ipgroup plc

Building outstanding businesses

Annual Report and Accounts
for the year ended 31 December 2013
Stock Code: IPO

Welcome to IP Group

IP Group plc develops intellectual property-based businesses

IP Group's purpose is to systematically help create, build and support outstanding intellectual property-based businesses in order to provide attractive returns for our shareholders and other stakeholders.

We provide our portfolio companies with financial capital from our balance sheet and also from funds that we manage on behalf of others. Critically, in addition to financial capital, we provide a range of support services to our portfolio companies, including executive search and recruitment, corporate finance and capital raising, legal, accounting, company secretarial, strategic expertise and consultancy.

We pioneered the concept of a long-term partnership model with universities and have arrangements covering a number of the UK's leading research-intensive universities, as well as initial partnerships in the US.

Our strategic objectives

- To build and maintain a pipeline of compelling intellectual property-based opportunities
- To develop these opportunities into a diversified portfolio of robust businesses
- To grow our assets and those we manage on behalf of third parties
- To deliver attractive financial returns from our assets

Investor website

We maintain a corporate website at **www.ipgroupplc.com** containing a wide variety of information of interest to institutional and private investors, including latest news, press releases, annual reports and further information on our portfolio companies.

Getting around the report

For further information within this document

Additional information online at: **www.ipgroupplc.com**

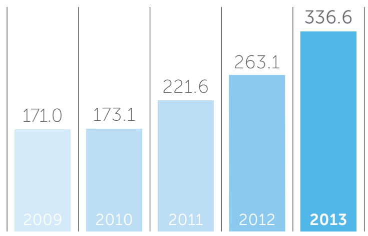
Disclaimer: This Annual Report and Accounts may contain forward-looking statements. These statements reflect the Board's current view, are subject to a number of material risks and uncertainties and could change in the future. Factors that could cause or contribute to such changes include, but are not limited to, the general economic climate and market conditions, as well as specific factors relating to the financial or commercial prospects or performance of individual companies within the Group's portfolio. Further details can be found in the Risk management section on pages 32 to 37.

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

Highlights

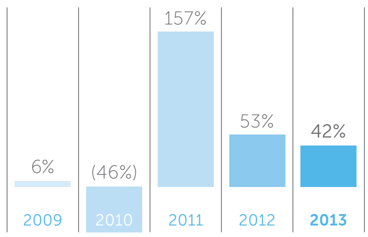
Net assets (£m)

£336.6m (2012: £263.1m)



Share price performance

+42% (2012: 53%)



Financial and Operational highlights

- Adjusted profit before tax of £77.6m (2012: £46.7m), excluding £5.0m reduction in fair value of Oxford Equity Rights asset (2012: £6.0m)
- Net cash and deposits as at 31 December 2013: £24.1m (2012: £47.9m)
- New intellectual property commercialisation agreement signed with The University of Manchester
- £5m investment in Cambridge Innovation Capital plc and memorandum of understanding signed to share information on co-investment opportunities
- First US pilot IP commercialisation agreements signed with the University of Pennsylvania and Columbia University
- Launch of £30m IP Venture Fund II in partnership with the European Investment Fund

Portfolio highlights

- Fair value of portfolio: £285.9m (2012: £181.8m)
- Capital provided to portfolio companies: £27.5m (2012: £26.3m)
- Portfolio realisations: £5.5m (2012: £16.7m)
- Value of ten largest holdings: £225.2m (2012: £138.2m)
- Group's portfolio companies raised in excess of £160m of new capital (2012: £110m)
  - Applied Graphene Materials plc admitted to AIM, raising gross proceeds of £11m at IPO
  - Oxford Nanopore Technologies Limited completed £40m private financing

Post-year-end highlights

- £100m (before expenses) raised through issue of new equity capital in February 2014
- Announced the recommended proposed acquisition of the remaining 79.9% shareholding in Fusion IP plc not currently owned by the Group in an all-paper transaction to be implemented by way of a court-sanctioned scheme of arrangement
- Net unrealised fair value increase in the Group's holdings in quoted portfolio companies of £23.6m between 31 December 2013 and 28 February 2014, including admission to AIM of Actual Experience plc

What's inside

Chairman's statement

A successful year: our strongest ever set of results

I am pleased to report that 2013 has been a year of strong performance for IP Group which has resulted in a significant increase in the value of the Group's portfolio and its net assets.

Building on this success we also made two significant announcements in early 2014. First we completed an equity capital raise that, due to significant demand from new and existing shareholders, was increased in size to £100m (before expenses) and, second, we reached agreement on the terms of a recommended offer to acquire the remaining 79.9% of Fusion IP plc not already owned by the Group. The latter is subject to a scheme of arrangement and we anticipate that the transaction will complete in late March, creating a business with an enlarged specialised team, access to IP from 15 of the UK's, and two of the US's, top research universities, a portfolio with a value in excess of £300m and approximately £140m of cash.

Dr Bruce Smith Chairman

The Group's financial performance in 2013 was the strongest since its formation in 2001. The overall value of our holdings in portfolio companies has significantly increased and this has led to net assets, excluding intangibles and the Oxford Equity Rights asset, increasing to £315.5m (2012: £236.6m), representing 33% growth. In income terms, the Group recorded an adjusted profit before tax of £77.6m excluding the £5.0m reduction in the value of the Oxford Equity Rights asset (2012: £46.7m profit; £6.0m reduction). Whilst both 2012 and 2013 have seen a very positive performance, it remains important for our shareholders to note that, due to the long-term nature of the Group's business, profits and especially cash realisations can vary significantly from year to year.

The Group has continued to support its portfolio companies by both providing capital from its balance sheet and managed funds, and assisting them in sourcing further capital from a variety of sources. There continues to be a comparatively low number of investors seeking to deploy significant capital into early-stage technology business although the environment has been more favourable in recent times, particularly in the public markets. Looking at the AIM market, for example, capital raised through primary and secondary issues increased by nearly 25% in 2013 to £3.9bn, although this remains significantly below the £16bn levels seen in 2006 and 2007. Our portfolio companies fared well in this regard, raising approximately £160m of capital during the year (2012: £110m). We were also pleased to announce the launch of our £30m IP Venture Fund II in partnership with the EIF which will provide additional capital for the development of our new spin-out companies.

Another important element of the Group's model is its access to world-class commercialisable intellectual property through the formation of long-term relationships across a wide pool of research institutions. Having announced our new proof of concept partnership with the University of Manchester in early 2013, we were pleased to be able to announce the expansion of this relationship in January 2014 to include graphene projects and the extension of its term to 2019. During the year we also agreed to take an 8% equity holding in Cambridge Innovation Capital plc ("CIC") as part of its £50m fundraising. CIC will support the growth of innovative businesses in the "Cambridge Cluster" and, through our memorandum of understanding, we have agreed to share information on co-investment opportunities in this region. It should also be noted that the Group's original contract with Oxford's Department of Chemistry expires at the end of 2015 although our access to innovation from Oxford's Institute for Biomedical Engineering runs until 2023. Outside of the UK, we announced two exciting new relationships with East Coast Ivy League universities in the US, Columbia University and The University of Pennsylvania. We look forward to working with academics and staff from our new partners, as well as with those universities with whom we already have significant track records, to identify backable commercial IP.

The Group's Board has seen three changes since my 2012 statement. Firstly, I am very pleased to be able to welcome Professor Lynn Gladden to the Board. Professor Gladden, currently Pro-Vice-Chancellor for Research for the University of Cambridge, has an impeccable track record in academia as well as extensive experience in industry, a combination highly relevant to the Group's business model. Secondly, as previously announced, during the year Dr Alison Fielding and Professor Graham Richards stepped down from the Group's Board, in the case of Dr Fielding for personal reasons and in the case of Professor Richards because the length of his tenure as a non-executive director meant that he was no longer regarded as independent from a governance perspective. I am pleased to report that Dr Fielding and Professor Richards both remain with the Group on a part-time basis in roles that are enabling the Group to continue to leverage their significant expertise.

The Group's success in the last twelve months would have been impossible without the contributions of many people and, as always, I am proud of and thankful for these efforts. I would also like to formally note my thanks to the Group's stakeholders, particularly for the overwhelming support from shareholders for the Group's capital raising that we completed in February. I would also like to extend a warm welcome to the staff from Fusion IP plc, who, assuming our recommended offer completes as anticipated in March 2014, will all be offered positions within the IP Group team. David Baynes, Fusion IP's CEO, and Doug Liversidge, its Chairman, are proposed additions to the Group's Board upon completion as executive director and non-executive director respectively. We look forward to working together effectively to identify and develop the most exciting spin-outs from across all of our partner universities.

The sector in which the Group operates, namely IP commercialisation, appears to be gaining further attention with a number of new entrants being seen in the market in 2013. Several companies or funds raised capital with the explicit intention of seeking to develop spin-out companies from universities in the UK, as well as in the US and other countries. I believe that this asset class will continue to develop and no doubt the Group will support spin-out companies alongside some of these new entrants; as may be the case under the memorandum of understanding that we have with Cambridge Innovation Capital plc, alongside our 8% equity holding. I also believe that the Group's track record and expertise in its field, coupled with its long-term university partnerships and strong balance sheet, leaves it well placed to continue to generate significant value for shareholders over the long term.

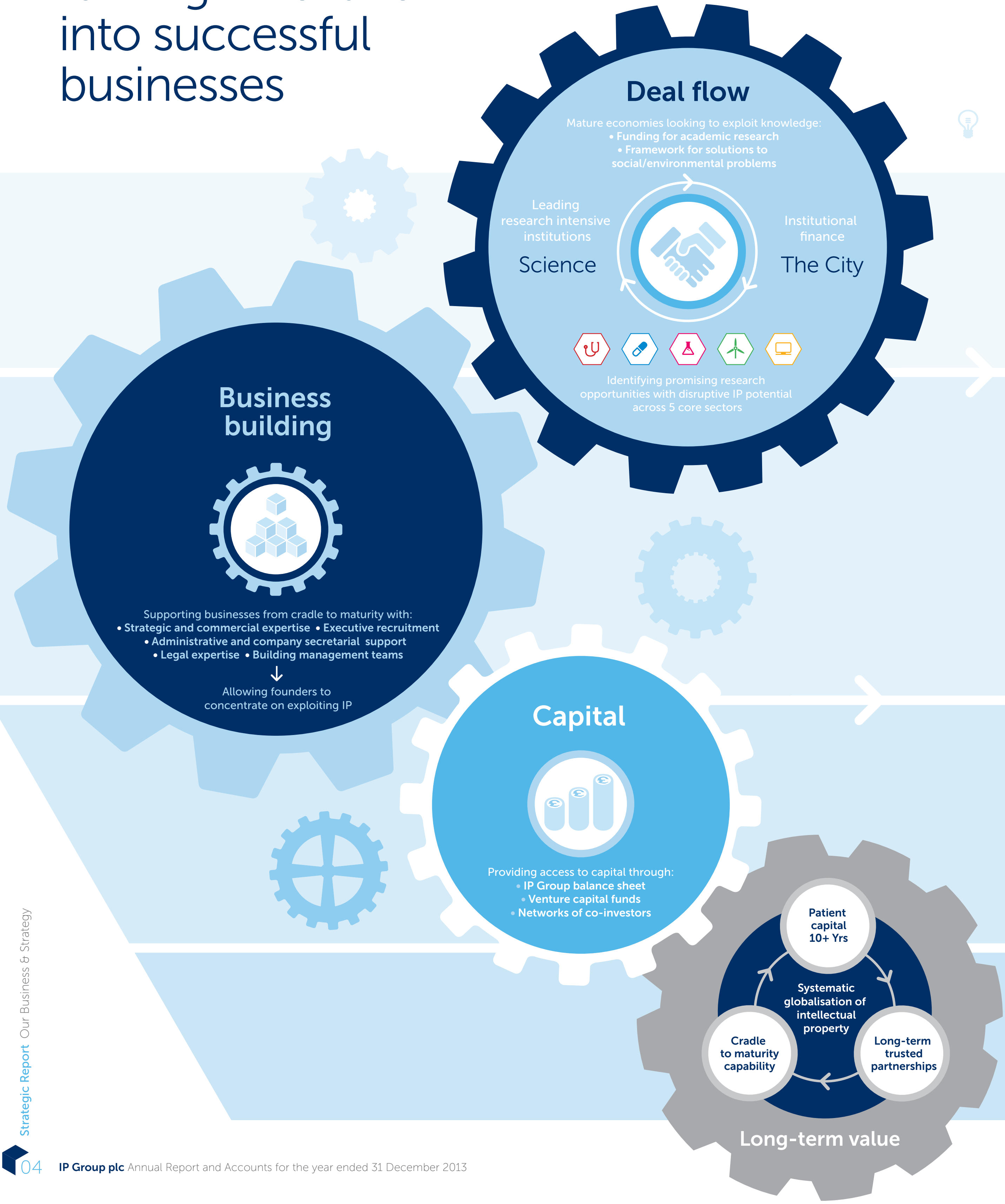
Dr Bruce Smith
Chairman
3 March 2014

Testimonial:
Business Building

"I am very impressed with IP Group's business model from an investee company perspective. IP Group offers Ceres Power its support across the board. As well as access to the investment community and its long-term view on the business, what is great is its team in London. They have fields of expertise that small companies don't have, they understand the business and offer advice, knowledge and support whilst allowing the management team to deliver."

Richard Preston, Finance Director
Ceres Power Holdings plc

Our business model: turning innovation into successful businesses



Deal flow

– pipeline of potentially disruptive commercialisable intellectual property

An important aspect of IP Group's strategy is its ability to access a wide range of leading scientific research. This has been achieved primarily through long-term partner relationships with a number of leading research universities in the UK. Recently the Group announced that it had expanded its access to intellectual property beyond the UK to the US. The Group's specialist in-house sourcing team works with our partners, as well as academics from other universities and research institutions, to identify and pursue compelling opportunities arising from these institutions and to create and build businesses around this research.

Business Building

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

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

IP Group utilises its in-house executive search consultancy, IP Exec, to recruit experienced and high-calibre individuals to lead its developing businesses alongside founders and the Group team members, who continue to provide strategic guidance in an executive or non-executive capacity. Further, IP Group, through its in-house division, IP Impact, has developed a series of innovative programmes that, by working with the CEOs and boards of portfolio companies, seek to help accelerate company growth.

The Group also provides operational, legal, business and company secretarial support to its companies with a view to minimising the most common administrative factors that can contribute to early-stage company failure.

Read our testimonials on pages 03 and 13

Capital

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

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

Read our testimonial on page 28

Long-term value

– systematic commercialisation of intellectual property

IP Group seeks to form, or assist in the formation of, spin-out companies based on scientific innovation, to take a significant minority equity stake in those spin-out companies and then to grow the value of that equity over time through taking an active role in spin-out company development. IP Group's approach has been to build significant minority equity stakes across a diversified portfolio of companies designed to achieve strong equity returns over the medium to long term.

The landscape: IP Group offers more than traditional venture capital

Current economic climate

Although there are some signs of recovery in parts of the global economy, the overall environment remains uncertain and volatile. We have seen only low levels of GDP growth in Eurozone countries and sustained recovery is not yet assured. However, all of the six largest Eurozone economies recorded quarterly expansions in the final quarter of 2013 for the first time in three years and the UK economy is forecast to grow faster than any other major European economy in 2014. Good growth is also expected in the US where an increasing number of the Group's underlying portfolio companies operate.

University research landscape

An important aspect of IP Group's strategy is an ability to access a wide range of leading scientific research. This has been achieved primarily through long-term partner relationships with a number of leading research universities in the UK and other collaborative arrangements.

The UK has long held a leading position in the global research landscape. It is home to some of the oldest and most prestigious learned societies in the sciences and has produced a number of the outstanding scientific breakthroughs of the last millennium. As a research nation, the UK continues to "punch above its weight" as most recently set out in a 2013 report prepared for the UK's Department of Business, Innovation and Skills ("BIS"). A summary of some of the key data from this report is set out in the table above right, which highlights the UK's global pedigree, with 16% of the world's most highly cited publications being generated by a nation with less than 1% of the world's total population and only 4% of the world's researchers.

Measure	UK % of total	World-ranking
Number of researchers	3.9%	6
Scientific publications	6.4%	3
Cited publications	11.6%	3
Highly cited publications	15.9%	2

Source: Report "International Comparative Performance of the UK Research Base – 2013"

The most recent Research Assessments Exercise (the "RAE"), undertaken in 2008, analysed the quality of research carried out in UK research institutions. The RAE ranked each university by reference to the number of Category A researchers at such universities (broadly defined as someone who devotes the majority of his or her time to research) and measured the overall quality of the research emanating from each of these

2001
IP Group established
Agreement with Chemistry Department, University of Oxford

2002
Signs agreement with University of Southampton
Signs agreement with University of Leeds

2003
IP Group floats on AIM
Signs agreement with King's College, London
Signs agreement with CNAP, University of York

2004
Acquires 19.9% stake in Techtran
Acquires Top Technology Ventures
Synairgen plc floats on AIM
OHM plc floats on AIM
Summit plc floats on AIM

2005
Acquires Techtran in full
Signs agreement with University of Bristol
Proximagen plc & Getech Group plc float on AIM

2006
IP Group joins Official List of LSE from AIM; raises c. £17m
Signs agreements with universities of Surrey, Glasgow, Bath, York & QMUL
Velocys plc, Avacta Group plc, Evocutis plc float on AIM
Launch of IP Venture Fund

2007
Modern Water plc floats on AIM
Oxford Advanced Surfaces Group plc floats on AIM
Tracsis plc floats on AIM
Green Chemicals plc floats on PLUS Markets (now ISDX)

institutions. Through its partnerships and other collaborative relationships, the Group has access to opportunities based on intellectual property generated at 15 of the UK's highest-ranked research universities.

Outside of the UK, the Group has pilot agreements with two of the eight Ivy League universities in the north-eastern United States.

IP Group's approach to commercialisation

To understand IP Group's business model, it is important to differentiate it from the more traditional approach to the provision of "venture" capital to early-stage businesses, which has tended to have been provided through fixed-life (typically ten year duration) funds to start-up businesses with existing management teams.

In contrast, IP Group offers far more to its businesses than just capital, with a much greater involvement in providing its companies with access to early-stage business-building expertise, interim executive support, technical and commercial networks and senior team recruitment and development. The Group also provides operational, legal, business and company secretarial support to its companies with a view to minimising the most common administrative factors that can contribute to early-stage company failure. Further, the majority of capital provided by IP Group is not structured through fixed-life funds.

The 2012 British Venture Capital Association ("BVCA") performance survey highlighted that the average return for post-dot com bubble (2002 onwards) traditionally structured venture funds was 3.6% IRR (% p.a.). The median Total Value To Paid In Capital ("TVPI") ratio for 2002 onwards venture funds was 0.79x (i.e. the total value generated by the fund is 79% of capital paid in) with the top decile performance being 1.61x.

In contrast, the broadly equivalent measure for a gross TVPI ratio for the Group as at 31 December 2013 was 2.7x capital invested, suggesting the Group's differentiated approach can generate above average returns.

Competitive landscape

There are, however, a number of other companies and organisations seeking to commercialise intellectual property and/or provide capital to spin-out companies from universities and research intensive institutions in the UK. Since the Kay Review in 2012 and the government's response to it highlighted the importance of supporting innovative business over the longer term, the number of organisations operating in this sector has increased and it is considered that this trend is likely to continue.

A number of businesses and funds operate in a similar space to the Group by providing capital and/or support services to early-stage businesses, and a wide variety of business models can be seen.

It is not uncommon for such companies to act in a collaborative manner through syndication of investment. However, there are also occasions when a competitive approach is taken to achieving an interest in a particular company and its technology. Accordingly, the Group can face competition of this nature from a wide variety of categories of entity, including:

- specialist traditional venture capital investors;
- large private institutional investors;
- privately managed schemes based on government funding;
- private individuals, both acting individually or collectively as groups such as business angels networks or through beneficial tax mechanisms such as SEIS, EIS and VCTs; and
- direct public funding, for example the EU level JEREMIE fund and other national and local schemes.

In addition, certain universities and other research intensive institutions may in future become increasingly proactive themselves at seeking to raise private sector funding to support their in-house technology commercialisation activities.

