender diversity, with 25% of the members of the Board currently being women. Details of gender diversity in the Group below Board level can be found in the Responsibility area of the website: www.btgplc.com.

The table below details the composition of the Board, its Committees, together with their attendance at meetings since the last Annual Report and the Company's assessment of the independence of the directors.

| Board and Committee composition and attendance | Committee memberships | Independent | Board meetings | Nomination Committee | Audit Committee | Remuneration Committee |
|---|---|---|---|---|---|---|
| Total number of meetings | | | 10 | 3 | 3 | 5 |
| **Executive directors** | | | | | | |
| Louise Makin (CEO) | None | No | 10/10 | N/A | N/A | N/A |
| Rolf Soderstrom (CFO) | None | No | 10/10 | N/A | N/A | N/AA |
| **Non-executive directors** | | | | | | |
| Garry Watts | Nom[2] | No[1] | 10/10 | 3/3 | N/A | N/A |
| Peter Chambré[3] | Aud, Nom | Yes | 2/3 | 0/2 | 3/3 | N/A |
| Giles Kerr | Aud[2], Rem, Nom | Yes | 9/10 | 2/3 | 3/3 | 4/5 |
| Melanie Lee | Rem | Yes | 10/10 | N/A | N/A | 5/5 |
| Ian Much | Aud, Rem[2], Nom | Yes | 9/10 | 3/3 | 3/3 | 5/5 |
| James O'Shea[4] | Nom, Aud | Yes | 10/10 | 3/3 | 1/1 | N/A |
| Richard Wohanka[5] | Aud | Yes | 4/4 | N/A | 2/2 | N/A |

1 Garry Watts is excluded from the determination of independence by virtue of his role as Chairman of the Company.
2 Committee Chairman.
3 Peter Chambré resigned as a director and member of the Audit and Nomination Committees on 25 September 2012.
4 James O'Shea joined the Audit Committee on 25 September 2012 (to replace Peter Chambré) and then stepped down on 19 March 2013 following the appointment of Richard Wohanka.
5 Richard Wohanka joined the Board and Audit Committee on 1 January 2013.
6 Following the change of venue, Giles Kerr was unable to attend one Board, and one Remuneration Committee and one Nomination Committee meeting. Due to the convening of one of the Board meetings at short notice, Ian Much was unable to attend due to a pre-existing commitment that could not be changed.
7 The external auditor usually attends the Audit Committee meetings and the remuneration advisers usually attend the Remuneration Committee meetings.
8 The table shows, for each director, number of meetings attended/number of meetings eligible to attend.

The Board applies a rigorous process in order to satisfy itself that its non-executive directors remain independent. The Board reviews the independence of the non-executive directors every year, using its own judgement when applying the criteria in the Code. Having undertaken this review, the Board confirms that all the non-executive directors are considered to be independent in character and judgement. Inline with the recommendations of the Code, at least half the Board, excluding the Chairman, are independent non-executive directors. Garry Watts was considered to be independent at the time of his appointment although, in accordance with the Code, he is excluded from the determination of whether at least half the Board are independent non-executive directors thereafter.

**Board responsibilities and balance**

The Board has a number of matters specifically reserved for its decision or approval. These include the approval of the interim and annual financial statements, the interim management statements and major public announcements, setting strategic direction, budgets and long-term plans. Other areas include the approval of major investments and disposals, major capital expenditure, decisions relating to major litigation, significant financing, dividend policy and executive remuneration and appointments.

The Board as a whole monitors operating performance, the performance of management, succession planning, health, safety and environmental performance and standards of ethical and social behaviour. It is also responsible for developing robust corporate governance, legal compliance and risk management procedures aimed at safeguarding the Company's reputation and assets and the integrity of its financial information and business conduct.

While the executive and non-executive directors are collectively responsible for the success of the Company and have fiduciary duties towards shareholders, their roles are strictly delineated. The executive directors have direct responsibility for the business operations of the Company, the non-executive directors are responsible for bringing independent and objective judgement to Board decisions and the Chairman's primary responsibility is for the effective running of the Board. The non-executive directors' duties include helping to develop the Company's strategy, shaping proposals on succession planning and constructively challenging the executive directors where they consider it appropriate.

The time commitment of the non-executive directors depends on the number of committees that they are a member of but the expectation is that they would normally work approximately two days per month, subject to any increased demand driven by business activity.

**Roles and responsibilities**

The Board

The Board is collectively responsible for the success of the Company and specifically to:

- Set the Company's strategic objectives and policies.
- Ensure the necessary financial and human resources are in place to support strategy.
- Determine the significant risks that the Company is willing to take to achieve its strategic aims and ensuring effective risk management controls are in place.
- Review management and Company performance.
- Ensure the proper discharge of the Company's statutory and other legal and regulatory responsibilities.
- Agree and oversee the application of an appropriate corporate governance framework.

The Chairman

The Chairman is responsible for creating conditions for overall Board and individual director effectiveness, to promote constructive debate and for ensuring the following:

- That the Board devotes adequate time to the right agenda issues, such as its role in shaping strategy.
- A robust decision making process is in place by ensuring appropriate high-quality information is made available to the Board in a timely manner.
- The Board discharges its responsibilities with respect to risk management.
- Board Committees are properly structured with appropriate terms of reference.
- Necessary relationships of mutual respect and open communication are fostered between the executive and non-executive directors, providing support and advice while respecting the executive responsibility.
- Effective communication with shareholders and other stakeholders.

### The Senior Independent Director (SID)

The Senior Independent Director is responsible for:

- Supporting the Chairman's delivery of objectives, and leading his evaluation.
- Working with the Chairman, other directors and shareholders at times of conflict or stress to resolve significant issues.

### Executive directors

The executive directors are responsible for leading, overseeing and managing the whole business, they are also responsible for:

- Communicating to the Board their views on business issues to improve the standard of Board discussion and, prior to final decision on an issue, explaining in a balanced way any divergence of view in the executive team.
- Encouraging the non-executive directors to thoroughly test proposals put forward to the Board in the light of their wider experience.
- Providing input to the strategy formulation process to enable an effective and evidence based approach and to ensure that the Board is well informed about all aspects of the business and its operation which bear on its strategy.
- Delivering high-quality information to the Board to enable it to monitor the performance of the whole business including the management of risk, and to make critical decisions, e.g. on remuneration and investments.

### Directors' conflicts of interest

To address the effect of Section 175 of the Companies Act 2006 (directors' conflicts of interest), the Company's Articles enable the Board to authorise situations that might give rise to directors' conflicts of interest. Directors complete a declaration form in order to determine whether any actual or potential conflicts need authorisation. The forms are reviewed annually to ensure that the information provided is up-to-date and includes any disclosures made during the past year.

At the March 2013 Board meeting all directors were asked to review and make any necessary amendments to their existing declarations. The Company Secretary has reviewed the latest declarations and has confirmed that no conflicts have arisen. Board members are reminded at regular intervals to disclose any conflicts should they arise.

Any such notifications are kept in a conflicts register maintained by the Company Secretary. Any director who considers they may have a potential conflict of interest is required to report this to the Chairman in the first instance, who may consult the Nomination Committee and report their findings to the Board.

### Information, training & support, performance evaluation and re-election of directors

### Information, training and support

Using an electronic device based application, the directors are sent an agenda and a full set of papers for each item to be discussed, in advance of each Board or Committee meeting. Additional information is provided as appropriate and senior executives regularly make presentations at Board meetings on the results and strategies in their areas of responsibility. Board meetings are occasionally held at different office locations enabling non-executive directors an additional opportunity to visit other Company sites.

Upon joining the Company, each director receives a comprehensive induction package, including written information and opportunities to meet appropriate members of staff. All directors refresh their knowledge regularly through publications and conferences and through information provided by the Company and its advisers.

There is an agreed procedure for directors to take independent professional advice, if necessary, at the Company's expense. Directors have direct access to the advice and the services of the Company Secretary who is responsible for ensuring that Board procedures are followed. The Company also provides appropriate directors' and officers' liability insurance.

### Performance evaluation

The CEO is responsible for appraising the performance of the CFO. The Chairman and non-executive directors review the performance of the CEO. The non-executive directors, led by the SID and following input from the executive directors, evaluate the performance of the Chairman each year. The Committees also review their performance and report the results to the Chairman and the Board as a whole. The non-executive directors meet at least once a year without the executive directors in order to discuss the performance of the executive directors and any concerns over their management of the Company's affairs.

Last year, inline with the requirement of the Code for an external evaluation at least every three years, external consultants, SCT Consultants Ltd, were appointed to assist with the review.

This year, the Board carried out an annual evaluation of its own effectiveness and that of its Committees, both through measuring performance against annual objectives and through an individual process, using a web-based tailored questionnaire.

The results of the process confirmed that the Board provided effective leadership of the Group. The directors reported progress had been made against recommendations set out following last year's external evaluation, in particular:

- A significant increase in the strategic content of the Board agenda and discussions, focusing on those matters which will contribute to the ongoing transformation of the Group.
- Membership and operation of the Committees were refreshed last year allowing greater focus on key issues. That included supplementing the experience of the Audit Committee with the addition of Richard Wohanka. The risk management process was enhanced and included a more in-depth analysis of selected significant risks as well as the usual periodic reviews of all material risks.
- Greater focus was placed on the development needs of the organisation as a whole, having regard to the capacity and capabilities needed to ensure that the needs of the business can be met and it can deliver on its existing objectives and future strategic objectives. As part of this ongoing process 69 additional employees have been hired during the course of the year, with a focus on commercial activities (22 account managers) and key areas of functional support such as quality assurance (21 employees), regulatory and medical science liaisons (7 employees).

In light of the results of this year's evaluation the Board objectives are to:

- Continue to enhance the transparency and rigour of the risk management process, to ensure a greater understanding of the source and quality of the assurance over the effectiveness of the risk controls.
- Fully draw on the experience and expertise of all Board directors, in part to be addressed by the provision of one-to-ones with the CEO.
- Ensure better benchmarking of the operation and performance of the business against appropriate peers.

### Board membership and election of directors

Peter Chambré retired from the Board as non-executive director on 25 September 2012, having served since 2006. Richard Wohanka joined the Board as non-executive director on 1 January 2013. Following these changes the Board continued to comprise a non-executive Chairman, five independent non-executive directors and two executive directors. As reported in the Nomination Committee report on pages 61 to 62, the Committee reviews the composition of the Board on a regular basis to ensure that, as the business evolves, the Board continues to have the necessary skills to support the development of the business.

Richard Wohanka, having been appointed to the Board since the last AGM is standing for election for the first time while all the other directors are standing for re-election at this year's AGM. Following the formal evaluation process, the Chairman is satisfied that each of the directors continues to perform effectively and demonstrates commitment to their role, including time for Board and Committee meetings and their other duties.

Further information on the directors is shown in their biographies on pages 42 to 43.

### Financing reporting and internal control

The statement of directors' responsibilities in relation to the preparation of the financial statements is set out on page 82 and the auditor's statement on the respective responsibilities of directors and the auditor is included within its report set out on pages 83 and 84.

Communications with shareholders, be they results announcements, interim reports, annual reports or AGM and trading updates, are reviewed carefully and approved by the Board, or a sub-committee thereof, in order to ensure they are transparent and balanced in the view they give of the Company's progress and prospects.

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Audit Committee on behalf of the Board undertakes the detailed monitoring of the controls, at least annually, and reports to the Board on its findings. The Board has reviewed the system of internal controls including financial controls for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors, in judging the effectiveness of these controls, are that they allow the maximisation of shareholder value by exploiting business opportunities whilst ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

To strengthen the control framework of the business, the Group has a dedicated full-time internal auditor. Further information can be found in the Audit Committee report on pages 57 to 60.

Structure and reporting

The Group has a management structure with clear lines of responsibility and accountability, staffed by appropriate personnel.

The Board is responsible for setting the overall strategy and reviewing the performance of the Group.

The Company's Leadership Team, chaired by the CEO, is responsible for the day-to-day running of Group operations. Other team members include the CFO and senior staff members from the business. The team is also responsible for making recommendations to the Board on the Company's strategy and subsequent implementation. Other responsibilities include ensuring that appropriate internal controls are in place to manage and assess risk and that they are fully complied with. The fundamental elements of the Group's internal control and risk management framework are described below.

The Group has well defined management structures and processes for the assessment, evaluation, and acquisition of business opportunities, and development and execution of commercialisation strategies. A number of committees that monitor various parts of the business report to the Leadership Team on a regular basis:

- Innovation Leadership Team: Investigates new products, product line extensions and new indications to address identified unmet needs, providing strategic and operational leadership of innovation activities up to proof of principle in man.
- Operational Leadership Team: Responsible for ensuring that the manufacturing and supply chain are tightly controlled and their operations are optimised, (as far as practicable), meeting all applicable regulatory requirements.
- Development Leadership Team: Evaluates new development opportunities, and is intimately involved in the definition and execution of development activities, beyond proof of principle in man, to support the Company's commercial strategies.
- Performance Management Review: Monthly meeting of the Leadership Team and senior staff to review progress against business plans and targets, both financial and operational.
- Risk Committee: Responsible for monitoring risks throughout the organisation and assessing the effectiveness of the risk control and mitigation measures implemented by the Group, reporting findings to the Audit Committee twice-yearly. In-depth analysis of key risks is undertaken periodically to ensure a degree of independent assessment of the operational application of the risk management process and to seek to identify opportunities to apply alternative or enhanced risk mitigation strategies.
- Compliance Steering Committee: Responsible for maintaining and overseeing a compliance system to ensure that the Group is fully compliant with all applicable laws (including US Federal and State requirements) that relate to the commercial operations of the Group, including its US sales and marketing teams. This committee reports to the Audit Committee at least twice-yearly.
- Corporate Responsibility Committee: Ensures the Group maintains high standards in this area.

The Leadership Team generally meets weekly and more formally on a monthly basis to review business performance measured against annual budgets, longer-term plans, an agreed set of objectives and performance criteria for each business unit as well as to assess and respond to issues arising across the Group. Forecasts are monitored monthly on the basis of detailed reviews of progress and prospects. Reporting to the Board is based on the information provided to and reviewed by the Leadership Team as well as their assessment and recommendations regarding how to deliver the Group's objectives. The reports include non-financial as well as financial information and a review of progress within the development portfolio.

Compliance and the review of risk and risk management are embedded throughout the Group. The Audit Committee has reviewed the detailed reports of the Risk, Internal Audit, and Compliance Committees and reported its findings to the whole Board. For further details see the Audit Committee report on pages 57 to 60. The Board has reviewed the risk management process and confirms that ongoing processes and systems ensure that the Group continues to be compliant with the guidance on internal control issued by the Code.

The Group has a system and key expert personnel responsible for supporting the protection and maintenance of patents and other intellectual property rights. The Group also actively monitors its royalty revenue streams and from time-to-time audits its major licensees to ensure compliance with the terms of the relevant agreements.

### Approval procedures

The Group has delegated authority structures that ensure that decisions are taken at an appropriate level, with an appropriate level of input by internal and external expert advisers. The delegated authority structure prescribes financial limits of approval at each level and requires decisions with significant financial, legal or reputational impact for the Group to be approved by the Board.

### Corporate policies, values and compliance

All employees within the Group continue to receive periodic training on the key requirements of the Group's Code of Conduct which covers all aspects of ethics, business practices and compliance, including a whistle-blowing policy, an anti-bribery and corruption policy and policies related to the ethical conduct of research and development and interactions with doctors and other healthcare professionals. Relevant employees meet regularly to discuss external changes in the regulatory, legal and financial environments in which the Group operates to ensure it remains fully compliant with new legislation and best practice. The Group also runs periodic 'lunch and learn' sessions updating staff on key issues affecting the business.

The Board, through the Audit Committee, has reviewed the effectiveness of the internal controls of the Group. The controls described above operate and are embedded within the day-to-day business. There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A reporting structure has been in place throughout the year, up to the date of approval of the financial statements and is regularly reviewed by the directors in accordance with the Code. Further information is given in the Audit Committee report on pages 57 to 60.

### Related parties and conflicts of interest

The Group maintains robust procedures to ensure that related party transactions and potential conflicts of interest are identified, disclosed and managed. Directors declare interests in other businesses on appointment to the Board and thereafter complete an annual self-certification. Where it is identified that a related party relationship exists, the Board agrees specific additional procedures to ensure the effective management of potential conflicts of interest.

Giles Kerr, a non-executive director of the Board, is also the Director of Finance for Oxford University and a director of Isis Innovations Limited, a wholly-owned subsidiary of Oxford University. Wholly-owned subsidiaries of the Company entered into technology commercialisation and revenue sharing agreements with these organisations prior to Giles Kerr joining the Board. The Group has licensed the intellectual property rights covered by these agreements to independent third-party companies that are developing and/or selling the licensed products. Under these licence agreements, the Group is entitled to receive milestone payments and/or royalties on sales of the products sold by the third-party licensees.

Under the various revenue sharing agreements, the Group pays a share of any income it receives to Oxford University or Isis Innovations, depending on the specific technology that generated the income. As the revenue sharing agreements do not permit these organisations to have any input over the commercialisation of the licensed products or the amount payable under the relevant revenue sharing agreement, Giles Kerr is not able to influence the amounts received in his position outside the Group. Because he has no influence over any aspect of these agreements in his role outside the Group, the Company considers that his independence in relation to the BTG Group is not compromised.

Within the BTG Group, to avoid any possible conflict of interest, it has been agreed that Giles Kerr will not participate in any discussions or decisions concerning the relevant agreements either within the Board or in any other discussions or meetings with the executives of its subsidiaries.

The Board has considered, and is satisfied with, this separation of duties. See note 30 on page 131 for additional related party disclosures.

### Market abuse directive

The Company has a Disclosure Committee, as required by the Market Abuse Directive, comprising the CEO, CFO and the Director of Investor Relations. The Committee reviews all significant items of business within the Group regularly, and on an *ad hoc* basis if required, and maintains an Insider List recording both those employed within the Group and at external advisers who may have access to inside information. Whenever individuals are placed on or removed from the List they are notified accordingly and advised of their responsibilities.

**Relations with shareholders and constructive use of the Annual General Meeting (AGM)**

Relations with shareholders

The Group endeavours to maintain good communications with shareholders through formal and informal dialogue. The Company formally reports its results twice a year with full year results announced in May and interim results in November. The CEO and CFO give presentations of these results to the Company's institutional shareholders, analysts and the media. The presentations are broadcast live on the internet for the information of all shareholders. The presentations are available thereafter as an archive on the Company's website and a webcast of the event on the website for approximately a year. In addition, the Company prepares interim management statements in January and July that are released to a regulatory news service and are available on the Company's website.

The CEO and CFO meet regularly with institutional investors with support from the Investor Relations department. The Chairman, Senior Independent Director (SID) and other directors are available to meet with major shareholders on request. As part of his role as the Senior Independent Director, Giles Kerr is available to shareholders when contact with the executive directors or the Chairman may not be appropriate. Two requests have been received from major shareholders to meet with the Chairman, during the year. The Investor Relations department acts as a contact point for investors throughout the year.

The directors receive a report from the Investor Relations department at each Board meeting giving information on the changes in shareholdings and any feedback from the Company's brokers and investors. Following the twice-yearly results announcements and any subsequent shareholder meetings held by management, detailed feedback from external advisers and brokers is provided to the Board, outlining the views and reactions of investors and analysts. This enables the Board to develop an understanding of the issues and concerns of major shareholders.

The Annual Report contains a full business review and the Interim Report, which is available on the Company's website, gives an update at the half year. Extensive information, including Annual and Interim Reports, interim management statements and all press releases, is published on the Group's website (www.btgplc.com) for access by all shareholders. In addition, through the website, individuals can register to receive electronic copies of all Company announcements on the day they are issued.

**Annual General Meeting**

The AGM is the principal opportunity for private shareholders to meet and discuss the Group's business with the directors and other senior management. A full business presentation is given and there is an open question and answer session during which shareholders may ask questions both about the resolutions being proposed and the business in general. The directors are available after the meeting for an informal discussion with shareholders.

The AGM will be held at 10.30 am on 16 July 2013, at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH. The Notice convening the meeting is distributed separately to shareholders at least 20 working days before the meeting. It is also available on the Company's website: www.btgplc.com, where a copy can be viewed or downloaded in 'PDF' format by following the link to Investor Relations and then Report & Accounts. The letter accompanying the AGM Notice includes details of the resolutions and explanatory notes thereon.

As a result of the review by the Remuneration Committee of the remuneration policy applicable to the executive directors, a revised policy and associated arrangements will be put to shareholders for approval at the AGM. A summary of the new policy can be found in the remuneration report on pages 63 to 81 and is described in more detail in the explanatory notes in the AGM Notice.

Members of the Company unable to attend the meeting may elect to vote electronically or using the proxy form accompanying the Notice. In order to vote electronically, members should log on to Capita Registrar's website (www.capitashareportal.com) and follow the instructions on the screen. Crest members may send their proxy votes to the Company's registrars electronically.

At the AGM the number of proxy votes cast in favour, against and withheld in respect of each resolution will be disclosed and subsequently published in a market announcement and on the Company's website. The Chairmen of the Audit, Remuneration and Nomination Committees will be present at the AGM to answer shareholders' questions.

At this time the Company does not consider it appropriate to introduce mandatory poll voting on all resolutions put to the AGM but will continue to keep that position under evaluation in future years.

**Audit Committee and auditor**
The Company has an established Audit Committee with the principal responsibilities of overseeing financial reporting and internal control matters and maintaining appropriate relations with the Company's auditor. A report on the work of the Committee is set out on pages 57 to 60.

**Appointments to the Board**
The Company has a Nomination Committee with responsibilities that include reviewing the size and composition of the Board; making recommendations to the Board on the appointment of executive and non-executive directors, and the re-appointment of non-executive directors when their terms of appointment expire; and for ensuring that succession planning is in place. The Committee also advises the Board on matters generally relating to Board appointments and meets as required but at least twice a year. A report on the work of the Committee is set out on pages 61 and 62.

**Compliance with the provisions of the UK Corporate Governance Code (the Code)**
The Board considers that the Company complied in full with the principles set out in the Code throughout the year ended 31 March 2013. Details of directors' remuneration, as required by the Code and Schedule 8 to the Large- and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in the remuneration report on pages 63 to 81.

The Company's auditor, KPMG Audit Plc, is required to review whether this corporate governance statement reflects the Company's compliance with nine of the Code's provisions as specified in the Listing Rules of the FSA, relating to Accountability and Audit. Having conducted such a review KPMG is obliged to report if it considers this statement of corporate governance does not reflect such compliance. The Company confirms that no such report has been made.

# Audit Committee report

Dear Shareholder

The role of the Audit Committee is to monitor, review and enhance the integrity of the Group's internal controls, its financial reporting and the way the Group assesses, manages and reports risk. A significant part of the Committee's time is spent on these areas, and as the business continues to become more complex, it presents an increasing number of challenges for the Committee to address. The uncertain economic climate only enhances the need to ensure our processes remain fit for purpose.

The following report sets out the activities of the Committee over the past year and how it has discharged its responsibilities.

**Giles Kerr**
Chairman of the Audit Committee

## The Committee and its membership

The Committee, established by the Board, is responsible for monitoring all aspects of financial reporting and management of risk. The Committee's full terms of reference, reviewed and updated during the year, are available on the Company's website, or from the Company on request, and are summarised below:

### Summary of the Committee's terms of reference

- Advising the Board whether 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.
- Reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk.
- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Company's performance.
- Reviewing significant financial reporting issues and judgements.
- Monitoring the role and effectiveness of the internal audit function.
- Providing the Board with objective advice and assurance as to the effective operation of risk management.
- Approving an annual programme of internal audit work.
- Considering and making recommendations to the Board on the appointment of the auditor.
- Agreeing the scope of the auditor's annual audit programme and reviewing the output.
- Keeping the relationship with the auditor under review, including terms of engagement, fees, their independence and expertise, resources and qualifications; and assessing the effectiveness of the audit process.
- Developing and implementing a policy on the engagement of the auditor to supply non-audit services.

### Members

| Members | Committee member since |
|---|---|
| Giles Kerr (Committee Chairman) | 6 November 2007 |
| Peter Chambré[1] | 1 November 2010 |
| Ian Much | 1 November 2010 |
| James O'Shea[2] | 25 September 2012 |
| Richard Wohanka | 1 January 2013 |

1 Peter Chambré retired from the Committee and the Board on 25 September 2012.
2 James O'Shea retired from the Committee on 19 March 2013.

Details of attendance at meetings are shown in the table on page 49.

### Committee members' qualifications

The composition of the Committee was reviewed during the year and the Board is satisfied that the members have the breadth of knowledge and experience necessary to effectively fulfil the Committee's responsibilities. Giles Kerr is a Fellow of the Institute of Chartered Accountants and Director of Finance at Oxford University. He is considered by the Board to have the necessary significant recent and relevant financial experience to qualify him to be the Chairman of the Committee. He receives additional remuneration to compensate him for his additional responsibilities, as set out on page 72. Other members bring substantial experience in international business areas as well as financial expertise to the deliberations of the Committee. In particular Richard Wohanka has more than 20 years' experience in the finance and asset management industry. For further information, see the directors' biographies on pages 42 and 43.

### Other attendees at Audit Committee meetings

The Chief Executive Officer, Chief Financial Officer, Group Director of Finance, Group Financial Controller and Internal Auditor normally attend meetings. The external auditor usually attends the meetings.

The Company Secretary or his deputy serves as secretary to the Committee.

### Activities

A summary of matters considered at the Committee since the last Annual Report and actions taken is shown below:

- Review of the Group's half year results to 30 September 2012 and full year results to 31 March 2013.
- Review of the reports from the external auditor on the half year and full year results.
- Review of the Internal Auditor's work plan and review of internal audit reports produced throughout the year.
- Consideration of accounting issues, prospective changes in accounting standards and their impact on Group reporting.
- Review of the scope, nature, resource planning and fee estimate for the full year audit.
- Review of trading updates issued by the Group and amendments thereto.
- Assessment of the going concern basis.
- Review of risk management systems, internal controls and fraud procedures. Assessment of detailed risk review of the Group's supply chain.
- Review of the disclosures relating to material risks in the business review.
- Review of the Group's compliance systems and policies and the results of internal compliance monitoring and auditing.
- Review of the Group's whistle-blowing policy.
- Review of the Group's tax affairs.
- Review and amendment of Committee terms of reference.
- Completion of an effectiveness review.