Ten years of growth as a listed company

£898m
Date of report

2008
Acquires 19% stake in Fusion IP plc

2009
Proximagen plc raises £50m

Oxford Nanopore Ltd raises £10m

2010
Wins mandate to manage 'North East Technology Fund'

Ilika plc floats on AIM

Tissue Regenix Group plc floats on AIM

2011
Expands relationship with Oxford University via Technikos

Completes £55m fundraising

2012
Retroscreen Virology Group plc floats on AIM

Trade sale of Proximagen plc for up to £357m

Revolymer plc floats on AIM

2013
Signs agreement with University of Manchester; pilot deals in the US with Penn & Columbia

Investment in Cambridge Innovation Capital plc

AGM plc floats on AIM

Launch of IP Venture Fund II

2014
Completes £100m fundraising

Acquisition of Fusion IP plc

Our portfolio: continuing to develop and mature

Healthcare

Number of companies
18 (2012: 17)

Fair value
£175.8m (2012: £107.3m)

- Major contributors to significant net increase in fair value were Oxford Nanopore (£33.3m), Retroscreen (£16.1m) and Tissue Regenix (£9.4m)
- Oxford Nanopore announced a heavily oversubscribed MinION Access Programme and a £40m gross financing
- Retroscreen raised £25.5m gross new capital and announced that it expects to approximately double revenues to £27m in 2013
- Tissue Regenix announced a positive trial of DermaPure™ for chronic wounds

Energy & Renewables

Number of companies
15 (2012: 14)

Fair value
£36.1m (2012: £30.3m)

- Limited net fair value increase; primarily Ceres Power (£2.1m) and Getech (£3.3m)
- Ceres Power announced Phil Caldwell as CEO and a commercial and technical partnership with South Korea's KD Navien
- Getech highlighted increased revenues (£8.0m) and profits (£2.2m) for year to 31 July 2013
- Modern Water increased its presence in China through a distribution agreement and strategic contracts

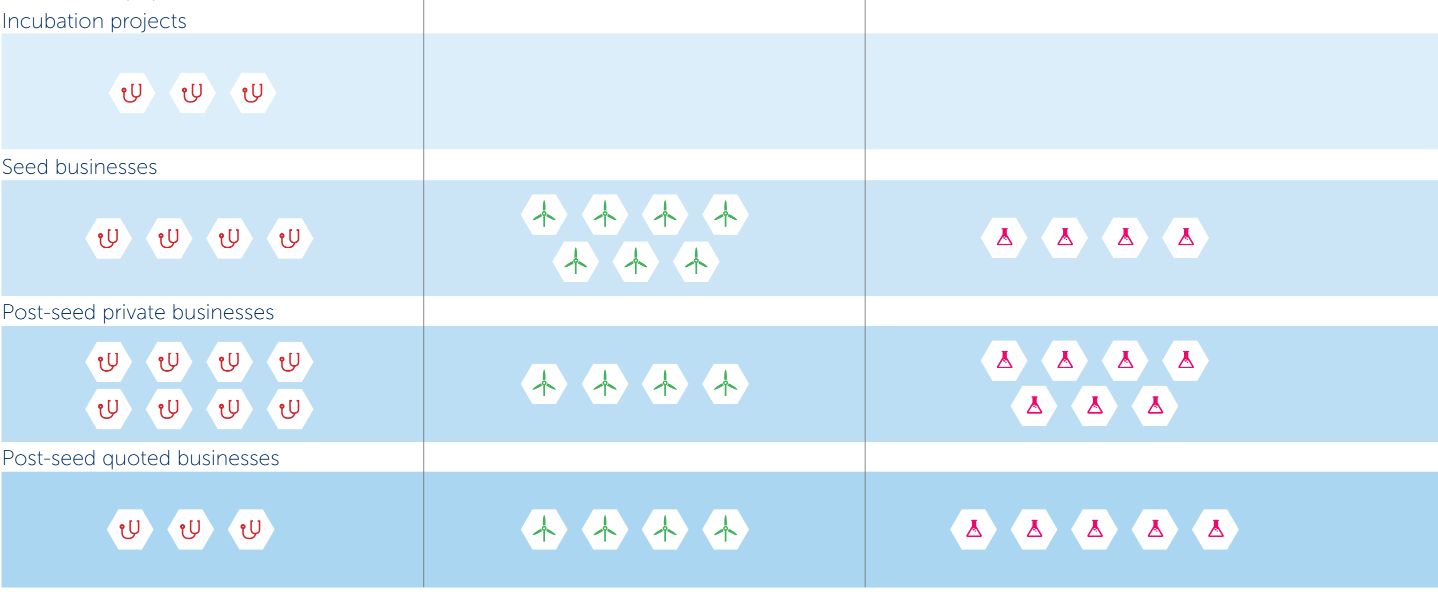
Chemicals & Materials

Number of companies
16 (2012: 14)

Fair value
£32.7m (2012: £18.0m)

- Major contributors to net fair value gain included Applied Graphene Materials plc's AIM IPO and subsequent price increase (£12.2m)
- Revolymer announced nicotine gum developments but the departure of its CEO in early 2014
- Xeros completed £10m gross placing to fund commercial and domestic laundry opportunity development

Product pipeline



IT & Communications

Number of companies
11 (2012: 12)

Fair value
£15.4m (2012: £10.4m)

- Actual Experience (£3.3m) and Tracsis (£1.1m) contributed to modest overall net gain
- Tracsis acquired Sky High plc and saw a 25% revenue increase to £10.8m to 31 July 2013

Biotech

Number of companies
9 (2012: 8)

Fair value
£6.1m (2012: £5.6m)

- Limited portfolio company holdings in biotech sector following £15.1m Proximagen cash exit in 2012
- Subsidiary Modern Biosciences developing family of compounds acting against exciting novel immunology target

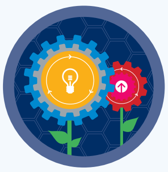
Multiple Sectors

Number of companies
3 (2012: 2)

Fair value
£19.8m (2012: £10.2m)

- Balance of Fusion IP plc not owned by Group to be acquired via a recommended takeover, pending OFT clearance and court sanction
- New strategic holding in Cambridge Innovation Capital plc with MoU to share co-investment opportunities

Our strategy: systematically building businesses

Our strategic aims	What we did in 2013
 **Identify** To build and maintain a pipeline of compelling intellectual property-based opportunities	– Provided initial capital to nine technology companies (2012: 11) – Expanded pipeline through commercialisation agreement with University of Manchester (including graphene projects in 2014) – Expanded pipeline through commercialisation agreements in US, with University of Pennsylvania and Columbia University – Strategic investment in CIC and MoU to share early-stage company opportunities
 **Develop** To develop intellectual property based opportunities into a diversified portfolio of robust businesses	– Net portfolio fair value increased to £285.9m, a net fair value gain of £82.4m – Portfolio increased to 72 companies – Board representation on more than 75% of companies by number – IP Impact programmes run internally and externally – Continued to provide other spin-out support services including IP Exec, business support, corporate finance and legal advice to portfolio companies
 **Grow** To grow the value of our assets and those we manage on behalf of third parties	– Net portfolio fair value gains of £82.4m – Deployed capital of £27.5m to portfolio (2012: £26.3m) – Portfolio stands at 72 companies with a combined total value in excess of £1.7bn – Raised £30m IP Venture Fund II, to invest alongside the Group – Total funds under management of approximately £100m
 **Deliver** To deliver attractive financial returns from our assets	– Net portfolio fair value gains of £82.4m – Proceeds from sale of equity and debt of £5.5m – Strong share price performance in 2013 with an increase in excess of 40%

IP Group's purpose is to systematically help create, build and support outstanding intellectual property-based businesses in order to provide attractive returns for our shareholders and other stakeholders. The key elements of our strategy are as follows:

Objectives for 2014	Link to KPIs
— Maintain similar level of new opportunities — Integrate Fusion IP's partner university relationships into the Group — Further expansion into the US via pilot projects – identify first US based incubation opportunities — Identify opportunities to deploy an increased level of capital into the Group's biotech division	— Number of new portfolio companies — Cash, cash equivalents and deposits Read more on pages 30 and 31
— Complete Fusion acquisition, integrate staff into the Group and begin to deepen our sector expertise — Seek to maintain approach of direct IP Group representation on spin-out company boards — Continue to develop and deploy IP Impact — Continue to provide "add-on" services such as IP Exec, business support, corporate finance advice	— Purchase of equity and debt investments — Change in fair value of equity and debt investments — Cash, cash equivalents and deposits Read more on pages 30 and 31
— £100m capital raising in early 2014 will facilitate increased rate of capital deployed in 2014, primarily into maturing portfolio — Assist, directly or indirectly, portfolio companies to access public and private markets to raise development capital — Continue to monitor opportunities for additional capital or funds under management	— Total equity — Change in fair value of equity and debt investments — Cash, cash equivalents and deposits Read more on pages 30 and 31
— Seek to continue net long-term increase in portfolio value and net assets — Where appropriate, generate cash realisations from portfolio — Generate attractive performance in Group's managed funds	— Total equity — Profit/(loss) attributable to equity holders — Proceeds from sale of equity investments — IP Group share price performance Read more on pages 30 and 31

Operational review

A successful year: executing our core strategy

During 2013 the Group has continued to build on the strong foundations laid in previous years and has utilised its people and cash resources to continue to support the development of its portfolio.

For the second successive year the Group deployed over £25m of balance sheet capital into its portfolio companies and saw the fair value of its portfolio increase significantly. The Group's access to intellectual property opportunities in the UK was expanded through a new partnership with the University of Manchester and a strategic investment in Cambridge Innovation Capital plc, while the Group took its first measured steps internationally through two new pilot relationships with the University of Pennsylvania and Columbia University.

Alan Aubrey Chief Executive Officer

Since the period end, in January 2014, we were pleased to announce a recommended all-paper acquisition of Fusion IP plc, a business with which we have enjoyed a strong working relationship since taking a 20% stake in 2009. The recommended acquisition is highly complementary to IP Group's core business and will give the combined entity greater breadth of coverage, enabling the Group to access a wider pool of intellectual property as well as improve our service offering to existing and potential research institutions both in the UK and internationally. In addition, our shareholders gave a strong endorsement of our business model and progress to date through their support of an equity raise of £100m, before expenses, that will enable us to continue to back our most promising portfolio companies. Access to finance for our portfolio companies was further complemented in 2013 through the raising of a new £30m fund with the European Investment Fund ("EIF"), IP Venture Fund II, a successor to IP Venture Fund.

Throughout 2013, the Group continued to execute its core strategy of building high-quality businesses based on intellectual property. This has resulted in the fair value of the Group's portfolio increasing to £285.9m (2012: £181.8m) across 72 companies, with many companies continuing to mature, increase revenues, and achieve commercial and technical milestones. Highlights included: Oxford Nanopore Technologies Limited ("Oxford Nanopore") completing a £40m financing and launching a heavily oversubscribed access program to allow researchers to begin using its nanopore sequencing technology; Durham Graphene Sciences Limited rebranding to Applied Graphene Materials plc

("Applied Graphene") and completing an AIM market IPO and concurrent £11m placing; and Retroscreen Virology Group plc ("Retroscreen") continuing to grow its revenues and guiding the market in December to expect FY2013 revenues in excess of £27m (almost double the £14m achieved in 2012). There were few significant reductions in fair value or write-offs within the portfolio. Further detailed analysis is provided in the portfolio review.

The Group's active involvement in the development of its spin-out companies is an integral part of the implementation of its strategy. To that end, the Group has expanded IP Exec, the Group's specialist in-house executive search function which assists portfolio companies in recruiting experienced and able leadership. In addition, following the completion of the acquisition of Fusion IP, its existing highly skilled team will augment the Group's core business.

As noted opposite, in addition to increasing its access to UK university-produced research through its relationships with the University of Manchester and CIC, the Group announced in December that it had signed IP commercialisation agreements with the University of Pennsylvania, the UPstart company formation programme run by its Center for Technology Transfer, and with Columbia Technology Ventures, the technology transfer office of Columbia University. These partnerships, which have an initial pilot phase of 18 months, will focus on identifying early-stage, proof of principle opportunities based on intellectual property developed at those universities. The Group will seek to identify its first opportunities for development from these universities during the course of 2014.

In order to support the current portfolio as well as future spin-outs from its university partners, the Group recognises the importance of being able to provide long-term 'patient' capital to its portfolio companies. The successful completion of the Group's £100m placing in February 2014 will ensure that the Group has the ability to continue to back its most promising portfolio companies with both capital and people. Top Technology Ventures Limited ("TTV"), the Group's FCA-regulated subsidiary, now manages three venture capital funds with total assets under management now in excess of £100m. IPVFII was established in May 2013 in partnership with the EIF, one of the leading venture capital investors in Europe. The fund comprises £30m of capital with a £20m contribution from the EIF and a £10m contribution from the Group. NETF, now entering its fifth year of investing, has to date provided capital to 55 developing technology companies in north-east England. Finally, IPVF, whose investing period ended in 2012, continues to deploy its remaining capital to support its existing portfolio.

Outlook

Whilst macroeconomic sentiment in the UK is improving, funding for higher risk, early-stage businesses continues to be constrained and trading circumstances for many small businesses remain difficult. Nonetheless, the Directors believe that the UK continues to produce a wealth of potentially world-class IP from its universities and other research intensive institutions and consider that the Group has an increasingly strengthened position given its track record, strong cash position and available funds under management.

The Group continues to expand its access to leading scientific innovation, both in the UK and abroad, by broadening and deepening its arrangements with its existing university partners and other research intensive institutions, and by entering into collaborations with new partners. These arrangements continue to provide opportunities for the Group to back early-stage projects and companies based on potentially high-impact technologies. The Board is confident that this flow of opportunities, coupled with the Group's increased ability to invest larger sums more frequently in its portfolio companies as a result of the Capital Raising, will continue to drive the Group's growth. The Board is excited at the prospect of the acquisition of Fusion IP plc which it considers represents an opportunity to create a stronger UK commercialisation company with greater critical mass. Accordingly, the Board remains confident in the prospects for the Group.

Testimonial:
Business Building

"It is common for institutional investors to claim that they 'add value' to their portfolio companies. However IP Group has done exactly this, in a very fundamental and value accretive way since our early days. It is not unreasonable to say that the company would not be where it is today without their consistent support and guidance."

Dave Page, CEO
Actual Experience plc

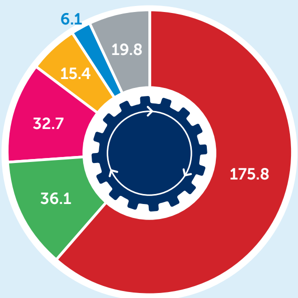
"IP Group has a strong sense of commitment to the business in which they invest, positioning themselves as partners in your company and are in it 'for the long run'...They have stood shoulder to shoulder with us as we grew and matured, offering both financial and professional support at each stage of the company's development."

Kym Denny, CEO
Retroscreen Virology Group plc

Portfolio review

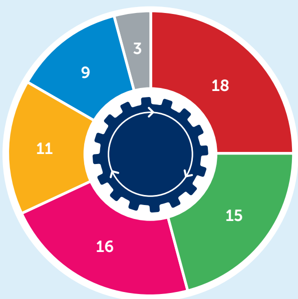
Our portfolio: continuing to develop and mature

The Group's ten largest portfolio companies account for almost 79% of the total portfolio value (2012: 76%)



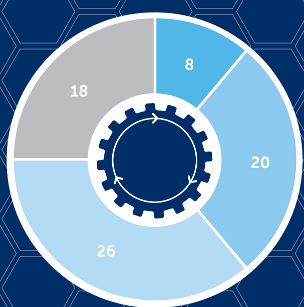
Portfolio by fair value (£m)

- Healthcare
- Energy & Renewables
- Chemicals & Materials
- IT & Communications
- Biotech
- Multiple sectors



Portfolio by number

- Healthcare
- Energy & Renewables
- Chemicals & Materials
- IT & Communications
- Biotech
- Multiple sectors



Portfolio by stage

- Incubation opportunities
- Seed businesses
- Post-seed private businesses
- Post-seed quoted businesses

Overview

At 31 December 2013 the value of the Group's portfolio had increased to £285.9m, from £181.8m in 2012, as a result of the net investment and fair value movements set out below. The portfolio comprised holdings in 72 companies, compared with 67 at 31 December 2012.

During the year to 31 December 2013, the Group provided pre-seed, seed and post-seed capital totalling approximately £27.5m to its portfolio companies, including a £5m investment into Cambridge Innovation Capital plc. This rate of deployment is largely consistent with the £26.3m provided in 2012 and is in line with commitments made at the time of the Group's 2011 placing. The directors believe that the Group's ability to utilise its increased capital to maintain its equity interest in its most promising companies has contributed to the significant fair value increase in the portfolio during the year of £82.4m (2012: £38.0m).

The Group has broadly maintained the level of capital deployed into new spin-out opportunities, with initial capital being deployed by the Group into nine companies during the year (2012: 11) and the Group received stakes in two additional companies. One company was sold during the period, whilst a further five companies were closed or fully provided against with a total historic cost of £11.2m. The total cost of all closed or fully provided companies now stands at approximately £17m, representing approximately 14% of the total capital deployed to date by the Group into its portfolio.

Overview

Fair value of portfolio
£285.9m (2012: £181.8m)

Investment in portfolio
£27.5m (2012: £26.3m)

Number of portfolio companies
72 (2012: 67)

Realisations from portfolio
£5.5m (2012: £16.7m)

Number of new portfolio companies
9 (2012: 11)

The Group's ten largest portfolio companies by value, accounting for almost 79% of the total portfolio value (2012: 76%), have seen significant developments during the year. Applied Graphene Materials plc, a spin-out from Durham University which has developed a proprietary process for the manufacture of high purity graphene nanoplatelets, completed an AIM market IPO and concurrent £11m placing to scale up capacity of its plant to eight tonnes per annum over the next 18 months, for investment in technical and business development, commercial partnerships and to extend the applications capability.

During the year, cash proceeds from the realisation of investments decreased to £5.5m (2012: £16.7m). The proceeds predominantly arose from partial exits of the Group's holdings in AIM-quoted Tracsis plc and Velocys plc, whilst the prior year was primarily driven by the disposal of Proximagen plc for £15.4m.

Performance summary

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

	2013 £m	2012 £m
Unrealised gains on the revaluation of investments	**90.3**	64.5
Unrealised losses on the revaluation of investments	**(7.9)**	(26.5)
Net fair value gains	**82.4**	38.0
(Loss)/profit on disposals of equity investments	**(0.2)**	11.8
Change in fair value of Limited Partnership interests	**0.8**	0.4
Net portfolio gains	**83.0**	50.2

The most significant contributors to unrealised gains on the revaluation of investments comprised Oxford Nanopore (£33.3m), Retroscreen (£16.1m) and Applied Graphene (£12.2m). The major contributors to the unrealised losses on the revaluation of investments were Modern Water (£1.6m), Oxford Advanced Surfaces (£1.5m) and Encos (£1.1m).

The Group's holdings in companies quoted on either AIM or ISDX saw a net unrealised fair value increase of £46.1m while the Group's holdings in unquoted companies experienced a net fair value increase of £36.3m. The Group believes that the increasing maturity and technical and commercial progress of many of its underlying portfolio businesses, both quoted and unquoted, contributed to the significant increases in fair value during the year. The share price performance of the Group's quoted portfolio companies has continued to be positive during the first two months of 2014, with the portfolio having seen a £23.6m net unrealised fair value increase from the year end to 28 February 2014.

Portfolio review
continued

Investments and realisations

As expected, the Group's rate of capital deployment remained consistent during 2013, with a total of £27.5m being deployed across 44 new and existing projects (2012: £26.3m; 43 projects), as follows:

Cash investment analysis by company stage	2013 £m	2012 £m
Incubation opportunities	**0.2**	0.5
Seed businesses	**4.2**	4.2
Post-seed private businesses	**13.7**	13.1
Post-seed quoted businesses	**9.4**	8.5
Total	**27.5**	26.3
Proceeds from sales of equity investments	**5.5**	16.7

Incubation opportunities comprise businesses or pre-incorporation projects that are generally at a very early stage of development. Opportunities at this stage usually involve capital of less than £150,000 from IP Group, predominantly allowing for proof of concept work to be carried out. Incubation projects generally have a duration of nine to eighteen months, following which the opportunity is progressed to seed financing, terminated or retained at the pre-seed stage for a further period to allow additional proof of concept work to be carried out. Seed businesses are those that have typically received financing of up to £1m in total, primarily from IP Group, in order to continue to progress towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement.

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

The Group has continued to mature its post-seed businesses with a number announcing further financings supported by the Group and/or IPVF, the dedicated follow-on venture capital fund managed by the Group. IPVF invested a total of £1.4m into Group portfolio businesses during the year (2012: £3.0m). There is approximately £2.6m further to invest into the existing portfolio from this fund.

The Group raised IP Venture Fund II, a £30 million venture capital fund, in May 2013 in partnership with the European Investment Fund. IP Venture Fund II is a successor fund to IP Venture Fund and will invest alongside the Group in new spin-out companies from IP Group's university partnerships and other collaborations, from incubation stage through seed and post-seed stage, with an investment ratio of 30:70 (IP Venture Fund II: IP Group).

The Group's pipeline of commercialisable intellectual property opportunities remains strong. Eight opportunities received initial incubation or seed funding during the year (2012: eight), two existing incubation projects progressed to seed stage (2012: two), with a further one developing business receiving capital from the Group for the first time.

The eight new opportunities included:

- Quantum Imaging Limited (University of Leeds): Quantum Imaging is developing an imaging device that is portable, passive, and can be deployed in a bedside setting. The device can rapidly triage patients presenting with chest pains to the emergency department. These patients represent a major time and cost burden on global healthcare systems offering a significant addressable market opportunity;
- Fault Current Limited (University of Cardiff): Fault Current has devised a unique magnetic fault current limiter design that protects utility electrical distribution networks from unanticipated power surges;
- Ubiquigent Limited (University of Dundee): Ubiquigent is a specialist developer and supplier of high quality reagents, kits and drug discovery assay development and compound profiling services with a focus on ubiquitin, ubiquitin-like, and integrated signalling systems; and
- Ionix Advanced Technologies Limited (University of Leeds): Ionix develops high performance piezoelectric materials that can operate in high-temperature, high-work environments.

The average level of capital deployed per company increased slightly from £610,000 to £620,000 in 2013. Excluding the Group's participation in Oxford Nanopore's 2012 and 2013 financing rounds, the average investment per company increased to £530,000 from £470,000 in 2012. This trend is expected to broadly continue in the future.

The Group's pipeline remains strong. Eight opportunities received initial incubation or seed funding during the year (2012: 8)

Portfolio analysis — by stage of company maturity

At 31 December 2013, the Group's portfolio fair value of £285.9m was distributed across stages of company maturity as follows:

	As at 31 December 2013				As at 31 December 2012			
	Fair value		Number		Fair value		Number	
Company stage	£m	%		%	£m	%		%
Incubation opportunities	0.1	—	8	11%	0.5	—	8	12%
Seed businesses	11.3	4%	20	28%	9.9	5%	17	25%
Post-seed private businesses	139.4	49%	26	36%	86.8	48%	26	39%
Post-seed quoted businesses	135.1	47%	18	25%	84.6	47%	16	24%
All portfolio businesses	285.9	100%	72	100%	181.8	100%	67	100%

Of the 72 companies in the Group's portfolio, 79% (2012: 76%) of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £225.2m (2012: £138.2m).

Portfolio analysis — by sector

The Group funds spin-out companies based on a wide variety of innovative and potentially disruptive commercialisable intellectual property emerging from leading research intensive institutions and does not limit itself to funding companies from particular areas of science. For reporting purposes only, the Group categorises its portfolio companies into five broad "technology" sectors, as depicted in the following table:

	As at 31 December 2013				As at 31 December 2012			
	Fair value		Number		Fair value		Number	
Sector	£m	%		%	£m	%		%
Healthcare	175.8	62%	18	25%	107.3	59%	17	25%
Energy & Renewables	36.1	13%	15	21%	31.0	17%	14	21%
Chemicals & Materials	32.7	11%	16	22%	18.0	10%	14	21%
IT & Communications	15.4	5%	11	15%	9.7	5%	12	18%
Biotech	6.1	2%	9	13%	5.6	3%	8	12%
Multiple sectors	19.8	7%	3	4%	10.2	6%	2	3%
	285.9	100%	72	100%	181.8	100%	67	100%

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

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

Portfolio review
continued

Healthcare

The Group's portfolio of healthcare, or "medtech", companies saw the most significant increase in fair value during the period. The major contributors to this increase were Oxford Nanopore (£33.3m) as a result of its further £40m fundraising being completed at a premium to its previous financing round, Retroscreen (£16.1m) which experienced strong share price performance following its £25.5m placing and Tissue Regenix Group plc (£9.4m) whose share price performed positively during the year following announcement of the publication of full trial results detailing the effectiveness of DermaPure™ in healing treatment-resistant chronic wounds and the production of dCELL® dermis in the United States.

In January 2014, Oxford Nanopore Technologies Limited ("Oxford Nanopore"), a spin-out company from the University of Oxford that specialises in nanopore-based electronic molecular analysis systems, announced that its MinION Access Programme ("MAP") had been "heavily oversubscribed" following its launch in November. The MAP is a substantial but initially controlled programme designed to give life science researchers access to nanopore sequencing technology at no risk and minimal cost. The programme will be conducted in cycles with the first cycle taking place over a six week period comprising "a configuration phase (installation of hardware and software), burn-in phase (test experiments using control samples provided by Oxford Nanopore) and the user's own experiments". In October 2013, Oxford Nanopore announced it had raised £40m in new funding via a private placement of ordinary shares, bringing the total funds raised by Oxford Nanopore since its foundation to £145m.

Retroscreen Virology Group plc ("Retroscreen"), a spin-out from Queen Mary University of London, that has pioneered the commercialisation of the Viral Challenge Model which enables research into viral infection and enables pharmaceutical companies to accelerate and reduce the cost of bringing antiviral therapeutics and vaccines to market, announced in July that had it raised £25.5m before expenses, with the

Company name	Description	Group stake at 31 Dec 2013(i) %	Fair value of Group holding at 31 Dec 2012 £m	Year to 31 December 2013: Net investment/ (divestment) £m	Year to 31 December 2013: Fair value movement £m	**Fair value of Group holding at 31 Dec 2013 £m**
Oxford Nanopore Technologies Limited	Single-molecule detection. 1st application in 3rd generation DNA sequencing ("$1000 genome")	19.6%	66.5	4.5	33.3	**104.3**
Retroscreen Virology Group plc	Viral challenge and 'virometrics' specialist ("conquering viral disease")	18.3%	12.4	1.1	16.1	**29.6**
Tissue Regenix Group plc	Regenerative dCELL® soft tissue body parts	13.8%	11.3	–	9.4	**20.7**
Avacta Group plc	Reagents, arrays and instruments for human and animal healthcare	27.6%	9.9	0.9	1.4	**12.2**
Other companies			7.2	1.9	(0.1)	**9.0**
Total			107.3	8.4	60.1	**175.8**

(i) Stake represents undiluted beneficial equity interest excluding debt.

Number of companies

18 (2012: 17)

Fair value

£175.8m (2012: £107.3m)

Group, together with its managed funds, contributing £1.5m of the placing. In December, Retroscreen announced that it expects to report revenues for the year ended 31 December 2013 in excess of £27.0m (31 December 2012: £14.4m), significantly ahead of market expectations. The company also continues to achieve improvements to gross margin and profitability.

Avacta Group plc ("Avacta"), which develops reagents, arrays and instruments for human and animal healthcare, announced in July 2013 that it had raised gross proceeds of £4.7m primarily to develop its Affimer technology, of which the Group, together with its managed funds, contributed £1.0m. Avacta subsequently announced its first licence deal for Affimers with Blueberry Therapeutics, a private UK biotechnology company.

Case study: Healthcare

Oxehealth

Stage: Seed

Monitoring 'vital signs' (heart rate etc.) remotely

Oxehealth is a software developer spun out from the University of Oxford's Institute of Biomedical Engineering. Its technology enables a digital camera, tablet or phone to monitor the vital signs (heart rate, respiratory rate and oxygen saturation) of an individual, without the need for physical contact or expensive proprietary equipment. Oxehealth recently appointed Warren East, the former ARM CEO, board member of Rolls Royce, De La Rue, Dyson and BT, to its Advisory Board.

Read more online at www.ipgroupplc.com/portfolio

Portfolio review
continued

Energy & Renewables

Companies in the Energy & Renewables sector also saw an increase in fair value during the period of £4.0m. The major contributors to this increase were Getech Group plc (£3.3m) and Ceres Power Holdings plc (£2.1m) whose respective share prices performed positively during the year. This increase was partially offset by a decrease in Modern Water plc's share price (£1.6m).

In March 2013, Ceres Power Holdings plc ("Ceres"), a developer of clean, efficient, low-cost fuel cell technology, raised gross proceeds of £9.7m, of which the Group provided £2.0m. In July, assisted by IP Exec, Ceres appointed Phil Caldwell, formerly Corporate Development Director at PEM fuel cell developer Intelligent Energy Limited, as its new CEO. Shortly thereafter, the company announced a commercial and technical partnership with KD Navien, the dominant boiler manufacturer in South Korea. In late November, the company presented significant technical progress of its fuel cell technology at the Okinawa Fuel Cell Conference in Japan. Two technical papers were published which explained the performance advances demonstrated by the low cost Ceres' Steel Cell over the past year, particularly in relation to robustness, efficiency and durability.

Modern Water plc ("Modern Water"), a company that develops leading water technologies focused on addressing the scarcity of fresh water and the monitoring of water quality, announced in March 2013 that it had raised gross proceeds of £10.0m, including £1.7m from the Group. Modern Water's share performance in the year was disappointing despite the company releasing improved interim results in September and announcing

				Year to 31 December 2013		
Company name	**Description**	Group stake at 31 Dec 2013[i] %	Fair value of Group holding at 31 Dec 2012 £m	Net investment/ (divestment) £m	Fair value movement £m	**Fair value of Group holding at 31 Dec 2013 £m**
Ceres Power Holdings plc	Ceramic fuel cell technology for distributed generation	24.7%	6.2	2.0	2.1	**10.3**
Modern Water plc	Technologies to address the world's water crisis	20.0%	6.7	1.7	(1.6)	**6.8**
Getech Group plc	Gravitational and magnetic data services for the oil, gas and mining industries	23.4%	3.1	–	3.3	**6.4**
CH4E Limited	Small to medium scale anaerobic digesters	41.2%	0.6	1.3	1.0	**2.9**
Rock Deformation Research Limited	Services and tools to examine impact of faults and other structures on hydrocarbon reserves	21.4%	1.7	–	0.5	**2.2**
Velocys plc (previously Oxford Catalysts Group plc)	Speciality catalysts for the generation of clean fuels	0.7%	6.3	(5.1)	–	**1.2**
Other companies			5.7	1.9	(1.3)	**6.3**
Total			30.3	1.8	4.0	**36.1**

[i] Stake represents undiluted beneficial equity interest excluding debt.

Number of companies
15 (2012: 14)

Fair value
£36.1m (2012: £30.3m)

the signing of an exclusive distribution agreement, opening a new office and signing a number of new strategic contracts in China.

Getech Group plc ("Getech"), the geoscience services business specialising in the provision of data, studies and services to the oil, gas and mining exploration sectors, announced its results for the twelve months ended 31 July 2013 in October. The highlights included revenue for the year increasing by 25% to £8.0m (2012: £6.4m) and profit before tax increasing by 83% to £2.2m (2012: £1.2m). Following on from this significant improvement in financial performance, the company's share price increased 105% during 2013, with the fair value of the Group's holding in the company increasing £3.3m. Getech's share price has experienced some downward pressure in early 2014 following a H1 trading update indicating a reduction in profit compared to the prior half year.

Case study: Energy & Renewables

Modern Water

Stage: Post-seed quoted

Technologies for the production of fresh water and monitoring of water quality

Modern Water supplies world-leading technologies for the production of fresh water and monitoring of water quality and recently announced key contracts during a UK Government trade mission to China, led by the UK Prime Minister, David Cameron. Mr Cameron said: "Modern Water is an excellent example of a small British business taking world-leading technology to China and securing significant deals - all part of Britain succeeding in the global race."

Read more online at www.ipgroupplc.com/portfolio

Portfolio review
continued

Chemicals & Materials

The unrealised fair value gain seen by the Chemicals & Materials portfolio was largely as a result of an increase in Applied Graphene's share price since its admission to AIM and Xeros Limited's further £10.0m fundraising being completed at a premium to its previous financing round.

Applied Graphene Materials plc ("Applied Graphene"), a spin-out from Durham University which has developed a proprietary process for the manufacture of high purity graphene nanoplatelets, completed its AIM IPO and £11.0m placing in November. Applied Graphene will utilise the funding to scale up production and accelerate its collaboration agreements with nine commercial partners, which range from feasibility assessments to detailed research investigating uses of graphene in various application areas.

Revolymer plc ("Revolymer"), a University of Bristol spin-out that has developed a broad portfolio of polymer-based IP which it is now applying to improve the performance of a variety of consumer products, announced in November 2013 that it had filed for marketing authorisation in Europe of its proprietary nicotine gum products by submitting an application to the MHRA. If approved, this will permit the marketing of Revolymer's 2mg and 4mg strength nicotine gum in the UK, Ireland, Poland and Spain. On 27 January 2014, the company announced the departure of its CEO and is currently taking steps to identify a successor.

In March 2013, Xeros Limited ("Xeros"), the developer of a patented polymer bead cleaning system, successfully completed a £10.0m fundraising from new and existing investors, including £1.3m from the Group and its managed funds. The funding is being used to accelerate the roll-out of the Xeros commercial laundry cleaning system and to finalise

Company name	Description	Group stake at 31 Dec 2013[i] %	Fair value of Group holding at 31 Dec 2012 £m	Year to 31 December 2013: Net investment/ (divestment) £m	Year to 31 December 2013: Fair value movement £m	**Fair value of Group holding at 31 Dec 2013 £m**
Applied Graphene Materials plc	Producer of speciality graphene materials	20.4%	0.7	2.0	12.2	**14.9**
Revolymer plc	Novel polymers, e.g. "removable chewing gum"	10.4%	4.0	–	(0.1)	**3.9**
Xeros Limited	"Virtually waterless" washing machines	14.6%	1.4	0.9	0.9	**3.2**
Surrey Nanosystems Limited	Low temperature carbon nanotube growth	21.0%	2.3	–	–	**2.3**
Other companies			9.6	0.9	(2.1)	**8.4**
Total			18.0	3.8	10.9	**32.7**

[i] Stake represents undiluted beneficial equity interest excluding debt.

Number of companies
16 (2012: 14)

Fair value
£32.7m (2012: £18.0m)

the development of a household system as an alternative to conventional domestic washing machines. In May 2013, Xeros announced that it had partnered with the chemical company BASF to jointly develop polymer beads based on engineering plastics that will increase the cleaning power in laundry applications. This long-term agreement reflects the mutual commitment of the two companies to maximise the commercialisation of the Xeros cleaning system and protect the environment by conserving water and energy. In February 2014, Xeros announced its intention to float on the AIM market and raise funds to allow it to accelerate roll-out in commercial laundry and to fund the research and development process through to commercialisation in other identified applications, not least in domestic laundry.

Case study: Chemicals & Materials

Applied Graphene Materials

Stage: Post-seed quoted

Cutting edge technology in the developing graphene market

Applied Graphene Materials ("AGM") is a spin-out from Durham University which has developed a proprietary process for the manufacture of high purity graphene nanoplatelets. Since its isolation in 2004, graphene has attracted significant interest and been dubbed 'the wonder material' given its unsurpassed electrical, thermal and mechanical properties. AGM listed on the AIM market of the London Stock Exchange in November 2013, having raised £11m.

Read more online at www.ipgroupplc.com/portfolio

Portfolio review
continued

IT & Communications

At 31 December 2013, the Group's portfolio of holdings in IT & Communications companies was valued at £15.4m (2012: £10.4m) and recorded a fair value gain of £4.2m (2012: £2.5m), the majority of which was due to Actual Experience plc's fundraising being completed at a premium to its previous financing round and the performance of Tracsis plc's share price.

Tracsis plc ("Tracsis"), a leading provider of operational planning software to passenger transport industries, announced in March 2013 a recommended cash offer for the entire issued share capital of AIM-quoted Sky High plc, the largest provider of traffic analysis and surveys within the UK, and in April won Small Cap Company of the Year at the 2013 Small Cap Awards. In October 2013, Tracsis released its final results for the year ended 31 July 2013, highlighting increases in revenues of 25% to £10.8m (2012: £8.7m), an expanded geographic footprint and the successful launch of new software products.

In November 2013, Actual Experience plc ("Actual Experience"), a spin-out from Queen Mary London, successfully completed a £4m financing round. Funds raised will be used to support Actual Experience's continued expansion and internationalisation, increase resource dedicated to supporting channel partners and further improve its capacity to

				Year to 31 December 2013		
Company name	**Description**	Group stake at 31 Dec 2013[i] %	Fair value of Group holding at 31 Dec 2012 £m	Net investment/ (divestment) £m	Fair value movement £m	**Fair value of Group holding at 31 Dec 2013 £m**
Tracsis plc	Resource optimisation software for the transport industry	10.9%	5.0	(0.6)	1.1	**5.5**
Actual Experience plc[ii]	Optimising the human experience of networked applications	30.1%	1.2	0.2	3.3	**4.7**
Arkivum Limited	Digital preservation and management	45.3%	1.9	0.1	–	**2.0**
Other companies			2.3	1.1	(0.2)	**3.2**
Total			10.4	0.8	4.2	**15.4**

(i) Stake represents undiluted beneficial equity interest excluding debt.
(ii) Actual Experience Limited prior to its AIM IPO on 13 February 2014.

Number of companies

11 (2012: 12)

Fair value

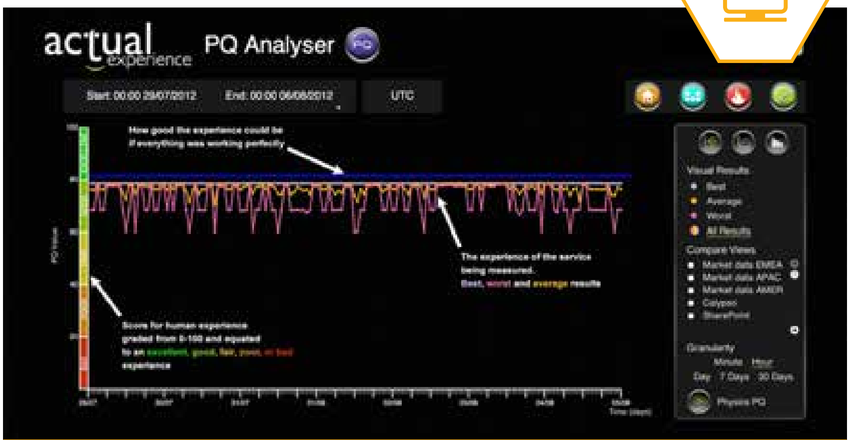
£15.4m (2012: £10.4m)

service its blue chip customer base, which currently includes Accenture (UK) Limited, Cisco systems Inc., Deutsche Post AG and Verizon Business Inc. Actual Experience Analytics are used by businesses to quantify and improve the actual 'human experience' of key IT applications for their customers and users. Following the period end in February 2014, Actual Experience's shares were admitted to trading on AIM, with strong share price performance since listing resulting in a fair value increase in the Group's holding as at 28 February 2014 of £11.6m.

Case study: IT & Communications

Actual Experience

Stage: Post-seed private business



Improving the actual computing experience for end users

Actual Experience's technology enables the measurement of the digital world as users experience it, enabling customers to measure and improve the performance of the business applications that they provide to their staff and their own clients, reducing costs while improving the experience of the user. A spin-out from Queen Mary University of London, shares in Actual Experience listed on the AIM market of the London Stock Exchange in February, valuing it at £15.6m at the introduction price.

Read more online at www.ipgroupplc.com/portfolio

Portfolio review
continued

Biotech

Number of companies

9 (2012: 8)

Fair value

£6.1m (2012: £5.6m)

The fair value of the Group's holdings in Biotech companies increased slightly during the year largely as a result of an increase in the share price of Synairgen and the receipt of shares in Summit Corporation plc worth approximately £0.5m as a result of the Group's contract with the University of Oxford's Department of Chemistry.

Two businesses in this sector were fully provided against during the year. Pharminox, which had a fair value of £0.5m at 31 December 2012, was revalued to £nil following the cessation of operations and the commencement of a sale process for its intellectual property to seek to realise any residual value. This followed the last of Pharminox's drug candidates having not received sufficiently positive pre-clinical data during the year to progress further. While the Group had only committed £1.0m of capital since Pharminox's 2002 spin-out from Oxford's Department of Chemistry, the Group has provided significant input into the company over that time and it is therefore a disappointing outcome. Photopharmica Limited, which was restructured by the Group in 2012 after an unsuccessful attempt by the company to partner its lead photodynamic therapy programme following positive Phase IIb data, was also fair valued at £nil at 31 December 2013 (2012: £0.2m). The Group continues to seek a purchaser of Photopharmica Limited's intellectual property and clinical trial data.

Modern Biosciences plc ("MBS"), a subsidiary company of the Group that in-licenses and develops intellectual property relating to new therapeutic compounds using a virtual drug-discovery model, saw more positive developments. Since 2006, MBS has been developing a family of compounds that act via a novel target that the Group believes is one of the most exciting emerging targets in immunology and has already been the focus of several papers published in Nature. Currently, the Group believes that MBS has the only known ligands against these targets. MBS expects to take its lead candidate into the clinic in 2014. MBS has also identified ways to use its expertise in the novel target biology to pursue other members of this family of compounds, each of which has a differing role in various inflammatory diseases. As MBS is currently consolidated into the Group's results, it is not attributed any value in the Group's portfolio.

Company name	Description	Group stake at 31 Dec 2013[i] %	Fair value of Group holding at 31 Dec 2012 £m	Year to 31 December 2013: Net investment/ (divestment) £m	Year to 31 December 2013: Fair value movement £m	**Fair value of Group holding at 31 Dec 2013 £m**
Synairgen plc	Respiratory diseases	10.8%	3.7	–	0.6	**4.3**
Karus Therapeutics Limited	Inflammatory disease and cancer	8.6%	0.9	–	–	**0.9**
Summit Corporation plc	Duchenne Muscular Dystrophy	<1%	–	–	0.5	**0.5**
Other companies			1.0	0.3	(0.9)	**0.4**
Total			5.6	0.3	0.2	**6.1**

[i] Stake represents undiluted beneficial equity interest excluding debt.

Financial review

A successful year: the value of the Group's holdings in portfolio companies increased to £285.9m

For the year to 31 December 2013, the Group achieved a profit after tax of £72.6m, compared to a profit of £40.7m in 2012.

This result includes a £5.0m reduction in the fair value of the Group's contract with the University of Oxford's Department of Chemistry (2012: £6.0m reduction). Excluding this non-cash fair value reduction, the Group recorded an adjusted profit of £77.6m compared to £46.7m in 2012, largely reflecting significantly higher net portfolio gains in the year.

Greg Smith Chief Financial Officer

Statement of comprehensive income

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

	2013 £m	2012 £m
Net portfolio gains	**83.0**	50.2
Other income	**2.4**	2.3
Change in fair value of Oxford Equity Rights asset	**(5.0)**	(6.0)
Administrative expenses – Modern Biosciences	**(0.5)**	(0.5)
Administrative expenses – all other businesses	**(7.7)**	(6.2)
Finance income	**0.4**	0.9
Profit and total comprehensive income for the year	**72.6**	40.7

Net portfolio gains consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses as well as changes in the fair value of its limited and limited liability partnership interests. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 14 to 26.

Financial review
continued

Testimonial:
Capital

"IP Group has great links to the City. They know the small cap investment community and have put us in touch with various funds who are now investors. As a shareholder themselves, they have been very supportive and patient, following their money several times. The IP Group team genuinely understands how a real trading business works which is markedly different from other small cap funds."

John McArthur, CEO
Tracsis plc

Other income for the year increased slightly to £2.4m (2012: £2.3m) as an increase in dividend income from Getech and Tracsis was largely offset by a lower level of venture capital fund management fees. This reduction occurred as IP Venture Fund continued in its post "investment period" run-off. However, this too was offset by the Group raising a successor fund, IP Venture Fund II, in May 2013. The Group continues to receive management fees and has the potential to generate performance fees from successful investment performance of both IP Venture Fund and the NETF, whose "investment period" is currently anticipated to continue until the end of 2014.

The Group continued to allocate limited capital to the evaluation and development of certain early-stage therapeutic programmes, including through its subsidiary Modern Biosciences plc ("MBS"). These development costs were expensed to the income statement as they were incurred. In November 2012, the Group announced that MBS had been awarded a grant of up to £1.6m by the UK Government-backed Biomedical Catalyst. The award is providing support for MBS's lead anti-inflammatory programme, OsteoRx. The Group intends to continue developing a small number of early-stage therapeutic assets.

The Group's administrative expenses, excluding those relating to MBS, increased during the period to £7.7m (2012: £6.2m), predominantly due to higher staff costs, and included an IFRS 2 share-based payments charge totalling £0.9m (2012: £0.8m) relating to the Group's Long-Term Incentive Plan awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or "net assets". In April 2013, the 2010 LTIP awards partially vested with 9,495,195 shares, representing 81% of the original award, being issued to the relevant members of the Company's staff as a result of the Group's strong three-year share price performance and an increase in "hard" net assets. Further detail is included in the Directors' Remuneration Report on pages 53 to 70. The 2011 and 2012 LTIP awards are subject to vesting conditions until 2014 and 2015 and charges relating to these awards will continue to be recognised in the statement of comprehensive income until this time. The 2011 LTIP award will ordinarily vest on or after 31 March 2014 and, based on the results presented in this report, 100% of the 2011 awards are anticipated to vest during 2014.

As a result of the Group's decreased average cash balances during the year, the Group's interest receivable during the period fell to £0.4m (2012: £0.9m). It is expected that the Group's future finance income will continue to fluctuate broadly in line with cash held on balance sheet and future interest rate changes.

Statement of financial position

The Group ended the period with net assets attributable to shareholders of £337.0m, representing an increase of £73.9m from the position at 1 January 2013 (£263.1m). As described above, the most significant contributor to the increase in net assets during the period was the performance of the Group's portfolio of holdings in spin-out companies. "Hard" net assets, i.e. those excluding intangible assets and the Oxford Equity Rights asset, totalled £315.5m at 31 December 2013 (2012: £236.6m).

The Group finished 2013 with cash and deposits of £24.1m (2012: £47.9m) and a diversified portfolio of equity and debt investments in 72 private and publicly listed technology companies (2012: 67). On 14 February 2014 the Group announced its further equity capital raise of £100m of cash before expenses.

The value of the Group's holdings in portfolio companies increased to £285.9m at year end (2012: £181.8m) after net unrealised fair value gains of £82.4m and net investment of £22.0m (2012: £38.0m net unrealised fair value gain; £9.6m net investment). The Portfolio review on pages 14 to 26 contains a detailed description of the Group's portfolio of equity and debt investments including key developments and movements during the year.