### Financial results review

A key role of the Committee is to undertake detailed monitoring of the interim and annual financial statements. As part of this review it discusses the audit findings and auditor's report with management and the external auditor and considers significant judgements and issues contained in them, whether the financial statements comply fully with the relevant statutes and accounting standards and if they present a balanced assessment of the Company's financial position and prospects. Following this discussion the Chairman of the Committee reports the results of its review to the full Board. The external auditor meets with the non-executive directors in the absence of management at the time when the half and full year results are discussed.

### Internal control and risk review

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Committee, on behalf of the Board, undertakes the detailed monitoring of the controls and reports to the Board on its findings twice-yearly. The Committee has reviewed the system of internal controls including financial, operational, healthcare law compliance and risk for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to appropriately manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors in judging the effectiveness of these controls are that they allow the maximisation of shareholder value by exploiting business opportunities whilst ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

The Committee has reviewed the effectiveness of the material controls of the Group, which are embedded within the day-to-day business. The Committee with the Board has an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A reporting structure has been in place throughout the year and up to the date of approval of the financial statements and is regularly reviewed by the directors in accordance with the Code.

The Risk Committee, chaired by the CFO and including staff from the appropriate sections of the business, reviews the risks throughout the business and identifies and evaluates risks which may impact on the Group's strategic and business objectives. The Risk Committee maintains a risk management plan that is designed to assess the probability of those risks occurring, the impact should they occur, how such risks are being appropriately mitigated and monitored and the actions and individuals responsible for delivering the mitigations. The Committee continues to monitor this process including a consideration of what comprises an acceptable level of risk in key areas and the optimal mitigation strategy, having regard to the costs, timelines and likelihood of success of the mitigation options. The Committee reports its findings twice-yearly to the Board.

The Audit Committee received a risk report in November 2012 which sought to provide a more detailed risk assessment of the Group's external supply chain given that has for some time comprised one of the most material business risks to continuity of product supply and therefore revenue. This process sought to assess the merits of the current risk mitigation strategies in this area and assess the potential cost, likelihood of success and business impact of additional or alternative risk mitigation options. The Committee supported the ongoing implementation of certain risk mitigation activities. The Audit Committee received the latest report at its May 2013 meeting, and was satisfied with actions being taken to control and mitigate risks identified. The Group also has a Compliance Steering Committee, which is responsible for maintaining a compliance system to ensure that the Group is compliant with all applicable healthcare compliance laws (such as US Federal and State requirements) that relate to the commercial operations of the Group including the activities of the US sales and marketing team. The results are reported to the Audit Committee alongside the twice-yearly risk management report. Compliance remains a material business risk and work throughout the year focused on ensuring compliance policies were effectively understood, implemented, trained on and embedded into the business as an integral part of business operations. Certain policies were modified in order to clarify policy requirements and ensure business team accountability for delivering business initiatives in accordance with those requirements. For details of principal risks and uncertainties that may affect the business, see pages 32 to 35 in the business review.

There is an internal audit function in the Group and a full-time auditor who has direct access to the Chairman of the Audit Committee, in addition to a reporting line within the Head Office finance function. The Committee receives regular reports on the work of the internal audit group. Last year, in the initial period since establishment of the function, the internal auditor concentrated on internal financial reviews and visited all major sites. Additional internal audits included a review of the scope of the Compliance policies adopted by the Group and subsequently the effectiveness of their implementation and operation. The work carried out by the Internal Auditor did not identify any material weaknesses in internal controls but approved proposals to enhance control procedures. The Committee proposed that the internal audit work plan be expanded to increase the focus on key control risks and sales compliance audit over the past year in addition to the work on financial controls.

**Whistle-blowing**

The Committee is responsible for ensuring that arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial performance or other matters are operating effectively and that appropriate follow-up action takes place. Included within the Code of Conduct are details of the Group's whistle-blowing policy and there are posters and pamphlets prominently displayed at each site giving details of what employees should do if they have concerns regarding any aspect of the business. Employees are encouraged to report any concerns without fear of recrimination and an independent telephone line is available should staff wish to use it. The arrangements were reviewed by the Committee during the year.

**UK Bribery Act**

The Group has continued to operate its anti-bribery and anti-corruption policy introduced in 2010 in response to the UK Bribery Act 2010. This has included the conduct of due diligence on new key business partners who may act on behalf of the Group in higher risk areas of business.

### Review of external auditor

The Committee reviews the overall performance of the auditor annually and approves its terms of engagement and remuneration. The Committee discussed the auditor's proposed work plan prior to the commencement of the audit of the results for the year to 31 March 2013 and also reviews the non-audit work carried out by the Company's auditor, KPMG Audit Plc (KPMG), to ensure that such services do not impair its independence or objectivity. The Committee agreed a new process for approving the use of the auditor for non-audit work detailing areas where the auditors may not be used, areas where they may be used subject to the agreement of the Committee and areas where prior approval is not required. Areas where prior approval is not required include audit-related services as specified in the APB Ethical Standards for Auditors and other services, that are routine in nature, where the fee is not significant in the context of the audit fee and where the conduct of such services will not adversely impact auditor independence or objectivity. The Committee receives a written Annual Report describing the fees paid to the auditors for non-audit work and whether such services were pre-approved or specifically approved by the Committee.

The Committee has reviewed the recent changes to the UK Corporate Governance Code, published in September 2012, which include the requirement for FTSE 350 companies to put the external audit contract out to tender at least every ten years. KPMG have been the Group's sole external auditors since the Company listed in 1995 and the audit contract has not been put out to tender since their appointment. David Bills, the current audit engagement partner will have completed his five-year term at the conclusion of this audit and his successor, Richard Broadbelt will replace David for the 2013/14 year end audit. While considering partner rotation, the Committee considered whether it would be an appropriate time to engage in an external audit tender process. In considering this, the current speed of change and complexity of the business, and the services offered by the current auditors were assessed, together with the recent guidance issued by the Financial Reporting Council (FRC). The Committee concluded that it would not be in the Company's interests to commence a tender process at the current time, however this decision would be reviewed annually. The Committee and the Board therefore recommend the reappointment of KPMG as external auditor, and to authorise the directors to determine the auditor's remuneration.

Our auditor, KPMG Audit plc has instigated an orderly winding down of the business which will then be undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming AGM of the Company on 16 July 2013.

The auditor was employed to carry out the following non-audit work during the year:

| Audit Committee approval | Task | Fees £'000 |
|---|---|---|
| Pre-approval required | US tax compliance services | 71 |
| | Tax advisory services | 42 |
| | Transaction services | 30 |

Total fees paid to the Company's auditor, KPMG, are shown in note 6 on page 104. The Committee believes that the use of KPMG was appropriate and efficient in the circumstances and that independence was preserved as a partner other than the audit partner was responsible for the work and the fees paid were insignificant in the context of the size of KPMG as a whole.

### Committee evaluation

As part of corporate governance, the Committee also carried out a review of its effectiveness and reported the results and its recommendations for improvement to the Board. The Committee was found to be functioning well, however, a recommendation for further enhancement to the risk management process was identified as a Board objective, see page 52 of the corporate governance report for further detail.

# Nomination Committee report

The Committee, established by the Board, is responsible for appointments and reviewing the structure of the Board and its Committees. The Committee's full terms of reference, reviewed during the year, are available on the Company's website, or from the Company on request, and are summarised below:

**The Committee and its membership**

Summary of the Committee's terms of reference

- To review regularly the structure, size and composition of the Board looking at its balance of skills, experience, independence and knowledge as well as its diversity (including gender diversity) and make recommendations to the Board on any appropriate changes.
- To identify and nominate, for the Board's approval, suitable candidates to fill any vacancies for non-executive directors and, with the assistance of the Chief Executive Officer, executive directors.
- To plan for the orderly succession of directors to the Board.
- To recommend to the Board the membership and chairmanship of the Audit and Remuneration Committees.

Members

| Members | Committee member since |
|---|---|
| Garry Watts (Committee Chairman) | 1 January 2012 |
| Peter Chambré[1] | 22 May 2007 |
| Giles Kerr | 16 July 2008 |
| Ian Much | 1 January 2012 |
| James O'Shea | 13 May 2009 |

1 Peter Chambré retired from the Committee and the Board on 25 September 2012.

Details of attendance at meetings are shown in the table on page 49.

Other attendees at Nomination Committee meetings

- The Chief Executive Officer may attend meetings by invitation.
- The Company Secretary or his deputy serves as secretary to the Committee.

**Activities**

The principal activities during the year related to the recruitment of a new non-executive director, as outlined below.

At the start of the process for appointing new directors, the Committee prepares a full description of the role, desired skills and capabilities required for the appointment. External search consultants are usually appointed to assist with finding suitable candidates. The Committee interviews candidates and then produces a shortlist for a subsequent interview by all Board members. In assessing candidates for Board roles, the Committee has regard to the objective of ensuring appropriate diversity (including gender diversity) of Board composition.

Around the time of Peter Chambré leaving the Board the Committee commenced a search for a new non-executive director. The Committee instructed Saxonbury Limited to find suitable candidates for interview. Saxonbury were chosen, given their experience of fulfilling such roles, and have not provided any other recruitment services to the Company. The Committee carried out a rigorous interview and selection process and their shortlisted candidates were also interviewed by the other non-executive directors and the Chief Executive Officer. The Committee, taking into account the views of the other directors, the Board's requirements with respect to skills and experience and diversity, including gender diversity, then recommended to the Board that Richard Wohanka be appointed as a non-executive director and also as a member of the Audit Committee, given his specific expertise in the finance and asset management industry. Following a discussion, the Board accepted the recommendation and Richard Wohanka was appointed to the Board and as a member of the Audit Committee with effect from 1 January 2013.

Following the appointment of new non-executive directors, the Committee ensures that they receive a full induction programme. As part of the induction process the new director is given a full briefing on the financial history of the Company and details of its strategy, operating plans, budgets and forecasts for future years. Arrangements are also made for the new director to meet with the heads of the various business units for a briefing on the areas of business in which the Company is involved. A briefing on corporate governance and directors' responsibilities may also be given and the opportunity to attend external courses is also available.

The Committee reviews succession plans and plans for emergency cover of key managers and directors on a regular basis.

**Committee evaluation**
As part of corporate governance, the Committee also carried out a review of its effectiveness and reported the results and its recommendations for improvement to the Board. The Committee was found to be functioning effectively. Focus would continue on ensuring necessary capability and capacity of the Board having regard to the changing needs of the business.

**Garry Watts**
Chairman of the Nomination Committee

# Remuneration Committee report

Dear Shareholder

At the time of last year's report I informed shareholders that the Committee intended to undertake a detailed review of its remuneration policy for executive directors to ensure that it remains appropriate as the Company develops. This review has now concluded and as a result the Committee intends to make a number of changes to its remuneration policy. I summarise these below and they are described in more detail later in this report.

In the last four years the Company has been transformed from a technology company, primarily dependent on licensing fees, milestone payments and licensing royalties, to a specialist healthcare company with a portfolio of pharmaceutical and medical device products directly marketed by the Company and additional products in late stage development. This has come about through the acquisition of both Protherics in 2008 and Biocompatibles in 2011, the launch of Voraxaze® together with the completion of the US development of PEM.

With the submission of the PEM NDA filing to the FDA in February this year and its acceptance in April, the Company is gearing up for the planned launch of the product in the US during 2014.

The next three to five years will continue to represent a period of significant change and challenge for the Company as it continues to seek to grow and develop, both in scale of operations, product base and international reach.

It is crucial that the executive directors maintain the correct balance between short-term smart execution with respect to marketed products, successful introduction of PEM and the development of longer term value enhancing product development programmes and acquisition opportunities. It is, therefore, essential that the remuneration policy achieves the right balance between rewarding short-term execution whilst encouraging the long-term creation of value through significant rewards for delivery of significant value to shareholders. As a result the Committee intends to make the following changes to the remuneration arrangements for executive directors:

- The Chief Executive's salary has been increased by 16.5% from £472,032 to £550,000 with effect from 1 April 2013. This represents a one-off re-alignment of Louise Makin's salary, to ensure that it remains positioned at a broadly mid-market level, and reflects BTG's growth in size and complexity and Louise Makin's strong performance in the role over a number of years.
- The Chief Financial Officer's salary which was re-positioned as part of the 2011/12 review will be increased by 3%, inline with average increases awarded to the wider workforce, from £350,000 to £360,500.
- Going forwards, executive directors will be required to build and maintain very significant levels of shareholding in the Company (250% of salary for the CEO and 150% of salary for the CFO). As the executive directors increase their shareholdings, the requirement to defer a proportion of their annual bonus will be progressively relaxed, with no deferral once the requirements are met.
- Options will not be granted to executive directors going forwards, instead their annual awards of performance shares will be increased from 100% to 150% of salary. This change is not anticipated to result in any increase in overall levels of remuneration.
- In order to make the long-term incentive performance condition more transparent for participants and shareholders, relative TSR performance will be measured against the FTSE 250 index as a whole, rather than the current approach of comparing performance against a peer group selected from companies in the FTSE 250.
- The cumulative trading profit performance measure used in the long-term incentive will be replaced by a measure based on adjusted earnings per share (EPS) performance measured in the final year of the three-year performance period.
- In addition, in order to increase the focus on longer-term sustained value creation going forwards, executive directors will be given the opportunity to put at risk up to 100% of PSP awards vesting at year three by converting them into a 'multiplier' award based on BTG's total shareholder return (TSR) under/outperformance of the FTSE 250 index measured at the end of five years from the grant of the original award. For awards granted from 2013 onwards, if BTG outperforms the index by 100% at the end of five years, the number of shares vesting could be doubled. The shares vesting at year five will be at risk and would be reduced (potentially to zero) to the extent that BTG underperforms the index at the end of that period. It is intended that the multiplier mechanism would be introduced for future PSP awards and also for the PSP awards made in 2011 and 2012. The multiplier for the 2011 and 2012 awards could vary the number of shares vesting by between zero and two-and-a-half times. There will be no opportunity to apply the multiplier to existing share options.

The changes to PSP award levels and performance conditions and the introduction of multiplier awards require shareholder approval at BTG's AGM in July. Full details are provided in the Notice of AGM.

**Ian Much**
Remuneration Committee Chairman

### Introduction and compliance

This report has been prepared by the Remuneration Committee on behalf of the Board in accordance with the requirements of Schedule 8 to the Large- and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulations), and explains how the Company has applied the principles of the UK Corporate Governance Code (the Code) in respect of directors' remuneration.

In preparing this year's report, the Committee has paid regard to the new reporting requirements announced by The Department for Business, Innovation and Skills (BIS) that will come into force with effect from next year's Annual Report, and has sought to adopt a number of the new requirements where it is practical to do so whilst still remaining compliant with the existing regulations, in particular the Company has chosen to include a detailed letter from the Committee Chairman, separate policy and implementation sections, a detailed pay policy table, references to how employees' pay influences directors' pay, results of the 2012 AGM, level of share ownership and details of directors' contracts.

The report has been divided into two sections: Part A, which describes the Company's policy for the remuneration of executive and non-executive directors for the coming year (subject to approval of the components to be put to the AGM) and which is not subject to audit; and Part B, parts of which are subject to audit, which describes how the existing policy has been applied during the year under review and provides details of the directors' emoluments, shareholdings, long-term incentive awards and pensions for that year.

In accordance with the Regulations, a resolution inviting shareholders to approve the report will be put to the Annual General Meeting (AGM) on 16 July 2013.

## Part A:

### Remuneration policy

The policy for remuneration for executive directors is to enable the Company to offer a package of rewards that:

- Is sufficiently competitive to enable the Company to attract and retain the management talent it needs to ensure the Group is successful.
- Supports the achievement of the Company's strategy by providing the potential to receive significant rewards linked to the long-term performance of the Company.
- Aligns executives with shareholders and helps to retain them by delivering a significant element of remuneration in shares.
- Is flexible enough to cope with the Company's changing needs as it grows and the strategy evolves.

The Committee believes that the bonus opportunity aligned with the deferral into shares and forfeiture provisions, together with other elements of the long-term incentive plans, provides a balanced market-competitive package for the executive team. However the Committee keeps such targets under regular review in order to ensure they remain appropriate.

Inline with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking. New Bridge Street (NBS) report to the Committee towards the end of each year on risks associated with the executive directors' remuneration policy.

The Committee's specific policy for each element of remuneration is as follows:

| Element | Purpose and link to strategy | Operation | Maximum | Performance targets | Change from 2012/13 |
|---|---|---|---|---|---|
| Base salary | Provides market competitive fixed remuneration that takes account of individual responsibilities. | Set at a broadly mid-market level and reviewed annually taking account of individual responsibilities and performance.<br><br>Benchmarked using data for a general industry group selected on the basis of market capitalisation and a sector group of UK-listed pharmaceutical and biotechnology companies.<br><br>Increases are determined by the Committee, taking account of planned increases and bonus levels for the rest of the Group, as well as salary increases in the wider economy. | N/A | N/A | – |
| Benefits | Relatively modest benefits are offered as the emphasis is on variable reward. | The main benefits provided comprise medical benefits and permanent health insurance. | N/A | N/A | – |
| Pension | Provides competitive retirement benefits. | Pension provision consists of a combination of, for a limited number of longer serving employees, participation in contributory defined benefit pension arrangements up to a cap and, for more recent hires a provision above the cap, defined contribution pension provision and/or cash allowances. | Defined benefit provision: 1/60ths accrual up to cap, normal retirement age of 60.<br><br>Defined contribution or cash allowance: 20% of salary. | N/A | – |
| Annual bonus | Links reward to the Company's short-term aims.<br><br>Deferral of part of bonus under the Deferred share bonus plan provides an element of lock-in and alignment with shareholders. | All employees including the executive directors participate.<br><br>Deferred share bonus plan awards are structured as conditional awards over shares, to be held for three years.<br><br>The level of deferral is linked to the achievement of the Company's shareholding guidelines. The level of shareholding guidelines has been increased so that the percentage of maximum bonus above which bonus must be deferred increases proportionately to the extent that the guidelines have been achieved and no deferral is required once the guideline is met. | Maximum of 100% of salary for executive directors with 50% payable for on-target performance. | Performance targets for the executive directors focus on Company financial performance (70%) against three financial metrics, being revenue (⅓ weighting), trading profit (⅓ weighting), operating cash (⅓ weighting) and performance against a number of corporate and individual objectives intended to stimulate future growth (30%).<br><br>Deferred share bonus plan awards are subject to clawback. | The level of deferral is linked to the achievement of the Company's shareholding guidelines. Previously this provided that:<br>Holding less than 50% of guideline – 50% of any bonus deferred<br>Holding equal to 50% of guideline – all bonus in excess of 50% of the maximum deferred.<br>Holding between 50% and 100% of guideline – defer all bonus in excess of percentage of guideline achieved (i.e. if achieved 75% of guideline, only bonus in excess of 75% of maximum deferred). |

| Element | Purpose and link to strategy | Operation | Maximum | Performance targets | Change from prior year |
|---|---|---|---|---|---|
| Long-term incentives | Support the strategy to transition the business from an R&D-focused specialist healthcare company to an earnings-driven international specialist healthcare company.<br><br>Ensures remuneration includes a strong emphasis on the delivery of growth, superior shareholder returns and sustained financial performance. | Annual awards of performance shares, vesting of which is subject to the achievement of relative TSR and adjusted EPS targets measured over three years.<br><br>Executives will be offered the opportunity to roll over up to 100% of PSP awards up to 150% of salary vesting in year three in return for a 'multiplier' award, vesting of which is subject to performance measured over five years from the date of grant of the original award.<br><br>TSR performance is measured over three years from grant by NBS. | Maximum PSP award of 150% of salary (200% in exceptional circumstances). Award can be increased to up to 300% of salary (subject to further performance measures) if executive directors elect to forego vesting of PSP award in exchange for a 'multiplier' award. | Awards prior to 2013: 50% relative TSR vs FTSE 250 less certain sectors and 50% cumulative trading profit over three years.<br><br>PSP awards from 2013 onwards: 50% TSR versus companies in the FTSE 250 index (25% vests at median rising to full vesting at upper quartile).<br><br>50% adjusted EPS in the final year of the performance period (25% vests at a threshold level of performance rising to full vesting at a stretch level of performance) Subject to clawback.<br><br>Multiplier awards – 2013 PSP awards onwards: Each 1% outperformance/ underperformance of the FTSE 250 index at the end of five years increases or decreases the total number of shares that would have vested under the PSP by 1%. I.e. to the extent rolled over awards could be increased or decreased by ±100% (i.e. the number of shares, the subject of the award, could be doubled or be reduced to zero).<br><br>Multiplier awards – 2011 and 2012 PSP awards onwards: Each 1% outperformance/ underperformance of the FTSE 250 index at the end of five years increases or decreases the total number of shares that would have vested under the PSP by 1.5%. I.e. to the extent rolled over awards could be increased by +150% of reduced by -100% (down to zero). | Change to Performance Shares only instead of a mix of Performance Shares and Options.<br><br>Change to FTSE 250 index instead of a peer group of FTSE 250 companies excluding certain sectors.<br><br>Change to adjusted EPS measure instead of cumulative trading profit with 25% rather than 20% vesting at threshold.<br><br>Introduction of a multiplier award. |

| Element | Purpose and link to strategy | Operation | Maximum | Performance targets | Change from prior year |
|---|---|---|---|---|---|
| All-employee share plans | Encourages employees to acquire shares in BTG, increasing alignment with shareholders. | Executive directors can participate in BTG's HMRC-approved Save As You Earn scheme which is open to all UK employees.<br><br>A US Internal Revenue Service 423 Plan with standard terms is operated for US employees. | The Sharesave Plan has standard terms under which participants can enter a savings contract with a three-year life. Up to £250 per month can be saved in return for which they are granted options at a discount of up to 80% to the market value of the shares. | N/A | – |
| Shareholding guidelines | Provide alignment between Executives and shareholders. | Executive directors are required to build significant shareholdings in the Company.<br><br>Provided that executive directors have achieved and continue to maintain the guideline level, executive directors will be permitted to sell shares in addition to those required to meet their tax liabilities within a 30-day period from the announcement of the Company's results and completion of investor road-shows for any period. | Subject to approval of the changes to the PSP at the AGM. These will increase to:<br><br>CEO: 250% of salary<br><br>CFO: 150% of salary | N/A | Previous shareholding guidelines were:–<br><br>CEO: 100% of salary<br><br>CFO: 100% of salary |
| Non-executive directors and Chairman | Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives. | Non-executive directors receive fees paid monthly in cash.<br><br>When reviewing fee levels; account is taken of market movements in non-executive director fees, Board Committee responsibilities, ongoing time commitments and the general economic environment. | N/A | N/A | – |

**Comparison of directors' 2012/13 and 2013/14 remuneration packages**

| | Louise Makin | | | Rolf Soderstrom | | |
|---|---|---|---|---|---|---|
| | 2012/13 | 2013/14 | Change | 2012/13 | 2013/14 | Change |
| Base salary as at 1 April | £472,032 | £550,000 | 16.5% | £350,000 | £360,500 | 3% |
| On-target bonus (% of salary) | 50% | 50% | – | 50% | 50% | – |
| Maximum bonus (% of salary) | 100% | 100% | – | 100% | 100% | – |
| PSP award (% of salary)[1] | 100% | 150% (300% with Multiplier) | +50% (+200% with Multiplier) | 100% | 150% (300% with Multiplier) | +50% (+200% with Multiplier) |
| Share option award (% salary)[1] | 100% | – | –100% | 100% | – | –100% |
| Shareholding guidelines – target (% of salary)[1] | 100% | 250% | +150% | 100% | 150% | +50% |
| Value of current shareholding at 31 March 2013 (% of salary) | 291% | n/a | | 117% | n/a | |
| Contract | 12 month rolling contract | | | 12 month rolling contract | | |

1 Changes will take place if AGM approves changes to the PSP.
2 The increase for Rolf Soderstrom is broadly inline with the level of increases awarded in the rest of the Group, which will be approximately 3% on average. Louise Makin's salary was rebased to £550,000 effective from 1 April 2013 following a review of her remuneration which indicated that her salary was significantly below the Committee's assessment of the mid-market level for her role.

**How employees' pay is taken into account in setting the remuneration of the executive directors**

The Committee also considers the base salaries for ten other senior executives. In addition, the Committee receives information on general pay levels across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy.

BTG's workforce includes a high proportion of highly-qualified scientists, technicians and professionals whose skills are highly sought after by competitors. Ensuring that levels of remuneration for the general workforce are competitive is important to BTG's ongoing success and this is reflected in the level of salary increases awarded to employees. As a result BTG is required to benchmark and rebase salaries from time to time. The average salary increases awarded to BTG's general workforce for 2013/14 will be higher than for the general UK employment market but competitive among the companies with which BTG competes for talent. General workforce increases effective from June 2013 will range between 2% and 15%.

**How executive directors' remuneration policy relates to the wider Group**

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Company. Lower incentive opportunity is available below executive level, with levels driven by market comparatives and the impact of the role.

As explained above, salaries for the Company's wider workforce are benchmarked externally against comparable companies within the sector and wider industry. The Company aims to ensure that all employees' salaries are positioned at a mid-market level for the role taking account of performance and individual responsibility.

Employees are provided with a competitive package of benefits that includes participation in the Group's pension arrangements.

All employees are eligible to participate in the bonus arrangements with targets aligned to the financial performance of the Group and their individual performance within their specific area of responsibility.

The Company believes that broad-based employee participation in share schemes is an important tool in delivering value for shareholders. Other senior staff are also able to receive awards of long-term incentives at a lower maximum percentage of salary. Long-term incentives are provided to the most senior executives and those anticipated as having the greatest potential to influence performance levels within the Company. However, in order to encourage wider employee share ownership, the Company operates a Sharesave Plan in the UK, with an international section for employees in Australia and Germany, and a Stock Purchase Plan in the US. These are described in more detail on page 71.