The Group's statement of financial position includes goodwill of £18.4m (2012: £18.4m) and an equity rights asset of £2.9m (2012: £7.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £16.3m; 2012: £16.3m) and Top Technology Ventures (venture capital fund management business, £2.1m; 2012: £2.1m). The equity rights asset represents amounts paid to the University of Oxford in 2000 and 2001 giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company and of any licensing income emanating from the University of Oxford's Department of Chemistry until 2015.

As highlighted in 2012, the date of expiry (November 2015) of the contract underpinning the Oxford Equity Rights Asset draws closer, and the value to the Group of the corresponding asset under IFRS reduces. The asset value will have been written off by way of fair value reduction or impairment through the statement of comprehensive income by the expiry date. Based on the directors' calculations, and as described more fully in note 14 to the Group's financial statements, the fair value of the contract at 31 December 2013 has reduced by £5.0m (2012: £6.0m).

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

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

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

	2013 £m	2012 £m
Net cash used in operating activities (excluding cash flows from deposits)	**(1.9)**	(2.6)
Net cash used in investing activities	**(21.9)**	(10.0)
Issued share capital	**—**	—
Movement during period	**(23.8)**	(12.6)

At 31 December 2013, the Group's Cash totalled £24.1m, a decrease of £23.8m from a total of £47.9m at 31 December 2012 predominantly due to net investment in the Group's spin-out companies.

The Group's net cash used in investing activities increased during 2013, reflecting both an increase in investments (2013: £27.5m; 2012: £26.3m) and a decrease in realisations (2013: £5.5m; 2012: £16.7m). As described in more detail in the Portfolio review on pages 14 to 26, the Group allocated a total of £27.5m across 44 portfolio companies during the period (2012: £26.3m; 43 companies).

A further £0.2m was committed to IP Venture Fund (2012: £0.4m), which in turn invested £1.4m across six portfolio companies (2012: £3.0m; 15 companies) and realised £1.8m from one partial disposal. Overall, net cash used in investing activities totalled £21.9m (2012: £10.0m).

Primarily as a result of a £1.1m increase in trade and other payables, which was partially offset by higher administrative costs during the period, cash used in operating activities decreased to £1.9m (2012: £2.6m).

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

At 31 December 2013, the Group recognises £1.3m of loans (2012: £nil) from the limited partners of IPVFII, a fund raised during the period which is consolidated into the Group's year-end figures. These loans are only repayable upon IPVFII generating sufficient returns to repay the limited partners. Whilst the Group continued to have no borrowings, it may in the future consider introducing a modest level of gearing into the business if this is considered to be in the best interests of the Group.

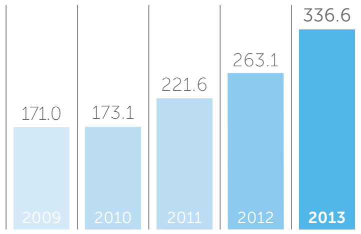
During the period, the Group incorporated a new subsidiary, IP Group Inc., in Delaware, USA in order to support the development of US-based intellectual property commercialisation opportunities. The Group holds a total of £0.1m (2012: £nil) in US dollars.

Taxation

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

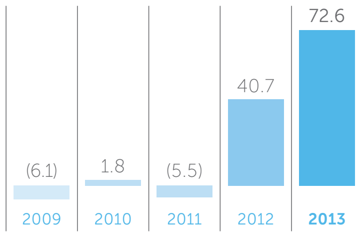
Total equity ("net assets") (£m)

£336.6m (2012: £263.1m)



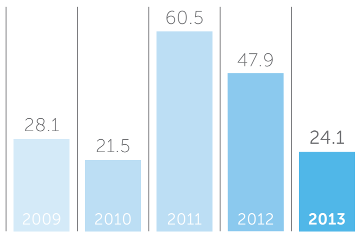
Profit/(loss) attributable to equity holders (£m)

£72.6m (2012: £40.7m)



Cash, cash equivalents and deposits (£m)

£24.1m (2012: £47.9m)



Measuring our performance: focusing on delivery against our strategy

KPI	Further description	2013 performance
Total equity ("net assets")	The value of the Group's assets less the value of its liabilities, including minority interest	**£336.6m** (2012: £263.1m)
Profit/(loss) attributable to equity holders	Profit/(loss) after tax for the year, attributable to owners of the parent	**£72.6m** (2012: £40.7m)
Number of new portfolio companies	The number of portfolio companies that received initial capital from the Group during the year	**9** (2012: 11)
Purchase of equity and debt investments	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	**£27.5m** (2012: £26.3m)
Change in fair value of equity and debt investments	Movement in the value of holdings in the portfolio due to share price movements or impairments in value	**£82.4m** (2012: £38.0m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	**£5.5m** (2012: £16.7m)
Cash, cash equivalents and deposits	The total amount of cash and short-term deposits held on the Group's balance sheet at year end	**£24.1m** (2012: £47.9m)
IP Group share price performance (% change)	Movement in the value of the Group's shares during the year under assessment	**42%** (2012: 53%)

Strategic element	Risks potentially impacting KPI	Link to performance related director remuneration
To grow the value of our assets (and those we manage on behalf of third parties) and deliver attractive financial returns from these assets.	1 2 5	• LTIP 2011 • LTIP 2012 • 2013 annual incentive
Portfolio fair value movement has the most material impact on this figure which also reflects corporate expenses. Measures the development of portfolio companies and return on our assets.	1 2 5	• 2013 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses.	3 4	• N/A
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses.	2 3 4	• N/A
To develop IP-based businesses and grow their value	1 2	• N/A
Cash from proceeds can be used for re-deployment into the portfolio or for new opportunities	1 5	• N/A
Cash is required to enable the Group to provide capital to compelling intellectual IP-based opportunities	1 5	• N/A
To provide attractive returns for our shareholders	1 2 3 4 5	• LTIP 2011 • LTIP 2012 • 2013 annual incentive

For more information on our strategy see pages 10 and 11

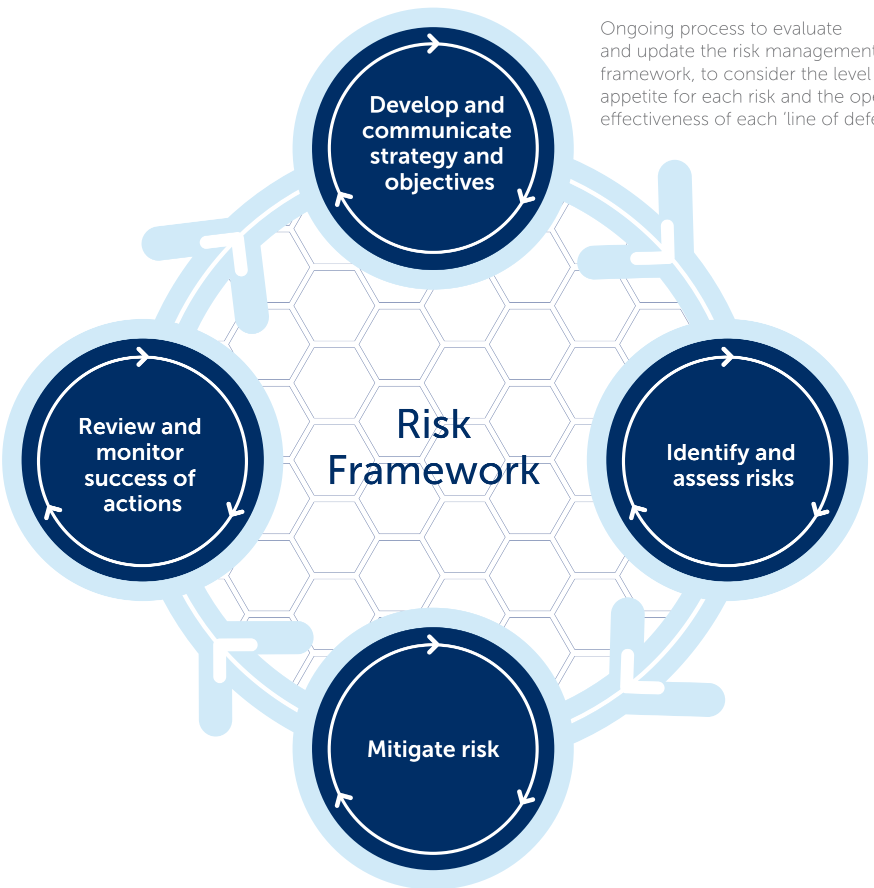
For more information on our risk management see pages 32 to 37

For more information on directors' remuneration see pages 53 to 70

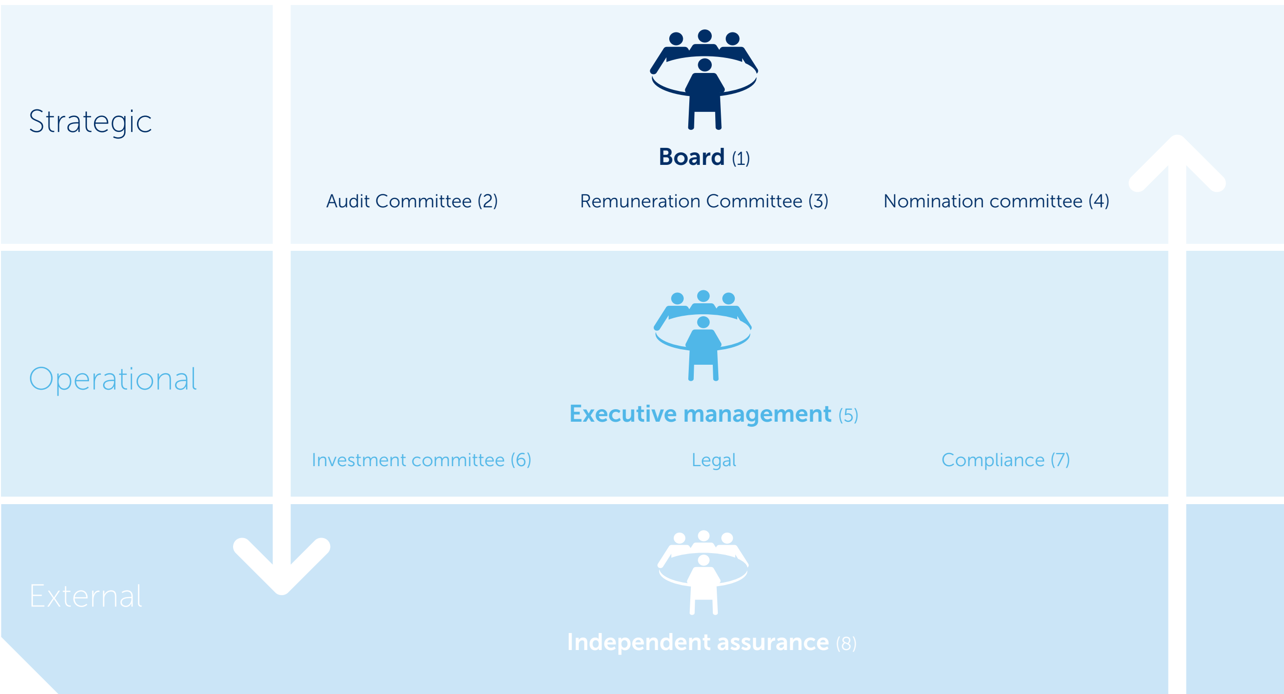
Managing risk: our framework for balancing risk and reward

Strong and effective risk management is central to how the Directors run the business and supports the achievement of the Group's strategic objectives. The Board believes that ongoing consideration and regular updates to the risk management framework enables the effective balancing of risk and reward.

The framework for evaluating risk is:



'Levels of defence' applied by the Group:



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

Risk management

continued

As described further in the Corporate Governance report on pages 40 to 49, the operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are reviewed by the Board at least annually and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks.

Risk and description	Impact
1 The returns and cash proceeds from the Group's early-stage companies can be very uncertain The following risks are typically associated with early-stage companies that can have a high risk of failure: • may not be able to secure later rounds of funding; • may not be able to source or retain appropriately skilled staff; • competing technologies may enter the market; • technology can be materially unproven and may fail; • IP may be infringed, copied or stolen; • may be more susceptible to cyber-crime; and • other administrative, taxation or compliance issues may lead to company failure.	• Portfolio company failure directly impacts the Group's value and profitability. • At any time, a large proportion of the Group's portfolio value may be accounted for by one, or very few, companies which could exacerbate the impact of any impairment or failure of one or more of these companies. • Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.
2 It may be difficult for the Group and its early-stage companies to attract capital The Group's operations are reliant on capital markets, particularly those in the UK. As the Group's operations, and the operations of the majority of its portfolio companies, are based in the UK, the financial and operational performance of the Group and particularly the ability of its portfolio companies to attract development capital is influenced by the general economic climate and trading conditions in the UK.	• The UK's recession and subsequent limited growth have had (and may continue to have) an adverse effect on trading conditions and availability of capital in the UK, particularly for smaller businesses. • The success of those portfolio companies which require significant funding in the future may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient. • Failure of companies within the Group's portfolio may make it more difficult for the Group or its spin-out companies to raise additional capital.
3 Universities or other research intensive institutions may terminate their partnerships or other collaborative relationships with the Group The Group's business, results of operations and prospects are at least partially dependent on competitive advantage gained from access to leading scientific research through partnerships and other collaborative arrangements with research intensive institutions and commercial partners, such as Fusion IP, Technikos and Cambridge Innovation Capital.	• Termination or non-renewal of arrangements through failure to perform obligations may result in the loss of exclusive rights. • The loss of exclusive rights may limit the Group's ability to secure attractive IP opportunities to commercialise. • This could potentially have a material adverse effect on the Group's long-term business, results of operations, performance and prospects. • With several new entrants to our market, this may reduce our opportunities to create new spin-out businesses.

Key:

Increase

Decrease

No change

Were more than one of the risks to occur together, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out as follows:

Mitigation	Risk trend	Progress during the year	KPI
• The Group's staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including systematic opportunity evaluation and business building methodologies. • Members of the Group's senior team often serve as non-executive directors or advisers to portfolio companies to help identify and remedy critical issues promptly. • Support on operational, legal and company secretarial matters is offered to minimise failures due to common administrative factors. • The Group has spin-out company holdings across different sectors to reduce the impact of a single company failure or sector demise. • The Group maintains significant cash balances and seeks to employ a capital efficient process deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage.	↓	• The Group broadly maintained its rate of capital deployment into its portfolio in the year • Significant increase in portfolio value driven by progress across a number of portfolio companies. • Some signs of increased liquidity and shareholder risk appetite observed on AIM.	• Change in fair value of equity and debt investments. • Purchase of equity and debt investments. • Proceeds from the sale of equity investments.
• The Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities. • The Group operates a corporate finance function which carries out fundraising mandates for portfolio companies. • The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development.	↓	• Some strengthening of economic outlook and increased liquidity/risk appetite in the equity capital markets, albeit from a low base. • The Group raised £100m in February 2014, of which the majority is intended to be deployed into the portfolio.	• Change in fair value of equity and debt investments. • Total equity ("net assets"). • Profit/loss attributable to equity holders.
• The Group continues to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research institutions. • The Group has been able to source opportunities through non-exclusive relationships and other sources. • Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive. • The Group's track record in IP commercialisation may make the Group a partner of choice for other institutions, acting as a barrier to entry to competitors.	↑	• PoP agreement signed with University of Manchester. • Pilot agreements signed with two Ivy League US universities. • Oxford Chemistry contract due to expire in November 2015. • Full access to Fusion IP university partners anticipated assuming completion of full acquisition.	• Number of new portfolio companies.

Risk management
continued

Risk and description	Impact
4 **The Group may lose key personnel or fail to attract and integrate new personnel** The industry in which the Group operates is a specialised area and the Group requires highly qualified and experienced employees. There is a risk that the Group's employees could be approached and solicited by competitors or other technology-based companies and organisations, or could otherwise choose to leave the Group. Given the relatively small size of the Group, its operations are reliant on a small number of key individuals. Scaling the team presents an additional potential risk.	• Loss of key executives and employees of the Group or an inability to attract, retain and integrate appropriately skilled and experiences staff could have an adverse effect on the Group's competitive advantage, business, financial condition, operational results and/or future prospects.
5 **There may be changes to, or impacts from, legislation, government policy and regulation** There may be unforeseen changes in, or impacts from, government policy, regulation or legislation (including taxation legislation). This could include changes to funding levels or to the terms upon which public moneys are made available to universities and research institutions and the ownership of any resulting intellectual property.	• Changes could result in universities and research institutions no longer being able to own, exploit or protect intellectual property. • Changes in government policy or legislation may make it unattractive for research academics to participate in the commercialisation of the IP that they create. • Changes to tax legislation or the nature of the Group's activities, in particular in relation to the substantial shareholder exemption, may adversely affect the Group's tax position and accordingly its value and operations. • The Group operates an FCA-authorised subsidiary and regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions, loss of fund management contracts, reputational damage or fines.

In addition, through its normal operations the Group is exposed to a number of financial risks, comprising liquidity, market and credit risks. Further quantitative information is set out in note 2 to the Group's financial statements.

Key:

- Increase
- Decrease
- No change

Mitigation	Risk trend	Progress during the year	KPI
• Senior team succession plans are in place and updated regularly. • The Group carries out regular market comparisons for staff and executive remuneration. • The Group seeks to offer a balanced incentive package comprising a mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working or salary sacrifice arrangements. • The long-term incentives for all senior staff are in the form of shares in the Group and all executives are shareholders in the business. • The Group encourages staff development and inclusion through coaching and mentoring.	↑	• The Group undertook a full remuneration and incentivisation review in 2013 and continues to dedicate resource to this. • The Group is anticipated to increase the breadth and depth of its staff as a result of the Fusion IP acquisition (subject to completion)	• Total equity ("net assets") • IP Group share price performance
• University partners are incentivised to protect their IP for exploitation as the partnership agreements share returns between universities, academic founders and the Group. • The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes. • The Group utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax or other legislation. • The Group has internal policies and procedures to ensure its compliance with applicable FCA regulations and these are subject to external review.	–	• Ongoing focus on regulatory compliance including third party reviews. • No apparent reduction in governmental support of research and intellectual property focused businesses.	• Total equity ("net assets"). • IP Group share price performance.

Board approval

The Strategic Report, as set out on pages 01 to 37, has been approved by the Board.

ON BEHALF OF THE BOARD

Bruce Smith
Chairman
3 March 2014

Board of Directors

Dr Bruce Smith, CBE
Non-executive Chairman

Effective date of current letter of appointment
3 September 2007[1]

Age
74

Independent
N/A[2]

Tenure
11 years

Term of office
3 years, with 3 months' notice

Re-election to Board
Annually at AGM

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

Current external appointments[3]
Chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering

Committee memberships
Nomination (chair)

N

Alan Aubrey
Chief Executive Officer

Effective date of current service contract
20 January 2005

Age
52

Independent
No

Tenure
9 years

Term of office
Permanent, 6 months' notice

Re-election to Board
Annually at AGM

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

Current external appointments[3]
NED Department of Business, Innovation and Skills, Non-executive chairman Proactis Holdings plc

Committee memberships
None

Greg Smith
Chief Financial Officer

Effective date of current service contract
2 June 2011

Age
35

Independent
No

Tenure
2 years

Term of office
Permanent, 6 months' notice

Re-election to Board
Annually at AGM

Experience
KPMG background, 10+ yrs ACA

Current external appointments[3]
None

Committee memberships
None

Mike Townend
Chief Investment Officer

Effective date of current service contract
5 March 2007

Age
51

Independent
No

Tenure
7 years

Term of office
Permanent, 6 months' notice

Re-election to Board
Annually at AGM

Experience
17+ years equity capital markets experience at Lehman Brothers and Donaldson, Lufkin and Jenrette

Current external appointments[3]
None

Committee memberships
None

Charles Winward
Managing Director, TTV

Effective date of current service contract
14 October 2011

Age
44

Independent
No

Tenure
2 years

Term of office
Permanent, 6 months' notice

Re-election to Board
Annually at AGM

Experience
7 years VP Technology at JP Morgan, CFA Charterholder, MBA Berkeley

Current external appointments[3]
None

Committee memberships
None

1. Refers to current appointment. Dr Smith was first appointed to the Group's Board on 4 September 2003.
2. Dr Smith was considered by the Board to be independent on appointment.
3. Excludes appointments to group portfolio company boards.

Mike Humphrey
Senior Independent Director

Effective date of current letter of appointment
14 October 2011

Age
62

Independent
Yes

Tenure
2 years

Term of office
3 years, with 3 months' notice

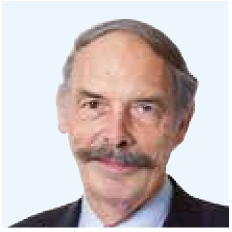
Re-election to Board
Annually at AGM

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

Current external appointments[3]
None

Committee memberships
Nomination, Audit and Remuneration

N A R



Francis Carpenter
Non-executive Director

Effective date of current letter of appointment
3 April 2008

Age
71

Independent
Yes

Tenure
5 years

Term of office
3 years, with 3 months' notice

Re-election to Board
Annually at AGM

Experience
Formerly CEO European Investment Fund and Secretary General of European Investment Bank

Current external appointments[3]
17 Capital LLP supervisory board

iVCi investment committee

Committee memberships
Nomination, Audit and Remuneration (chair)

N A R

Jonathan Brooks
Non-executive Director

Effective date of current letter of appointment
31 August 2011

Age
57

Independent
Yes

Tenure
2 years

Term of office
3 years, with 3 months' notice

Re-election to Board
Annually at AGM

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

Current external appointments[3]
Audit committee chairman Aveva plc

Chairman Xyratex (NASDAQ)

Committee memberships
Nomination, Audit (chair) and Remuneration

N A R

Professor Lynn Gladden, CBE
Non-executive Director

Effective date of current letter of appointment
26 March 2014

Age
52

Independent
Yes

Tenure
< 1 year

Term of office
3 years, with 3 months' notice

Re-election to Board
Annually at AGM

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

Current external appointments[3]
Pro-Vice-Chancellor for Research, University of Cambridge. Shell Professor of Chemical Engineering. Director, Cambridge Enterprise Ltd

Committee memberships
Nomination, Audit and Remuneration

N A R

Key:

N Nomination Committee

A Audit Committee

R Remuneration Committee

Corporate Governance

A successful year: addressing Board diversity

2013 has been a year of strong performance for IP Group which has been reflected in a significant increase in the value of the Group's portfolio and its net assets.

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

During 2013 and in early 2014, the Board has seen a number of changes to its composition and I am pleased to report that, following Professor Lynn Gladden's recent appointment, we are now compliant with the provisions of the Code. Professor Gladden's appointment strengthens the Board's diversity amongst a range of measures and her knowledge of both science and business is highly relevant to the IP Group model and will be of huge value to the Group as we continue to expand and grow. Succession planning, both at Board level and in other key areas of the business, will continue to remain an area of focus for the Board as we move through 2014.

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

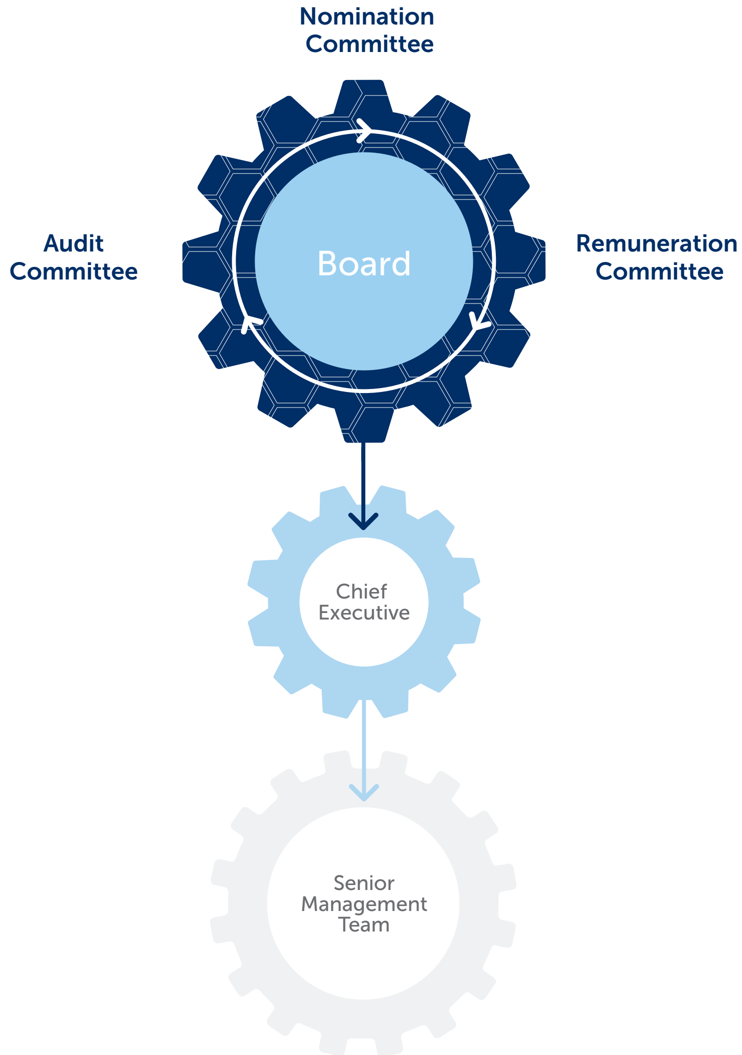
I look forward to being able to discuss these matters with our shareholders at the Group's forthcoming AGM or indeed at any other point during the year.

Dr Bruce Smith Chairman

Compliance with the UK Corporate Governance Code

The Directors are committed to a high standard of corporate governance and to compliance with the best practice of the UK Corporate Governance Code (the "Code") which was issued by the Financial Reporting Council in 2010 and revised in September 2012. During the twelve months ended 31 December 2013, the Directors consider that the Company has been in compliance with the provisions set out in the Code with the following exception: the requirement under the Code (Section B.1.2) for at least half the Board, excluding the Chairman, to comprise Non-executive Directors was not met during the year. The Nomination Committee has met on a number of occasions throughout the year to debate this specific issue, amongst others, one of the outcomes of which has led to the appointment of Professor Lynn Gladden as an additional independent Non-executive Director with effect from 26 March 2014. The Company will accordingly be compliant with Section B.1.2 of the Code with effect from Professor Gladden's appointment.

Further explanation as to how the provisions set out in the Code have been applied by the Company is set out in the following statement, the Directors' Remuneration Report, the Audit Committee Report and the Strategic Report. The Company's auditor, BDO LLP, is required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for its review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance; no such report has been made.



The Board

Role and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group as a whole, providing entrepreneurial leadership within a framework of controls for assessing and managing risk; defining, challenging and interrogating the Group's strategic aims and direction; maintaining the policy and decision-making framework in which such strategic aims are implemented; ensuring that the necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; succession planning; overseeing the system of risk management; setting values and standards in governance matters and monitoring policies and performance on corporate social responsibility. The directors are also responsible for ensuring that obligations to shareholders and other stakeholders are understood and met and a satisfactory dialogue with shareholders is maintained. All directors are equally accountable to the Company's shareholders for the proper stewardship of its affairs and the long-term success of the Group.

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

The Board reviews strategic issues on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. The Board has overall responsibility for the Group's system of internal controls and risk management, as described on pages 32 to 37. Any decisions made by the Board on policies and strategy to be adopted by the Group or changes to current policies and strategy are made following presentations by the Executive Directors and a detailed process of review and challenge by the Board. Once made, the Executive Directors are fully empowered to implement those decisions.

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group to the Chief Executive Officer who is supported by the Executive Directors and other members of the senior management team. The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial or reputational implications. This schedule is reviewed and updated regularly and currently includes those matters set out in the box overleaf.

Corporate Governance
continued

Matters Reserved for the Board	Include: • Approval of the annual report, half-year results statement and the quarterly interim management statements, accounting policies and procedures or any matter having a material impact on future financial performance of the Group. • Strategic acquisitions by the Group. • Major portfolio capital allocation decisions, being those in excess of £2.5m per investment. • The entry into by the Group of strategic partnerships and collaborations with universities and other research institutions. • Major disposals from the Group's portfolio. • Approval and monitoring of the Group's strategic plans and approval of the annual budget. • Considering and, where appropriate, approving directors' conflicts of interest. • Approving Board appointments and removals and approving policies relating to directors' remuneration. • Approval of terms of reference and membership of Board committees. • Approval, subject to shareholder approval, of the appointment and remuneration of the auditors. • Approval of all circulars, prospectuses and other documents issued to shareholders governed by the FCA's Listing Rules, Disclosure Rules or Transparency Rules or the City Code on Takeovers and Mergers. • Changes to the Group's capital structure, the issue of any securities and material borrowing of the Group. • The division of responsibility between the Chairman and the Chief Executive Officer. • Major changes in employee share schemes. • Litigation.	Available from the Company Secretary or on our Corporate Website www.ipgroupplc.com
Board Committees	The terms of reference of each Committee establish its responsibilities.	Available from the Company Secretary or on our Corporate Website www.ipgroupplc.com
Executive Directors and Management Team	Day-to-day decisions are delegated to the Executive Directors and management via established procedures for approving decisions within business functions.	

The Board delegates specific responsibilities to certain committees that assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management. The three principal Board committees (Audit, Remuneration and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board. New terms of reference for each of the committees which are fully compliant with the provisions of the Code and which reflect both best practice and the recommendations arising from the external evaluation process undergone by the Board and its committees in early 2013 were adopted by the Board during 2013. These will be reviewed annually on an ongoing basis and updated where necessary. All of these are available on request from the Company Secretary or within the Corporate Governance section of the Group's website at www.ipgroupplc.com.

Board size and composition

As at 31 December 2013, there were eight Directors on the Board: the Chairman, four Executive Directors and three Non-executive Directors. Professor Lynn Gladden was appointed as an additional independent Non-Executive Director with effect from 26 March 2014. The biographies of all of these directors are provided on pages 38 and 39. During the year, Dr Alison Fielding and Professor Graham Richards stepped down from the Board, in the case of Alison Fielding for personal reasons and in the case of Professor Graham Richards because of the length of his tenure as a Non-executive Director meant that he was no longer regarded as independent from a governance perspective. Both have remained with the Group on a part-time basis in roles which has enabled the Group to continue to leverage their significant expertise.

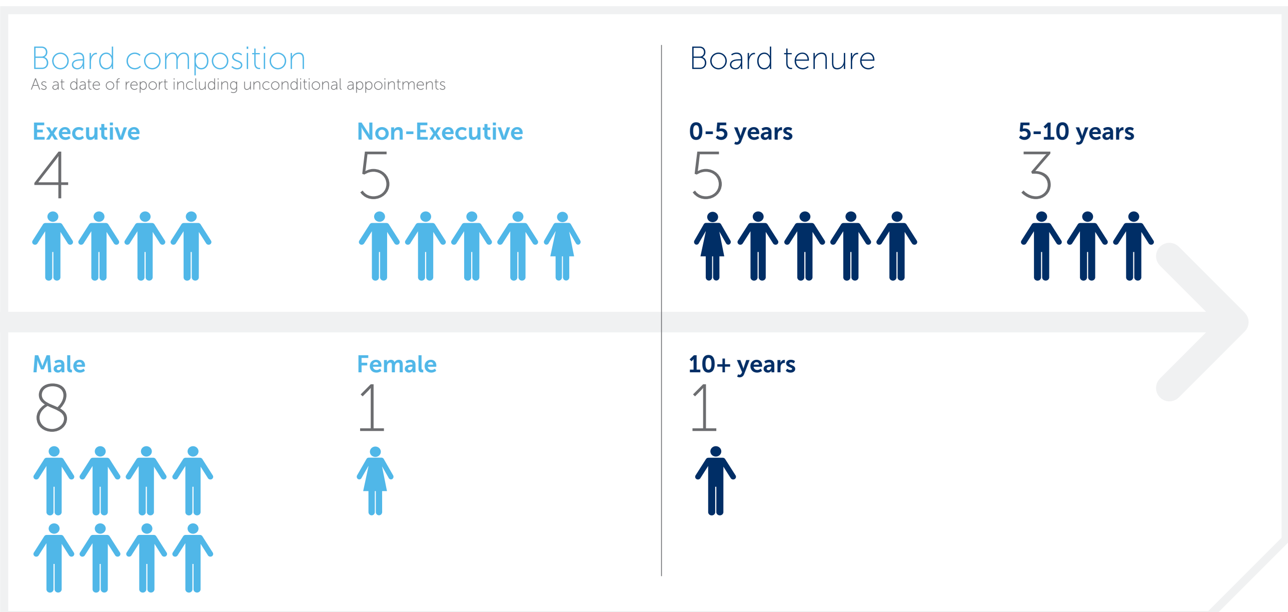
The Company's policy relating to the terms of appointment and the remuneration of both Executive and Non-executive Directors is detailed in the Directors' Remuneration Report on pages 53 to 70.

The size and composition of the Board is regularly reviewed by the Board, and in particular the Nomination Committee, to ensure there is an appropriate and diverse mix of skills and experience on the Board.

The Company's Articles of Association require all directors to submit themselves for re-election by the shareholders at the Company's Annual General Meeting following their first appointment and thereafter at each Annual General Meeting in respect of which they have held office for the two preceding Annual General Meetings and did not retire at either of them. In addition, each director who has held office with the Company for a continuous period of nine years or more must retire and offer themselves up for re-election at every Annual General Meeting. However, in accordance with the Code, all directors (other than Professor Lynn Gladden who has been appointed since the last general meeting of the Company held on 12 February 2014) will submit themselves for annual re-election by shareholders at the Annual General Meeting of the Company to be held on 13 May 2014 (the "2014 AGM"). The Board recommends to shareholders the reappointment of all directors retiring at the meeting and offering themselves for re-election on the basis that the independent performance reviews demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles. New directors may be appointed by the Board, but their appointment is subject to election by shareholders at the first opportunity after their appointment as is the case with Professor Lynn Gladden who will seek election at the 2014 AGM.

Diversity

The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Company. In that culture, diversity across a range of criteria is valued, primarily in relation to skills, knowledge and experience and also in other criteria such as gender and ethnicity. The Company will give careful consideration to issues of overall Board balance and diversity in making new appointments to the Board and, in identifying suitable candidates, the Nomination Committee will seek candidates from different genders and a range of backgrounds, with the final decision being based on merit against objective criteria. The Company has one female director on its Board and will aim to maintain female representation on the Board at least at this current level and give due consideration to increasing the level if appropriate candidates are available when Board vacancies arise. In addition, the revised terms of reference of the Nomination Committee which were adopted during the year include a requirement for the Committee to consider diversity, including gender, in evaluating the composition of the Board and in identifying suitable candidates for Board appointments. A breakdown of employee diversity showing the number of persons who were Directors of the Company and senior managers at the date of this report can be found on page 52.



Corporate Governance
continued

Non-executive Directors

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

In a limited number of cases, the Chairman has, in the past, made de minimis investments in spin-out companies formed under the Group's university partnerships. Such investments were made on arm's length terms, on comparable terms to other third party angel investors participating in the same financing rounds and always represented minority participations in the relevant financing rounds. The Board does not therefore consider that such legacy personal investments act in any way to influence the Chairman's oversight of the Board. In any event, all of the Chairman's potential conflicts of interest are disclosed at the beginning of each Board meeting and he may be required by the Board to abstain from the deliberations by the Board and/or voting on a particular matter. Details of these investments are set out in note 24 to the financial statements. The Board's policy prohibits personal investments by the Non-executive Directors in any of the Group's portfolio companies, whether new or existing.

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

The roles of Chairman and Chief Executive

Bruce Smith is the Chairman. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board, the conduct of the Group's affairs and strategy and for ensuring effective communication with shareholders. The Chairman facilitates the full and effective contribution of Non-executive Directors at Board and Committee meetings, ensures that they are kept well informed and ensures a constructive relationship between the Executive Directors and Non-executive Directors. The Chairman also ensures that the membership of the Board is appropriate to the needs of the business and that the Board committees carry out their duties, including reporting back to the Board either orally or in writing following their meetings at the next Board meeting, depending on its proximity to the meeting of the relevant committee.

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

Senior Independent Director

Mike Humphrey was the Senior Independent Director throughout 2013. A key responsibility of the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition, the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman where necessary and takes the lead when the Non-executive Directors assess the Chairman's performance and when the appointment of a new Chairman is considered. Further, the Senior Independent Director will lead the Board in their deliberations on any matters on which the Chairman is conflicted.

Board support

The Company Secretary is responsible to the Board for ensuring Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance matters and relevant regulatory matters. All directors have access to the impartial advice and services of the Company Secretary. There is also an agreed procedure for directors to take independent professional advice at the Company's expense. In accordance with the Company's Articles of Association, directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage where a director is proved to have acted fraudulently or dishonestly. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

Board meetings and decisions

The Board meets regularly during the year, as well as on an ad hoc basis as required by business need. The Board had seven scheduled Board meetings in 2013. In addition to these scheduled Board meetings, the Board also had a day together in July 2013 devoted entirely to the Group's strategic objectives, which provided an opportunity for all Directors and particularly the Non-executive Directors to ensure the Group's strategy is on course, to discuss medium and longer term strategic objectives and the key drivers underpinning these, to review the Group's KPIs and to analyse and challenge its objectives. Further, in connection with the proposed acquisition of Fusion IP plc and the Group's £100m capital raising, three conference calls of the Board were held through November and December 2013 to discuss the merits and terms of the transaction and to give the Board approval for the Group to proceed. All of the directors were present for each of these calls, despite them being called on relatively short notice. The Chairman and Non-executive Directors also met without the presence of the Executive Directors twice during the year.

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

Board and committee attendance

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

	Scheduled Board Meetings	Board calls	Audit Committee	Remuneration Committee	Nomination Committee
Bruce Smith	● ● ● ● ● ● ● ○	● ● ●			● ● ● ●
Alan Aubrey	● ● ● ● ● ● ● ●	● ● ●			
Mike Townend	● ● ● ● ● ● ● ○	● ● ●			
Greg Smith	● ● ● ● ● ● ● ○	● ● ●			
Charles Winward	● ● ● ● ● ● ● ●	● ● ●			
Francis Carpenter	● ● ● ● ● ● ● ●	● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ●
Jonathan Brooks	● ● ● ● ● ● ● ●	● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ●
Mike Humphrey	● ● ● ● ● ● ● ●	● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ●
Alison Fielding	● ● ● ○				
Graham Richards	● ● ● ●	● ● ●			○

1. Bruce Smith was unable to attend the December Board meeting as a result of a knee operation.
2. Greg Smith was on paternity leave at the time of the May Board meeting.
3. Alison Fielding stepped down from the Board due to personal reasons with effect from 30 June 2013.
4. Graham Richards retired from the Board with effect from 14 May 2013.

Key:

● Attended

○ Unattended

Strong governance: a comprehensive induction process is in place for new directors

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

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

Directors' conflicts of interest

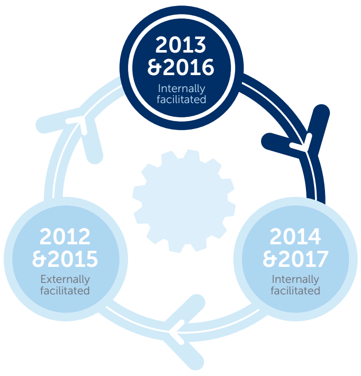
Each director has a statutory duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty is in addition to the continuing duty that a director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

Induction, awareness and development

A comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her so that he or she can gain a better understanding of the Group and its businesses. This will generally include an overview of the Group and its businesses, structure, functions and strategic aims; site visits to the Group's head office in London and to one or more of its nationwide offices in Leeds, Oxford and Newcastle; and site visits to a number of the Group's portfolio companies, including one or more within the Group's top ten holdings (by value), which will include meeting with such companies' management and a presentation from them on their businesses. In addition, the Company facilitates sessions as appropriate with the Group's advisers, in particular its sponsor Numis Securities Limited, as well as with appropriate governances specialists, to ensure that any new directors are fully aware of and understand their responsibilities and obligations as a director of a FTSE 350 company and of the governance framework within which they must operate.

In order to ensure that directors continue to further their understanding of the issues facing the Group, the Chairman and Non-executive Directors are encouraged to continue to visit the Group's offices other than the main corporate office in London, its portfolio companies and its partner universities. In addition, at least one of the Group's Board meetings or its strategy day will be off-site to facilitate this through 2014 and, as detailed above, the Board is also exposed to the early-stage opportunities in which the Group has invested through presentations at Board meetings by relevant members of the Group's staff. It is also intended that, through 2014, other function heads (such as the head of IP Exec, IP Impact, Communications and Business Support) will present to the Board to enhance the Board's awareness of how the Group operates on a day-to-day basis and how such functions operate so as to assist in the execution of the Group's core strategy of systematically helping create, build and support outstanding intellectual property-based businesses.

Board and Committee evaluation



Critical to the success of the Board and its Committees in achieving their aims is the effectiveness with which they operate. In accordance with the Code, the Company operates a three-year cycle for externally facilitated evaluations as set out above.

A summary of our internally facilitated 2013 Board and Committee evaluation process and its main outcomes is set out below.

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

Board effectiveness and performance evaluation

A performance evaluation of the Board and its Committees is carried out annually to ensure that they continue to be effective and that each of the directors demonstrates commitment to his or her respective role and has sufficient time to meet his or her commitment to the Company. Having sought the assistance of an independent third party provider in its 2012 evaluation in compliance with the Code, the Board has carried out an internally facilitated board evaluation for 2013 which was led by the Chairman, assisted by the Company Secretary, and which covered the effectiveness of the Board as a whole, its individual directors and its Committees. This review included each of the Board and Committee members completing a detailed and tailored online survey and one-to-one discussions between the Chairman and each of the individual directors. A summary of the results of the review, together with the Chairman and Company Secretary's observations and recommendations, was prepared and shared with members of the Board. The main outcome of the evaluation this year was for the Board to continue to enhance its approach to strategy planning, both in respect of the short to medium term as well as longer term objectives for the Group and to continue to focus on succession planning, both at Board level and in other key areas of the business

In addition to the above, the Non-executive Directors, led by the Senior Independent Director, appraised the Chairman's performance, following which the Senior Independent Director provided feedback to the Chairman. The performance of each of the directors on the Board was reviewed by the Chairman and the operational performance of the other Executive Directors was reviewed by the Chief Executive as part of the annual appraisal process. In addition to the aforementioned annual reviews, the performance of Executive Directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review.

Committees of the Board

The composition of the three committees of the Board and the attendance of the members throughout the year is set out in the diagram on page 45.

Remuneration and Audit Committees

Separate reports on the role, composition, responsibilities and operation of the Remuneration Committee and the Audit Committee are set out on pages 53 to 70 and pages 71 to 73 respectively.

Nomination Committee

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

The Committee is chaired by Bruce Smith and its other members as at 31 December 2013 were Francis Carpenter, Jonathan Brooks and Mike Humphrey, being a majority of independent Non-executive Directors as prescribed by the Code. The Nomination Committee meets as and when required or requested by the Board and met four times during 2013 to review the structure, size and composition of the Board, following which it discussed the conclusions with the Chief Executive. The attendance by each member of the Committee is set out on page 45.

Before selecting new appointees to the Board, the Nomination Committee considers the balance, skill, knowledge, independence, diversity (including gender) and experience on the Board to ensure that a suitable balance is maintained (see paragraph headed "Diversity" on page 43 for further explanation on the considerations made by the Committee in this regard). The Committee adopts a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Consideration is always given as to whether identified candidates have enough time available to devote to the role. When searching for appropriate candidates, the Committee will give consideration to using an external search company but, given the in-depth skill, knowledge and experience of the Group's internal executive search function, IP Exec, may elect to use

Corporate Governance
continued

this function and will also consider candidates who are proposed by existing Board members or employees of the Group. When the Committee has found a suitable candidate, the Chairman of the Committee will make a proposal to the whole Board and the appointment is the responsibility of the whole Board following recommendation from the Committee.

During the year, Professor Graham Richards retired as a Non-executive Director with effect from the Company's 2013 Annual General Meeting. The Board as a whole debated the criteria for an additional Non-executive Director to fill the vacancy left by Professor Richards and it was agreed that the key criterion for the role was for the individual to possess outstanding academic credentials. The Nomination Committee gave due consideration to using the services of an external search agency but, for the reasons identified above, elected to use the Group's in-house resource, IP Exec, to source and then shortlist candidates together with the Chief Executive and the Chairman of the Committee. The Nomination Committee members each interviewed the candidates who had been shortlisted, the outcome of which was a recommendation from the Chairman of the Committee to the Board for the appointment of Professor Lynn Gladden CBE as an additional Non-executive Director of the Company on the basis that she met the criteria required, including having sufficient time to discharge the requirements of the role. Professor Gladden was formally appointed as a Non-executive Director with effect from 26 March 2014.