**How shareholders' views are taken into account**

The Remuneration Committee considers shareholder feedback received in relation to the Annual General Meeting each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

Over the last few years we have received a variety of comments from shareholders following the publication of the remuneration report in the Annual Report. These comments informed the Committee's thinking during its recent review of its remuneration policy for BTG's executive directors and have included:

- A dislike of two long-term incentive plans with the same performance metrics.
- A suggestion that more significant executive director shareholding requirements would be appropriate.
- A comment that greater emphasis on long-term incentives and value creation would be relevant.
- A request for the introduction of clawback on performance awards (which we have already implemented).

During the year, the Committee engaged with its largest shareholders regarding changes to the executive directors incentive arrangements and the rebasing of Louise Makin's salary for 2013/14.

**Proposed changes to the long-term incentive arrangements**

Executive directors and senior managers, together with all other employees, are eligible to participate in the Company's share schemes as operated from time-to-time. Following its review of its remuneration policy for executive directors, the Committee intends to make the following changes to the long-term incentive arrangements.

Subject to approval at BTG's AGM in July 2013 future long-term incentive awards to BTG's executive directors would consist of two elements:

- A 'core' Performance Share Plan (PSP) award over shares that vest subject to performance over three years.
- A potential 'multiplier' applied to up to 100% of awards vesting under the core PSP at year three, giving the executive directors the opportunity to receive enhanced awards over a five-year period. This mechanism enables executive directors to put 0%, 50% or 100% of the vesting amounts of the three-year award at risk for a further two years for a potential increase (or decrease) in the number of shares based on performance measured at the end of five years.

The PSP rules would be amended, as follows:

- The individual annual limit on core awards will be increased from 100% of salary p.a. to a maximum of 150% of salary p.a. in normal circumstances and up to 200% of salary in exceptional circumstances, such as on recruitment. The increase in the normal limit would result in no increase in overall value of 'core' awards for executives as share options will be discontinued.
- The individual annual limit for awards to executive directors, taking account of 'core' and 'multiplier' awards, will be increased to 300% of salary p.a.

The performance condition applying to multiplier awards will be based on a single condition measuring the Company's relative performance against the FTSE 250 Index over a five-year period commencing on the date of grant of the initial core award. The Multiplier Performance Condition would only apply to that part of the award that would have vested to an executive director at year three and then only to the extent that the executive director has elected for a multiplier award.

For PSP awards granted in 2013 onwards each 1% outperformance/underperformance of the FTSE 250 index would increase or decrease the total number of shares that would have vested under the Core Award performance condition by 1%. Rolled over core awards subject to the multiplier would be at risk and could be increased or decreased by ±100% (i.e. it could be doubled or be reduced to zero) based on TSR performance to the end of year five.

For PSP awards granted in 2011 and 2012 each 1% outperformance/underperformance of the FTSE 250 index would increase or decrease the total number of shares that would have vested under the Core Award performance condition by 1.5%. Rolled over core awards subject to the multiplier would be at risk and could be increased by +150% or decreased by -100% (based on TSR performance to the end of year five). The higher leverage reflects the fact that BTG's policy in 2011 and 2012 was to grant a mix of options and PSPs and that the multiplier would only apply to PSP awards.

**PSP performance targets for 2013/14**

Vesting of the PSP awards granted in 2013/14 will be subject to achievement of performance conditions based on a combination of an Earnings per share target (as described below) (50%) and total shareholder return (TSR) (50%) measured over three financial years.

Performance for the TSR element will be measured from the date of grant and compared with that of a peer group comprising the constituents of the FTSE 250 index with opening and closing TSR values averaged over three months prior to the start and end of the performance period. The FTSE 250 index as the comparator group has been chosen as it is represents a broad range of similar sized companies and is transparent for shareholders and participants.

The performance scale for this award is shown in the table below.

| TSR performance against the comparators | Percentage of TSR element that vests |
|---|---|
| Below median | 0% |
| Median | 25% |
| Between median and upper quartile | 25% – 100% on a straight line basis |
| Above upper quartile | 100% |

For the 2013/14 awards an EPS measure will be used for the remaining 50% of PSP awards. This replaces the cumulative trading profit measure going forwards. In introducing EPS, the Committee has recognised that any share awards made in 2013 will be measured on results for the financial year ending March 2016. While BTG is not yet an earnings based company, the Committee believes that the Company will be substantially along the road to that position by 2016 and it is appropriate to recognise this in the choice of metric.

For the awards made in 2013/14 EPS will be defined as "EPS adjusted for acquisition adjustments and reorganisation costs" (e.g. amortisation of acquired intangible assets; impairment of acquired intangible assets; transaction costs; and costs of a major business reorganisation undertaken as a result of an acquisition).

EPS targets for the awards made during 2013/14 will be measured in the final year of the three-year period (the 2015/16 financial year). The percentage vesting at threshold will be increased from 20% to 25% of this part of the award to bring it into line with the TSR performance condition, however the Committee considers that the EPS targets have been made commensurately more demanding to take account of this change.

In setting the EPS targets, the Committee has compared them to the Group's approved Three-Year Plan and considers them to be demanding. The targets represent 40% growth (at Threshold) and 90% growth (at Stretch) respectively against adjusted EPS of 12.7p for the 2012/13 financial year. In arriving at the opening baseline value of 12.7p the Committee has sought to exclude the one off effects of the CytoFab™ development termination. Accordingly underlying EPS of 14.5p (which already excludes the effect of £22.5m asset writedowns) has been adjusted by 1.8p to exclude also the associated deferred income release and contract termination compensation of £8.6m. Note 29 on page 131 explains the accounting treatment on the termination more fully.

| | EPS in the year ending 31 March 2016 | Percentage of EPS element that vests |
|---|---|---|
| Below Threshold | Less than 17.7p | 0% |
| Threshold | 17.7p | 25% |
| Between Threshold and Stretch | 17.7p to 24.1p | 25% – 100% on a straight line basis |
| Stretch | 24.1p or higher | 100% |
| | | Payouts for performance between Threshold and Stretch calculated on a straight line basis |

### Other share plans

The Company operates other shares plans as follows:

- An HMRC-approved Save As You Earn scheme, open to all eligible employees (including executive directors), with a 36-month savings period enabling UK employees to acquire shares at a price not less than 80% of the market value of the shares at the date of grant. The Scheme provides an international section to allow for the participation of Australian and German employees.
- A US Internal Revenue Service 423 Plan with a 24-month savings period under which its US employees are able to acquire shares at not less than 85% of the market value of the shares at the date of grant.
- The non-shareholder approved Senior Management Performance Share Plan enables awards over market purchased shares to be granted to certain senior employees below Board level where it is not appropriate to make awards under the PSP. Awards under this plan can be made over market purchase shares only and are normally subject to different performance criteria to awards made under the PSP.

### External appointments

The Board believes that it may be beneficial to the Company for executives to hold non-executive directorships outside the Group. Any such appointments are subject to approval by the Board and the director may retain any fees payable. Louise Makin received fees from her position at Premier Foods plc until she retired from the Board on 30 September 2012 of £31,875 (2011: £67,500). She joined the Board of Intertek Group plc on 1 July 2012 and received fees of £37,500 during the year to 31 March 2013 (2012: n/a). Rolf Soderstrom does not currently hold any outside directorships.

### Service contracts

Executive directors have rolling service contracts, details of which are summarised in the table below:

| Provision | Detailed terms |
|---|---|
| Contract dates | Louise Makin – 19 October 2004<br>Rolf Soderstrom – 4 December 2008 |
| Notice period | 12 months from both the Company and from the executive |
| Termination payment | The Company may terminate the contracts of the executive directors with immediate effect by making a payment in lieu of notice.<br>Any payments made would be determined by reference to normal contractual principles with mitigation being applied as wherever relevant or appropriate.<br>The directors' contracts do not provide for automatic entitlement to bonus or share-based payments. |
| Remuneration entitlements | Louise Makin's contract contains the following remuneration related entitlements: Salary; membership of Company pension scheme or contribution to a personal pension; medical benefits; and permanent health insurance.<br>Rolf Soderstrom's contract contains the following remuneration related entitlements: Salary; contribution to a personal pension; medical benefits; and permanent health insurance. |

The Company's policy on directors' service contracts is that, inline with the best practice provisions of the Code, they should be terminable by the Company on a maximum of one-year's notice and contracts do not provide for pre-determined compensation in the event of termination or provision for enhanced payments in the event of a takeover of the Company.

The non-executive directors do not have service contracts, but have letters of appointment for an initial period of three years, which may be renewed by mutual agreement, normally for a further three-year term. The terms of appointment provide for a notice period in the event of early termination of six months for the Chairman and three months for other non-executive directors, other than if they are not re-elected at an AGM.

Details of contracts and letters of appointment, for directors serving at the date of this report, are as set out below.

| | Date of appointment | Notice period | Date of expiry of current contract |
|---|---|---|---|
| **Non-executive** | | | |
| Garry Watts | 1 January 2012 | 6 months | 31 December 2014 |
| Giles Kerr | 1 October 2007 | 3 months | 30 September 2013 |
| Ian Much | 1 August 2010 | 3 months | 31 July 2013 |
| Melanie Lee | 29 November 2010 | 3 months | 28 November 2013 |
| James O'Shea | 2 April 2009 | 3 months | 1 April 2015 |
| Richard Wohanka | 1 January 2013 | 3 months | 31 December 2015 |

**Non-executive directors' fees**

The Chairman, in consultation with the executive directors, is responsible for proposing changes to the non-executive directors' fees. The Senior Independent Director, in consultation with the executive directors, is responsible for proposing changes to the Chairman's fees. In each case this follows advice on appropriate fee levels supplied by NBS. In proposing such fees, account is also taken of the time commitments of the Company's non-executive directors. The decision on fee changes is taken by the Board as a whole. Individual non-executive directors do not take part in discussions on their remuneration. Non-executive directors do not receive benefits or pension contributions from the Group and do not participate in any Group incentive scheme.

Set out in the table below are the fees paid for the year ended 31 March 2013 and proposed fees for the year ended 31 March 2014.

| Director | **Proposed year ended 31 March 2014 £** | Year ended 31 March 2013 £ |
|---|---|---|
| Chairman[1] | **175,000** | 175,000 |
| Non-executive director | **41,000** | 39,264 |
| Senior Independent director fee | **3,000** | 3,000 |
| Audit Committee chairmanship fee | **6,000** | 6,000 |
| Remuneration Committee chairmanship fee | **6,000** | 6,000 |

1 The fee is fixed for the first three years of his appointment.

**Part B (elements subject to audit):**
**Directors' emoluments, shareholdings, share awards and pensions**

### About the Remuneration Committee and its advisers

The Remuneration Committee has been established by the Board and is responsible for executive remuneration. During the year the Committee reviewed and updated its terms of reference, which are available in full on the Company's website or from the Company on request, and are summarised below:

| | |
|---|---|
| Summary of the Committee's terms of reference | ▌To make recommendations to, and determine on behalf of the Board, remuneration packages for each of the executive directors in accordance with current best practice.<br>▌To give advice and make recommendations on the framework and broad policy for all aspects of the remuneration of senior management and on the overall policy for total compensation for all other employees.<br>▌To determine policy and advise on equity participation schemes, employee share trust matters, pensions and other benefits. |
| Members | Member – Member since<br>Ian Much (Chairman) – 28 September 2010<br>Giles Kerr – 3 November 2009<br>Melanie Lee – 23 March 2011<br><br>Details of attendance at meetings are shown in the table on page 49. |
| Other attendees at Remuneration Committee meetings | The Chairman, Chief Executive Officer, Chief Financial Officer and HR Director may attend meetings by invitation, other than when their own remuneration is being considered.<br><br>The Company Secretary or his deputy serves as secretary to the Committee. |
| Committee advisers | The Committee appoints its own advisers as it sees fit and has appointed New Bridge Street (NBS) (a brand of Aon Hewitt Limited, part of Aon plc) to act as advisers to the Committee and a representative usually attends the meetings. NBS advises the Committee on all remuneration issues including the vesting of long-term incentive arrangements.<br><br>The Group continues to use NBS to advise on other matters including remuneration matters in general. The firm also assists with the total shareholder return (TSR) performance measurement and the implementation of employee share schemes and, through Aon plc's Radford brand, provides the Company with advice on matters specific to the US employment market. The Group also uses Mercer Ltd and PricewaterhouseCoopers to advise on remuneration issues, particularly in relation to pension schemes.<br><br>The fees paid to the Committee's advisers in 2012/13 were: New Bridge Street £132,000 (2011/12: £112,00). |

### Shareholder voting at the Annual General Meeting

At last year's Annual General Meeting held on 17 July 2012, the directors' remuneration report received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 257,406,952 | 98.73 |
| Against | 3,311,500 | 1.27 |
| **Total votes cast (for and against – excluding withheld votes)** | **260,718,452** | **100** |
| Votes withheld[1] | 360,792 | |
| **Total votes cast (including withheld votes)** | **261,079,244** | |

1 A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

## Directors' emoluments

| | | Salary/ fees £'000 | Bonus[1] £'000 | Cash in lieu of pension[2] £'000 | Benefits[8] £'000 | Total emoluments £'000 | DC pension contributions £'000 |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| Louise Makin | 2013 | 472 | 472 | 67 | 1 | 1,012 | – |
| | 2012 | 458 | 435 | 66 | 2 | 961 | – |
| Rolf Soderstrom[3] | 2013 | 350 | 350 | 77 | 1 | 778 | 31 |
| | 2012 | 298 | 283 | 24 | 2 | 607 | 43 |
| **Non-executive directors** | | | | | | | |
| Garry Watts[4] | 2013 | 175 | – | – | – | 175 | – |
| | 2012 | 44 | – | – | – | 44 | – |
| Giles Kerr | 2013 | 48 | – | – | – | 48 | – |
| | 2012 | 47 | – | – | – | 47 | – |
| Melanie Lee | 2013 | 39 | – | – | – | 39 | – |
| | 2012 | 38 | – | – | – | 38 | – |
| Ian Much | 2013 | 45 | – | – | – | 45 | – |
| | 2012 | 44 | – | – | – | 44 | – |
| James O'Shea | 2013 | 39 | – | – | – | 39 | – |
| | 2012 | 38 | – | – | – | 38 | – |
| Richard Wohanka[5] | 2013 | 10 | – | – | – | 10 | – |
| | 2012 | – | – | – | – | – | – |
| **Ex-directors** | | | | | | | |
| John Brown[6] | 2013 | – | – | – | – | – | – |
| | 2012 | 144 | – | – | – | 144 | – |
| Peter Chambré[7] | 2013 | 20 | – | – | – | 20 | – |
| | 2012 | 38 | – | – | – | 38 | – |

1 In 2012 Louise Makin and Rolf Soderstrom received £206,000 and £134,000 of their bonuses respectively as share awards under the DSBP. In 2013 up to half of their total bonuses will be will be deferred, depending on the extent to which the share ownership guidelines have been met at the time of payment.
2 The additional payments represent a cash supplement in lieu of employer pension contributions following the changes to pension legislation.
3 Pension contributions shown for Rolf Soderstrom represent amounts paid to a defined contribution pension scheme for his benefit.
4 Fees paid to Garry Watts in 2012 were for the period from his appointment to the Board on 1 January 2012.
5 Fees paid to Richard Wohanka in 2013 were for the period from his appointment to the Board on 1 January 2013.
6 Fees were paid to John Brown for the period to his retirement from the Board on 31 December 2011. Included in his fees for 2011/12 was an additional sum of £57,500 paid in lieu of notice.
7 Fees were paid to Peter Chambré for the period to his retirement from the Board on 25 September 2012.
8 Benefits shown above for Louise Makin and Rolf Soderstrom relate principally to the provision of life assurance and medical benefits.
9 All directors' fees, salaries and bonuses are subject to UK income tax.
10 As disclosed in previous years, in 2010/11 an administrative error was found in respect of payments made under the defined benefit pension fund to Rusi Kathoke, a former director. The overpayment of benefits for 2012/13 was £4,127. The additional payments ceased when he attained 65 years in December 2012. The additional payments are covered by contributions to the fund by the Company.

**Annual bonus for the year to 31 March 2013**

For the year ended 31 March 2013 bonuses were subject to a maximum of 100% of base salary for executive directors and up to 75% for other senior staff.

Bonus targets were set at the start of the financial year for both Louise Makin and Rolf Soderstrom, based on the achievement of certain objectives. These were the achievement of targets for revenue growth, a trading profit measure, cash generation and individual KPIs intended to drive future growth in the business. The Committee set threshold and stretch as well as intermediate target levels for the various targets. The bonus is calculated on base salary with a percentage pay out of between 20% and 100% for various performance levels.

The trading profit measure, used for both bonuses and long-term incentives, is a normalised measure relating to earnings before amortisation of intangibles, restructuring and acquisition costs, group foreign exchange movements and movements in derivatives. The cashflow measure adjusts for restructuring and acquisition costs only. For the year ended 31 March 2013 the Committee also considered it appropriate to exclude the positive financial impact that one-off income recognised in relation to the termination of AZD9773 (CytoFab™) has had on the financial performance of the business (see note 29 on page 131 for further details). The metrics are calculated as follows:

| | Revenue £m | Trading profit £m | Operating cash flow £m |
|---|---|---|---|
| Revenue/profit before tax/operating cash flow | 233.7 | 24.1 | 46.2 |
| Adjustments: | | | |
| AZD9773 one-off income | (8.6) | (8.6) | – |
| Forward exchange contracts and derivatives | – | 1.8 | – |
| Amortisation and impairment of business combination intangibles | – | 43.4 | – |
| Restructuring costs | – | (0.1) | (0.5) |
| Trading profit/operating cash flow for bonus purposes | 225.1 | 60.6 | 45.7 |

The performance achieved against the bonus targets are summarised as follows:

| | Weighting (% of total bonus) | Threshold (£m) | Stretch (£m) | Actual (£m) | Pay out (% of maximum) |
|---|---|---|---|---|---|
| Revenue | 23⅓ | 180.0 | 208.0 | 225.1 | 100% |
| Trading profit | 23⅓ | 33.6 | 47.6 | 60.6 | 100% |
| Operating cashflow | 23⅓ | 14.1 | 28.1 | 45.7 | 100% |
| Individual KPIs | 30 | | | | 100% |

Note: The above table shows the financial targets set for the threshold and stretch levels.

### Directors' share awards

The directors have the following interests in BTG plc shares under the Company's various plans. Full details of their holdings at the start and end of the financial year and at 17 May 2013 are set out below.

#### Louise Makin

| Date of grant/award | Exercise price (p)/market price on date of award (p) | At 1 April 2012 | Granted in year | Exercised | Lapsed | **At 31 March 2013** | Exercise period/ vesting date | Share price on exercise (p) |
|---|---|---|---|---|---|---|---|---|
| **Share options** | | | | | | | | |
| 31 Jul 2009[1] | 179.25 | 233,974 | – | – | 46,795 | **187,179** | 31 Jul 2012 – 30 Jul 2019 | |
| 13 Jul 2010[2] | 201.30 | 216,816 | – | – | – | **216,816** | 13 Jul 2013 – 12 Jul 2020 | |
| 6 Jul 2011 | 298.90 | 163,356 | – | – | – | **163,356** | 6 Jul 2014 – 5 Jul 2021 | |
| 1 Jun 2012 | 386.00 | – | 122,288 | – | – | **122,288** | 1 Jun 2015 – 31 May 2022 | |
| **Sharesave** | | | | | | | | |
| 2 Sep 2009[3] | 146.70 | 2,474 | – | 2,474 | – | **–** | 1 Oct 2012 – 31 Mar 2013 | 352.40 |
| 1 Sep 2010 | 146.67 | 2,454 | – | – | – | **2,454** | 1 Sept 2013 – 1 Mar 2014 | |
| 4 Jul 2011 | 219.52 | 822 | – | – | – | **822** | 1 Sept 2014 – 1 Mar 2015 | |
| 30 Jul 2012 | 320.16 | – | 1,124 | – | – | **1,124** | 1 Oct 2015 – 1 Apr 2016 | |
| **Total option awards** | | | | | | **694,039** | | |
| **Performance share awards** | | | | | | | | |
| 22 Jul 2009[1] | 174.00 | 246,633 | – | 197,306 | 49,327 | **–** | 22 Jul 2012 | 393.24 |
| 13 Jul 2010[2] | 201.30 | 218,751 | – | – | – | **218,751** | 13 Jul 2013 | |
| 6 Jul 2011 | 286.60 | 149,831 | – | – | – | **149,831** | 6 Jul 2014 | |
| 1 Jun 2012 | 380.54 | – | 124,042 | – | – | **124,042** | 1 Jun 2015 | |
| **Deferred share awards** | | | | | | | | |
| 22 Jul 2009 | 174.00 | 105,808 | – | 105,808 | – | **–** | 22 Jul 2012 | 393.24 |
| 28 May 2010 | 201.30 | 98,386 | – | – | – | **98,386** | 28 May 2013 | |
| 22 Jul 2011 | 286.60 | 53,288 | – | – | – | **53,288** | 22 Jul 2014 | |
| 1 Jun 2012 | 380.54 | – | 54,192 | – | – | **54,192** | 1 Jun 2015 | |
| **Total other awards** | | | | | | **698,490** | | |
| **Total awards** | | | | | | **1,392,529** | | |

1 Following measurement of the TSR performance condition by NBS (which placed BTG in the 4th decile against the comparators) and the measurement of the performance against the profit measure, the Committee approved the vesting of 187,179 shares to Louise Makin under the 2009 ESOP award and 197,306 shares under the 2009 PSP award, the balance of 96,122 shares lapsed. The shares vested on 22 July 2012. The total gain on the vesting of PSP awards in the year was £775,886.

2 Following measurement of the TSR performance condition by NBS (which was measured at 83.8% against the comparators) and the measurement of the performance against the profit measure, the Committee approved the vesting of 199,253 shares to Louise Makin under the 2010 ESOP award and 201,032 shares under the 2010 PSP award, the balance of 35,282 shares will lapse. The shares will vest on 13 July 2013.

3 The aggregate gain on the exercise of sharesave options in the year was £5,089.

4 See table on page 78 for details of performance conditions for share awards.

## Rolf Soderstrom

| Date of grant/award | Exercise price (p)/market price on date of award (p) | At 1 April 2012 | Granted in year | Exercised | Lapsed | **At 31 March 2013** | Exercise period/ vesting date | Share price on exercise (p) |
|---|---|---|---|---|---|---|---|---|
| **Share options** | | | | | | | | |
| 31 Jul 2009[1] | 179.25 | 145,048 | – | – | 29,011 | **116,037** | 31 Jul 2012 – 30 Jul 2019 | |
| 13 Jul 2010[2] | 201.30 | 140,930 | – | – | – | **140,930** | 13 Jul 2013 – 12 Jul 2020 | |
| 6 Jul 2011 | 298.90 | 99,658 | – | – | – | **99,658** | 6 Jul 2014 – 6 Jul 2021 | |
| 1 Jun 2012 | 386.00 | – | 90,673 | – | – | **90,673** | 1 Jun 2015 – 31 May 2022 | |
| **Total option awards** | | | | | | **447,298** | | |
| **Performance share awards** | | | | | | | | |
| 22 Jul 2009[1] | 174.00 | 152,896 | – | 122,316 | 30,580 | **–** | 22 Jul 2012 | 393.24 |
| 13 Jul 2010[2] | 201.30 | 142,188 | – | – | – | **142,188** | 13 Jul 2013 | |
| 6 Jul 2011 | 286.60 | 103,913 | – | – | – | **103,913** | 6 Jul 2014 | |
| 1 Jun 2012 | 380.54 | – | 91,974 | – | – | **91,974** | 1 Jun 2015 | |
| **Deferred share awards** | | | | | | | | |
| 22 Jul 2009 | 174.00 | 45,476 | – | 45,476 | – | **–** | 22 Jul 2012 | 393.24 |
| 28 May 2010 | 201.30 | 60,954 | – | – | – | **60,954** | 28 May 2013 | |
| 22 Jul 2011 | 286.60 | 34,637 | – | – | – | **34,637** | 22 Jul 2014 | |
| 1 Jun 2012 | 380.54 | – | 35,225 | – | – | **35,225** | 1 Jun 2015 | |
| **Total other awards** | | | | | | **468,891** | | |
| **Total awards** | | | | | | **916,189** | | |

1 Following measurement of the TSR performance condition by NBS (which placed BTG in the 4th decile against the comparators) and the measurement of the performance against the profit measure, the Committee approved the vesting of 116,037 shares to Rolf Soderstrom under the 2009 ESOP award and 122,316 shares under the 2009 PSP award, the balance of 59,591 shares lapsed. The shares vested on 22 July 2012. The total gain on the vesting of PSP awards in the year was £480,995.

2 Following measurement of the TSR performance condition by NBS (which was measured at 83.8% against the comparators) and the measurement of the performance against the profit measure, the Committee approved the vesting of 129,514 shares to Rolf Soderstrom under the 2010 ESOP award and 130,670 shares under the 2010 PSP award, the balance of 22,934 shares will lapse. The shares will vest on 13 July 2013.

3 See table on page 78 for details of performance conditions for share awards.

**Performance conditions for share awards**

| Plan | Date of award | Performance measure | Percentage | Parameters |
|---|---|---|---|---|
| Option<br>PSP | 31 July 2009<br>22 July 2009 | EBITDA and TSR | Combined matrix measure | Three-year normalised EBITDA period between Threshold and Stretch; range £38m–£76m and TSR range between 1st and 10th decile. |
| Option<br>PSP | 13 July 2010<br>13 July 2010 | Cumulative trading profit | 50% | Three-year normalised trading profit period between Threshold and Stretch; range £24m–£60m. |
| | | TSR | 50% | Three-year comparison with index between median and upper quartile. |
| Option<br>PSP | 6 July 2011<br>6 July 2011 | Cumulative trading profit | 50% | Three-year normalised trading profit period between Threshold and Stretch; range £56m–£97m. |
| | | TSR | 50% | Three-year comparison with index between median and upper quartile. |
| Option<br>PSP | 1 June 2012<br>1 June 2012 | Cumulative trading profit | 50% | Three-year normalised trading profit period between threshold and stretch; range £121m–£165m. |
| | | TSR | 50% | Three-year comparison with index between median and upper quartile. |

Unless otherwise stated the Company's TSR will be compared with that of a peer group comprising FTSE 250 companies excluding investment trusts, companies in the financial services sector (banks, life and non-life insurance, equity and non-equity investment trusts, financial services, real estate investment and services, and real estate investment trusts etc.) and companies in the consumer discretionary sector (general retailers, media, travel and leisure, and leisure goods) with opening and closing TSR values averaged over three months prior to the start and end of the performance period.