In the year ahead, the Nomination Committee will continue to assess the Board's size and composition and how it may be enhanced.

Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for Directors on the Code ("Turnbull"). The Group's internal controls, which were Group-wide, were in place during the whole of 2013 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2013.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group; however, it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date these financial statements were approved, are as follows:

Control environment and procedures

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are documented and communicated clearly throughout the whole organisation.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2013.

Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business, and ensures that appropriate controls and procedures are in place to manage these risks. Specifically, all decisions relating to strategic partnerships and other collaborations and acquisitions entered into by the Group are reserved for the Board's review and approval. The Board formally reviews the performance of the Group's university partnerships and other strategic collaborations and relationships and equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate. The Board maintains an up to date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 34 to 37.

Information and financial reporting systems

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

Principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are formally reviewed by the Board at least annually and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur together, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out on pages 32 to 37.

Relations with stakeholders

The Company is committed to a continuous dialogue with shareholders as it believes that it is essential to ensure a greater understanding of and confidence amongst its shareholders in the medium and longer term strategy of the Group and in the Board's ability to oversee its implementation. It is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer, Chief Investment Officer and the Chief Financial Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Managing Director of Top Technology and the Chief Executive Officer. The Senior Independent Director and other directors, as appropriate, make themselves available for contact with major shareholders and other stakeholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the structure of the Executive Directors' remuneration; as described further in the Remuneration Report, the Remuneration Committee undertook a detailed consultation exercise with the Group's top ten shareholders through 2013 on the proposed changes to the remuneration of the Executive Directors.

The Company uses the Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held at 2.00pm on 13 May 2014 at IP Group plc, 24 Cornhill, London, EC3V 3ND, is enclosed with this report. In line with the Code, the Notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against or to withhold their vote on each resolution. The results of all proxy voting is published on the Group's website after the meeting and at the meeting itself to those shareholders who attend. Shareholders who attend the AGM will have the opportunity to ask questions and all directors are expected to be available to take questions.

The Group's website www.ipgroupplc.com is the primary source of information on the Group. The website includes an overview of the activities of the Group, details of its portfolio companies and its key university partnerships and other strategic collaborators, and details of all recent Group and portfolio announcements.

Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board is concerned that it may include activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 14 May 2013, the shareholders passed a resolution on a precautionary basis to authorise the Group to incur political expenditure (as defined in Section 365 of CA 2006) not exceeding £50,000 in total at any time from 14 May 2013 up to the conclusion of the 2014 AGM. The Board intends to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's AGM, to be held on 13 May 2014, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

Going concern

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

ON BEHALF OF THE BOARD

Dr Bruce Smith
Chairman

Alan Aubrey
Chief Executive Officer

3 March 2014

Sustainability

Policy statement

IP Group aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders.

The Group is committed to growing the business while ensuring a safe environment for employees as well as minimising the overall impact on the environment.

IP Group endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships.

Greg Smith Chief Financial Officer

Our commitment to the environment and sustainability

Having fewer than 40 employees operating out of four main locations, we consider the direct environmental impact of the Group as relatively low. However, we firmly recognise our responsibility to ensure that our business operates in an environmentally responsible and sustainable manner. While the Board as a whole has primary responsibility for environmental issues, it has allocated day-to-day responsibility for the review of environmental and social issues to the Chief Financial Officer, Greg Smith.

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

Organisation boundary and scope of emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. An operational control approach has been used in order to define our organisation boundary and determine the emissions for which the Group is responsible and are to be included in the scope 1 and 2 emissions. Though this excludes any emissions from our investment portfolio of spin-out companies, management believes this approach best captures the emissions for which the Group is directly responsible and has control over. We also report on a number of scope 3 emissions (such as commuting or business travel), where the Group has no control or is not directly responsible, but it is recognised that these arise as an immediate by-product of IP Group's operating activities.

The table opposite details the breakdown of the Group's greenhouse gas emissions split by scope, as well as the Group's production of waste. The Group's scope[1] emissions primarily consist of natural gas used for heating, while all scope[2] emissions are from the purchase of electricity (2013: 168.7MWh). The scope[3] emissions opposite include emissions due to business travel, the commuting of employees and the use of couriers. The proportions of these emissions can be seen in the chart overleaf.

The emissions and waste production reported opposite excludes IPG's new US operations. Given the early stage and current scale of the US operations, these are considered immaterial to the Group.

Methodology

As was the case in 2012, the Group again employed the services of a specialist adviser, Verco, to evaluate and quantify GHG emissions and the waste production associated with the Group's operations.

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

- use of the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol");
- application of Defra emission factors to the Group's activities to calculate GHG emissions;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO_2e; and
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents).

Intensity ratio

As well as reporting the absolute emissions, the Group's GHG emissions are reported opposite on the metrics of tonnes of CO_2e per employee and per square metre of office space, these being the most appropriate metrics given that the majority of emissions result from the operation of the Group's offices and the day-to-day activities of the employees.

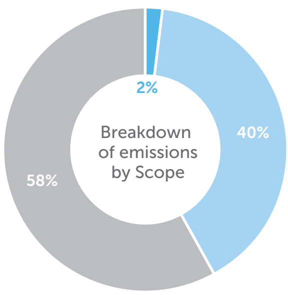
Target and baselines

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

Though the Group has previously collected and presented details of emissions, the implementation of the mandatory requirements has brought material changes to the methods such that prior year figures are not comparable. Comparatives are therefore not presented in the first year of mandatory reporting.

	Tonnes CO_2e	Tonnes CO_2e per employee	Tonnes CO_2e per m^2		Tonnes	Tonnes per employee
2013 (39 employees & 763m² office space)						
GHG emissions				**Waste production**		
Scope 1[1]	3.8	0.10	0.01	Landfill waste	4.8	0.12
Scope 2[2]	75.1	1.93	0.10	Recycled waste	0.9	0.02
Subtotal	78.9	2.03	0.11	Total Waste	5.7	0.14
Scope 3[3]	109.0	2.79	0.14			
Total GHG emissions	187.9	4.82	0.25			

1. Scope 1 being emissions from the Group's combustion of fuel and operation of facilities.
2. Scope 2 being electricity, heat, steam and cooling purchased for the Group's own use.
3. Scope 3 being emissions which the Group is not directly responsible for, but arise as a by-product of its operation.



Our business ethics and social responsibility

The Group seeks to conduct all of its operating and business activities in a honest, ethical and socially responsible manner. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and for its directors and staff to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests.

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

Environment

Understanding the indirect environmental impacts of our business activities

Though the Group's day-to-day operational activities have a relatively limited impact on the environment, we do recognise that the more significant impact occurs indirectly through the nature and operations of the companies that we choose to support with human and financial capital.

The Group therefore considers it important to establish and nurture businesses that comply with existing applicable environmental, ethical and social legislation. It is also important that these businesses can demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these businesses can operate to specific industry standards, striving for best practice.

Major portfolio themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. Further qualitative and quantitative details of the Group's holdings in portfolio companies in the Energy & Renewables, Chemicals & Materials, Healthcare and Biotech sectors are detailed in the Portfolio review, on pages 14 to 26.

The Group's management and employees are fundamental to our success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coaches and mentors. The Group has continued to employ regular all-staff update meetings as the main source of employee communication.

Employee diversity and employment policies

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. The Group's policy is one of equal opportunity in the selection, training, career development

Sustainability
continued

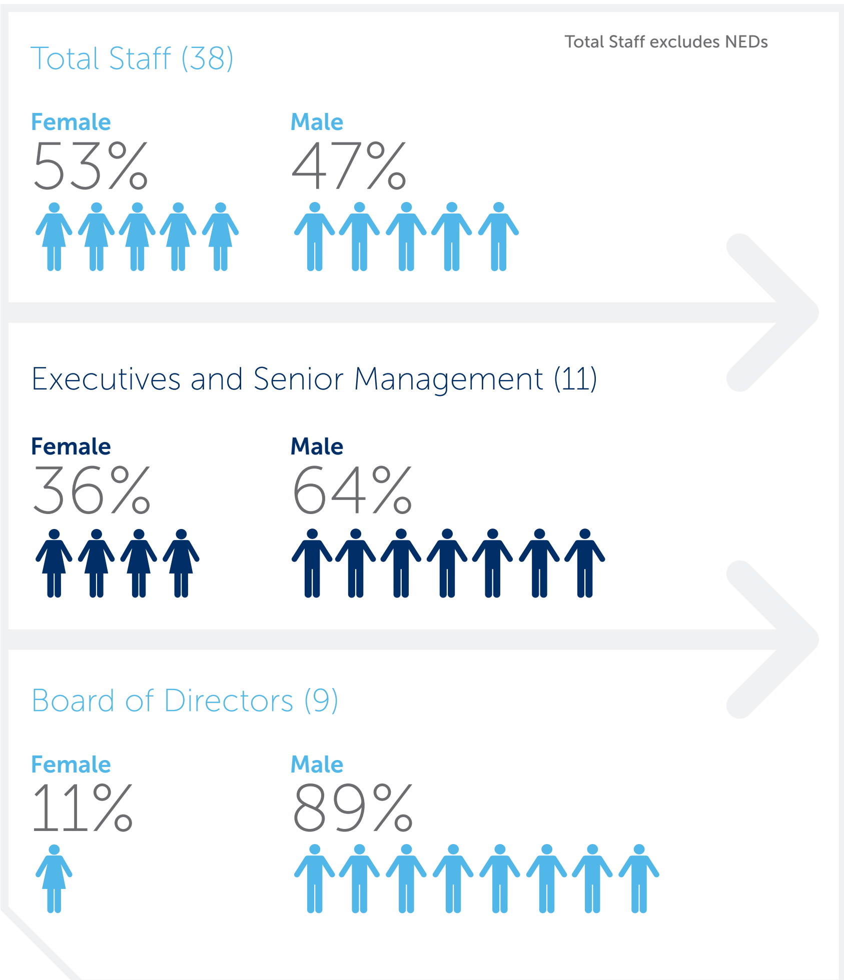
and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise. For the year ended 31 December 2013 the Group employed an average of 35 employees and four Non-executive Directors, and a breakdown off staff by gender can be seen in the table below. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and ensures that all transactions the Group enters into uphold these principles.

Breakdown of staff by gender as at date of report

Total Staff: 38 (exc. NEDs)	Female	Male
Staff	53%	47%
Executives and Senior Management	36%	64%
Board of Directors	11%	89%

Promotion of health and safety at work is an essential responsibility of staff and management at all levels. The Chief Executive has overall responsibility for the implementation of the Group's health and safety policies and procedures. The primary purpose of the Group's health and safety policy, which can be located through the link below, is to enable all members of the Group's staff to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the year to 31 December 2013, no reportable accidents occurred under UK Health and Safety regulations.

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



Community investment

Our employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations.

IP Group and its members of staff have a long history of supporting charities and remain committed to making charitable donations.

The Group aims to donate 1% of the previous year's realised profits to one or more charities which have a particular relevance to IP Group's activities or to members of our team.

The Group's three chosen charities during 2013 were Macmillan Cancer Support, a charity providing practical, medical and financial support for those affected by cancer, Dyslexia Action, which provides help and support to those with dyslexia and other specific learning difficulties, and Imagineering, which works to introduce young people of 8-16 years to the exciting world of engineering, science and technology through fun, hands-on activities and personal involvement. Further details of the activities of these charities are set out on the Group's website at www.ipgroupplc.com/csr/community.

Members of IP Group staff raised a total of £10,065 through "donate a day" salary sacrifice and sponsorship of the Group's 2013 Great Glen Way challenge. In line with its stated policy, the Group made charitable donations of £15,000 during 2013 (2012: £nil).

Directors' Remuneration Report

Remuneration Statement

On behalf of your Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 31 December 2013. Shareholders will be invited to approve both our Remuneration Policy and the Annual Remuneration Report at the Group's AGM to be held on 13 May 2014.

As outlined earlier in this Annual Report, for the second consecutive year, the Group's performance has been strong, with progress across many of the Group's portfolio businesses contributing to a significant increase in net assets and a reported profit before tax of more than £70m, the highest since the Group's formation in 2001. The Group's share price increased by around 40% during the year, from 119.9p to 169.8p, representing an increase in market capitalisation of more than £180m.

Francis Carpenter Chairman of the Remuneration Committee

Evolution of our remuneration framework

During the year, the Committee considered how the Group's remuneration and incentive structures should evolve to enable the Group to continue to attract and retain management and staff of the highest quality, whilst retaining an appropriate level of entrepreneurial culture, and also remaining in accordance with best practice for a FTSE 250 listed business. This resulted in a number of changes for 2013, as set out below.

IP Group is a business experiencing substantial growth and its market capitalisation has increased from approximately £80m in January 2011 to approximately £900m at the date of this report. As a result the Committee believes it is important to keep remuneration arrangements under regular review to ensure they continue to evolve to support the strategy and circumstances of the business. We consulted our major shareholders on the changes in 2013 and would intend to do so for any future changes.

Incentive mix for 2013

The Committee determined that it would reduce the proportion of total reward potential arising from the Group's LTIP and introduce a new annual incentive scheme while broadly maintaining the overall incentive opportunity. The Committee considers that this is most appropriately aligned with the Group's current strategy of sourcing and developing technology-based businesses and seeking to generate long term value through the growth in value of the Group's holdings in such businesses, while being mindful of the Group's financial performance in each twelve month period.

Directors' Remuneration Report
Remuneration Statement continued

Shareholding guideline
In line with best practice, the Committee introduced a formal shareholding policy which requires the CEO to hold shares equivalent to 2x salary and all other executive directors to hold shares equivalent to 1.5x salary (see page 67).

LTIP post-vesting holding period
Further, the Committee determined that from the 2013 LTIP awards onwards any awards that vest, net of any tax and NICs liabilities, will be subject to a further holding period. To transition into this new framework, the holding period will be one year in respect of the 2013 LTIP and two years for subsequent awards. During the holding period, the Committee can claw back shares in the case of intended fraud or misconduct by a participant that contributes to an error in financial information that materially affects the Company's value.

Granting of 2013 LTIP awards
The Committee's intention had been to implement the new incentive framework following its consultation with shareholders in the first half of 2013. However, as a result of the corporate activity during the second half of the year (culminating in the Group's recommended offer for Fusion IP plc and a capital raising in early 2014), there was no appropriate opportunity to grant the agreed 2013 LTIP awards during the year. The Committee has therefore determined that the 2013 LTIP awards will be granted at the same time as the 2014 LTIP awards. The 2013 LTIP awards will have a face value on grant of 100% of salary and will vest in March 2017, subject to performance over the 2013-2015 performance period. Vested shares will then be subject to an additional one year holding period.

Executive directors' base salaries
Given the recent substantial growth in size and scope of the business, the Committee recognises that the directors' salaries are considerably below market levels, even taking into account our historic approach of targeting salaries within a "corridor" of lower quartile to median of the relevant benchmark. During 2013, salary increases for the executive directors were in the range 5% to 20% (as communicated in consultation with major shareholders). For 2014, the CEO and CIO will receive increase of 2.5% in line with the wider business. The other two executive directors will receive increases of 12% and 16%, reflecting continued progression towards market positioning having joined the Board relatively recently. Salaries for 2014 are shown on page 66.

Incentives throughout the business
To further encourage share ownership throughout the Group we are seeking approval for a sharesave scheme at the forthcoming AGM. All staff, including executive directors, will be eligible to participate in the scheme.

Performance outturns for 2013
Against the backdrop of strong Group performance and further alignment of the long and short term incentives with the Group's strategy as outlined above, the Committee considers that the remuneration for the executive directors for the year appropriately reflects the Group's performance over the year as well as the most recent three-year period. The long-term incentive awards granted in 2011 will vest in full, with the Group having achieved in excess of the upper performance targets for both "hard" NAV growth and TSR (cumulative 15% annual growth in both measures), as well as significantly outperforming the index which acts as an underpin to these criteria. Further, the Group's annual financial performance was such that the upper 22.5% return on hard net assets was exceeded and as a result the full annual incentive pool was available for allocation by the Committee.

New format Directors' Remuneration Report ("DRR")
We are proposing a resolution to approve our forward-looking Remuneration Policy under the new guidelines for the first time at our 2014 AGM. I trust that our work in this regard, including consultation with our largest ten holders and proxy voting agents during the first half of 2013, has resulted in a policy that meets with the approval of our shareholders. Our 2012 Directors' Remuneration Report received 98% of votes cast in favour at our AGM in May 2013 and, while this indicated a strong level of support, the Group is committed to transparency and I welcome the opportunity for continued discussion of the Group's remuneration with any shareholder, either at our AGM or at any other time during the year.

Francis Carpenter
Chairman of the
Remuneration Committee
3 March 2014

Directors' Remuneration Report
Remuneration Policy

Remuneration policy and components

This report sets out the Company's policy on the remuneration of its executive and non-executive directors (the "Policy") which will become effective subject to approval by shareholders at our AGM on 13 May 2014.

Our Policy has been updated following a review of the Group's approach to remuneration by the Committee, including input from Deloitte LLP and Hay Group, and following consultation with our top ten shareholders during 2013. The primary changes to the previous policy were to reduce the level of LTIP awards that may be made to the executive directors and management team, to narrow the scope of the LTIP from all staff to senior management and executive directors, to introduce an element of short-term incentive through a new annual incentive scheme that is available to all staff and to introduce formal shareholding guidelines.

In devising the Policy, the Committee has based its principles on the fact that the overriding strategic objective of the Group is to provide capital to, and help to build, outstanding businesses based on technology innovation. The success of the Group over time will primarily be a function of three key variables – the amount of capital provided to the portfolio, the return per annum achieved on that capital and the period over which it is invested. To achieve this objective, the Committee believes that the Group needs a structure that has incentive levers covering both the short-term (1-3 years) and the longer-term (3-5 years) and, for those staff most directly connected with individual portfolio company assets (excluding the Group's executive directors), incentives directly aligned with those specific assets, potentially over an even longer term (5-10 years). The first two levers are currently the most relevant for the Group's executive directors and therefore are used as the variable elements of the Group's proposed forward-looking remuneration policy.

Remuneration Policy table

The table below sets out the key components of the Policy for executive directors' remuneration:

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

The base salaries for the executive directors effective 1 April 2014 are:

Director	Base salary
Alan Aubrey (CEO)	£261,000
Mike Townend (CIO)	£232,000
Greg Smith (CFO)	£186,000
Charles Winward (MD TTV)	£185,000

Directors' Remuneration Report

Remuneration Policy continued

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Pension	Provide a competitive post-retirement benefit in a way that manages the overall cost to the Group in order to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	Contribution to Group Pension Plan (defined contribution scheme) or to personal pension plan of the relevant executive's choosing or an equivalent cash alternative.	10% of base salary for all executive directors in 2013 and 2014. No element other than base salary is pensionable. Absolute maximum pension is 15% of base salary.	Not applicable
Benefits	Provide a competitive and appropriate benefits package to assist individuals in carrying out their duties effectively and to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy	Ongoing benefits typically comprise, but are not limited to, health and travel insurance, income protection and life assurance and may also comprise a car benefit (or cash equivalent) and telecommunications such as broadband. The Group also offers certain salary sacrifice schemes including childcare vouchers, purchase of additional holiday and Bike to Work. Executive directors may also participate in any all-employee share plans that may be operated by the Group from time to time on the same terms as other employees Additional benefits, which may include relocation expenses, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, including as may be required on recruitment.	The cost of benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits under the Policy. There is therefore no overall maximum opportunity under this this component of the Policy One-off benefits, e.g. relocation, shall not ordinarily exceed 25% of base salary other than in exceptional circumstances at the discretion of the Committee. Maximum awards under all-employee share plans would be subject to prevailing statutory limits.	Not applicable

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Annual Incentive Scheme ("AIS")	To provide a simple, competitive, performance-linked annual incentive mechanism that will: • attract, retain and motivate individuals with the required personal attributes, skills and experience; • provide a real incentive to achieve our strategic objectives; and • align the interests of management and shareholders.	The AIS is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year. Actual AIS amounts are determined via a two-stage process. Firstly, performance against the agreed metrics is assessed. Secondly, the Committee reviews these results in the context of underlying business performance and the Group's financial position and may adjust the stage one outcome at its discretion. Subject to a suitable minimum amount, set by the Committee at the start of each year, awards will typically be payable 50% in cash and 50% in IP Group shares. The share element is in the form of conditional awards of shares or nil-cost options (or equivalent at the Committee's discretion) and is subject to further time-based vesting over two years (50% after year 1 and 50% after year 2) although the Committee may adjust the % split between cash and shares based on the financial position of the Group. The IP Group shares element shall be satisfied by awards of options under the deferred bonus share plan ("DBSP") which is being proposed for approval by shareholders at the Group's forthcoming AGM. In the case of intended fraud or misconduct by a participant that contributes to a significant error in financial information, the Company will be entitled to claw back the value of any cash amount paid under the AIS for that year and to cancel the vesting of any deferred share element, for a period of up to three years following the date of award or payment.	The maximum annual level of award is 100% of salary Each year the committee determines the maximum opportunity for each executive director within the above Policy limit. The maximum opportunity for each director in 2014 is set at 100% for the CEO and 75% for all other executive directors (see the Annual Remuneration Report on page 63).	Specific targets and weightings will vary from year-to-year in accordance with strategic priorities but may include targets relating to: • relative or absolute TSR; • Hard net assets; • Financial performance; • Appropriate non-financial measures; and • Attainment of personal objectives. Weighting will be primarily towards Group financial performance for executive directors. Performance will typically be measured over one year

Directors' Remuneration Report
Remuneration Policy continued

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Long-term incentive plan ("LTIP")	To provide a competitive, performance-linked long-term incentive mechanism that will: • attract, retain and motivate individuals with the required personal attributes, skills and experience; • provide a real incentive to achieve our strategic objectives; and • align the interests of management and shareholders.	The LTIP is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year. Awards under the LTIP typically comprise conditional awards of shares in IP Group (although instruments with similar economic effect may be used if considered appropriate.) From the 2013 LTIP awards onwards any share awards that vest, net of any tax and NICs liabilities, are subject to a further holding period. The holding period will be one year for the 2013 LTIP and two years for subsequent awards. In the case of intended fraud or misconduct by a participant that contributes to an error in financial information that materially affects the Company's share value, the Company will be entitled to reduce the number of shares in respect of an unvested award and / or claw back the value of any shares subject to this holding period. Calculations of the achievement of the vesting targets are reviewed and approved by the Committee.	The maximum annual level of award is: • 150% of salary for the Chief Executive; and • A lower percentage for other Executive directors • Each year the committee determines the maximum opportunity for each executive director within the below scheme limits .The maximum opportunity for each director in 2013 and 2014 has been set at: • 2013 LTIP: 100% of salary for all executives • 2014 LTIP: 100% of salary for all executives. As described on page 64 of the Annual Remuneration Report, the Committee has determined that the 2013 LTIP awards (which could not be granted in 2013) will be granted in 2014. The overall maximum under the LTIP approved by shareholders is 400% of salary. However the policy limits set out above will apply and this plan limit will only be used in exceptional circumstances (such as a buyout on recruitment or in the circumstances described above regarding the 2013 LTIP).	Specific targets may vary from year-to-year in accordance with strategic priorities but shall be based on: Relative or absolute TSR; and Hard net assets. These performance criteria shall be presented in a matrix format similar to that set out in the Annual Remuneration Report. The level of vesting for threshold performance is 30% of the maximum. Where absolute TSR is used as a performance metric, awards may be subject to a relative performance underpin against an appropriate benchmark index or comparator group. Performance will ordinarily be measured based on a performance period of at least three years.