Share options and performance shares were granted for nil consideration. The price used for calculating the number of shares awarded under the PSP and DSBP was based on average of the closing share prices over the five days immediately prior to the award date. Share options are awarded using the closing mid-market price on the date before grant. Sharesave options were granted on the condition that participants agreed to enter into a monthly savings contract.

For all awards granted post 1 July 2011, awards made under the DSBP, PSP and ESOP are subject to clawback in the event of a material misstatement of the financial results of the Company for the financial year to which an award relates is discovered, an error in the calculation of performance for an award or individual misconduct resulting in dismissal.

In the event of a takeover of the Company, performance conditions will continue to apply to the release of share awards and the extent to which they have been achieved will be decided by the Committee on such reasonable basis as it decides.

Awards other than DSBP awards are normally satisfied using new issue shares. The Company's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits. Assuming none of the extant options lapse and will be exercised and, having included all exercised options, the Company has utilised 2.8% of the 10% in ten years and 2.5% of the 5% in ten years in accordance with the Association of British Insurers (ABI) guidance on dilution limits.

The Committee, with advice from NBS, is responsible for assessing whether the relevant performance conditions have been achieved.

**Directors' pensions**

Louise Makin is a member of the BTG Pension Fund. The Fund is a contracted-out defined benefit arrangement which provides a pension based on an accrual rate of either one sixtieth or one eightieth of basic salary (up to the HMRC Earnings Cap), depending on the level of contributions paid by members of 7% or 5% respectively. Members are able to retire at any time from age 60 without any actuarial reduction to the pension payable. Under current legislation, if members continue to work beyond age 60, they may continue to pay contributions and enhance their pension entitlement, subject to a maximum of 40 years pensionable service. Pension payments post-retirement are increased annually by inflation for pensionable service earned up to 5 April 2006 and inflation subject to a ceiling of 2.5% for pensionable service earned after that date. Members may take early retirement, once they have reached 55 years of age, although any pension paid will be subject to an actuarial reduction. Ill-health retirements may be permitted from an earlier age subject to meeting certain medical conditions. In the event of the death of a member, the Fund provides for a spouse's pension to be payable equal to two-thirds of the deceased member's pension. For current active members, a lump sum death benefit equal to four times basic salary (up to the earnings cap) plus refund of the member's contributions is also payable.

During the year Louise Makin contributed £9,618 (2012: £9,072) to the Fund, representing 7% of her salary up to the earnings cap and the Company contributed £30,915 (2011: £26,827).

Details of the value of her individual pension entitlement and information relating to defined benefits available as required under the Regulations and the Listing Rules, are shown below:

| | Accrued pension at 31 March 2013[1] £ | Increase in accrued pension during year ended 31 March 2013 (including RPI inflation)[2] £ | Transfer value of accrued benefits at 31 March 2013 £ | Transfer value of accrued benefits at 31 March 2012 £ | Increase in transfer value less directors' contributions[3] £ | Increase in accrued pension during year ended 31 March 2013 (excluding RPI inflation) £ | Transfer value of the increase in accrued pension (excluding RPI inflation) at 31 March 2013 less director's contributions £ |
|---|---|---|---|---|---|---|---|
| Louise Makin | **18,264 p.a.** | **2,738 p.a.** | **403,483** | 300,671 | **93,194** | **2,335 p.a.** | **39,769** |

1 The accrued pension at 31 March 2013 is the leaving service benefit to which Louise Makin would have been entitled to if she had left the BTG Pension Fund at that date.
2 This equals the accrued pension as at 31st March 2013 less the equivalent pension as at 31st March 2012 disclosed in the 2012 Annual Report.
3 This is the transfer value as at 31 March 2013 less the transfer value as at 31 March 2012 less the contributions paid by the director in the year.

During the year the Committee has recommended changes to Rolf Soderstrom's pension arrangements. Compensatory cash payments were made to him to take account of the impact of recent changes in pension legislation.

### Directors' shareholdings

The directors' beneficial interests, including interests of connected persons, in the shares of the Company at the end of the financial year and at 17 May 2013 are shown below. None of the directors had any non-beneficial interest at any time in the period 1 April 2012 to 17 May 2013. None of the directors who held office at the end of the financial period had any beneficial interest in the shares of other Group companies.

| | Legally owned (Number of ordinary 10p shares) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **31 Mar 2013 (or date of resignation if earlier)** | 31 Mar 2012 | Vested un-exercised LTIP awards | Vested un-exercised share options | Vested un-exercised deferred shares | Unvested LTIP awards | Unvested share options | Unvested deferred shares | % of salary held in shares under shareholding guideline[1] | Guideline met? |
| **Executive directors** | | | | | | | | | | |
| Louise Makin | **387,229** | 478,308 | – | 187,179 | – | 492,624 | 506,860 | 205,866 | 291% | Yes |
| Rolf Soderstrom | **114,997** | 90,283 | – | 116,037 | – | 388,075 | 331,261 | 130,816 | 117% | Yes |
| **Non-executive directors** | | | | | | | | | | |
| Garry Watts | **10,000** | – | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Peter Chambré | **3,000** | 3,000 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Giles Kerr | **–** | – | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Melanie Lee | **–** | – | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Ian Much | **–** | – | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| James O'Shea | **–** | – | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

1 Based on the number of shares legally owned, the net of taxes value of unexercised vested LTIP and deferred share awards, prevailing base salary and share price (£3.55), at 31 March 2013.

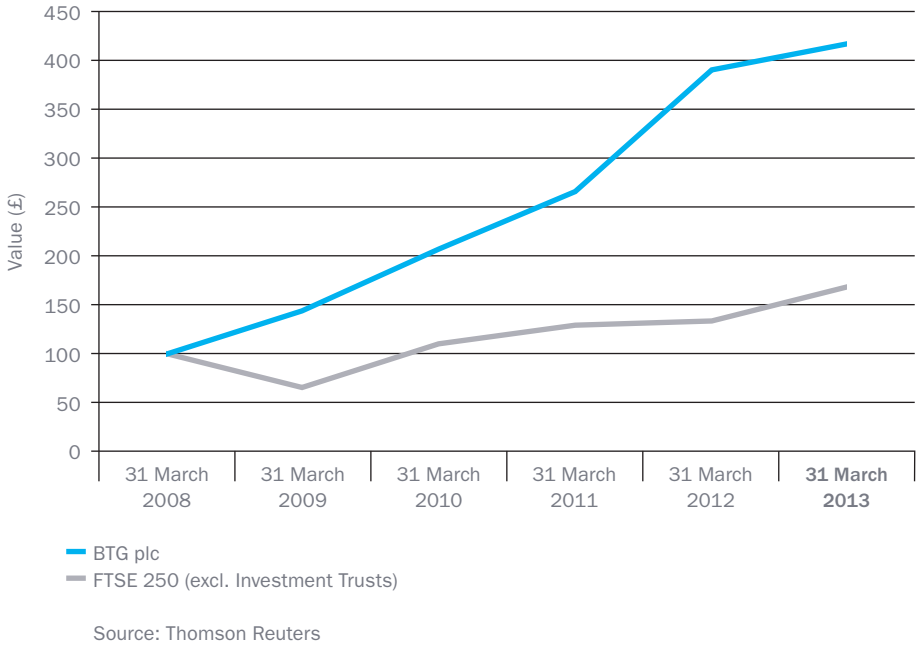
The executive directors have a beneficial interest in ordinary shares of the Company by direct holdings and by virtue of their entitlements in the Company's employee share option schemes. As employees of the Group, all executive directors also have an interest in any unallocated shares held on behalf of all employees in the BTG Employee Share Trust, which at 31 March 2013 amounted to 715,129 ordinary shares in the Company. The non-executive directors are not entitled to participate in any of the Company's employee share schemes.

The Committee operates shareholding guidelines requiring executives to build and maintain a holding of Company shares worth at least 100% of salary. If the PSP changes are approved at the AGM, these are due to increase to 250% of salary in the case of the CEO and 150% of salary in the case of the CFO.

A formal trading plan exists to enable the executive directors to sell shares from their holdings from time-to-time. Provided that executive directors have achieved and continue to maintain a minimum level of holding required under the shareholding guidelines, executive directors will be permitted to sell shares in addition to those required to meet their tax liabilities at any time permitted under the Company's share dealing rules.

**Total shareholder return**

The performance of the Company's ordinary shares compared with the FTSE 250 (excluding Investment Trusts) (the Index) for the five-year period ended on 31 March 2013 is shown in the graph below.




Source: Thomson Reuters

This graph shows the value at 31 March 2013 of £100 invested in BTG plc on 31 March 2008 compared with £100 invested in the Index. The other points plotted are the values at intervening financial year-ends.

The Company has chosen the Index as a comparator as it believes that it gives shareholders a reasonable comparison with the total shareholder return (TSR) of other equity investments in companies of a broadly similar size across all sectors. The TSR performance has been measured by NBS.

The middle market price of an ordinary share on 31 March 2013 was 354.98p. During the year the share price ranged from a low of 297.00p to a high of 426.00p.

**Directors' interests in contracts**

Except as described in note 30 to the financial statements, 'Related party transactions', during or at the end of the financial year no director or connected person had any material interest in any contract of significance in relation to the Group's business with a third-party.

This report was approved by the Board on 17 May 2013 and signed on its behalf by

**Ian Much**

Chairman of the Remuneration Committee

# Statement of directors' responsibilities

## in respect of the Annual Report and Accounts 2013 and the financial statements

The directors are responsible for preparing the Annual Report and Accounts 2013 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 European Union (EU) and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the Group and 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 Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the Parent Company and enable them to ensure that the 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, and have adopted a control framework for application across the Group.

Under applicable law and regulations, the directors are also responsible for preparing a 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.

**Directors' responsibility statement pursuant to DTR 4**

Each director confirms that to the best of our knowledge:

- the Group and parent company accounts, prepared in accordance with the IFRS as adopted by the EU, 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 Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors' report comprising pages 44 to 47, and including the sections of the Annual Report and Accounts referred to in these pages, has been approved by the Board and signed on its behalf by:

**Louise Makin**
Chief Executive Officer

**Rolf Soderstrom**
Chief Financial Officer

17 May 2013

# Independent auditor's report

## to the members of BTG plc

We have audited the financial statements of BTG Plc for the year ended 31 March 2013 set out on pages 86 to 139. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

**(a) Respective responsibilities of directors and auditor**

As explained more fully in the directors' responsibilities statement set out on page 82, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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.

**(b) Opinion on financial statements**

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 March 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the corporate governance statement set out on pages 48 to 56 in BTG plc's Annual Report and Accounts 2013 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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;
- 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;
- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; and
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 46 in relation to going concern;
- the part of the corporate governance statement on pages 48 to 56 in BTG plc Annual Report and Accounts 2013 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

**David Bills**
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

17 May 2013

# Financials

# Consolidated income statement

| | Note | Year ended 31 March 2013 Results before acquisition adjustments and reorganisation costs £m | Year ended 31 March 2013 Acquisition adjustments and reorganisation costs £m | Year ended 31 March 2013 Total £m | Year ended 31 March 2012 Results before acquisition adjustments and reorganisation costs £m | Year ended 31 March 2012 Acquisition adjustments and reorganisation costs £m | Year ended 31 March 2012 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 4 | **233.7** | **–** | **233.7** | 197.2 | (0.2) | 197.0 |
| Cost of sales | | **(67.2)** | **–** | **(67.2)** | (54.2) | (2.1) | (56.3) |
| **Gross profit** | 4 | **166.5** | **–** | **166.5** | 143.0 | (2.3) | 140.7 |
| Operating expenses: | | | | | | | |
| Amortisation and impairment of acquired intangible assets | | **–** | **(43.4)** | **(43.4)** | – | (30.7) | (30.7) |
| Foreign exchange gains | | **3.1** | **–** | **3.1** | 2.6 | – | 2.6 |
| Selling, general and administrative expenses | | **(58.0)** | **–** | **(58.0)** | (48.9) | – | (48.9) |
| Operating expenses: total | | **(54.9)** | **(43.4)** | **(98.3)** | (46.3) | (30.7) | (77.0) |
| Research and development | | **(41.2)** | **–** | **(41.2)** | (39.7) | – | (39.7) |
| Profit on disposal of intangible assets and investments | | **0.4** | **–** | **0.4** | 0.2 | – | 0.2 |
| Amounts written off property, plant and equipment | 14 | **(1.8)** | **–** | **(1.8)** | (3.0) | – | (3.0) |
| Acquisition and reorganisation costs | 5 | **–** | **0.1** | **0.1** | – | (1.1) | (1.1) |
| Amounts written off investments | | **–** | **–** | **–** | (0.2) | – | (0.2) |
| **Operating profit** | 6 | **69.0** | **(43.3)** | **25.7** | 54.0 | (34.1) | 19.9 |
| Financial income | 8 | **1.1** | **–** | **1.1** | 3.6 | 1.1 | 4.7 |
| Financial expense | 9 | **(2.7)** | **–** | **(2.7)** | (1.6) | – | (1.6) |
| **Profit before tax** | | | | **24.1** | | | 23.0 |
| Tax | 10 | | | **(7.7)** | | | (8.4) |
| **Profit for the year** | | | | **16.4** | | | 14.6 |
| **Basic earnings per share** | 11 | | | **5.0p** | | | 4.5p |
| **Diluted earnings per share** | 11 | | | **5.0p** | | | 4.4p |

All activity arose from continuing operations.

The notes on pages 91 to 132 form part of these financial statements.

# Consolidated statement of comprehensive income

| | Note | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|---|
| **Profit for the year** | | **16.4** | 14.6 |
| **Other comprehensive income** | | | |
| Foreign exchange translation differences | 19 | **4.2** | (0.3) |
| Actuarial gain/(loss) on defined benefit pensions scheme | 22 | **0.1** | (2.9) |
| Deferred tax on defined benefit pension scheme asset | | **(1.6)** | – |
| **Other comprehensive income for the year** | | **2.7** | (3.2) |
| **Total comprehensive income for the year** | | **19.1** | 11.4 |

The notes on pages 91 to 132 form part of these financial statements.

# Consolidated statement of financial position

| | Note | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 12 | **59.2** | 59.2 |
| Intangible assets | 13 | **209.2** | 246.0 |
| Property, plant and equipment | 14 | **25.4** | 22.0 |
| Other investments | 15 | **3.0** | 3.0 |
| Deferred tax asset | 10 | **0.9** | 1.0 |
| Employee benefits | 22 | **4.7** | – |
| Biological assets | | **–** | 0.3 |
| | | **302.4** | 331.5 |
| **Current assets** | | | |
| Inventories | 16 | **23.3** | 21.8 |
| Trade and other receivables | 17 | **54.5** | 40.1 |
| Taxation | 10 | **0.4** | – |
| Derivative instruments | 21 | **–** | 0.5 |
| Held to maturity financial assets | 18 | **–** | 5.0 |
| Cash and cash equivalents | 18 | **158.7** | 106.9 |
| | | **236.9** | 174.3 |
| **Total assets** | | **539.3** | 505.8 |
| **EQUITY** | | | |
| Share capital | | **32.8** | 32.7 |
| Share premium account | | **188.6** | 188.3 |
| Merger reserve | | **317.8** | 317.8 |
| Other reserves | 19 | **0.2** | (4.0) |
| Retained earnings | | **(108.4)** | (128.6) |
| **Total equity attributable to equity holders of the parent** | | **431.0** | 406.2 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 20 | **0.5** | 5.0 |
| Employee benefits | 22 | **–** | 0.1 |
| Deferred taxation | 10 | **41.8** | 35.2 |
| Provisions | 25 | **0.4** | 1.0 |
| | | **42.7** | 41.3 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **61.6** | 55.4 |
| Derivative instruments | 21 | **2.2** | – |
| Taxation | 10 | **1.2** | 2.1 |
| Provisions | 25 | **0.6** | 0.8 |
| | | **65.6** | 58.3 |
| **Total liabilities** | | **108.3** | 99.6 |
| **Total equity and liabilities** | | **539.3** | 505.8 |

The notes on pages 91 to 132 form part of these financial statements.

The financial statements were approved by the Board on 17 May 2013 and were signed on its behalf by:

**Louise Makin** Chief Executive Officer

**Rolf Soderstrom** Chief Financial Officer

Registered No: 2670500

# Consolidated statement of cash flows

| | Note | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|---|
| **Profit after tax for the year** | | **16.4** | 14.6 |
| Tax | | **7.7** | 8.4 |
| Financial income | | **(1.1)** | (4.7) |
| Financial expense | | **2.7** | 1.6 |
| Operating profit | | **25.7** | 19.9 |
| Adjustments for: | | | |
| Profit on disposal of intangible assets and investments | | **(0.4)** | (0.2) |
| Amounts written off investments | | **–** | 0.2 |
| Amortisation and impairment of intangible assets | 13 | **45.1** | 31.9 |
| Amounts written off property, plant and equipment | 14 | **1.8** | 3.0 |
| Depreciation on property, plant and equipment | 14 | **3.1** | 3.2 |
| Share-based payments | | **4.7** | 2.4 |
| Pension scheme funding | | **(4.6)** | (4.8) |
| Other | | **0.3** | 0.2 |
| Cash from operations before movements in working capital | | **75.7** | 55.8 |
| Increase in inventories | | **(1.5)** | (1.8) |
| Increase in trade and other receivables | | **(14.4)** | (7.5) |
| Increase in trade and other payables | | **2.0** | 3.0 |
| Decrease in provisions | | **(0.8)** | (1.2) |
| **Cash from operations** | | **61.0** | 48.3 |
| Taxation paid | | **(5.5)** | (1.1) |
| **Net cash inflow from operating activities** | | **55.5** | 47.2 |
| **Investing activities** | | | |
| Interest received | | **0.7** | 0.8 |
| Purchases of intangible assets | | **(2.6)** | (6.0) |
| Purchases of property, plant and equipment | | **(7.6)** | (3.7) |
| Net proceeds from disposal of investments and intangible assets | | **–** | 0.3 |
| Net expenditure on investments | | **–** | (0.5) |
| Net inflow from held to maturity financial assets | 18 | **5.0** | 5.2 |
| **Net cash outflow from investing activities** | | **(4.5)** | (3.9) |
| **Cash flows from financing activities** | | | |
| Repayment of finance leases | | **(0.2)** | (0.3) |
| Proceeds of share issues | | **0.4** | 0.1 |
| **Net cash from financing activities** | | **0.2** | (0.2) |
| Increase in cash and cash equivalents | | **51.2** | 43.1 |
| Cash and cash equivalents at start of year | | **106.9** | 63.7 |
| Effect of exchange rate fluctuations on cash held | | **0.6** | 0.1 |
| **Cash and cash equivalents at end of year** | 18 | **158.7** | 106.9 |

The notes on pages 91 to 132 form part of these financial statements.

# Consolidated statement of changes in equity

| | Share capital £m | Share premium £m | Merger reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2011 | 32.7 | 188.2 | 317.8 | (3.7) | (142.7) | 392.3 |
| Profit for the year | – | – | – | – | 14.6 | 14.6 |
| Foreign exchange translation differences | – | – | – | (0.3) | – | (0.3) |
| Actuarial gain on defined benefit pension scheme | – | – | – | – | (2.9) | (2.9) |
| Total comprehensive income for the year | – | – | – | (0.3) | 11.7 | 11.4 |
| **Transactions with owners:** | | | | | | |
| Issue of BTG plc ordinary shares | – | 0.1 | – | – | – | 0.1 |
| Share-based payments | – | – | – | – | 2.4 | 2.4 |
| At 31 March 2012 | 32.7 | 188.3 | 317.8 | (4.0) | (128.6) | 406.2 |

| | Share capital £m | Share premium £m | Merger reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2012 | 32.7 | 188.3 | 317.8 | (4.0) | (128.6) | 406.2 |
| Profit for the year | – | – | – | – | 16.4 | 16.4 |
| Foreign exchange translation differences | – | – | – | 4.2 | – | 4.2 |
| Actuarial gain on defined benefit pension scheme | – | – | – | – | 0.1 | 0.1 |
| Deferred tax on defined benefit pension scheme asset | – | – | – | – | (1.6) | (1.6) |
| Total comprehensive income for the year | – | – | – | 4.2 | 14.9 | 19.1 |
| **Transactions with owners:** | | | | | | |
| Issue of BTG plc ordinary shares | 0.1 | 0.3 | – | – | – | 0.4 |
| Movement in shares held by the Trust | – | – | – | – | 0.6 | 0.6 |
| Share-based payments | – | – | – | – | 4.7 | 4.7 |
| **At 31 March 2013** | **32.8** | **188.6** | **317.8** | **0.2** | **(108.4)** | **431.0** |

The notes on pages 91 to 132 form part of these financial statements.

## 1 General information

BTG plc (the 'Company') is a company incorporated and domiciled in the United Kingdom and listed on the London Stock Exchange. The consolidated financial statements of the Company for the year ended 31 March 2013 comprise the results of the Company and its subsidiary undertakings (together referred to as the 'Group') and the Group's interest in associates.

The financial statements were approved for issue by the Board on 17 May 2013.

The financial statements have been prepared in accordance with the Group's accounting policies as approved by the Board and described below.

**Accounting standards adopted in the year**
No accounting standards adopted in the year have had a significant impact upon the financial statements.

Other accounting standards adopted in the year
Other amendments and standards have been adopted, but have had no significant effect on the reported results or financial position of the Group.

**Accounting standards issued but not yet effective**
IAS 19 (Amended): 'Employee benefits' changes a number of disclosure requirements for post employment arrangements and restricts the options currently available on how to account for defined benefit pension plans. The amendment requires the expected returns on pension plan assets, currently calculated based on management's estimate of expected returns, to be replaced by a gain on the pension plan assets calculated at the liability discount rate. In future years, this change is expected to result in a decrease in finance income on pension scheme assets, recognised in the income statement, and an equal and opposite increase in the actual returns less expected returns on pension scheme assets credited to other comprehensive income. The Group does not expect this change to impact the Group's net assets. The amendment also removes the option to include an expense reserve in pension scheme liabilities. This change is expected to result in a one-off credit to other comprehensive income, a one-off credit to opening reserves and a corresponding increase in net assets in the 2013 comparatives disclosed in the financial statement for the year ending 31 March 2014, to release the expense reserves previously recognised within pension scheme liabilities as detailed in note 22.

The amendment to IAS 19 is effective from 1 January 2013 and will be adopted by the Group in the accounting year beginning 1 April 2013.

All other standards and interpretations recently adopted by the EU not discussed above did not have or are not expected to have a significant impact on the Group.

**Going concern basis**
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

This conclusion has been reached having considered the effect of liquidity risk on the Group's ability to operate effectively. Currently, liquidity risk is not considered a significant business risk to the Group given its level of net cash and cash flow projections. The Group does not currently require significant levels of debt financing to operate its business. Further details of the Group's policies and objectives around liquidity risk are given in note 26 to the Accounts and are discussed in the business review on pages 17 to 26. The key liquidity risks faced by the Group are considered to be the failure of banks where funds are deposited and the failure of key licensees, distribution partners, wholesalers or insurers.

In addition to the liquidity risks considered above, the directors have also considered the following factors when reaching the conclusion to continue to adopt the going concern basis:
- The Group's principal licensees are global industry leaders in their respective fields and the Group's royalty-generating intellectual property consists of a broad portfolio of licensees.
- The Group does not have a significant exposure to the Eurozone.

## 1 General information continued

- The Group's marketed products are life-saving in nature, providing some protection against an uncertain economic outlook.
- The Group remains in a cash generative position for the year with cash and cash equivalents totalling £158.7m as at 31 March 2013.
- Subsequent to the year end, the Group signed a £60m multi-currency revolving credit facility providing access to funds for a period of three years to 30 April 2016.

**Acquisition adjustments and reorganisation costs**
The consolidated income statement includes a separate column to disclose significant acquisition adjustments and reorganisation costs arising on corporate acquisitions. Adjustments relate to the acquisitions of:
- Biocompatibles International plc on 27 January 2011.
- Protherics PLC on 4 December 2008.

The costs relate to the following:
- The release of the fair value uplift of inventory acquired.
- Amortisation and impairment arising on intangible assets acquired.
- Transaction costs incurred with professional advisers in relation to the completion of the acquisition.
- Reorganisation costs comprising acquisition related redundancy programmes, property costs, and asset impairments.
- Fair value adjustments to contingent consideration on corporate acquisitions.

## 2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

**(a) Basis of accounting and preparation of financial statements**
The Group 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 consolidated financial statements also comply fully with IFRSs as issued by the International Accounting Standards Board.

The Group financial statements are presented in Sterling and all values are rounded to the nearest £0.1m except where otherwise indicated and have been prepared on the historical cost basis modified to include revaluation to fair value of certain financial instruments and business combination assets as set out below.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 3.

**(b) Basis of consolidation**

(i) Subsidiary undertakings

Subsidiary undertakings are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's proportionate share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying value of its interest in an associate, the Group's carrying amount is reduced to nil and no further losses are recognised except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

## 2 Significant accounting policies continued

### (iii) Acquisition accounting

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets, including intangible assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

### (iv) Merger reserve

A merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006.

### (v) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### (vi) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments. If an investment suffers impairment due to a prolonged or significant decline in the fair value below acquisition cost, its share of the reserve is recycled to the income statement and any further declines in fair value of that investment are no longer charged to the reserve but immediately taken to the income statement.