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Policy set out in the table on the previous pages, where the terms of the payment were agreed either: (i) before the policy came into effect, or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Differences between the Policy and that applied to employees generally

The components of remuneration set out on the previous pages for executive directors are also applied to the Group's senior management team and differ only in values and award maxima. The benefits package is typically available to all UK members of staff following completion of a probationary period, with a broadly equivalent package being offered to overseas staff. All permanent UK staff employed on 1 January each year are eligible for an award under the AIS in that year (with pro-rated inclusion for permanent members joining up to 30 June each year), with similar arrangements for overseas staff. Members of the Group's wider staff team do not participate in the LTIP.

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

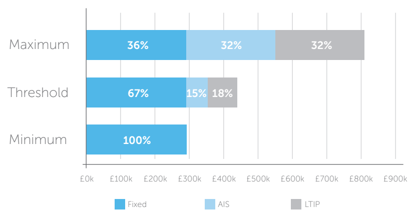
In addition to the directors' remuneration arrangements, the Group previously allocated carried interest in funds managed by the Group to executive directors and other key staff based on their level of involvement and contribution of the relevant members of the team to the management of the fund, as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

Illustration of the application of the Policy

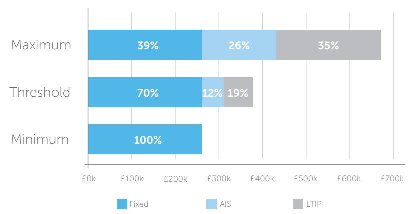
The value and composition of the executive directors' remuneration packages for the year ending 31 December 2014 at below threshold, threshold and maximum scenarios under the Policy are set out in the charts below. The charts depict an estimate of the remuneration that could be received by each executive director under the Policy set out in this report.

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

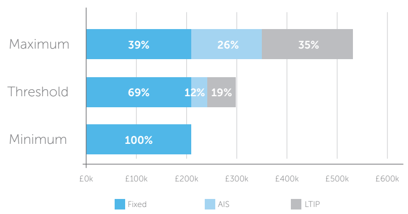
CEO policy



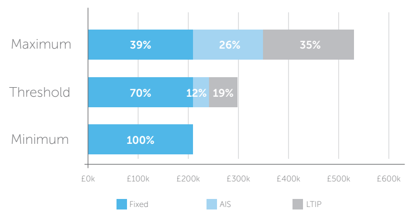
CIO policy



CFO policy



MD TTV policy



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

	Minimum	Threshold/Target	Maximum
Fixed elements of remuneration	Contracted base salary with effect from 1 April 2014 (before any deduction for fees received directly from portfolio companies) Estimated cash cost to the company of benefits and pension contributions received under the remuneration policy		
Annual incentive scheme[1] (pay-out as % of maximum opportunity: CEO 100%, other executive directors 75%)	0%	25% (opportunity based on achievement of threshold target)	100%
LTIP[2] (vesting as % of maximum opportunity: 100% all executive directors)	0%	30% (opportunity based on achievement of threshold targets)	100%

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

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

Development of remuneration Policy

Consideration of pay and conditions for the wider Group:

The components of pay across the Group's UK staff are broadly similar with only the LTIP from 2013 onwards being exclusive to the senior management team and the executive directors. The Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market and economic conditions and to governance trends when assessing the level of salaries and remuneration packages of executive directors. From a practical perspective, the Group has less than 50 members of staff and, as a result, the Committee currently has the ability to review remuneration levels and changes thereto across the Group when considering base salary increases, bonus maxima and award pay-outs for the executive directors. No specific consultation in respect of remuneration took place with employees during the year although the Group employed a senior HR consultant to discuss various human capital related matters with individuals representing more than 50% of the Group's employees and the Group's remuneration policy featured during a number of these discussions.

Engagement with our shareholders:

The Committee is committed to an ongoing dialogue with shareholders and seeks to consult with its significant shareholders and the various proxy advisory groups when considering any major changes to remuneration arrangements. Feedback as part of any consultation is used to guide the Committee in its finalisation of the remuneration arrangements and their implementation. During 2013 the Committee carried out a consultation in connection with the proposed introduction of the AIS and a commensurate reduction in the level of awards made under the LTIP, the proposed levels of executive salary and a summary of the Group's forward-looking remuneration policy. No material changes were proposed by the parties with whom the Committee consulted.

Approach to recruitment remuneration

The Committee will apply the Policy for any new executive director recruited to the board in respect of all elements of forward-looking remuneration. The maximum level of variable remuneration under the AIS and LTIP that may be awarded will be within the usual maxima as set out in the Policy (i.e. 100% of salary under the AIS and 150% of salary under the LTIP). The Committee retains flexibility to provide benefits in kind, pensions and other allowances, such as relocation, education and tax equalisation, required in order to recruit the intended candidate.

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

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

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

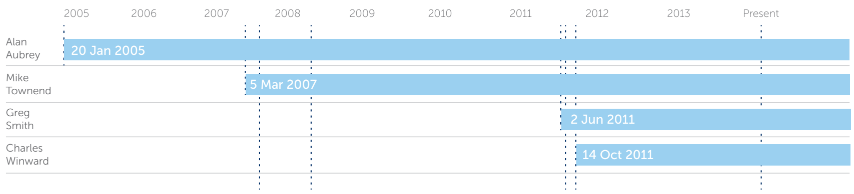
- In the case of internal promotion, any existing performance-related elements arising from an individual's previous role will continue to be honoured under the policy, even if they may not otherwise be consistent with the policy prevailing when the commitment is fulfilled.
- In the case of promotion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

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

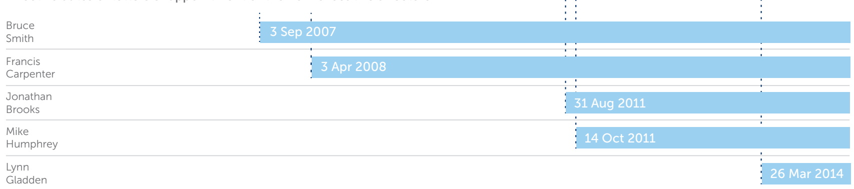
Service agreements

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

Effective dates of service contracts of the executive directors



Effective dates of letters of appointment of the non-executive directors



Loss of office payments policy

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

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

All awards under the Group's AIS are fully discretionary and require the participant to be employed (and not under notice) at the end of the financial year to which the award relates. Ordinarily, should an executive director leave following the end of the annual performance period but prior to the payment of any cash element of an AIS award or prior to the vesting of any share-based element of an AIS award, then the cash award would not be payable and any share-based element will lapse. However, at the discretion of the Committee, in certain circumstances including but not limited to change of control, death, disability, retirement or redundancy, the Committee may permit some or all of the award to be received by the executive director.

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

Change of control

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

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

Shareholding policy

While the Committee has always encouraged executive directors to hold shares in the Group and all executive directors currently do so, in order to ensure that the interests of the Group's directors are aligned with those of Shareholders, the Committee introduced the concept of a formal shareholding policy in 2013 under which all executive directors are expected to build up and maintain a personal shareholding in the Group. The levels required for each executive director are set out in the Annual Remuneration Report.

Chairman's and Non-executive directors' Remuneration

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

Directors' Remuneration Report

Annual Remuneration Report

Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for Directors for the financial years ended 31 December 2012 and 2013.

All £000s	Base salary/fees 2013	Base salary/fees 2012	Benefits 2013	Benefits 2012	Pension 2013	Pension 2012	Annual Bonus (AIS)[1] 2013	Annual Bonus (AIS)[1] 2012	LTIP[2] 2013	LTIP[2] 2012	Total 2013	Total 2012
Executive Directors												
Alan Aubrey[3]	**189**	182	**4**	5	**25**	24	**254**	–	**1,375**	3,046	**1,847**	3,257
Alison Fielding[4, 5]	**101**	213	**3**	5	**11**	21	**76**	–	**524**	2,491	**715**	2,730
Mike Townend	**222**	214	**5**	4	**21**	21	**170**	–	**1,048**	2,491	**1,466**	2,730
Charles Winward[6]	**142**	131	**4**	3	**16**	14	**124**	–	**698**	845	**984**	993
Greg Smith	**149**	132	**2**	2	**14**	13	**120**	–	**648**	686	**933**	833
Non-executive directors												
Bruce Smith	**62**	60	**—**	–	**—**	–	**—**	–	**—**	–	**62**	60
Mike Humphrey	**42**	40	**—**	–	**—**	–	**—**	–	**—**	–	**42**	40
Graham Richards[7]	**15**	37	**—**	–	**—**	–	**—**	–	**—**	–	**15**	37
Francis Carpenter	**41**	37	**—**	–	**—**	–	**—**	–	**—**	–	**41**	37
Jonathan Brooks	**42**	40	**—**	–	**—**	–	**—**	–	**—**	–	**42**	40

1. AIS bonus payable in respect of the financial year including the 50% which is deferred into shares over two years at face value at date of award. Further information about how the level of 2013 award was determined is provided in the additional disclosures section below.
2. The 2013 LTIP value is based on the 2011 LTIP award due to vest in March 2014. The value of the award is based on performance to 31 December 2013. Further information about the level of vesting is provided in the additional disclosures section below.
3. In addition, Alan Aubrey retained board fees in 2013 totalling £60,000 (2012: £58,750) from portfolio companies in which the Group is a shareholder that were deducted from his base salary, as described further under "Outside appointments for executive directors" on page 69.
4. Alison Fielding stepped down from the Board due to ill-health with effect from 30 June 2013 however she remains employed by the Group in a part-time capacity. The remuneration information above is presented up to the date of her departure from the Board. Further information on the treatment of her outstanding LTIP awards is described further on page 64.
5. In addition, Alison Fielding retained board fees in 2013 until her retirement from the Group's board totalling £7,500 (2012: £1,250) from portfolio companies in which the Group is a shareholder that were deducted from her base salary, as described further under "Outside appointments for executive directors" on page 69.
6. In addition, Charles Winward retained board fees in 2013 totalling £13,750 (2012: £12,000) from portfolio companies in which the Group is a shareholder that were deducted from his base salary, as described further under "Outside appointments for executive directors" on page 69.
7. Graham Richards retired from the board with effect from 14 May 2013.

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

Base salary

2013

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

	former base salary (2012/13)	new base salary (2013/14)	% change
Alan Aubrey	£242,156	£254,250	5%
Mike Townend	£215,250	£226,000	5%
Charles Winward	£143,500	£165,000	15%
Greg Smith	£133,250	£160,000	20%

The average increase across all staff, excluding directors, was 9.5% which was generally reflective of a 5% base level with additional increases to reflect promotions, increases in role scope and increases in an individual's skills and experience. The Committee considered that some of the directors' salaries were considerably below "market" which was in part as a result of their salaries being at an initially lower level upon joining the Board to reflect their levels of experience. As the executives' tenure and experience continues to grow the Committee has taken steps to increase the base salaries accordingly towards the target salaries of between lower quartile and median of the relevant benchmarks.

The Chairman's and non-executive directors' fees were increased by 5% with the exception of Francis Carpenter whose fee was increased to the same absolute level as the other non-executives, being £37,000 base fees plus £5,000 as chair of the remuneration committee.

Annual incentive scheme

2013

As described earlier in this report, following consultation with its major shareholders, in 2013 the Group introduced the AIS under which all executive directors were eligible for an award.

The targets for the 2013 AIS were solely financial in nature and were based on annual return on hard net assets (i.e. excluding intangibles and the Oxford equity rights asset) which were £236.6m at 1 January 2013, as follows:

Performance condition	Vesting criteria	Actual performance
Return on Hard NAV	8% return (£18.9m): 25% of maximum opportunity ("threshold") 22.5% return (£53.2m): 100% of maximum opportunity	33.3% return (£78.9m)

As shown in the table, the financial performance of the Group in 2013 was very strong, with the actual return on hard NAV being 33.3% and therefore the maximum awards pool was available for allocation by the Committee.

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

The Committee considered that the executives should be treated equally in terms of bonus outcome for 2013 given the strong all-round performance. As a result, the following annual incentive scheme awards apply for the 2013 year:

- CEO: 100% of maximum opportunity for the year (100% of salary);
- CFO: 100% of maximum opportunity for the year (75% of salary);
- CIO: 100% of maximum opportunity for the year (75% of salary); and
- MD of TTV: 100% of maximum opportunity for the year (75% of salary).

2012

The Group did not operate any annual bonus scheme in 2012.

Long-term incentive scheme

2011 LTIP awards due to vest in March 2014

The 2011 LTIP awards were based on the performance of Group's Hard NAV (the Group's net assets excluding intangibles and the Oxford Equity Rights asset) for the three financial years ending on 31 December 2013 and TSR from date of award to the ordinary vesting date, being 31 March 2014. Both performance measures were combined into a matrix format, as per the vesting table below. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE Small Cap index, which can reduce the awards by up to 50%.

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

Performance condition	Target performance	Actual/forecast performance
Hard NAV (at 31 Dec 2013)	8%: £236.7m 15%: £285.8m	£315.5m (18.8% p.a. growth)
Annual TSR[1] (share price)	8%: 63.0p 15%: 76.0p	156.3p (61% p.a. growth)
Comparative TSR[1]	FTSE Small cap +71%	IP Group +188%

1. TSR performance based on quarter to 31 December 2013. Actual performance period to 31 March 2014

As set out in the above table, the actual performance of the Group in terms of Hard NAV growth was in excess of the upper target and, based on the positions as at 31 December 2013 and the date of this report, it appears that the TSR target and the performance of the underpin index will also be significantly exceeded at the end of the performance period. As a result of this, it is anticipated that 100% of the 2011 LTIP awards will vest on 31 March 2014.

2010 LTIP awards that vested in April 2013

The following table sets out the outcomes of the performance measures relating to the 2010 LTIP awards against the vesting criteria.

Performance condition	Vesting criteria	Actual performance	Actual vesting
Hard NAV[i]	£226.8m: 25% £267.4m: 50%	£236.6m	31%
TSR performance (share price)	60p: 25% 67p: 50%	119.9p	50%
TOTAL			81%

i. Hard NAV target increased by the net proceeds of the Group's 2011 placing plus 8%-15% growth from the date of completion of the placing.

As the performance measures were achieved in part, the relevant proportion of the 2010 LTIP awards vested on 16 April 2013.

2013 awards

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

The Committee has therefore determined that the 2013 LTIP awards will be granted at the same time as the 2014 LTIP awards (discussed on page 66). As communicated during consultation, the 2013 LTIP award will have a face value of 100% of salary based on the share price at date of grant and will vest three years later subject to performance. Any shares that vest (net of tax) shall be subject to a further one-year holding period in line with the Policy.

The performance conditions that will apply shall be the same as those used for the 2011 and 2012 awards, i.e. the matrix of TSR and Hard NAV growth as shown on page 66. Hard NAV growth will be measured over the three year period to 31 December 2015 (starting point: £236.6m) and TSR shall be measured from March 2013 to March 2016 with a one-month average (starting point: 143p). The underpin will be with reference to TSR performance against the FTSE 250 over this same period.

Under the new disclosure regulations, there is a requirement to disclose certain details of share awards made during the reporting year. Although the 2013 LTIP awards were not technically awarded during 2013, the Committee believes it is appropriate and transparent to include the required table on the basis that the 2013 LTIP awards relate to this reporting year.

Executive Director	Type of interest	Basis of award (% salary)	Face value*	Threshold vesting**	End of performance period
Alan Aubrey	2013 LTIP	100%	£254k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)
Mike Townend	2013 LTIP	100%	£226k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)
Charles Winward	2013 LTIP	100%	£165k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)
Greg Smith	2013 LTIP	100%	£160k	30%	31 Dec 2015 (NAV) / 28 Mar 2016 (TSR)

* As at the date of this report, these awards have not been made (as described above). The face value represents the value which will be granted when these awards are made in 2014. The number of shares will be calculated using the share price on grant.

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

Loss of office payments (audited information)

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

Remuneration for the Chief Operating Officer who stepped down from the Board in 2013 (audited information)

As described earlier in this report, Alison Fielding stepped down from the Board due to ill-health with effect from 30 June 2013 however she remains employed by the Group in a part-time capacity. Alison received her base salary, benefits and pension contributions to the date of stepping down and then continued to do so at a level commensurate with her new part-time role following this date. In addition, in view of her continued employment with the Group, Alison's outstanding awards under the Group's LTIP remain in force and will vest, or not, in 2014 or 2015 depending on the performance against vesting targets of the awards at the relevant time. She will also continue to participate in the LTIP as a member of the senior management team. Alison received no additional remuneration as a result of her stepping down from the board.

Change in remuneration of Chief Executive compared to Group employees

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

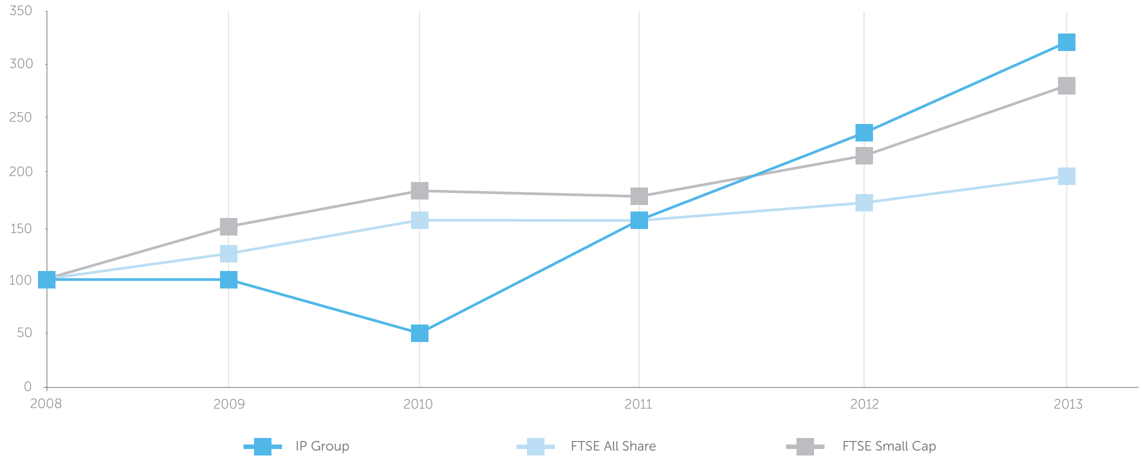
	% change in base salary 2012 to 2013	% change in bonus 2012 to 2013	% change in benefits (exc. pensions) 2012 to 2013
CEO	5.0%	N/A*	(8.9%)
UK employees	9.5%	N/A*	1.7%

* The Group did not operate an annual incentive scheme/bonus in 2012

Historical executive pay and Group performance

The table and graph below allow comparison of the total shareholder return of the Group and the CEO remuneration outcomes over the last five years.

The chart below shows the Group's TSR performance against the performance of the FTSE All Share and FTSE Small Cap indices over the five-year period to 31 December 2013. The directors have selected the FTSE All Share and FTSE Small Cap indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during the majority of the period in question and against which total shareholder return of IP Group plc should be measured.



Historical CEO remuneration outcomes

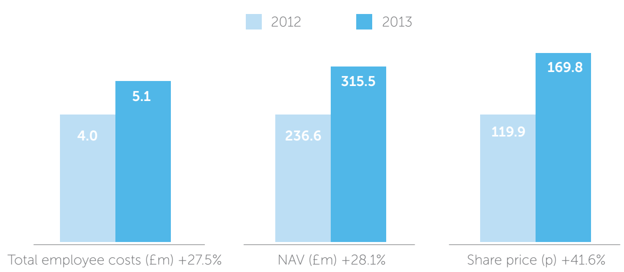
The table below summarises the Chief Executive single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity for the current year and previous four years.

CEO: Alan Aubrey	2009	2010	2011	2012	2013[1]
CEO single figure of remuneration (£000s)	223	193	209	3,257	1,847
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%

1. 2013 LTIP vesting is based on the current expectations of the performance targets as discussed on page 63.

Relative spend on pay

The chart below shows the total employee costs, change in "hard" NAV and change in share price from 2012 to 2013.



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

Total employee pay: Total staff costs from note 8 on page 94, including wages and salaries, social security costs, pension and share-based payments.

Change in "hard" NAV: change in the Group's net assets excluding goodwill, intangibles and the Oxford Equity Rights asset taken from the statement of financial position (page 81)

Returns to shareholders: since the Group does not currently pay a dividend, returns to shareholders are represented by the change in the Group's share price over the period from 31 December 2012 to 31 December 2013.

Directors' Remuneration Report

Annual Remuneration Report continued

Statement of implementation of remuneration policy in the following financial year

Salary and fixed components

Effective from 1 April 2014, the base salaries of the executive directors will be:

	Base salary	Increase
Alan Aubrey (CEO)	£261,000	2.5% (£6,750)
Mike Townend (CIO)	£232,000	2.5% (£6,000)
Charles Winward (MD TTV)	£185,000	12% (£20,000)
Greg Smith (CFO)	£186,000	16% (£26,000)

The increases for Alan Aubrey and Mike Townend are in line with the general rate of increase across the business. The increases for Charles Winward and Greg Smith reflect increases that, as described earlier in this report, are being phased over a number of years to bring the individual closer to a market competitive salary commensurate with their increased experience having both initially joined on the Board on lower base salaries.