### (vii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(c) Operating segments**

An operating segment is defined as a component of the Group (i) that engages in business activities from which it may earn revenues and incur expenses; (ii) whose operating results are regularly reviewed by the Group's chief operating decision maker (the Leadership Team) to make resource allocation decisions and monitor its performance; and (iii) for which discrete financial information is available.

**(d) Foreign currency**

### (i) Foreign currency transactions

Transactions in foreign currencies are translated 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 translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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 translated at foreign exchange rates ruling at the dates the fair value was determined. Exchange gains/losses on retranslation of foreign currency transactions and balances within trading intercompany balances are recognised in the income statement within 'Operating expenses'.

### (ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the translation reserve.

## 2 Significant accounting policies continued

### (iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the income statement upon disposal of the investment.

**(e) Derivative financial instruments**

Derivative financial instruments are recognised at fair value and are designated as being measured at fair value through the income statement on inception. The gain or loss on remeasurement to fair value is recognised immediately in the income statement through 'Financial income' or 'Financial expense' as appropriate.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

**(f) Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiary undertakings and associates. In respect of business combinations that have occurred since 1 April 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, including intangible assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see 2(m)). In respect of associates, the carrying value of goodwill is included in the carrying value of the investment in the associate.

**(g) Intangible assets**

### (i) Initial recognition

Intangible assets acquired as a result of a business combination are initially recognised at their fair value in accordance with IFRS3 – 'Business Combinations'.

Other intangible assets are initially recognised at cost. Cost includes the cost of obtaining patent protection for intellectual property rights, the cost of acquisition of patents and the costs of the internal patent attorney specific to obtaining the initial grant of a patent. Income from patents is derived through licensing and other agreements.

### (ii) Amortisation

Intangible assets are amortised in a manner calculated to write off the cost, on a straight-line basis, over the effective life of the asset. In determining the appropriate life of the asset, consideration is given to the expected cash generating life of the asset or remaining patent life if different.

The effective life of each class of asset is determined as follows:

- Developed technology: expected cash-generating life, taking into account specific product and market characteristics for each developed technology.
- Contractual relationships: period to expiry of the contract.
- In-process research and development: amortisation is not charged until the asset is generating an economic return, at which point the effective life is assessed by reference to the remaining patent life.
- Computer software: the shorter of the licence period and three years.
- Patents: period to patent expiry.
- Purchase of contractual rights: period to expiry of the contract.

In the event that an intangible asset is no longer used or a patent is abandoned, the balance of unamortised expenditure is written off immediately.

The following useful economic lives are applied:

| | |
|---|---|
| Developed technology | 2 to 25 years |
| Contractual relationships | 2 to 15 years |
| In-process research and development | 12 to 25 years |
| Computer software | 3 years |
| Patents | 20 years |
| Purchase of contractual rights | 2 to 10 years |

## 2 Significant accounting policies continued

### (iii) Income statement disclosure
Amortisation and impairment of intangible assets is included within 'Operating expenses' in the income statement.

### (iv) Subsequent expenditure
Expenditure subsequent to the initial acquisition of intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### (v) Impairment
If an intangible asset is considered to have suffered impairment in value it is written down to its estimated recoverable amount in accordance with the Group's policy on impairment (see note 2(m)).

**(h) Property, plant and equipment**

### (i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

### (ii) Depreciation
Depreciation is charged to the income statement on a straight-line basis to write assets down to their residual value using the following useful economics lives:

| | |
|---|---|
| Buildings and improvements | 10 to 20 years |
| Leasehold improvements | 2 to 10 years |
| Plant and machinery | 3 to 15 years |
| Furniture and equipment | 2 to 15 years |
| Motor vehicles | 5 years |
| Computer hardware | 3 to 5 years |

Depreciation is not charged until the asset is brought into use. The residual value is reassessed annually.

### (iii) Income statement disclosure
Depreciation and impairment of tangible fixed assets is included within 'Operating expenses' in the income statement.

Profits and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit/loss on sale of tangible assets in the income statement.

### (iv) Subsequent expenditure
Expenditure subsequent to the initial acquisition of a tangible fixed asset is capitalised only when it is probable that the Group will realise future economic benefits from the asset.

### (v) Impairment
If a tangible asset is considered to have suffered impairment in value it is written down to its estimated recoverable amount in accordance with the Group's policy on impairment (see note 2(m)).

**(i) Investments**

Investments in debt and equity securities held by the Group, classified as being available-for-sale, are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are taken to the income statement. When these investments are no longer recognised as assets, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

## 2 Significant accounting policies continued

**(j) Inventories**
Inventories are valued at the lower of cost and net realisable value. The first in, first out method of valuation is used. Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production. Provision is made for obsolete, slow-moving or defective items where appropriate. Net realisable value is determined at the balance sheet date on commercially saleable products based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Inventories relating to research and development projects are fully written down in the income statement unless the Group considers it probable to realise economic value from their sale or use. If the circumstances that previously caused these inventories to be written down below cost subsequently change and there is clear evidence of an increase in realisable value, the write down is reversed.

**(k) Trade and other receivables**
Trade and other receivables do not carry interest and are stated at amortised cost less impairment losses (see 2(m)).

**(l) Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management and for which the Group has a legal right of set-off are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash deposits with a maturity of greater than three months are classified as held to maturity financial assets.

**(m) Impairment**
Impairment testing is performed for all assets when there is an indicator of impairment.

In addition, for goodwill and unamortised intangible assets, impairment testing is performed both in the year of acquisition and annually at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Other specific categories of asset are treated as follows:

(i) Equity investments
Impairment is deemed to arise when there is a significant or prolonged decline in the fair value of the equity instrument. Impairment losses are recognised in the income statement.

(ii) Property, plant and equipment
Property, plant and equipment are subject to impairment testing at each balance sheet date and whenever there are events that indicate that an impairment may have occurred. An impairment loss is recognised if an asset's carrying amount exceeds the greater of its value in use and fair value less costs to sell. Impairment losses are recognised in the income statement.

(iii) Amortised intangible assets
Amortised intangible assets are also tested for impairment whenever there are indications that the carrying value may not be recoverable. Intangible assets are grouped at the lowest level for which there are separately identifiable cash flows. Any impairment losses are recognised immediately in the income statement. When assessing the recoverable amount of an intangible asset the Group uses a risk adjusted discounted cash flow model.

(iv) Available-for-sale assets
When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

## 2 Significant accounting policies continued

**(n) Government grants**

Government grants towards staff retraining costs are recognised as income over the periods in which the related costs are incurred and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the useful lives of the assets concerned.

**(o) Employee benefits**

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. Payments made to state-managed retirement benefit schemes are dealt with in the same manner as payments to defined contribution plans where the Group's obligations under the plans are equivalent to a defined contribution retirement benefit plan. The funds of the schemes are independent of the Group's finances.

(ii) Defined benefit plan

For the Group's defined benefit pension plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Allowance is made in the assessment of the defined benefit obligation for future costs of administering the scheme. The assumptions used to determine the valuation are shown in note 22. Actuarial gains and losses are recognised in full in the period in which they occur. Actuarial gains and losses are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits have already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, reduced by the fair value of scheme assets. The retirement benefit obligation includes an allowance for future administrative costs of running the scheme. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Assets of the pension scheme are held separately from the Group's assets.

(iii) Share-based payments

In accordance with the transition provisions of IFRS1 (First-time Adoption of International Financial Reporting Standards), IFRS2 (Share-based Payment) has been applied to all share-based grants made to employees after 7 November 2002 that had not vested as of 1 January 2005.

The share option programme allows Group employees to acquire shares of the Company, subject to certain criteria. The fair value of options granted is recognised as an expense of employment in the income statement with a corresponding increase in equity. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense in any year is adjusted to reflect the actual number of share options that vest. However if share options fail to vest due to share prices not achieving the designated performance threshold for vesting, no such adjustment takes place.

**(p) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A charge for reorganisation costs is taken to the income statement when the Group has approved a detailed and formal reorganisation plan, and the reorganisation has either commenced or the Group has a constructive obligation, for example having made an announcement publicly to the employee or the Group as a whole.

## 2 Significant accounting policies continued

**(q) Trade and other payables**
Trade and other payables are not interest bearing and are stated at amortised cost except for the contingent value note which is recognised at fair value.

**(r) Revenue recognition**
Revenue represents amounts received or receivable in respect of the sale of marketed products to customers during the year, net of trade discounts given and value added tax, and in respect of royalty arrangements.

A description of the various elements of revenue and the associated accounting policies is given below:

### (i) Marketed Products
The Group recognises revenue for marketed product sales when each condition of IAS18, paragraph 14 is wholly-satisfied. Where sales arrangements specify a second element of revenue contingent upon a specified event, this revenue is not recognised until this event has occurred and it is certain that the economic benefit triggered by this event will flow to the Group. In cases where product is sold to a customer with a right of replacement, the Group views the transaction as a multi-element arrangement and a portion of the value from the sale is deferred and allocated to the replacement right based on the fair value of the replacement right. Revenue is recognised net of any trade discounts that may be given from time-to-time.

### (ii) Royalties
Revenues from the Group's licensed programmes are generated following the grant of a licence to a third-party to undertake additional development and commercialisation of a research and development programme or other intellectual property rights.

In addition to an upfront payment, BTG may be entitled to additional revenues such as milestone payments or royalties on revenues generated by the licensee. Revenues associated with royalty arrangements may in turn be linked to additional obligations on BTG. These revenues are accounted for inline with IAS18 as follows:

#### *Upfront and milestone payments*
Non-refundable upfront and milestone payments are recognised as the earnings process is completed. This may result in full recognition in the year in which the income is received. However, where the Group has ongoing performance obligations such as the delivery of products or services, upfront payments are deferred over the period in which these obligations are satisfied. Associated costs of performance obligations are expensed in the period to which they relate. In determining the performance obligations under the contract, consideration is given as to whether elements of the obligations meet the criteria for separate accounting. The Group applies the substantive milestone method in accounting for subsequent milestone payments. Milestone payments that are considered substantive are recognised into income in the year in which they are received. Milestones that do not satisfy the criteria to be considered as substantive are amortised over the remaining period in which the Group expects to fulfil its performance obligations under the agreement. The Group considers the following when assessing whether a milestone is considered substantive:

- Are the milestone payments non-refundable?
- Does the achievement of the milestone involve a degree of risk that was not reasonably assured at the inception of the arrangement?
- Is substantive effort involved in achieving the milestone?
- Is the amount of the milestone payment reasonable in relation to the effort expended or the risk associated with the achievement of the milestone?
- How does the time that passes between the payments compare to the effort required to reach the milestone?

#### *Outlicensed product royalties*
Royalty income is generated by sales of products incorporating the Group's proprietary technology. Royalty revenues are recognised once the amounts due can be reliably estimated based on the sale of underlying products and recoverability is assured. Where there is insufficient historical data on sales and returns to fulfil these requirements, for example in the case of a new product, the royalty revenue will not be recognised until the Group can reliably estimate the underlying sales.

### (iii) Sales/assignments of IPR
Outright sales or assignments of IPR are treated as disposals of non-current assets.

## 2 Significant accounting policies continued

### (iv) Revenues received in relation to development programmes

Revenue received in relation to development programmes is recognised based on the percentage of completion of the programme. Where payments may be earned in such programmes based on the achievement of uncertain milestones, revenue is restricted to the cumulative cash receivable for the programme.

**(s) Research and development**

Research and development expenditure is charged to the income statement in the period in which it is incurred. Expenditure incurred on development projects (relating to the design and testing of new or improved products) is recognised as intangible assets when it is probable that the project will generate future economic benefit, considering factors including its commercial and technological feasibility, status of regulatory approval, and the ability to measure costs reliably. Other development expenditures are recognised as an expense as incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period. Development expenditure that has a finite useful life and which has been capitalised is amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

No development expenditure has been capitalised in either the current or prior year.

Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy and the cost is included within 'Research and development' in the income statement.

**(t) Cost of sales**

Cost of sales includes the direct costs incurred in manufacturing and bringing products to sale in the market and revenue sharing costs.

Revenue sharing costs represent amounts due under royalty arrangements to licensors or assignees of technology and similar directly attributable items. Amounts are recognised upon recognition by the Group of amounts due from a licensee. They are recognised on an accruals basis in accordance with the individual agreements relating to the relevant technology, inline with revenue recognition.

**(u) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Such assets are depreciated over the shorter of their estimated useful lives or the length of the lease. Assets purchased under hire purchase agreements are accounted for similarly, except that these assets are depreciated over their estimated useful lives.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease within the appropriate functional expenditure heading.

**(v) Net financial income/expense**

Net financial income/expense comprises interest income less interest payable during the year, calculated using the effective interest rate method, and fair value adjustments relating to foreign exchange forward contracts, contingent considerations payable upon corporate and non-corporate acquisitions and borrowings.

**(w) Tax**

Tax on the profit or loss for the year 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 on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

## 2 Significant accounting policies continued

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where it is probable that the temporary differences will 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 value 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 asset can be utilised.

**(x) BTG Employee Share Trust**
Included within the Group's financial results are those of the BTG Employee Share Trust, the costs of which are expensed within the financial statements of the Trust as incurred.

In the Company accounts the cost of BTG shares held by the Trust is deducted from shareholders' funds.

**(y) Financial guarantees**
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contracts as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

**(z) Borrowings**
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate.

**(aa) Biological assets**
Biological assets are recognised when the asset is controlled by the Group and it is probable future economic benefit will a rise from activities associated with the asset. Biological assets are measured at fair value less estimated point-of-sale costs. Any gains or losses in fair value are recognised in the income statement.

## 3 Critical accounting judgements and key sources of estimation uncertainty

**Critical accounting judgements**
In the process of applying the Group's accounting policies, described in note 2, management and the Audit Committee discussed and agreed the selection, application and disclosure of the Group's critical accounting policies and the estimates used in the preparation of the accounts.

**Revenue recognition**
As described in note 2, it is the Group's policy to recognise non-refundable upfront payments over the period in which any performance obligations are satisfied. On 4 December 2008, the Group acquired Protherics which had received £16.3m from AstraZeneca UK Ltd in a Patent and Know How Licence Agreement for AZD9773 (CytoFab™). The Group considered that its obligations under the licence agreement consisted of the licence, provision of development services, regulatory support and steering committee participation. The Group considered that the development services and the regulatory support it could supply would cease with the approval of AZD9773 by the FDA and while the steering committee would have continued to operate after product approval by the FDA, the Group had received confirmation that its participation after this date would become voluntary. Based on the clinical development plan to be undertaken by AstraZeneca, the Group currently estimated that its performance under the agreement would be completed over the period to 31 December 2015 and, therefore, was recognising the £16.3m on a straight-line basis, over the estimated performance period.

## 3 Critical accounting judgements and key sources of estimation uncertainty continued

As detailed in note 29, on 8 August 2012 BTG announced the top-line data form a Phase IIb study of AZD9773 in patients with severe sepsis and/or septic shock, conducted by AstraZeneca. The study failed to meet primary or secondary endpoints. AstraZeneca has terminated its licence agreement and associated arrangement with BTG and has handed back the asset to BTG. BTG does not anticipate conducting any further development of AZD9773. Consequently revenue of £8.6m has been recognised within milestones and one-off income in the Licensing & Biotechnology operating segment. The components of this revenue are:

- The release of the deferred income associated with previous received milestones from AstraZeneca in relation to AZD9773 work streams totalling £6.1m.
- Compensation for early contract termination of £2.5m.

In determining the revenue recognition period, management considered the detailed criteria for the recognition of revenue per IAS18, Revenue, and is satisfied that all requirements have been met by the Group.

**Acquisitions**

Judgements have been made in respect of the identification of intangible assets made on acquisitions based on pre-acquisition forecasts, analysis and negotiations. In addition to the judgements and estimates made in establishing the intangible assets acquired and their value, in certain instances these assets are in development and are only amortised once the development phase has been completed, although these assets are subjected to impairment review in accordance with the accounting policy described in note 2(m).

In addition to significant fair value adjustments in relation to intangible assets, the Group has recognised other fair value adjustments on assets and liabilities acquired. Each adjustment has been calculated inline with the requirements of IFRS3 (revised). The most significant of these relate to:

- Inventory; where inventory acquired has been uplifted in value to be held at estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance.
- Deferred tax; where estimates of deferred tax liabilities arising on acquired intangible assets have been recognised. Where appropriate an associated deferred tax asset, representing management's estimation of the value of tax losses that would be available to the Group to offset the deferred tax liability (see below), has also been recognised.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Impairment of goodwill and other intangibles

Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the cash-generating units to which goodwill or other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. There is a risk of a material adverse impact on the income statement should an impairment adjustment be required to be reflected in the financial statements. See note 2(m) for further details.

### Fair value of listed and unlisted investments

Note 15 explains the basis for estimating the fair value of listed and unlisted investments.

### Pension assumptions

Note 22 details the key actuarial assumptions used to establish the pension funding position. These represent management's best estimates and are chosen based on historic experience and future expectations. Should the discount rate used to establish scheme liabilities or the long-term expected rate of return on investment vary significantly then the pension fund valuation would be impacted.

### Deferred tax

The Group has significant deferred tax assets principally in relation to tax losses. The assets have been recognised on the basis that management estimates demonstrate that it is more likely than not that future taxable profit will arise in the jurisdictions in which the losses are available. If actual events differ from management's estimates or the estimates are changed in the future this could have a significant effect on the balance sheet net asset position of the Group. In recognising deferred tax assets and liabilities, management has taken into account expected changes in tax rates in each relevant jurisdiction.

## 4 Operating segments

Following the acquisition of Biocompatibles International plc on 27 January 2011, the Group aligned behind three reportable segments, being Specialty Pharmaceuticals, Interventional Medicine and Licensing & Biotechnology.

In assessing performance and making resource allocation decisions, the Leadership Team (which is BTG's chief operating decision-making body) reviews "Contribution" by segment. Contribution is defined as being gross profit less directly attributable selling, general and administrative costs (SG&A). The Licensing & Biotechnology operating segment includes SG&A relating to the Group's centrally managed support functions and corporate overheads. This reflects the management structure and stewardship of the business. No allocation of central overheads is made across the Specialty Pharmaceuticals or Interventional Medicine operating segments. Research and development continues to be managed on a global basis, with investment decisions being made by the Leadership Team as a whole. It is not managed by reference to the Group's operating segments, though each programme within the pipeline would ultimately provide revenues for one of the operating segments if successful.

There are no inter-segment transactions that are required to be eliminated on consolidation.

| | Year ended 31 March 2013 | | | |
|---|---|---|---|---|
| | Specialty Pharmaceuticals £m | Interventional Medicine £m | Licensing & Biotechnology £m | Total £m |
| **Revenue** | **97.2** | **36.1** | **100.4** | **233.7** |
| Cost of sales | (21.6) | (5.6) | (40.0) | (67.2) |
| **Gross profit** | **75.6** | **30.5** | **60.4** | **166.5** |
| Selling, general and administrative expenses | (20.2) | (17.5) | (20.3) | (58.0) |
| **Contribution** | **55.4** | **13.0** | **40.1** | **108.5** |
| Amortisation and impairment of acquired intangibles assets | | | | (43.4) |
| Foreign exchange gains | | | | 3.1 |
| Research and development | | | | (41.2) |
| Amounts written off property, plant and equipment | | | | (1.8) |
| Profit on disposal of intangible assets and investments | | | | 0.4 |
| Acquisition and reorganisation costs | | | | 0.1 |
| **Operating profit** | | | | **25.7** |
| Financial income | | | | 1.1 |
| Financial expense | | | | (2.7) |
| **Profit before tax** | | | | **24.1** |
| Tax | | | | (7.7) |
| **Profit for the year** | | | | **16.4** |
| **Unallocated assets** | | | | **539.3** |

## 4 Operating segments continued

| | Year ended 31 March 2012 | | | |
|---|---|---|---|---|
| | Specialty Pharmaceuticals £m | Interventional Medicine £m | Licensing & Biotechnology £m | Total £m |
| **Revenue** | 76.7 | 28.7 | 91.6 | 197.0 |
| Cost of sales[1] | (18.7) | (8.6) | (29.0) | (56.3) |
| **Gross profit** | 58.0 | 20.1 | 62.6 | 140.7 |
| Selling, general and administrative expenses | (18.6) | (13.3) | (17.0) | (48.9) |
| **Contribution** | 39.4 | 6.8 | 45.6 | 91.8 |
| Amortisation and impairment of acquired intangibles assets | | | | (30.7) |
| Foreign exchange gains | | | | 2.6 |
| Research and development | | | | (39.7) |
| Amounts written off property, plant and equipment | | | | (3.0) |
| Profit on disposal of intangible assets and investments | | | | 0.2 |
| Acquisition and reorganisation costs | | | | (1.1) |
| Amounts written off investments | | | | (0.2) |
| **Operating profit** | | | | 19.9 |
| Financial income | | | | 4.7 |
| Financial expense | | | | (1.6) |
| **Profit before tax** | | | | 23.0 |
| Tax | | | | (8.4) |
| **Profit for the year** | | | | 14.6 |
| **Unallocated assets** | | | | 505.8 |

1 2012 includes a £2.1m release of the fair value uplift of inventory purchased on the acquisition of Biocompatibles International plc on 27 January 2011 within the Interventional Medicine segment representing the reversal of a fair value uplift applied to inventory purchased on acquisition recognised through the income statement when the product was sold.

### Revenue analysis

Analysis of revenue, based on the geographical location of customers and the source of revenue is provided below:

### Geographical analysis

| | **Year ended 31 March 2013 £m** | Year ended 31 March 2012 £m |
|---|---|---|
| USA | **202.8** | 168.1 |
| UK | **21.2** | 10.0 |
| Europe (excluding UK) | **5.3** | 15.1 |
| Other regions | **4.4** | 3.8 |
| | **233.7** | 197.0 |

## 4 Operating segments continued

### Revenue from major products and services

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| Product sales | **134.3** | 106.7 |
| Royalties | **90.8** | 79.2 |
| Other | **8.6** | 11.1 |
| | **233.7** | 197.0 |

**Major customers**
Products that utilise the Group's intellectual property rights are sold by licensees. Royalty income is derived from over 70 licences. One licence individually generated royalty income in excess of 10% of Group revenue of £49.9m (2012: Two licences generated £29.4m and £24.4m respectively).

The Group's marketed products are sold both directly and through distribution agreements in the USA, Europe and Asia Pacific region. Two customers individually generated income in excess of 10% of Group revenue, being £25.2m and £24.8m respectively (2012: Two customers generated £22.3m and £21.9m respectively).

## 5 Acquisition and reorganisation costs

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| BTG plc and Biocompatibles International plc costs | **(0.1)** | 1.1 |

The Group considers 'acquisition and reorganisation costs' to include transaction costs of completing the acquisition and those costs resulting directly from decisions to rationalise operating sites and business operations.

## 6 Operating profit

Operating profit has been arrived at after charging/(crediting):

| | Note | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|---|
| Depreciation and other amounts written off property, plant and equipment | 14 | **4.9** | 6.2 |
| Amortisation and impairment of intangible assets | 13 | **45.1** | 31.9 |
| Amounts written off investments | | **–** | 0.2 |
| Net foreign exchange gains | | **(3.1)** | (2.6) |
| Research and development expenses | | **41.2** | 39.7 |
| Staff costs | 7 | **49.8** | 40.6 |
| Operating lease rentals payable on property | | **1.7** | 1.9 |
| Reorganisation costs, including release of onerous lease provision | 5 | **(0.1)** | 1.1 |

## 6 Operating profit continued

The analysis of the auditor's remuneration is as follows:

| | Year ended 31 March 2013 £'000 | Year ended 31 March 2012 £'000 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | **121** | 153 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit of the company's subsidiaries persuant to legislation | **265** | 265 |
| Audit related assurance services | **53** | 50 |
| Taxation compliance services | **71** | 46 |
| All taxation advisory services not covered above | **42** | – |
| Internal audit services | **–** | – |
| All assurance services not covered above | **–** | – |
| All services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates | **30** | – |
| All other non audit services | **–** | – |

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 57 to 60 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## 7 Staff costs

Staff costs (including directors' emoluments and reorganisation costs) are as follows:

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| Salaries | **38.6** | 32.8 |
| Social security costs | **4.3** | 3.3 |
| Defined contribution pension costs | **1.9** | 1.7 |
| Defined benefit pension costs | **0.3** | 0.4 |
| Equity-settled transactions | **4.7** | 2.4 |
| | **49.8** | 40.6 |

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 63 to 81. In addition to the disclosures in the remuneration report, the charge to income in respect of equity-settled transactions of key management personnel, in accordance with IFRS2, was £1.2m (2012: £0.9m).

The average number of persons employed by the Group during the year (including executive directors), analysed by category, was as follows:

| | Year ended 31 March 2013 Number | Year ended 31 March 2012 Number |
|---|---|---|
| Management | **42** | 50 |
| Research and production | **326** | 312 |
| Sales, administration and business support | **201** | 136 |
| | **569** | 498 |

## 8 Financial income

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| Interest receivable on money-market and bank deposits | **1.1** | 0.7 |
| Fair value changes on Contingent Value Notes[1] | **–** | 1.1 |
| Fair value changes of borrowings[2] | **–** | 2.9 |
| Financial income | **1.1** | 4.7 |

**1 Contingent Value Notes**
As part of BTG's acquisition of Biocompatibles in January 2011, 487 Biocompatibles shareholders elected to receive in aggregate 10,722,465 Contingent Value Notes (CVNs) providing a right to a payment of the Sterling equivalent of €0.56 per Biocompatibles share if AstraZeneca exercised its option to enter a licence agreement relating to CM-3 on the pre-agreed terms. In May 2011 AstraZeneca decided to terminate the development and option agreement. The payment obligation would only have arisen if BTG entered into another form of licence, sale or other disposal of the GLP-1 asset to AstraZeneca prior to 31 December 2012. The BTG Board did not believe that there was any realistic possibility that this would occur. Accordingly, in the prior year, the Group derecognised a liability of £1.1m in relation to the CVNs through the income statement in financial income in the acquisition adjustments and reorganisation costs column. Subsequently no qualifying form of agreement was entered into by the Group.

**2 Borrowings**
In the prior year, following the withdrawal of the Novabel® product from the market, termination of the supply agreement with Merz and subsequent impairments recognised within tangible and intangible assets, the Group derecognised a £2.8m loan from Merz as there was no obligation for this to be repaid. The loan was received to fund the purchase of tangible assets for use in the manufacture of Novabel® and was repayable out of revenues.

## 9 Financial expense

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| Fair value changes of foreign exchange forward contracts | **2.6** | 1.5 |
| Others | **0.1** | 0.1 |
| Financial expense | **2.7** | 1.6 |

## 10 Tax

An analysis of the tax charge in the income statement for the year, all relating to current operations, is as follows:

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax charge | **3.6** | 2.8 |
| Overseas corporate tax charge | **2.6** | 0.9 |
| Adjustments in respect of prior years | **(2.1)** | 0.2 |
| Total current taxation | **4.1** | 3.9 |
| **Deferred taxation** | | |
| Deferred tax | **1.8** | 5.3 |
| Adjustments to tax rates | **1.8** | (0.8) |
| Total tax charge for the year | **7.7** | 8.4 |

In addition to the tax charge in the income statement, a deferred tax charge of £1.6m has been recognised in the consolidated statement of other comprehensive income.

UK corporation tax is calculated at 24% (2012: 26%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of the effective tax rate:

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| Profit before tax | **24.1** | 23.0 |
| Tax using UK corporation tax rate of 24% (2012: 26%) | **5.8** | 5.9 |
| Effect of overseas tax rates | **2.9** | 2.9 |
| Change in unrecognised deferred tax assets | **(1.3)** | 2.1 |
| Non-deductible expenses | **2.3** | 0.3 |
| Additional tax credit for research and development expenditure | **(0.3)** | (0.6) |
| Adjustments to tax rates | **1.8** | (0.8) |
| Adjustments in respect of prior years | **(3.5)** | (1.4) |
| | **7.7** | 8.4 |

## 10 Tax continued

An analysis of amounts included in the consolidated statement of financial position in respect of income taxes is shown below:

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Current assets** | | |
| Overseas corporate tax receivable | **0.4** | – |
| **Current liabilities** | | |
| UK corporation tax payable | **0.4** | 0.9 |
| Overseas corporate tax payable | **0.8** | 1.2 |
| | **1.2** | 2.1 |

**Deferred taxation**

The movements in the deferred tax asset and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12, Income Taxes) during the year are as shown below. The deferred tax asset and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balance net.

**Deferred tax asset**

| | 2013 £m | 2012 £m |
|---|---|---|
| Deferred tax asset recognised at 1 April | **1.0** | 0.9 |
| Income statement (charge)/credit | **(0.1)** | 0.1 |
| Deferred tax asset recognised at 31 March | **0.9** | 1.0 |

The deferred tax asset relates to short-term timing differences in Australia. It has been recognised using a tax rate of 30% (2012: 30%) because the directors are of the opinion, based on recent and forecast trading, that the level of profits in Australia in the forthcoming years will lead to the realisation of this asset.

**Deferred tax liability**

The deferred tax liability of £41.8m (2012: £35.2m) represents the net position after taking into account the offset of deferred tax assets against deferred tax liabilities in each jurisdiction. Deferred tax liabilities of £62.4m arise on intangible assets recognised at fair value on acquisitions, £1.6m on pension fund surplus and £0.1m on accelerated capital allowances. Deferred tax assets relate to brought forward trading losses. The table below summarises the gross and net position at each balance sheet date:

| | Deferred tax assets £m | Deferred tax liabilities £m | Net deferred tax liability £m |
|---|---|---|---|
| At 1 April 2011 | 55.4 | (86.1) | (30.7) |
| Adjustments re prior years | (1.4) | 2.8 | 1.4 |
| Income statement (debit)/credit | (16.2) | 9.9 | (6.3) |
| Exchange differences | 0.1 | (0.1) | – |
| Other | – | 0.4 | 0.4 |
| At 1 April 2012 | 37.9 | (73.1) | (35.2) |
| Adjustments re prior years | 1.3 | – | 1.3 |
| Income statement (debit)/credit | (17.4) | 12.5 | (4.9) |
| Other comprehensive income debit | – | (1.6) | (1.6) |
| Exchange differences | 0.5 | (1.9) | (1.4) |
| **At 31 March 2013** | **22.3** | **(64.1)** | **(41.8)** |

## 10 Tax continued

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. The further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015 have not yet been substantively enacted. This will reduce the Company's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2013 have been calculated based on the rate of 23% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset and liability accordingly.

**Unrecognised tax losses**

In addition to the losses on which a deferred tax asset has been recognised, the Group has additional tax losses and other timing differences in the UK and the US which arose principally as a result of the research and development incurred during the start up of the Group's activities. These losses and timing differences are shown below. The UK tax losses can be carried forward indefinitely. The US tax losses can be carried forward for 20 years and the first year in which they expire is 2032.

A deferred tax asset has not been recognised in respect of the losses and timing differences shown below as there is uncertainty as to whether such losses and timing differences can be used.

The total amount of tax losses and timing differences not recognised is shown below:

| | **31 March 2013 £m** | 31 March 2012 £m |
|---|---|---|
| Tax losses | **120.0** | 157.4 |
| Deductible temporary differences | **30.4** | 15.9 |
| | **150.4** | 173.3 |

## 11 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| Profit for the financial year (£m) | **16.4** | 14.6 |
| Profit per share (p) | | |
| Basic | **5.0** | 4.5 |
| Diluted | **5.0** | 4.4 |
| Number of shares (m) | | |
| Weighted average number of shares – basic | **326.9** | 325.9 |
| Effect of share options on issue | **4.0** | 3.4 |
| Weighted average number of shares – diluted | **330.9** | 329.3 |

The basic and diluted earnings per share from underlying earnings are based on the following data:

| | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| Profit for the financial year (£m) | **16.4** | 14.6 |
| Add back: | | |
| Fair value adjustment on acquired inventory[1] | **–** | 2.1 |
| Fair value adjustment on royalty income | **–** | 0.1 |
| Amortisation of acquired intangible fixed assets[2] | **31.1** | 19.3 |
| Acquisition and reorganisation costs including CVN writeback[3] | **(0.1)** | (0.1) |
| Reorganisation of US corporate structure[4] | **–** | 1.0 |
| Underlying earnings | **47.4** | 37.0 |
| Underlying profit per share (p) | | |
| Basic | **14.5** | 11.4 |
| Diluted | **14.3** | 11.2 |

Adjustments to profit are shown after taking into account the tax effect of such adjustments on the results as shown in the consolidated income statement as follows:

1 No tax adjustment was required on the fair value of acquired inventory in the prior year.
2 The release of deferred tax liability of £12.3m (2012: £11.4m) has been deducted from the amortisation and impairment of acquired intangible assets of £43.4m (2012: £30.7m) as shown in the consolidated income statement.
3 In the year ended 31 March 2013 there was nil tax impact on reorganisation credits of £0.1m that have been adjusted. In the year ended 31 March 2012, £0.1m of tax effect of reorganisation costs was adjusted on the basis that the tax charge would have been £0.1m higher had it not been for deductions available against reorganisation costs paid in the financial year.
4 An adjustment was made for the deferred tax credit recognised at 31 March 2011 as a result of the completion of a tax-free reorganisation and subsequent review of such items in the year ended 31 March 2012.

## 12 Goodwill

| | £m |
|---|---|
| At 1 April 2011 | 59.2 |
| At 1 April 2012 | 59.2 |
| **At 31 March 2013** | **59.2** |
| **Accumulated impairment losses** | |
| At 1 April 2011, 1 April 2012 and 31 March 2013 | – |
| **Net book value at 31 March 2013** | **59.2** |
| Net book value at 1 April 2012 | 59.2 |
| Net book value at 1 April 2011 | 59.2 |

**Impairment review – goodwill and intangible assets**
An impairment review of the carrying value of goodwill and unamortised intangible assets was conducted as at 31 March 2013.

Goodwill arose on the acquisitions of Protherics PLC and Biocompatibles International plc. This has been allocated across the Group's cash generating units, being its operating segments (see note 4). Goodwill recognised on acquisitions has been allocated across operating segments in proportion to the anticipated benefits of that goodwill on the operating segment, having regard for the assets and liabilities acquired. The carrying value of goodwill has been allocated as relating to Specialty Pharmaceuticals, £16.4m (2012: £16.4m), as relating to Interventional Medicine, £22.6m (2012: £22.6m) and in relation to Licensing & Biotechnology, £20.1m (2012: £20.1m).

The impairment review required the estimation of the recoverable amount based on the value in use of the underlying cash generating unit. Near-term projections are based on the Group's approved three-year plan. Longer-term projections through to the end of an asset's estimated useful economic life are included due to the long-term nature of pharmaceutical product development and product life cycles.

The main assumptions on which the forecast cashflows were based include market share and gross margin for the marketed products, individual probability-adjusted cash flow models for all in-process research and development and an assessment of the net present value of future net royalty income for licensed patents.

Cash flow projections for all assets were included for a period equal to the estimated useful economic life of the assets. No terminal values were applied. All cashflows were discounted back to present value using a pre-tax discount rate of between 8% (2012: 7%) for net royalty income and 22% (2012: 28%) for in-process research and development, which takes into account the individual risk characteristics of each particular asset and related income stream.

For developed technology, the Group uses its approved three-year budget for near-term sales projections, adjusting for expected changes in future conditions, including those anticipated as a result of our knowledge of competitor activity and our assessment of future changes in the pharmaceutical industry for long-term projections.

For contractual relationships, the Group uses the same basic methodology as for developed technology but limits the projection period to the appropriate useful economic life of the contractual relationship.

For in-process research and development the key assumptions are the chance of product launch, market share and overall market size. Industry average statistics are used to assess the chance of product launch, taking in to account the stage of development of the asset, the therapeutic area targeted and any known specific characteristics of the asset. Market share and overall market size are assessed by reference to independent industry market reports.

In assessing whether there has been an impairment the net present value of future cashflows is compared to the carrying value in the accounts.

## 13 Intangible assets

| Group | Developed technology £m | Contractual relationships £m | In-process research and development £m | Computer software £m | Patents £m | Purchase of contractual rights £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 April 2011 | 230.2 | 40.0 | 18.8 | 0.3 | 13.2 | 9.5 | 312.0 |
| Additions | – | – | – | 0.3 | 0.3 | 6.1 | 6.7 |
| Transfers | 3.9 | – | (3.9) | – | – | – | – |
| Disposals | – | – | – | – | (0.2) | – | (0.2) |
| Currency movements | – | 0.1 | (0.1) | – | – | 0.1 | 0.1 |
| At 1 April 2012 | 234.1 | 40.1 | 14.8 | 0.6 | 13.3 | 15.7 | 318.6 |
| Additions | – | – | – | 0.2 | 0.7 | 1.8 | 2.7 |
| Disposals | (4.8) | (0.2) | (8.9) | – | (0.6) | – | (14.5) |
| Currency movements | 5.8 | 1.6 | (0.1) | – | 1.1 | 0.9 | 9.3 |
| **At 31 March 2013** | **235.1** | **41.5** | **5.8** | **0.8** | **14.5** | **18.4** | **316.1** |
| **Amortisation** | | | | | | | |
| At 1 April 2011 | 12.0 | 8.8 | 0.9 | – | 9.8 | 9.5 | 41.0 |
| Provided during the year | 12.3 | 4.7 | – | 0.1 | 0.6 | 0.1 | 17.8 |
| Impairments | 5.0 | – | 8.8 | – | 0.3 | – | 14.1 |
| Writeback on disposals | – | – | – | – | (0.2) | – | (0.2) |
| Currency movements | (0.2) | – | – | – | 0.1 | – | (0.1) |
| At 1 April 2012 | 29.1 | 13.5 | 9.7 | 0.1 | 10.6 | 9.6 | 72.6 |
| Provided during the year | 12.5 | 2.0 | – | 0.1 | 0.8 | 0.4 | 15.8 |
| Impairments | – | 24.0 | 5.0 | – | 0.3 | – | 29.3 |
| Writeback on disposals | (4.8) | (0.2) | (8.9) | – | (0.6) | – | (14.5) |
| Currency movements | 0.8 | 1.3 | – | – | 1.0 | 0.6 | 3.7 |
| **At 31 March 2013** | **37.6** | **40.6** | **5.8** | **0.2** | **12.1** | **10.6** | **106.9** |
| **Net book value** | | | | | | | |
| **At 31 March 2013** | **197.5** | **0.9** | **–** | **0.6** | **2.4** | **7.8** | **209.2** |
| At 1 April 2012 | 205.0 | 26.6 | 5.1 | 0.5 | 2.7 | 6.1 | 246.0 |
| At 1 April 2011 | 218.2 | 31.2 | 17.9 | 0.3 | 3.4 | – | 271.0 |

Amortisation relating to acquired intangibles is shown on the face of the income statement within ‘Amortisation of acquired intangibles’. All other amortisation and impairment is shown within ‘Selling, general and administrative expenses’ in ‘Operating expenses’.

## 13 Intangible assets continued

**Developed technology**

Developed technology relates to both the antidote assets acquired in Protherics PLC comprising principally of the rights to CroFab® and DigiFab® and the bead assets acquired in Biocompatibles International plc comprising principally of the rights to the DC Bead® and LC Bead™. The carrying value of individually significant assets within developed technology is:

| | **31 March 2013 £m** | 31 March 2012 £m | Remaining amortisation period at 31 March 2013 |
|---|---|---|---|
| CroFab® | **73.1** | 72.8 | 20.7 years |
| DigiFab® | **23.6** | 23.5 | 20.7 years |
| DC Bead® and LC Bead™ | **91.2** | 98.3 | 12.8 years |

**Contractual relationships**

Contractual relationships relates to contracts acquired in Protherics PLC and Biocompatibles International plc. The carrying value and remaining amortisation period of individually significant contracts is:

| | **31 March 2013 £m** | 31 March 2012 £m | Remaining amortisation period at 31 March 2013 |
|---|---|---|---|
| Licence agreement with AstraZeneca for AZD9773 (CytoFab™) | **–** | 22.9 | – |

An impairment charge of £22.5m has been recognised in amortisation and impairment of acquired intangibles in the acquisition adjustments and reorganisation costs column in the income statement in relation to AZD9773 (see note 29).

**Purchase of contractual rights**

In May 2012, BTG signed an agreement with Wellstat Therapeutics Corporation to acquire the rights to distribute uridine triacetate on a name patient supply basis in Europe for an upfront payment of $3.0m, together with an option to market uridine triacetate following EU regulatory approval, under pre-agreed financial terms including a multi-million dollar exercise fee.

In July 2011 BTG signed an agreement with Wellstat Therapeutics Corporation to acquire the US commercial rights to product candidate uridine triacetate. BTG paid Wellstat an upfront fee of $7.5 million and will make milestone payments upon NDA acceptance and approval and inventory purchase payments based on manufacturing costs and a significant percentage of net sales. The fair valuation of consideration was capitalised at 6 July 2011 and will be amortised over the ten year period starting from marketing approval representing the length of the exclusive period and point at which BTG will begin to generate economic returns from the product.

## 14 Property, plant and equipment

| | Leasehold improvements £m | Freehold land and buildings £m | Plant and machinery, Furniture and equipment £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2011 | 1.2 | 12.9 | 15.3 | 3.3 | 32.7 |
| Additions | – | 0.2 | 2.0 | 1.6 | 3.8 |
| Transfers | 0.2 | – | 0.2 | (0.4) | – |
| Disposals | (0.1) | – | (1.6) | (0.2) | (1.9) |
| Currency movements | – | 0.1 | – | (0.1) | – |
| At 1 April 2012 | 1.3 | 13.2 | 15.9 | 4.2 | 34.6 |
| Additions | 0.1 | 3.4 | 1.8 | 2.2 | 7.5 |
| Transfers | 0.3 | – | 0.6 | (0.9) | – |
| Disposals | – | – | (0.9) | – | (0.9) |
| Currency movements | – | 0.8 | 0.3 | 0.1 | 1.2 |
| **At 31 March 2013** | **1.7** | **17.4** | **17.7** | **5.6** | **42.4** |
| **Depreciation** | | | | | |
| At 1 April 2011 | 0.2 | 1.5 | 6.2 | – | 7.9 |
| Provided during the year | 0.2 | 0.6 | 2.4 | – | 3.2 |
| Impairments | – | – | 3.0 | – | 3.0 |
| Disposals | (0.1) | – | (1.5) | – | (1.6) |
| Currency movements | – | – | 0.1 | – | 0.1 |
| At 1 April 2012 | 0.3 | 2.1 | 10.2 | – | 12.6 |
| Provided during the year | 0.2 | 0.6 | 2.3 | – | 3.1 |
| Impairments | – | 0.1 | 1.6 | 0.1 | 1.8 |
| Disposals | – | – | (0.9) | – | (0.9) |
| Currency movements | – | 0.1 | 0.3 | – | 0.4 |
| **At 31 March 2013** | **0.5** | **2.9** | **13.5** | **0.1** | **17.0** |
| **Net book value at 31 March 2013** | **1.2** | **14.5** | **4.2** | **5.5** | **25.4** |
| Net book value at 1 April 2012 | 1.0 | 11.1 | 5.7 | 4.2 | 22.0 |
| Net book value at 1 April 2011 | 1.0 | 11.4 | 9.1 | 3.3 | 24.8 |

The net book value of plant and machinery and furniture, fixtures and equipment includes £0.2m (2012: £0.5m) in respect of assets held under finance lease and hire purchase agreements. Depreciation for the year on those assets was £0.1m (2012: £0.2m).

As detailed in note 29, property, plant and equipment write downs associated with assets used in the development of AZD9773 of £1.8m have been recognised in the amounts written off property, plant and equipment. This adjustment was not reflected in the acquisition adjustments and reorganisation costs column.

In the prior year an impairment charge of £3.0m was made against tangible fixed assets that would have been used exclusively for production of Novabel® . The product has been withdrawn from the market since June 2010 and Merz has terminated the supply agreement with the Group. This adjustment was not reflected in the acquisition adjustments and reorganisation costs column.

## 15 Other investments

| | 2013 £m | 2012 £m |
|---|---|---|
| At 1 April | **3.0** | 2.7 |
| Additions | **–** | 0.5 |
| Impairment charge | **–** | (0.2) |
| At 31 March | **3.0** | 3.0 |

Other investments comprise non-current equity investments which are available-for-sale that are recorded at fair value at each balance sheet date. The fair value of unlisted investments is estimated to be the valuation following the latest round of equity funding. In the absence of specific market data the Group determines that cost is equal to fair value.

Where the fair value of an available-for-sale asset is impaired, the impairment charge is recognised in the income statement, together with any amounts recycled from the fair value reserve (see note 19). These impairments initially arise from the prolonged or significant decline in the fair value of the equity investments below acquisition cost, subsequent to which any further decline in fair value is immediately taken to the income statement.

## 16 Inventories

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| Raw materials and consumables | **10.0** | 6.6 |
| Work in progress | **11.6** | 12.4 |
| Finished goods | **1.7** | 2.8 |
| | **23.3** | 21.8 |

In the prior period a fair value adjustment of £2.1m was recognised through cost of sales (see note 4) leaving £nil of fair value uplift recognised on the acquisition of Biocompatibles International plc remaining. Inventory to the value of £1.6m (2012: £1.5m) was written off through cost of sales.

## 17 Trade and other receivables

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Due within one year** | | |
| Revenues receivable, net of provisions | **19.2** | 20.4 |
| Other debtors | **6.5** | 3.6 |
| Prepayments and accrued income | **28.8** | 16.1 |
| | **54.5** | 40.1 |

**Managing credit risk:**
'Revenues receivable, net of provisions' represents accrued royalty income for the period to 31 March 2013 and certain other amounts receivable under licence agreements.

## 17 Trade and other receivables continued

The ageing of these amounts was as follows:

| | 31 March 2013 | | 31 March 2012 | |
|---|---|---|---|---|
| | **Gross £m** | **Provision £m** | Gross £m | Provision £m |
| Not past due | **17.0** | **–** | 19.8 | – |
| 0-30 days | **1.6** | **–** | 0.5 | – |
| 31-90 days | **0.3** | **–** | 0.1 | – |
| > 90 days | **1.1** | **(0.8)** | 0.8 | (0.8) |
| Total | **20.0** | **(0.8)** | 21.2 | (0.8) |

Provisions for bad debts of £0.8m (31 March 2012: £0.8m) have been made to write down the value of doubtful receivables to estimated recoverable amounts. The charge to income for the year to 31 March 2013 in respect of provisions for bad debts was £nil (2012: £0.5m).

## 18 Cash and cash equivalents

| | **31 March 2013 £m** | 31 March 2012 £m |
|---|---|---|
| Bank balances | **158.7** | 106.9 |
| Cash and cash equivalents in statement of cash flows | **158.7** | 106.9 |

Cash deposits with a maturity of greater than three months are classified as held to maturity financial assets.

### Held to maturity financial assets

| | **31 March 2013 £m** | 31 March 2012 £m |
|---|---|---|
| Bank deposits | **–** | 5.0 |

The effective interest rate on held to maturity financial assets in the prior year was 3.5% and these deposits had an average maturity of ten months.

## 19 Equity

Other reserves are analysed as follows:

| | Translation reserve £m | Fair value reserve £m | Total other reserves £m |
|---|---|---|---|
| At 1 April 2011 | (3.8) | 0.1 | (3.7) |
| Total recognised income and expense | (0.3) | – | (0.3) |
| At 1 April 2012 | (4.1) | 0.1 | (4.0) |
| Total recognised income and expense | 4.2 | – | 4.2 |
| **At 31 March 2013** | **0.1** | **0.1** | **0.2** |

The merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006. The balance on the merger reserve has arisen through the acquisitions of Biocompatibles International plc on 27 January 2011 and Protherics PLC on 4 December 2008 and includes directly attributable costs of issuing shares of £1.1m relating to the acquisition of Biocompatibles International plc.

The issued and fully paid share capital of the Company is shown below:

Ordinary shares of 10p each

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number | £m | Number | £m |
| At 1 April | **327,292,865** | **32.7** | 326,725,906 | 32.7 |
| Issued for cash | **984,006** | **0.1** | 566,959 | – |
| At 31 March | **328,276,871** | **32.8** | 327,292,865 | 32.7 |

The shares issued in the current and prior year were as a result of the acquisition of the Biocompatibles Group and the exercise of share options.

**Share options**
Details of outstanding share options are set out in note 23.

## 20 Trade and other payables

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | **9.4** | 6.0 |
| Accruals and deferred income | **47.6** | 45.9 |
| Other creditors | **4.6** | 3.5 |
| | **61.6** | 55.4 |
| **Amounts falling due after more than one year** | | |
| Accruals and deferred income | **0.3** | 4.7 |
| Other creditors | **0.2** | 0.3 |
| | **0.5** | 5.0 |

## 21 Derivative financial instruments

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Contracts with positive fair values** | | |
| Forward foreign exchange contracts | **–** | 0.5 |
| **Derivative instrument assets** | **–** | 0.5 |
| **Contracts with negative fair values** | | |
| Forward foreign exchange contracts | **2.2** | – |
| **Derivative instrument liabilities** | **2.2** | **–** |

The Group utilises foreign currency derivatives to hedge significant future transactions and cash flows.

At 31 March 2013 the Group had forward contracts to sell US$71m in the period to September 2013 at rates in the range £1:US$1.56 to £1:US$1.61. The fair value of these derivative financial instruments was marked-to-market at 31 March 2013 as a liability at £2.2m.

At 31 March 2012 the Group had forward contracts to sell US$25m in the period to September 2012 at rates in the range £1:US$1.54 to £1:US$1.60. The fair value of these derivative financial instruments was marked-to-market at 31 March 2012 as an asset at £0.5m.

At 31 March 2012 the Group had a forward contract to buy AU$1m in April 2012 at a rate of £1:AU$1.52. The fair value of this forward contract was marked-to-market at 31 March 2012 at £nil.

The fair value loss for the year associated with these forward contracts was included within ‘Financial expense’.

A 5% strengthening of the US$ as at 31 March 2013, all other variables being unchanged, would result in an additional £2.3m charge within ‘Financial expense’ in the income statement and a fair value liability of £4.5m within ‘Derivative instruments’ within current liabilities. A 5% weakening of the US$ would result in a £2.3m reduction within ‘Financial income’ and a decrease in ‘Derivative instruments’ to £nil within current liabilities with the Group recognising a current asset of £0.1m within ‘Derivative instruments’.

## 22 Retirement benefit schemes

**Defined benefit scheme**

For eligible UK employees the Group operates a funded pension plan providing benefits based on final pensionable emoluments. The plan was closed to new entrants as of 1 June 2004. The assets of the plan are held in a separate trustee administered fund. The plan has a history of granting increases to pensions inline with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the formal valuation of the plan as at 31 March 2010 were updated to the accounting date by an independent qualified actuary in accordance with IAS19.

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index ('RPI'). The Group continues to value its pension fund liability on the basis of RPI.

The expected rate of return on assets for the financial year ending 31 March 2013 was 4.6% pa (2012: 5.4% pa). This rate is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the plan was invested in at 31 March 2012, based on the plan's long-term investment strategy at that date.

The estimated amount of total employer contributions expected to be paid to the plan during 2013/14 is £3.9m (2012/13 actual: £5.1m). The estimate is based on the current schedule of contributions agreed as part of the formal valuation of the plan as at 31 March 2010.

The following table sets out the key IAS19 assumptions used for the plan:

| | **31 March 2013** | 31 March 2012 | 31 March 2011 |
|---|---|---|---|
| Retail price inflation | **3.6% p.a.** | 3.5% p.a. | 3.7% p.a. |
| Discount rate | **4.4% p.a.** | 4.7% p.a. | 5.5% p.a. |
| Pension increases in deferment – RPI inflation | **3.6% p.a.** | 3.5% p.a. | 3.7% p.a. |
| Pension increases in payment – RPI inflation | **3.6% p.a.** | 3.5% p.a. | 3.7% p.a. |
| Pension increases in payment – inflation capped at 2.5% | **2.3% p.a.** | 2.3% p.a. | 2.3% p.a. |
| General salary increases | **3.6% p.a.** | 3.5% p.a. | 3.7% p.a. |
| Life expectancy at age 60 of a male age 60 at the accounting date | **87.5** | 87.3 | 87.3 |
| Life expectancy at age 60 of a male age 40 at the accounting date | **89.1** | 88.9 | 88.8 |

The amount included in the statement of financial position arising from the Group's obligations in respect of the plan is as follows:

| | **31 March 2013 £m** | 31 March 2012 £m | 31 March 2011 £m |
|---|---|---|---|
| Present value of defined benefit obligation | **(116.3)** | (108.6) | (96.8) |
| Fair value of scheme assets | **121.0** | 108.5 | 94.8 |
| **Net asset/(liability) recognised in the statement of financial position** | **4.7** | (0.1) | (2.0) |

A net asset is presented in the statement of financial position within non-current assets. A net liability is presented in the statement of financial position within non-current liabilities.

## 22 Retirement benefit schemes continued

The amounts recognised in the income statement in respect of the plan are as follows:

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| Employer's part of current service cost | **0.4** | 0.4 |
| Interest cost | **5.0** | 5.2 |
| Expected return on plan assets | **(5.0)** | (5.2) |
| **Total expense included in income statement** | **0.4** | 0.4 |

The expense has been included in 'Operating expenses: Selling, general and administrative expenses'.

The allocation of the plan's assets is as follows:

| | 31 March 2013 % | 31 March 2012 % | 31 March 2011 % |
|---|---|---|---|
| Equity instruments | **15** | 15 | 17 |
| Diversified growth funds | **14** | 14 | 14 |
| Debt instruments | **70** | 70 | 68 |
| Cash/net current assets | **1** | 1 | 1 |
| | **100** | 100 | 100 |

Changes in the present value of the defined benefit obligation are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Defined benefit obligation at 1 April | **108.6** | 96.8 |
| Employer's part of current service cost | **0.4** | 0.4 |
| Interest cost | **5.0** | 5.2 |
| Contributions from plan members | **0.1** | 0.1 |
| Actuarial loss on scheme liabilities | **7.0** | 10.6 |
| Benefits paid | **(4.8)** | (4.5) |
| **Defined benefit obligation at 31 March** | **116.3** | 108.6 |

Changes in the fair value of the plan assets are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Fair value of plan assets at 1 April | **108.5** | 94.8 |
| Expected return on plan assets | **5.0** | 5.2 |
| Actuarial gains on scheme assets | **7.1** | 7.7 |
| Contributions by the employer | **5.1** | 5.2 |
| Contributions by plan members | **0.1** | 0.1 |
| Benefits paid | **(4.8)** | (4.5) |
| **Fair value of plan assets at 31 March** | **121.0** | 108.5 |

The actual return on the plan's assets over the year was £12.1m (2012: £12.9m).

The amount recognised outside profit and loss in other comprehensive income for 2013 is a gain of £0.1m (2012: loss of £2.9m). The cumulative amount recognised outside profit and loss as at 31 March 2013 is a loss of £10.6m (2012: loss of £10.7m).

## 22 Retirement benefit schemes continued

The history of experience adjustment is as follows:

| | 31 March 2013 £m | 31 March 2012 £m | 31 March 2011 £m | 31 March 2010 £m | 31 March 2009 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | **(116.3)** | (108.6) | (96.8) | (98.3) | (74.9) |
| Fair value of plan assets | **121.0** | 108.5 | 94.8 | 89.1 | 74.9 |
| **Asset/(Deficit) in the scheme** | **4.7** | (0.1) | (2.0) | (9.2) | – |

| | 31 March 2013 | 31 March 2012 | 31 March 2011 | 31 March 2010 | 31 March 2009 |
|---|---|---|---|---|---|
| **Experience adjustments on plan assets** | | | | | |
| Amount of (gain)/loss (£m) | **(7.1)** | (7.7) | (0.9) | (10.4) | 7.4 |
| Percentage of plan assets (%) | **6** | 7 | 1 | 12 | (10) |
| **Experience adjustments on plan liabilities** | | | | | |
| Amount of (gain)/loss (£m) | **(0.9)** | 1.5 | 3.4 | (2.5) | – |
| Percentage of the present value of plan liabilities (%) | **(1)** | 1 | 4 | (3) | – |

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are:

| | | Increase in liabilities | |
|---|---|---|---|
| | Change in assumption | **31 March 2013 £m** | 31 March 2012 £m |
| Discount rate | Decrease of 0.1% | **(1.8)** | (1.8) |

**IAS 19 (Amended)**
IAS 19 (Amended) removes the option to include an expense reserve in pension scheme liabilities. This change is expected to result in a one-off credit to other comprehensive income, a one-off credit to opening reserves and a corresponding increase in net assets in 2013 comparatives in the year ending 31 March 2014, to release the expense reserves previously recognised within pension scheme liabilities. The estimated transition impact, once adopted by the Group for the period ending 31 March 2014, is shown in the tables below.

**Impact on statement of financial position**

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **IAS 19 (Current)** | | |
| Present value of defined benefit obligation | **(116.3)** | (108.6) |
| Fair value of scheme assets | **121.0** | 108.5 |
| **Net asset/(liability) recognised in the statement of financial position** | **4.7** | (0.1) |
| **IAS 19 (Amended)** | | |
| Present value of defined benefit obligation | **(110.7)** | (103.5) |
| Fair value of scheme assets | **121.0** | 108.5 |
| **Net asset recognised in the statement of financial position** | **10.3** | 5.0 |
| **Transition impact** | | |
| Present value of defined benefit obligation | **5.6** | 5.1 |
| Fair value of scheme assets | **–** | – |
| | **5.6** | 5.1 |

## 22 Retirement benefit schemes continued

### Impact on consolidated income statement

| | Year ended 31 March 2013 | |
|---|---|---|
| | **IAS19 (Current) £m** | IAS 19 (Amended) £m |
| Employer's part of current service cost | **0.4** | 0.4 |
| Interest cost | **5.0** | n/a |
| Expected return on plan assets | **(5.0)** | n/a |
| Net interest on the net pension liability | **n/a** | (0.4) |
| Administrative expenses | **n/a** | n/a |
| **Total expense included in income statement** | **0.4** | – |

### Defined contribution schemes

The Group offers defined contribution pension schemes for its UK, US, European and Australian employees. The total income statement charge in relation to these schemes was £1.9m (2012: £1.7m).

The Group's defined contribution schemes are operated by external providers. The only obligation of the Group with respect to these schemes is to make the specified contributions.

## 23 Share-based payments

### Share options

The Group makes awards under an equity-settled share option plan that entitles employees to purchase shares in the Company. In accordance with the rules of the plan, options are granted at the market price of the shares on the date of grant with a vesting period of generally three years. They may only be exercised upon the attainment of certain performance criteria. If the performance criteria are not met by the date specified at the time of grant, the options do not vest and will lapse. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest unless the conditions under which they leave are such that they are considered to be a 'good leaver'. In this case their options remain exercisable for a limited period of time. For further details of current awards, see the remuneration report on pages 63 to 81.

### Option pricing

For the purposes of valuing options to arrive at the share-based compensation charge, a binomial lattice option pricing model has been used. The assumptions used in the model are as follows:

| | **31 March 2013** | 31 March 2012 |
|---|---|---|
| Risk-free interest rate | **0.1% to 0.7%** | 0.8% to 2.5% |
| Dividend yield | **Nil** | Nil |
| Volatility | **29% to 40%** | 27% to 41% |
| Expected lives of options and awards granted under: | | |
| – Share option plan | **6 years** | 6 years |
| – Sharesave plan | **3.25 years** | 3.25 years |
| – Stock purchase plan | **2.13 years** | 2.13 years |
| – Restricted share awards | **n/a** | n/a |
| – Performance share-plan | **2 to 3 years** | 2 to 3 years |
| – Deferred share bonus plan | **3 years** | 3 years |
| Weighted average fair value for share option plan grants in the year | **158.6p** | 119.3p |
| Weighted average fair value for sharesave grants in the year | **129.9p** | 114.8p |
| Weighted average fair value for stock purchase plan grants in the year | **100.7p** | 69.4p |
| Weighted average fair value for performance share awards in the year | **335.7p** | 264.6p |
| Weighted average fair value for deferred share bonus awards in the year | **380.5p** | 298.9p |

## 23 Share-based payments continued

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options, restricted or performance shares), adjusted for any expected changes to future volatility due to publicly-available information.

Share options are granted under a service condition, a non-market condition and a market condition. Service and non-market conditions are not taken into account in calculating the fair value measurement of the services received.

Performance shares are awarded under a service condition, a non-market condition and a market condition. Service and non-market conditions are not taken into account in calculating the fair value measurement of the services received.

Awards of share options and performance share awards made in 2009 and later years have a market condition based on a TSR measure using the FTSE 250 companies excluding investment trusts, companies in the financial services sector (banks, life & non-life insurance, equity & non-equity investment trusts, financial services, real estate investment & services and real estate investment trusts etc.) and companies in the consumer discretionary sector (general retailers, media, travel & leisure, and leisure goods). Earlier share options and performance shares used the FTSE SmallCap (excluding Investment Trusts) index. If the Company's share price at least matches the performance of the relevant index over the vesting period, the market-based performance condition will be considered to have been achieved. The fair value of an award of shares under the share option and performance share plans have been adjusted to take into account this market-based performance condition using a pricing model based on expectations about volatility and the correlation of share price returns in the relevant index and which incorporates into the valuation the interdependency between share price and index performance. This adjustment increases the fair value relative to the share price at the date of grant. See the remuneration report on pages 63 to 81 for further information.

Details of options and awards under the Group's share plans are shown in the tables below.

| | **31 March 2013** | | 31 March 2012 | |
|---|---|---|---|---|
| | **Number of share options (000)** | **Weighted average exercise price (p)** | Number of share options (000) | Weighted average exercise price (p) |
| **Share options** | | | | |
| Outstanding at 1 April | **1,427** | **225.2** | 927 | 175.8 |
| Granted during year | **341** | **384.2** | 550 | 298.9 |
| Lapsed during year | **(79)** | **132.7** | (2) | 776.5 |
| Exercised during year | **(7)** | **106.3** | (48) | 96.6 |
| Outstanding at 31 March | **1,682** | **262.3** | 1,427 | 225.2 |
| Exercisable at 31 March | **436** | **161.7** | 139 | 120.9 |
| **Sharesave plan** | | | | |
| Outstanding at 1 April | **475** | **183.5** | 309 | 144.9 |
| Granted during year | **177** | **320.2** | 237 | 219.5 |
| Lapsed during year | **(38)** | **219.3** | (28) | 137.9 |
| Exercised during year | **(155)** | **147.0** | (43) | 134.0 |
| Outstanding at 31 March | **459** | **245.2** | 475 | 183.5 |
| Exercisable at 31 March | **–** | **–** | – | – |
| **Stock purchase plan** | | | | |
| Outstanding at 1 April | **66** | **216.4** | 49 | 166.0 |
| Granted during year | **56** | **349.5** | 43 | 243.1 |
| Lapsed during year | **(2)** | **326.3** | (6) | 202.2 |
| Exercised during year | **(25)** | **173.2** | (20) | 156.4 |
| Outstanding at 31 March | **95** | **305.3** | 66 | 216.4 |
| Exercisable at 31 March | **–** | **–** | – | – |

## 23 Share-based payments continued

Options outstanding at 31 March 2013

| | Number (000) | Weighted exercise price (p) | Latest exercise date year ended 31 March |
|---|---|---|---|
| **Share options granted in year ended 31 March** | | | |
| 2005 | 78 | 106.3 | 2015 |
| 2007 | 55 | 143.5 | 2017 |
| 2010 | 303 | 179.3 | 2020 |
| 2011 | 358 | 201.3 | 2021 |
| 2012 | 547 | 298.9 | 2022 |
| 2013 | 341 | 384.2 | 2023 |
| | 1,682 | | |
| **Sharesave plan options granted in year ended 31 March** | | | |
| 2011 | 79 | 146.7 | 2014 |
| 2012 | 214 | 219.5 | 2015 |
| 2013 | 166 | 320.2 | 2016 |
| | 459 | | |
| **Stock purchase plan options granted in year ended 31 March** | | | |
| 2012 | 40 | 243.1 | 2014 |
| 2013 | 55 | 349.5 | 2015 |
| | 95 | | |

**Performance share awards**

Following approval of the Performance Share Plan by shareholders at the 2006 AGM, the Company has made awards to the executive directors and other employees with a vesting period of two or three years.

A new Senior Management Performance Share Plan was approved by the Board in 2012 in order to award shares to certain senior employees below board level. The shares will vest on the second anniversary of the grant date.

Movement in the number of performance share awards is as follows.

| | **2013 Number of share awards (000)** | 2012 Number of share awards (000) |
|---|---|---|
| **Performance share awards** | | |
| Outstanding at 1 April | **3,108** | 2,621 |
| Granted during year | **1,347** | 1,321 |
| Lapsed during year | **(288)** | (280) |
| Exercised during year | **(806)** | (554) |
| Outstanding at 31 March | **3,361** | 3,108 |
| Exercisable at 31 March | **–** | – |
| **Senior Management Performance Share Plan** | | |
| Outstanding at 1 April | **–** | – |
| Granted during year | **142** | – |
| Lapsed during year | **–** | – |
| Exercised during year | **–** | – |
| Outstanding at 31 March | **142** | – |
| Exercisable at 31 March | **–** | – |

## 23 Share-based payments continued

**Deferred share bonus plan**
The Company established a deferred share bonus plan. The executive directors, members of the Leadership Team and certain other senior staff have part of their bonus awarded in shares. The shares will vest on the third anniversary of the grant date.

Movement in the number of deferred bonus shares awarded is as follows.

| | 2013 Number of share awards (000) | 2012 Number of share awards (000) |
|---|---|---|
| Outstanding at 1 April | **682** | 591 |
| Granted during year | **240** | 195 |
| Lapsed during year | **(14)** | (19) |
| Exercised during year | **(151)** | (85) |
| Outstanding at 31 March | **757** | 682 |
| Exercisable at 31 March | **–** | – |

For the performance share awards and the deferred share bonus plan awards are forfeited if the director or other employee leaves the Group before the awards vest, unless the conditions under which they leave are such that they are considered to be a 'good leaver'; in which case their award is released following their departure. If the Remuneration Committee decide that a departing beneficiary of an award is a 'good leaver', so their award may be released early, the award will only be released subject to the achievement of the performance conditions set out at the time of the granting of the award and may be subject to pro-ration for time, at the discretion of the Committee. For further details see the remuneration report on pages 63 to 81.

The Biocompatibles Group had a number of share schemes prior to the date of acquisition by the Company. With the exception of the Share Incentive Plan (SIP), all share schemes ceased just prior to that date and share awards under the various schemes vested and/or exercised to the extent to which performance conditions had been achieved. No grants or awards remained outstanding at the date of acquisition.

Shares invested in the SIP were exchanged for BTG shares in the same ratio as other shareholders received in the acquisition: 1.6733 BTG shares for each Biocompatibles share plus 10p cash. Whilst no further contributions may be invested in the SIP post the date of acquisition, shares already held in the SIP may remain until the date of closure of the Plan in 2016.

As at 31 March 2013 124,008 (31 March 2012: 353,456) ordinary shares in BTG plc, issued and subscribed for by the Biocompatibles International plc Share Incentive Plan Trust, had not vested unconditionally.

## 24 BTG Employee Share Trust

The Group includes an employee share trust, the BTG Employee Share Trust (the 'Trust'), which was established in Guernsey in 1992. It holds shares for the general benefit of all employees who may eventually become legally entitled to them. At 31 March 2013 the Trust held 1,063,029 (31 March 2012: 1,214,313) shares in BTG plc and a further 12,596 (31 March 2012: 12,596) shares in Torotrak plc. The Trust may distribute these shares to employees of the Group on the recommendation of the Company. These distributions may be as a result of awards under the Restricted Share Scheme, the Deferred Share Bonus Plan or the recently set up Senior Management Performance Share Plan.

At 31 March 2013 the Trust has 347,900 shares set aside under the Deferred Share Bonus Plan (31 March 2012: 499,184).

## 25 Provisions

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Leases £m | Reorganisation £m | Total £m | Leases £m | Reorganisation £m | Total £m |
| At 1 April | **1.7** | **0.1** | **1.8** | 2.0 | 1.0 | 3.0 |
| Provisions utilised during year | **(0.4)** | **–** | **(0.4)** | (0.3) | (0.9) | (1.2) |
| Provisions made during year | **–** | **0.1** | **0.1** | 0.1 | – | 0.1 |
| Provisions released during the period | **(0.5)** | **–** | **(0.5)** | – | – | – |
| Difference on exchange | **–** | **–** | **–** | (0.1) | – | (0.1) |
| **At 31 March** | **0.8** | **0.2** | **1.0** | 1.7 | 0.1 | 1.8 |
| Balance due within one year | **0.4** | **0.2** | **0.6** | 0.7 | 0.1 | 0.8 |
| Balance due after more than one year | **0.4** | **–** | **0.4** | 1.0 | – | 1.0 |
| | **0.8** | **0.2** | **1.0** | 1.7 | 0.1 | 1.8 |

Lease provisions relate to onerous leases and represent the net present value of future obligations and where relevant, not covered by income from tenants (see 2(p)).

The provision for reorganisation costs arose as a result of the Group's rationalisation activities following the acquisition of Biocompatibles International plc on 27 January 2011 and Protherics PLC on 4 December 2008. The provision principally comprises redundancy and other site closure costs.

## 26 Financial risk management objectives and policies

**Overview**

The Group has exposure to credit, liquidity and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a licensee fails to meet its contractual obligations or a customer fails to pay for goods and services received. The Group's primary objective with respect to credit risk is to minimise the risk of default by licensees or customers.

A substantial element of the Group's revenue is derived from royalties which are only payable if a licensee is generating income from sales of licensed products. In such instances the Group's exposure to credit risk is considered to be inherently relatively low, although is influenced by the unique characteristics of individual licensees. The Group's policy is to provide against bad debts on a specific licence by licence basis.

Following the transition from a distribution agreement to direct sales during prior years, the majority of the marketed product revenues are currently generated from sales to several key wholesalers in the US Management maintains regular communication with the customers and monitors both sales to and payments from customers to minimise the credit risk exposure.

## 26 Financial risk management objectives and policies continued

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has limited debt facilities in the form of assets held under finance leases. The Group has substantial cash balances to fund its operations. Subsequent to the year end, the Group signed a £60m multi-currency revolving credit facility providing access to funds for a period of three years to April 2016.

The Group's policy is to place surplus cash resources on short- and medium-term fixed interest deposits, to the extent that cash flow can be reasonably predicted. Term deposits are denominated in UK sterling with institutions rated as A or higher by both Moody's and Standard & Poor's.

**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 Group's income or the value of its holdings in financial instruments. The Group has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

**Foreign currency risk**

The Group has several overseas subsidiary undertakings, the revenues and the expenses of which are denominated in local currencies being US dollars, Euros and Australian dollars. As a result the Group's sterling income statement, balance sheet and cash flows may be affected by movements in Sterling exchange rates with these currencies. The Group's primary objective with respect to managing foreign exchange risk is to provide certainty over the value of future cash flows.

A significant element of the Group's revenue is denominated in US dollars with the remainder split between Sterling, Euros, Yen and other currencies. The majority of the Group's operating expenses are in Sterling and US dollars with smaller elements in Euros and Australian dollars. Where possible, anticipated foreign currency operating expenses are matched to foreign currency revenues. The excess exposure over and above this natural hedge, to the extent that cash flows are predictable, is managed using forward contracts (see note 21).

**Sensitivity analysis**

A 5% weakening of the US$ at 31 March 2013 would have resulted in the following decreases in equity and profit or loss:

| | **31 March 2013 £m** | 31 March 2012 £m |
|---|---|---|
| Profit or loss | **(1.3)** | (2.7) |
| Equity | **(4.8)** | (3.5) |

## 26 Financial risk management objectives and policies continued

### Interest rate risk

The Group seeks to mitigate partially against increased interest rates whilst maintaining a degree of flexibility to benefit from decreasing rates of interest by holding a mix of fixed and floating rate financial liabilities. The Group seeks to maximise the amount of interest income from its cash balances by using a variety of short-term, fixed high-interest deposit and money-market accounts. The Group does not consider the impact of interest rate risk to be material to its results or operations and accordingly no sensitivity analysis is shown.

### Market price risk

It is, on occasion, deemed appropriate to take equity stakes in early-stage companies utilising the Group's technology as part of the overall licensing arrangement and small loans may be granted to these companies to further technology development. These investments will be realised at an appropriate time in the development cycle. Regular reports are made to the Board on the status of investments. These investments form part of the Group's overall technology portfolio and do not materially affect liquidity.

### Capital management

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for inventive sources and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group believes it has sufficient ongoing cash and cash equivalents to meet its stated capital management objectives. The Group's capital and equity ratio are shown in the table below.

| | **31 March 2013 £m** | 31 March 2012 £m |
|---|---|---|
| Total equity – capital and reserves attributable to BTG shareholders | **431.0** | 406.2 |
| Total assets | **539.3** | 505.8 |
| Equity ratio | **79.9%** | 80.3% |

The Group is not subject to regulatory capital adequacy requirements as known in the financial services industry.

### Financial instruments

The Group's financial instruments comprise cash, short- and medium-term deposits, foreign currency forward contracts, contingent considerations and various items such as trade debtors and creditors which arise directly from operations. In addition, a number of debt and equity investments, both quoted and unquoted, are held in technology-based companies along with borrowings including obligations under finance leases.

## 26 Financial risk management objectives and policies continued

### Fair values

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the statement of financial position, are as follows:

| | Designated at fair value £m | Forward contracts at fair value £m | Available for sale £m | Amortised cost £m | Total carrying value £m | Fair value £m |
|---|---|---|---|---|---|---|
| **31 March 2012** | | | | | | |
| Cash and cash equivalents | – | – | – | 106.9 | 106.9 | 106.9 |
| Held to maturity financial assets | – | – | – | 5.0 | 5.0 | 5.0 |
| Forward contracts | – | 0.5 | – | – | 0.5 | 0.5 |
| Other investments | 3.0 | – | – | – | 3.0 | 3.0 |
| Trade and other receivables | – | – | 0.1 | 40.0 | 40.1 | 40.1 |
| Trade and other payables | (0.7) | – | – | (59.7) | (60.4) | (60.4) |
| **31 March 2013** | | | | | | |
| Cash and cash equivalents | **–** | **–** | **–** | **158.7** | **158.7** | **158.7** |
| Forward contracts | **–** | **(2.2)** | **–** | **–** | **(2.2)** | **(2.2)** |
| Other investments | **3.0** | **–** | **–** | **–** | **3.0** | **3.0** |
| Trade and other receivables | **–** | **–** | **–** | **54.5** | **54.5** | **54.5** |
| Trade and other payables | **(0.8)** | **–** | **–** | **(61.3)** | **(62.1)** | **(62.1)** |

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 – quoted prices in active markets for identical assets and liabilities.
Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.
Level 3 – unobservable inputs.

**Fair value hierarchy of financial assets and liabilities**

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| **Financial assets recognised at fair value** | | | | |
| Investments | – | 3.0 | – | 3.0 |
| Forward contracts | – | 0.5 | – | 0.5 |
| **Financial liabilities recognised at fair value** | | | | |
| Fair value of other contingent consideration | – | – | (0.7) | (0.7) |
| **31 March 2013** | | | | |
| **Financial assets recognised at fair value** | | | | |
| Investments | – | 3.0 | – | 3.0 |
| **Financial liabilities recognised at fair value** | | | | |
| Forward contracts | – | (2.2) | – | (2.2) |
| Fair value of other contingent consideration | – | – | (0.8) | (0.8) |

Level 2 – financial assets and liabilities represent forward foreign exchange contracts to sell US$ which are marked-to-market at each balance sheet date and other investments held at fair value as disclosed in note 15.

Level 3 – financial liabilities represent the contingent consideration payable upon the purchase of the US commercial rights of product candidate uridine triacetate representing contingent milestone payments upon NDA acceptance and approval of the product candidate.

## 26 Financial risk management objectives and policies continued

**Contractual maturity analysis of financial (liabilities)/assets**

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Forward foreign exchange contracts that mature within:** | | |
| 0 to 3 months | **(0.6)** | 0.1 |
| 3 to 6 months | **(1.6)** | 0.4 |
| 6 to 12 months | **–** | – |
| Total | **(2.2)** | 0.5 |

### Net gains and losses on financial assets and liabilities

Foreign exchange gains of £3.1m (2012: gains of £2.6m) were recognised within Operating profit in relation to settlement of trade receivables and payables.

The Group recognised a fair value loss of £2.6m (2012: loss of £1.5m) relating to forward foreign exchange contracts within 'Financial expense' (2012: 'Financial expense').

**Estimation of fair values**

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

### Other investments

These comprise both listed and unlisted investments, available-for-sale. The figure recorded in the statement of financial position (note 15) is the best estimate of fair value.

### Finance leases

The fair values of such balances are estimated by discounting the future cash flows at the market rate.

### Trade receivables, trade payables and cash and cash equivalents

Trade payables and receivables have a remaining life of less than one year so their value recorded in the statement of financial position is considered to be a fair approximation of fair value. Other contingent considerations are fair valued at each reporting period.

## 27 Operating leases

Total non-cancellable operating lease rentals are due in the following periods:

| | 31 March 2013 Property £m | 31 March 2012 Property £m |
|---|---|---|
| Within one year | **1.4** | 1.7 |
| Between two and five years | **2.8** | 4.3 |
| Greater than five years | **0.3** | 0.7 |
| | **4.5** | 6.7 |

Operating lease payments represent rentals payable for certain of its office properties under non-cancellable operating lease agreements.

The Group leases a number of offices and facilities in the UK, the US, Germany, and Australia. These leases have terms of up to six years.

The leases contain options to extend for further periods. In the event of renewal, the lease contracts contain market review clauses. None of the property leases provide the Group with an option to purchase the leased asset at the expiry of the lease period.

## 28 Other financial commitments

The Group has entered into agreements with a number of early-stage companies and venture capital funds. At 31 March 2013 the Group is committed to invest £nil under these agreements (2012: £0.2m).

As with any business whose core assets are intellectual property, the Group will from time to time resort to litigation or threats of litigation, or other legal processes, to defend its rights. Litigation costs are regarded as a cost of doing business and will vary from year-to-year. In the current year the Group incurred £1.1m in litigation costs (2012: £2.1m).

The Company has entered into an agreement to guarantee payments under the lease of a US subsidiary undertaking.

The Company has provided a Guarantee to certain subsidiary undertakings in respect of the BTG Pension Scheme up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the Scheme, would result in the Scheme being at least 105% funded on the date on which any liability arose, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted as at that date.

The Company has also provided a Guarantee to the same subsidiary undertakings for a maximum amount of £12.7m, being the deficit repair contributions agreed with the Trustees of the Scheme following the finalisation of the last actuarial valuation. The Guarantee reduces as payments are made and expires in April 2014.

## 29 AZD9773 (CytoFab™)

On 8 August 2012 BTG announced the top-line data from a Phase IIb study of AZD9773 in patients with severe sepsis and/or septic shock, conducted by AstraZeneca. The study failed to meet primary or secondary endpoints. AstraZeneca has terminated its licence agreement and associated arrangement with BTG and has handed back the asset to BTG. BTG does not anticipate conducting any further development of AZD9773. Consequently the following transactions have been recognised:

- Revenue of £8.6m has been recognised within milestones and one-off income in the Licensing & Biotechnology operating segment. The components of this revenue are:
  - The release of deferred income associated with previous received milestones from AstraZeneca in relation to AZD9773 work streams totalling £6.1m.
  - Compensation for early contract termination of £2.5m.
- An impairment charge of £22.5m has been recognised in amortisation and impairment of acquired intangibles in the acquisition adjustments and reorganisation costs column.
- Property, plant and equipment writedowns associated with assets used in the development of AZD9773 of £1.8m have been recognised in the amounts written off property, plant and equipment.

## 30 Related parties

**Identity of related parties**
The Group has a related party relationship with its subsidiary undertakings (see note 2(b)), its associates (see note 2(b)) and its directors.

In relation to the related party relationship identified on page 54 concerning Giles Kerr, payments made by BTG to Oxford University and Isis Innovations Ltd under the relevant licence agreements were £1.5m during the year ended 31 March 2013. There are no amounts still outstanding and payable by BTG under these agreements as at 31 March 2013.

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 63 to 81.

## 31 Group entities

The significant subsidiary undertakings of BTG plc at 31 March 2013 are all wholly-owned, incorporated in the United Kingdom and registered in England and Wales, unless shown otherwise. All subsidiary undertakings operate in their country of incorporation and are consolidated in the Group's financial statements.

| | Class of capital | Principal activity |
|---|---|---|
| **BTG International (Holdings) Ltd*** | Ordinary | Investment in IPR management companies |
| **Provensis Ltd*** | Ordinary | Development and commercialisation of IPR |
| **BTG International Ltd** | Ordinary | Development, management and commercialisation of IPR |
| **BTG Employee Share Schemes Ltd**<br>Guernsey | Ordinary | Trustee company |
| **BTG Management Services Ltd*** | Ordinary | Investment and management of group companies |
| **Protherics Medicines Development Limited** | Ordinary | Development, management and commercialisation of IPR |
| **BTG International Inc**<br>Delaware, USA | Common stock | Research, development, manufacture and sale of pharmaceutical products and potential drugs |
| **Protherics UK Limited** | Ordinary | Research, development, manufacture and sale of pharmaceutical products and potential drugs |
| **BTG Australasia Pty Limited**<br>Australia | Ordinary | Manufacture and sale of pharmaceutical products and potential drugs |
| **Protherics Utah Inc.**<br>Tennessee USA | Common stock | The research, development, manufacture and sale of pharmaceutical products and potential drugs |
| **Protherics Salt Lake City Inc.**<br>Utah USA | Common stock | Development, management and commercialisation of IPR |
| **Biocompatibles International Limited*** | Ordinary | Investment and management of group companies |
| **Biocompatibles UK Limited** | Ordinary | Commercialisation of Bead Products |
| **Biopolymerix Inc.**<br>Delaware USA | Common stock | Research and development |
| **Biocompatibles Inc.**<br>Delaware USA | Common stock | Commercialisation of Brachytherapy and distribution of Bead products |
| **BTG International Germany GmbH**<br>(formally known as CellMed AG.)<br>Germany | No par value shares | Research and development |

* Indicates direct subsidiary of BTG plc.

# Company statement of financial position

| | Note | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 4 | **369.3** | 365.9 |
| | | **369.3** | 365.9 |
| **Current assets** | | | |
| Trade and other receivables | 5 | **215.7** | 217.1 |
| Cash and cash equivalents | | **–** | – |
| | | **215.7** | 217.1 |
| **Total assets** | | **585.0** | 583.0 |
| **EQUITY** | | | |
| Share capital | 6 | **32.8** | 32.7 |
| Share premium account | 6 | **188.6** | 188.3 |
| Merger reserve | 6 | **317.8** | 317.8 |
| Retained earnings | 6 | **43.1** | 41.1 |
| **Total equity attributable to equity holders of the parent** | 6 | **582.3** | 579.9 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 7 | **–** | – |
| | | **–** | – |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **2.7** | 3.0 |
| Taxation | | **–** | 0.1 |
| | | **2.7** | 3.1 |
| **Total liabilities** | | **2.7** | 3.1 |
| **Total equity and liabilities** | | **585.0** | 583.0 |

The notes on pages 136 to 139 form part of these financial statements.

The financial statements were approved by the Board on 17 May 2013 and were signed on its behalf by:

**Louise Makin**
Chief Executive Officer

**Rolf Soderstrom**
Chief Financial Officer

Registered No: 2670500

# Company statement of cash flows
for the year ended 31 March 2013

| | Year ended 31 March 2013 £m | Year ended 31 March 2012 £m |
|---|---|---|
| **Loss after tax for the year** | **(3.3)** | (1.1) |
| Decrease in trade and other receivables | **1.3** | 1.3 |
| Decrease in trade and other payables | **(0.3)** | (0.4) |
| Decrease in provisions | **–** | (0.8) |
| Other items | **1.9** | 0.9 |
| **Net cash outflow from operating activities** | **(0.4)** | (0.1) |
| **Investing activities** | | |
| Other | **–** | – |
| **Net cash outflow from investing activities** | **–** | – |
| **Cash flows from financing activities** | | |
| Proceeds of share issue | **0.4** | 0.1 |
| **Net cash inflow from financing activities** | **0.4** | 0.1 |
| Decrease in cash and cash equivalents | – | – |
| Cash and cash equivalents at start of year | **–** | – |
| **Cash and cash equivalents at end of year** | **–** | – |

The notes on pages 136 to 139 form part of these financial statements.

# Company statement of changes in equity

| | Share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 April 2011 | 32.7 | 188.2 | 317.8 | 39.8 | 578.5 |
| Loss for the year | – | – | – | (1.1) | (1.1) |
| Other comprehensive income | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | (1.1) | (1.1) |
| **Transactions with owners:** | | | | | |
| Issue of BTG plc ordinary shares | – | 0.1 | – | – | 0.1 |
| Share-based payments | – | – | – | 2.4 | 2.4 |
| At 31 March 2012 | 32.7 | 188.3 | 317.8 | 41.1 | 579.9 |

| | Share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 April 2012 | 32.7 | 188.3 | 317.8 | 41.1 | 579.9 |
| Loss for the year | – | – | – | (3.3) | (3.3) |
| Other comprehensive income | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | (3.3) | (3.3) |
| **Transactions with owners:** | | | | | |
| Issue of BTG plc ordinary shares | 0.1 | 0.3 | – | – | 0.4 |
| Movement in shares held by the Trust | – | – | – | 0.6 | 0.6 |
| Share-based payments | – | – | – | 4.7 | 4.7 |
| **At 31 March 2013** | **32.8** | **188.6** | **317.8** | **43.1** | **582.3** |

The notes on pages 136 to 139 form part of these financial statements.

## 1 Accounting policies

The accounting policies adopted in the preparation of these Company financial statements are the same as those set out in note 2 to the Group financial statements with the addition of the following:

**Investments**
Investments in subsidiaries are stated at cost less provision for impairment.

**Accounting for transactions under common control**
Where the Company acquires or disposes of shares in another Group company either in a share for share exchange or as disposal of part of the business, the cost is determined by reference to the fair value of the consideration received (i.e. the fair value of the company in which shares have been received) at the date of transfer.

If the Company receives shares following the sale of its subsidiary or part of its business, any gain or loss is credited or charged to the income statement. Where the Company issues shares following the acquisition of a subsidiary or part of another business, any gain or loss is credited or charged to reserves.

**Share-based payments**
The Company has elected to apply IFRS2 to all share-based awards and options granted post 7 November 2002 that had not vested by 1 January 2005. The carrying amount of an investment in a subsidiary is increased to the extent that share-based payments relate to employees of that subsidiary. Share-based payment expenses relating to employees of the Company are expensed within the income statement.

These policies have been applied consistently to the periods presented.

The functional currency of the Company is Sterling and all values are rounded to the nearest £0.1m except where otherwise indicated.

## 2 Loss for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The loss after tax of the Company amounted to £3.3m (2012: £1.1m).

**The analysis of the auditor's remuneration is as follows:**

| | **Year ended 31 March 2013 £'000** | Year ended 31 March 2012 £'000 |
|---|---|---|
| The auditing of accounts of the Company | **93** | 93 |
| Audit related assurance services | **50** | 50 |

## 3 Staff costs

The employees are based in the United Kingdom.

Disclosures of individual directors remuneration and associated costs required by the Companies Act 2006 and specified by the Financial Services Authority are on pages 63 to 81 within the remuneration report and form part of these audited accounts.

The employees of the Company are members of the Group pension schemes as detailed in note 22 of the Group financial statements. The Company receives a charge based upon the employer contribution to the Group's defined benefit pension scheme. No additional contributions are paid by the Company.

## 4 Investment in subsidiary undertakings

| | £m |
|---|---|
| **Cost** | |
| At 1 April 2011 | 364.4 |
| Share-based payments | 1.5 |
| At 1 April 2012 | 365.9 |
| Share-based payments | 3.4 |
| **At 31 March 2013** | **369.3** |

A list of the Company's principal subsidiary undertakings is shown in note 31 to the Group financial statements.

## 5 Trade and other receivables

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Due within one year** | | |
| Prepayments | **0.4** | 0.4 |
| Amounts owed by subsidiary undertakings | **215.3** | 216.7 |
| | **215.7** | 217.1 |

## 6 Capital and reserves

| | Share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2011 | 32.7 | 188.2 | 317.8 | 39.8 | 578.5 |
| Loss for financial year | – | – | – | (1.1) | (1.1) |
| Total recognised loss for the year | – | – | – | (1.1) | (1.1) |
| Other share capital issued | – | 0.1 | – | – | 0.1 |
| Share-based payments | – | – | – | 2.4 | 2.4 |
| At 1 April 2012 | 32.7 | 188.3 | 317.8 | 41.1 | 579.9 |
| Loss for financial year | – | – | – | (3.3) | (3.3) |
| Total recognised loss for the year | – | – | – | (3.3) | (3.3) |
| Movement in shares held by Trust | – | – | – | 0.6 | 0.6 |
| Other share capital issued | 0.1 | 0.3 | – | – | 0.4 |
| Share-based payments | – | – | – | 4.7 | 4.7 |
| **At 31 March 2013** | **32.8** | **188.6** | **317.8** | **43.1** | **582.3** |

The merger reserve is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under s612 and s613 of the Companies Act 2006. The balance on the merger reserve has arisen through:

1 The acquisition of Protherics PLC on 4 December 2008 and includes directly attributable costs of issuing the shares of £0.4m.
2 The acquisition of Biocompatibles plc on 27 January 2011 and includes directly attributable costs of issuing of shares of £1.1m.

Details of Company share capital are disclosed in note 19 to the Group financial statements. Details of share options granted by the Company are set out in note 23 to the Group financial statements. Details of shares in the Company held by subsidiaries are shown in note 24 to the Group financial statements.

## 7 Trade and other payables

| | 31 March 2013 £m | 31 March 2012 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Accruals and deferred income | **2.7** | 3.0 |
| **Amounts falling due after more than one year** | | |
| Other | **–** | – |

The directors consider the fair value to be equal to the book value.

## 8 Financial assets and liabilities

| | Designated at fair value £m | Amortised cost £m | Total carrying value £m | Fair value £m |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| Cash and cash equivalents | – | – | – | – |
| Trade and other receivables | – | 217.1 | 217.1 | 217.1 |
| Trade and other payables | – | (3.0) | (3.0) | (3.0) |
| **31 March 2013** | | | | |
| Cash and cash equivalents | **–** | **–** | **–** | **–** |
| Trade and other receivables | **–** | **215.7** | **215.7** | **215.7** |
| Trade and other payables | **–** | **(2.7)** | **(2.7)** | **(2.7)** |

**Credit risk**
The Company's credit risk is the risk that one of its subsidiaries is unable to repay intercompany amounts owing. The recoverability of the Company's intercompany receivable is considered at each balance sheet date.

**Liquidity risk**
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company does not hold significant cash balances as Group cash is managed centrally within its subsidiaries. Accordingly the Company is funded by its subsidiaries as its liabilities fall due. Subsequent to the year end, the Group signed a £60m multi-currency revolving credit facility providing access to funds for a period of three years to April 2016.

**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 Group's income or the value of its holdings in financial instruments. As the holding company of the BTG Group, the Company does not have significant exposure to movements in market prices and accordingly no additional disclosure is provided. There are no foreign currency balances within the Company's statement of financial position.

**Capital Management**
Details of the Company's objectives with respect to managing capital are disclosed in note 26 to the Group financial statements.

## 9 Guarantees and contingent liabilities

The Company has entered into an agreement to guarantee payments under the lease of its US subsidiary undertaking.

The Company has provided a Guarantee to certain subsidiary undertakings in respect of the BTG Pension Fund up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the Fund, would result in the Fund being at least 105% funded on the date on which any liability arose, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted as at that date.

The Company has also provided a Guarantee to the same subsidiary undertakings for a maximum amount of £12.7m, being the deficit repair contributions agreed with the Trustees of the Scheme following the finalisation of the last actuarial valuation. The Guarantee reduces as payments are made and expires in April 2014.

## 10 Related party transactions

The Company has a related party relationship with its subsidiary undertakings and its directors.

In relation to the related party relationship identified on page 54 concerning Giles Kerr, payments made by BTG to Oxford University and Isis Innovations Ltd under the relevant licence agreements were £1.5m during the year ended 31 March 2013. There are no amounts still outstanding and payable by BTG under these agreements as at 31 March 2013.

Key management personnel are considered to be the directors and their remuneration is disclosed within the remuneration report on pages 63 to 81.

# Five-year financial record
for the year ended 31 March

## Consolidated income statement

| | 2013 £m | 2012 £m | 2011[1] £m | 2010 £m | 2009[2] £m |
|---|---|---|---|---|---|
| **Revenue** | **233.7** | 197.0 | 111.4 | 98.5 | 84.8 |
| Cost of sales | **(67.2)** | (56.3) | (34.1) | (32.8) | (37.1) |
| **Gross profit** | **166.5** | 140.7 | 77.3 | 65.7 | 47.7 |
| Selling, general and administrative expenses | **(58.0)** | (48.9) | (33.7) | (25.3) | (19.7) |
| **Contribution** | **108.5** | 91.8 | 43.6 | 40.4 | 28.0 |
| Amortisation and impairment of acquired intangibles assets | **(43.4)** | (30.7) | (10.0) | (9.1) | (3.0) |
| Amortisation of repurchase of contractual rights | **–** | – | (9.6) | – | – |
| Foreign exchange gains/(losses) | **3.1** | 2.6 | (2.0) | (4.0) | (0.9) |
| Research and development | **(41.2)** | (39.7) | (32.1) | (26.7) | (21.2) |
| Profit on disposal of assets and investments | **0.4** | 0.2 | 1.5 | 1.1 | 2.6 |
| Amounts written off property, plant and equipment | **(1.8)** | (3.0) | – | – | – |
| Amounts written off associates and investments | **–** | (0.2) | (1.4) | – | (3.4) |
| Acquisition and reorganisation costs | **0.1** | (1.1) | (3.8) | 0.7 | (10.9) |
| Share of results of associates | **–** | – | – | (0.3) | (0.4) |
| **Operating profit/(loss)** | **25.7** | 19.9 | (13.8) | 2.1 | (9.2) |
| Net financial (expense)/income | **(1.6)** | 3.1 | 3.0 | 7.0 | (2.1) |
| **Profit/(loss) before tax** | **24.1** | 23.0 | (10.8) | 9.1 | (11.3) |
| Tax | **(7.7)** | (8.4) | 20.0 | 2.2 | (1.8) |
| **Profit/(loss) after tax for the year** | **16.4** | 14.6 | 9.2 | 11.3 | (13.1) |
| **Earnings/(loss) per share** | | | | | |
| Basic | **5.0p** | 4.5p | 3.4p | 4.4p | (7.1p) |
| Diluted | **5.0p** | 4.4p | 3.4p | 4.4p | (7.1p) |

1 The results for the year ended 31 March 2011 include the results of Biocompatibles International plc from the date of acquisition, being 27 January 2011.
2 The results for the year ended 31 March 2009 include the results of Protherics PLC from the date of acquisition, being 4 December 2008.

## Consolidated statement of financial position

| | 2013 £m | 2012 £m | 2011[1] £m | 2010 £m | 2009[2] £m |
|---|---|---|---|---|---|
| Goodwill | **59.2** | 59.2 | 59.2 | 30.3 | 30.0 |
| Intangible assets | **209.2** | 246.0 | 271.0 | 152.7 | 165.8 |
| Property, plant and equipment | **25.4** | 22.0 | 24.8 | 10.6 | 11.1 |
| Investment in associates | **–** | – | – | – | 0.3 |
| Other investments | **3.0** | 3.0 | 2.7 | 3.7 | 3.2 |
| Deferred tax asset | **0.9** | 1.0 | 0.9 | 0.6 | 0.7 |
| Employee benefits | **4.7** | – | – | – | – |
| Biological assets | **–** | 0.3 | 0.3 | – | – |
| **Total non-current assets** | **302.4** | 331.5 | 358.9 | 197.9 | 211.1 |
| Current assets | **236.9** | 174.3 | 129.6 | 113.1 | 118.3 |
| **Total assets** | **539.3** | 505.8 | 488.5 | 311.0 | 329.4 |
| **Equity** | | | | | |
| Share capital | **32.8** | 32.7 | 32.7 | 25.8 | 25.5 |
| Share premium account | **188.6** | 188.3 | 188.2 | 188.1 | 187.3 |
| Merger reserve | **317.8** | 317.8 | 317.8 | 158.1 | 156.5 |
| Reserves | **0.2** | (4.0) | (3.7) | (0.9) | (0.1) |
| Retained earnings | **(108.4)** | (128.6) | (142.7) | (155.9) | (156.6) |
| **Total equity** | **431.0** | 406.2 | 392.3 | 215.2 | 212.6 |
| Total non-current liabilities | **42.7** | 41.3 | 43.9 | 52.4 | 47.1 |
| Total current liabilities | **65.6** | 58.3 | 52.3 | 43.4 | 69.7 |
| **Total liabilities** | **108.3** | 99.6 | 96.2 | 95.8 | 116.8 |
| **Total equity and liabilities** | **539.3** | 505.8 | 488.5 | 311.0 | 329.4 |

1 The statement of financial position for 31 March 2011 includes the assets and liabilities acquired from Biocompatibles International plc during the year.
2 The statement of financial position for 31 March 2009 includes the assets and liabilities acquired from Protherics PLC during the year.

## Consolidated cash flow statement

| | 2013 £m | 2012 £m | 2011[1] £m | 2010 £m | 2009[2] £m |
|---|---|---|---|---|---|
| Net cash from/(used in) operating activities | **55.5** | 47.2 | (12.0) | 5.8 | (1.8) |
| Net cash (used in)/from investing activities | **(4.5)** | (3.9) | (5.5) | (2.6) | 21.8 |
| Net cash from/(used in) financing activities | **0.2** | (0.2) | (0.6) | 1.4 | (0.1) |
| Increase/(decrease) in cash and cash equivalents | **51.2** | 43.1 | (18.1) | 4.6 | 19.9 |
| Effect of exchange rate fluctuations on cash held | **0.6** | 0.1 | (0.8) | (0.2) | 1.3 |
| Cash and cash equivalents at start of year | **106.9** | 63.7 | 82.6 | 78.2 | 57.0 |
| **Cash and cash equivalents at end of year** | **158.7** | 106.9 | 63.7 | 82.6 | 78.2 |

1 The results for the year ended 31 March 2011 include the results of Biocompatibles International plc from the date of acquisition, being 27 January 2011.
2 The results for the year ended 31 March 2009 include the results of Protherics PLC from the date of acquisition, being 4 December 2008.

# Shareholder information

### Financial calendar

| | |
|---|---|
| Circulation of Annual Report for the year ended 31 March 2013 | 14 June 2013 |
| Annual General Meeting | 16 July 2013 |
| Announcement of interim results for the six months ended 30 September 2013 | November 2013 |
| Preliminary announcement of annual results for the year ended 31 March 2014 | May 2014 |

### Shareholders

At 31 March 2013 there were 10,116 holders of ordinary shares in the Company. Their shareholdings are analysed as follows:

| Size of shareholding | Number of shareholders | Percentage of total number of shareholders | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|---|---|
| 1 to 5,000 | 9,310 | 92.0 | 6,399,541 | 1.9 |
| 5,001 to 50,000 | 563 | 5.6 | 8,235,782 | 2.5 |
| 50,001 to 100,000 | 66 | 0.6 | 4,783,654 | 1.5 |
| 100,001 to 500,000 | 109 | 1.1 | 25,558,769 | 7.8 |
| Over 500,000 | 68 | 0.7 | 283,299,125 | 86.3 |
| **Total** | **10,116** | **100.0** | **328,276,871** | **100.0** |

### Shareholders are further analysed as follows:

| Type of owner | Number of shareholders | Percentage of total number of shareholders | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|---|---|
| Bank and nominee companies | 956 | 9.5 | 311,588,514 | 94.9 |
| Private shareholders | 8,969 | 88.7 | 12,061,479 | 3.7 |
| Limited companies | 65 | 0.6 | 788,206 | 0.2 |
| BTG Employee Share Trust | 1 | – | 1,063,029 | 0.3 |
| Insurance companies and pension funds | 125 | 1.2 | 2,775,643 | 0.9 |
| | **10,116** | **100.0** | **328,276,871** | **100.0** |

Mutual funds and other institutions, and private shareholders holding their shares within PEPs and ISAs, are included within ‘Bank and nominee companies’.

### Capita share dealing services

A quick and easy share dealing service is available from Capita Registrars, to either buy or sell more shares. An online and telephone dealing facility is available providing shareholders with an easy-to-access and simple-to-use service. For further information on this service, or to buy and sell shares, please contact: www.capitadeal.com (online dealing) or +44 (0)871 664 0454 (telephone dealing – calls cost 10p per minute plus network extras. Lines are open from 8 am to 4.30 pm, Monday to Friday) If calling from outside the UK: +44 (0)203 367 2686. Full terms, conditions and risks apply and are available on request or by visiting www.capitadeal.com.

This is not a recommendation to buy or sell shares. The price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested.

### Shareholder change of address

The Company offers the facility, in conjunction with Capita Registrars, our Registrars, to conduct a number of routine matters via the web including the ability to notify any change of address. If you are a shareholder and are either unable or would prefer not to use this facility, please do not send the notification to the Company’s registered office. Please write direct to Capita Registrars, at their address shown below, where the register is held.

## Registered office and head office

**BTG plc**
5 Fleet Place
London
EC4M 7RD
Tel: +44 (0)20 7575 0000
Fax: +44 (0)20 7575 0010
Email: info@btgplc.com
Website: www.btgplc.com

Registered number 2670500

## Advisers

**Stockbrokers**
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP
Tel: +44 (0)20 7742 4000
Fax: +44 (0)20 3493 0684

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB
Tel: +44 (0)20 3142 8700
Fax: +44 (0)20 3142 8735

**Auditors**
KPMG Audit Plc
15 Canada Square
London E14 5GL
Tel: +44 (0)20 7311 1000
Fax: +44 (0)20 7311 3311

**Registrars**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Callers from the UK:
Tel: +44 (0)871 664 0300
Please note that calls cost 10p per minute, plus network extras. Lines are open from 9am to 5.30pm, Monday to Friday.

Callers from outside the UK:
Tel: +44 (0)208 639 3399

## Cautionary note regarding forward-looking statements

This Annual Report and Accounts contains certain forward-looking statements with respect to BTG's business, performance and prospects. Statements and other information included in this report that are not historical facts are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates' and 'potential', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances which may or may not occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Current principal risks and uncertainties are described on pages 32 to 35 of this report. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. BTG undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

## Trade marks

BTG and the BTG roundel logo are registered trade marks of BTG International Ltd.
The following is a non-exhaustive list of trade marks of the BTG International group of companies mentioned in this Report:

Bead Block®
CroFab®
DC Bead®
DigiFab®
LC Bead™
PARAGON Bead®
PRECISION Bead®
Varisolve®
Voraxaze®

Zytiga® is registered trade mark of Johnson & Johnson, Inc.
BeneFIX® is a registered trade mark of Genetics Institute, now part of Pfizer, Inc.
Lemtrada™ is a proprietary name submitted to health authorities for Genzyme Corporation's investigational multiple sclerosis agent alemtuzumab. Genzyme Corporation is a Sanofi company.


Printed in the UK using vegetable inks throughout. Both the printer and the paper manufacturing mill are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

**Designed and produced by**
Bostock and Pollitt Limited, London

**Printed by**
Pureprint Group UK

**www.btgplc.com**

Please refer to our website
for more information on BTG
and for our contact details.