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

Incentives

There will be no change to the maximum opportunity under our AIS, being set by the Committee at 100% of base salary for the CEO and 75% of base salary for the other executive directors. The performance measures shall be unchanged for 2014 and shall be based on a minimum return of 8% on the Group's hard NAV with the maximum awards pool being available for a return of 22.5% or greater. It is anticipated that the opening hard NAV will be adjusted upwards to reflect the Group's capital raising and, assuming completion following the accounts date, the acquisition of Fusion IP plc. This will result in opening hard NAV of approximately £460m requiring a net return of approximately £37m for any bonus pool to be available and in excess of £100m for the maximum pool to be available.

The 2014 LTIP awards will be made at the same levels that apply for the 2013 awards, being 100% of base salary for all executive directors. Performance will continue to be assessed against growth in hard NAV and TSR performance (with the underpin based on relative TSR against the FTSE250) as per the vesting table below.

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

Hard NAV growth will be measured over the three year period to 31 December 2016 with the starting point being the £315.5m at 31 December 2013 adjusted upwards for the net proceeds of the Group's 2014 new equity issue and, assuming it completes, the Group's acquisition of Fusion IP and TSR shall be measured from March 2014 to March 2017 with a one-month average.

The Committee continues to consider that "hard" profitability (which in turn drives the Group's net asset value growth over the longer term) is the most appropriate annual performance measure for the Group's business, and considers that increase in hard NAV and TSR continue to be the most appropriate over the longer term.

As discussed on page 64, the Committee also intends to grant the 2013 LTIP awards during 2014 as it was not possible to grant these during 2013.

Chairman and non-executive directors

With effect from 1 April 2014, the fees of the Chairman will be £65,000 (reflecting a 2.5% increase compared to 2013/14) and the fees of the non-executive directors will be £38,000 (reflecting a 2.5% increase compared to 2013/14). Additional fees for chairmanship of a board committee or for being senior independent director shall be £7,500 (previously £5,000).

Directors' shareholdings and share interests (audited information)

As set out in the Policy on pages 55 to 61, the Group has minimum shareholding requirements for each of its executive directors.

In its consultation with shareholders in the first half of 2013, the levels were proposed as 1.5x salary for the CEO and 1.25x salary for all other executive directors. Mindful of evolving best practice however the Committee has determined to set the limits at 2.0x salary for the CEO, and 1.5x salary for all other executive directors.

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

At the end of the year, all executive directors met this requirement.

Interests in shares

The directors who held office during 2013 had the following beneficial interests in the ordinary shares of the Company:

	31 December 2013 Number of shares
Alan Aubrey	**2,237,089**
Mike Townend	**910,718**
Greg Smith	**227,685**
Charles Winward	**262,446**
Bruce Smith	**236,592**
Francis Carpenter	**239,151**
Jonathan Brooks	**60,000**
Mike Humphrey	**80,000**
Former directors (interests as at date of leaving the board)	
Alison Fielding (stepped down 30 June 2013)	1,051,008
Graham Richards (retired 14 May 2013)	29,250

There have been no changes in the interests of the current executive directors set out above between 31 December 2013 and 3 March 2014 other than in the case of Mike Humphrey who acquired an additional 3,230 shares on 14 February 2014.

Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2013	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2013	Share price at date of conditional award (p)	Earliest vesting date(s)
Alan Aubrey							
2010 LTIP	2,556,818	–	(2,071,023)	(485,795)	–	29	
2011 LTIP	879,654	–	–	–	879,654	54	31 March 2014
2012 LTIP	302,695	–	–	–	302,695	135.5	31 March 2015
	3,739,167	**–**	**(2,071,023)**	**(485,795)**	**1,182,349**		
Mike Townend							
2010 LTIP	2,090,909	–	(1,693,636)	(397,273)	–	29	
2011 LTIP	670,213	–	–	–	670,213	54	31 March 2014
2012 LTIP	230,625	–	–	–	230,625	135.5	31 March 2015
	2,991,747	**–**	**(1,693,636)**	**(397,273)**	**900,838**		

	Number of shares conditionally held at 1 January 2013	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2013	Share price at date of conditional award (p)	Earliest vesting date(s)
Greg Smith							
2010 LTIP	575,758	–	(466,364)	(109,394)	–	29	
2011 LTIP	414,894	–	–	–	414,894	54	31 March 2014
2012 LTIP	142,768	–	–	–	142,768	135.5	31 March 2015
	1,133,420	**–**	**(466,364)**	**(109,394)**	**557,662**		
Charles Winward							
2010 LTIP	709,091	–	(574,364)	(134,727)	–	29	
2011 LTIP	446,809	–	–	–	446,809	54	31 March 2014
2012 LTIP	153,750	–	–	–	153,750	135.5	31 March 2015
	1,309,650	**–**	**(574,364)**	**(134,727)**	**600,559**		

Other long-term interests – legacy arrangements (audited information)

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

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

IPVF co-investment arrangements

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

	Total commitment £000	Limited partnership interest of IPVF	Total capital contributed to 1 January 2013 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2013 £000	Capital amounts repaid during the year £000
Executive Directors						
Alan Aubrey	56	0.18%	44	4	48	3
Alison Fielding[1]	56	0.18%	44	4	48	3
Mike Townend	56	0.18%	44	4	48	3
Greg Smith	35	0.11%	23	4	27	1
Charles Winward	56	0.18%	44	4	48	3
Total	259	0.83%	199	20	219	13

1. As described earlier in this report, Alison Fielding stepped down from the Board due to ill-health with effect from 30 June 2013 however she remains employed by the Group in a part-time capacity and continues to participate in the IPVF co-investment arrangement.

Carried interest arrangements

The executive directors' interests in carried interest schemes are set out below:

	Fund[i]	Carried interest[ii] at 1 January 2013	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme interest at 31 December 2013[iii]	Accrued value[iv] of scheme interest at 31 December 2013 £000
Executive Directors							
Alan Aubrey	IPVF	1.81%	–	–	–	1.81%	253
	NETF	1.55%	–	–	–	1.55%	47
Alison Fielding[v]	IPVF	1.81%	–	–	–	1.81%	253
	NETF	1.15%	–	–	–	1.15%	35
Mike Townend	IPVF	1.81%	–	–	–	1.81%	253
	NETF	1.15%	–	–	–	1.15%	35
Greg Smith	IPVF	1.14%	–	–	–	1.14%	159
	NETF	0.85%	–	–	–	0.85%	26
Charles Winward	IPVF	1.81%	–	–	–	1.81%	253
	NETF	0.45%	–	–	–	0.45%	14

i. Under the IPVF fund LPA, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the North East Technology Fund ("NETF") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 3.5% compound interest.

ii. Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits.

iii. The schemes contain forfeiture provisions over the investment period of the fund which may reduce the scheme interest accruing to any participant. The table reflects the maximum scheme interest receivable should no forfeiture occur.

iii. Accrued value of scheme interests is calculated based upon the current fair value of the relevant limited partnership's assets in excess of the capital contributed and the hurdle rate of return. Any payments will only be made following full repayment of limited partners' loan commitments and the hurdle return and accordingly actual payments under the scheme, if any, may be materially different to those set out above.

iv. As described earlier in this report, Alison Fielding stepped down from the Board due to ill-health with effect from 30 June 2013 however she remains employed by the Group in a part-time capacity and continues to participate in the IPVF and NETF carried interest arrangements.

Outside appointments for executive directors

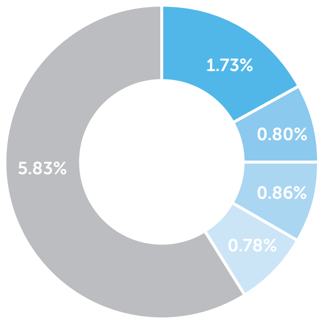
Any proposed external directorships are considered by the Board to ensure they do not cause a conflict of interest but, subject to this, executive directors may accept a maximum of two outside non-executive appointments and indeed the Board believes that it is part of their ongoing development to do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

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

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

The Committee regularly monitors the position and prior to the making of any share-based award considers the effect of potential vesting of outstanding awards to ensure that the Company remains within these limits. Any awards which are required to be satisfied by market purchased shares are excluded from such calculations. No treasury shares were held or utilised in the year ended 31 December 2013.

As at 31 December 2013, the Company's headroom position, which remains within such guidelines, was as shown in the chart below:



- Vested LTIP awards in past 10 years - Executives
- Vested LTIP awards in past 10 years - Other staff
- Outstanding conditional LTIP awards - Executives
- Outstanding conditional LTIP awards - Other staff
- Additional headroom

Directors' Remuneration Report

Annual Remuneration Report continued

Consideration by the directors of matters relating to directors' remuneration

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

The Remuneration Committee comprises the following independent non-executive directors, all of whom served throughout the year, and whose backgrounds and experience are summarised on page 39:

- Francis Carpenter (Chair)
- Mike Humphrey
- Jonathan Brooks

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

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

- Consideration of the Group's overall remuneration structure to ensure it continues to promote the Group's strategy, including the blend of fixed and short and longer-term variable pay.
- Consideration of the skills and experience of the executive directors and carried out benchmarking in order to determine base salaries for the period 1 April 2013 to 31 March 2014.
- Consultation with the Group's major shareholders and proxy advisory bodies on the above, including the reduction of awards under the Group's LTIP and introduction of an annual incentive scheme.
- Consideration of the high-level remuneration arrangements applicable to the Group's staff, including the limitation of the LTIP to management and executive directors and Group-wide introduction of the AIS.
- Consideration of LTIP and AIS awards and vesting targets for 2013 and determining that it was not appropriate to make 2013 LTIP awards during the year.
- Review of the revised remuneration reporting regulations including the development of the Group's remuneration Policy and preparation of the Directors' Remuneration Report.

External advisers

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

During the year the Remuneration Committee continued its review of executive remuneration and took into consideration professional advice from Hay Group carried out in 2012 in respect of remuneration policy, typical levels of remuneration for the industry and sector, and on the mix of salary and long-term incentives. Fees paid to Hay Group in connection with advice to the Committee in 2013 were £nil and in 2012 were £22,500.

In addition, the Committee utilised the services of Deloitte LLP in 2014 to assist in the development of the Group's Remuneration Policy and its reporting under the revised Directors' Remuneration Reporting Regulations. Hay Group did not provide any other advice or services to the Group during the year. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK.

Statement of shareholder voting

The table below sets out the proxy results of the vote on the remuneration report at the Group's 2013 AGM:

Votes for		Votes against		Total	Total
Number	**% of votes cast**	**Number**	**% of votes cast**	**Votes cast**	**Votes withheld**
298,741,696	97.7%	7,120,577	2.3%	305,862,273	2,763,121

Remuneration disclosure

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

Report of the Audit Committee

The Board places a very high priority on the integrity of the Group's financial statements, the quality and transparency of its financial reporting and the effectiveness of IP Group's risk management and internal control systems. The Audit Committee assists the Board in its oversight and governance of these critical areas.

Jonathan Brooks Chairman of the Audit Committee

Audit Committee responsibilities

The Committee monitors the integrity of the financial statements of the Group, and reviews all proposed annual and half-yearly results announcements to be made by the Group with consideration being given to any significant financial reporting judgements contained in them.

The Committee also advises the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Committee also considers internal controls, compliance with legal requirements, accounting standards and the Listing, Disclosure and Transparency Rules of the Financial Conduct Authority, and also reviews any proposed change in accounting policies and any recommendations from the Group's auditor regarding improvements to internal controls and the adequacy of resources within the Group's finance function.

A full copy of the Committee's Terms of Reference, which were updated in early 2013 following an evaluation process, is available from the Company's website at www.ipgroupplc.com.

Committee membership

The Committee comprises three independent Non-executive Directors. The Committee met four times during the year. The CEO, CFO, Financial Controller, other members of management and the external auditor attend meetings by invitation. As the Chair of the Committee, I am deemed by the Board to have recent and relevant financial experience being a Fellow of the Chartered Institute of Management Accountants and having held senior financial positions in my career. In 2013, Mike Humphrey, Senior Independent Director, and Francis Carpenter were the other two members.

The Committee meets at least twice per annum with the auditor without any members of the executive management team being present. I also meet with the external auditor a few times during the year away from the Company's offices.

Activities during the year

The main activities of the Committee during 2013 can be seen by referring to the summary agenda items on page 72. In addition to its normal cycle of activities, the Committee undertook three additional activities in 2013. These were the improvement of governance around investment and divestment policies, whistleblowing, and a review of FCA compliance; secondly a review of the Group's cyber-security policies in the light of the BIS initiative; and thirdly, following the current audit partner's completion of his 5 year term in 2013, the Committee's decision to tender the 2014 audit and the subsequent tender process.

Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on pages 32 and 33. The principal risks the Group faces are set out on pages 34 to 37. Annually, the Audit Committee considers the Group risk register and related management controls. Throughout the process the Board or the Audit Committee:

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

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

Valuation of assets and liabilities

The Audit Committee discusses with management and the auditor the approach that has been taken in assessing all key estimates. These include the carrying value of intangible assets, provisions for impairment of intangible assets and the taxation status of the Group. Given the nature of the Company's business, this remains an extremely important element of the annual audit.

Report of the Audit Committee
continued

Annually, the Committee considers the going concern principle on which the financial statements are prepared and also considers and approves the impairment review of goodwill prepared by management.

Internal audit

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

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

- A risk assessment performed by operational management and the Board to identify key areas for assurance.
- An annual assessment by the Audit Committee of the whole system of internal financial and operational controls.

The Audit Committee considers that a key area of risk in the business lies in the investment and divestment policies of the Group and during 2013 undertook a review of these processes.

Audit committee meeting dates 2013 and summary agendas

February

- Full year financial statements and discussion with auditor
- Audit committee effectiveness review
- Going concern review
- Consideration of the need for a formal internal audit function
- Review of risk register

May

- Auditor effectiveness review
- Planning of internal audit projects
- External review of FCA authorised business
- Review of mobile device security
- Review of MLRO/Compliance officer reports from regulated investment business

August

- Half year financial statements and review with auditor
- Tendering the 2014 audit process
- Review of anti-bribery policy and procedures
- Cyber-security

October

- Review of auditor's 2013 audit planning document
- Audit committee's terms of reference; annual review
- Whistleblowing policy; annual review of process
- Investment and divestment policy; annual review
- Development of a related party transaction policy
- Risk Review update

External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In October, the Committee discussed the auditor's audit plan for 2013. This included a summary of the proposed audit scope and a summary of what the auditor considered to be the most significant financial reporting risks facing the Group together with the auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the carrying value of the Oxford University Equity Rights' asset, a review of the carrying values of the Group's equity and debt investments in its portfolio companies (with particular focus on unquoted companies, including Oxford Nanopore Technologies Limited) and the continued eligibility of the Group for Substantial Shareholder Exemption ("SSE") relief. These were the principal areas of financial reporting risk for the Group in 2013.

Appointment and Independence

The Audit Committee advises the Board on the appointment of the external auditor and on its remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with the external auditor. The Committee keeps under review the cost-effectiveness and the independence and objectivity of the external auditor. Controls in place to ensure this include monitoring the independence and effectiveness of the audit, implementing a policy on the engagement of the external auditor to supply non-audit services, and a review of the scope of the audit and fee and performance of the external auditor.

Non-Audit Work

The Audit Committee approves all fees paid to the auditor for non-audit work. During the year the auditor did perform some non-audit work which mainly consisted of tax compliance work for subsidiaries of the Group, as well some other statutory filing work.

The Group does engage other independent firms of accountants to perform tax consulting work and other consulting engagements to ensure that the independence of the auditor is not compromised. For example, during 2013, external advisers were used to advise on certain matters of taxation as well as on aspects of the Group's remuneration policies. An analysis of non-audit fees is provided in note 6 to the financial statements.

Auditor Independence

A formal statement of independence is received from the auditor each year and audit partners are rotated every five years. The Board and the Audit Committee are satisfied that the independence of the auditor, originally appointed in 2002, has been maintained. However, since the current audit partner was in his fifth year, the Audit Committee decided in August 2013 that it would put out the 2014 audit for tender and engaged in a tender process in March 2014.

Subsequent to the 2013 year end, our auditors, BDO LLP, also invoiced £150,000 for financial and tax due diligence in association with the £100m equity capital raising and acquisition of Fusion IP plc by the Group. Before awarding this work we consulted with two other firms of accountants and we obtained other estimates of fees. Following discussions with our auditors to ensure that appropriate safeguards were in place and would be implemented in accordance with Ethical Standards, I agreed that the work should be awarded to BDO LLP.

Auditor Effectiveness

During the year, the Committee assessed the effectiveness of the external auditor, BDO LLP. This assessment was based upon a number of factors including reviewing the quality and scope of the planning of the audit, individual questionnaire feedback from key members of the Group's finance team and discussions between the Committee members. The overall conclusion was that the audit process was effective.

Audit Tender Process

Following informal meetings with six major accounting firms in the latter part of 2013 and early 2014, the Committee decided to invite three firms to tender for the Group's 2014 audit. A Request for Proposal (RFP) was recently issued, requiring each firm to submit its proposals against a number of criteria including audit approach and delivery, audit quality assurance, the engagement team proposed and proposed fees and terms. Each firm will be allowed meetings with the senior management of the Group and it is anticipated that each firm will present to the Audit Committee by early April. Following the outcome of this process, the Committee intends to appoint the selected firm to carry out the Group's audit with effect from 2014, including providing a review opinion on the Group's half-yearly results to 30 June 2014.

The Audit Committee currently intends to recommend to the Board a resolution to shareholders to appoint the successful firm at the AGM to be held on 13 May 2014.

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

Jonathan Brooks
Chairman of the Audit Committee
3 March 2014

Directors' report

Report of the directors

The directors present their report together with the audited financial statements for IP Group plc and its subsidiaries for the year ended 31 December 2013.

Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 40 to 49 and is incorporated into this Directors' report by reference.

Results and dividends

During the period, the Group made an overall profit after taxation for the year ended 31 December 2013 of £72.6m (2012: £40.7m profit). The directors do not recommend the payment of a dividend (2012: £nil).

Directors

The names of directors who currently hold office or did so during 2013 are as follows:

Executive Directors

Alan Aubrey
Alison Fielding (resigned on 30 June 2013)
Mike Townend
Greg Smith
Charles Winward

Non-executive Directors

Bruce Smith (Chairman)
Graham Richards (resigned on 14 May 2013)
Francis Carpenter
Jonathan Brooks
Mike Humphrey
Dr Lynn Gladden (appointed with effect from 26 March 2014)

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on pages 67 to 68.

Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described on pages 32 to 37 and in the Corporate Governance report on pages 40 to 49. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

Significant agreements

The Group has entered into various agreements to form partnerships with eleven UK universities and two US universities, as well as agreements to act as general partner and investment manager to four limited partnerships. Further details can be found in the strategic report and in the notes to the financial statements.

Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 20 to the consolidated financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the "Articles") and prevailing legislation.

At the last Annual General Meeting of the Company, held on 14 May 2013, authority was given to the directors pursuant to the relevant provisions of the Companies Act 2006 to allot unissued relevant securities in the Company up to a maximum amount equivalent to approximately one-third of the issued ordinary share capital on 10 April 2013 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 11 August 2014. Further, the directors were given authority effective for the same period to allot relevant securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 10 April 2013 in connection with an offer by way of a fully pre-emptive rights issue. A total of 9,495,195 shares (2.6% of issued ordinary share capital at the time these shares were issued) were issued during the period using this authority for the purpose of settling the 2010 LTIP awards. The directors propose to renew these authorities at the Company's next AGM to be held on 13 May 2014. The authorities being sought are in accordance with guidance issued by the Association of British Insurers.

A further special resolution passed at the 2013 AGM granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006, both: (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 10 April 2013 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 10 April 2013, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 11 August 2014. Neither of these authorities has been used during the year. The directors will seek to renew these authorities for a similar period at the next AGM to be held on 13 May 2014.

Under the Companies Act 2006, the Company has the power to purchase its own shares in accordance with Part 18, Chapter 5 of the Companies Act 2006. At the 2013 Annual General Meeting, a special resolution was passed which granted the directors authority to make market purchases of the Company's shares pursuant to these provisions of the Companies Act 2006 up to a maximum of approximately 10% of the Company's issued share capital on 10 April 2013 provided that the authority granted set a minimum and maximum price at which purchases can be made and is exercisable at any time up to the earlier of the conclusion of the next AGM and 11 August 2014. This authority has not been used during the year. The directors will seek to renew the authority within similar parameters and for a similar period at the next AGM to be held on 13 May 2014.

Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders. As at the date of this report the Company's Articles include a qualifying third party indemnity provision ("QTPIP") within the meaning of Section 234 of the Companies Act 2006.

Substantial shareholders

As at 3 March 2014, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Limited	29.2
Lansdowne Partners	14.8
Bailie Gifford & Co	12.7
Sand Aire Limited	6.4
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	5.0
Legal & General Investment Management (LGIM)	4.6
Ruffer LLP	3.5

Political donations

The Group did not make any political donations in either year.

Corporate and social responsibility

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including that of its greenhouse gas emissions is included in the Sustainability section on pages 50 to 52.

Directors' indemnity and liability insurance

During the year, the Company has maintained liability insurance in respect of its directors. Subject to the provisions of the Companies Act 2006, the Articles provide that to the extent that the proceeds of any liability insurance are insufficient to meet any liability in full, every director is entitled to be indemnified out of the funds of the Company against any liabilities incurred in the execution or discharge of his or her powers or duties.

Regulation

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

Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the strategic report. In summary, they are:

- The Group raised £100m (before expenses) of new equity capital in February 2014.
- On 23 January 2014, the Group announced the proposed recommended acquisition of the remaining 79.9% shareholding in Fusion IP plc not currently owned by the Group in an all-paper transaction to be implemented by way of a court-sanctioned scheme of arrangement. At the date of signing of this Annual Report, the completion of the acquisition remains subject to, *inter alia*, court sanction and clearance by the OFT but it is currently anticipated that completion will occur in late March 2014.
- The intellectual property commercialisation agreement with the University of Manchester was extended in January 2014 to include proof-of-principle funding for graphene projects and to commit a further £2.5 million of funding, bringing the total to £7.5 million, under the revised terms of the agreement which has also been extended to 2019.
- There has been a net unrealised fair value increase in the Group's holdings in quoted portfolio companies of £23.6m between 31 December 2013 and 28 February 2014.

Disclosure of information to auditor

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

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

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

Appointment of auditor

The Company's Audit Committee is currently conducting a tender process for the 2014 audit. It is intended This process will be completed during March 2014 and a resolution to re-appoint BDO LLP or appoint the Group's new auditors, as recommended by the Audit Committee, together with a resolution to authorise the Directors to determine their remuneration will be proposed at the AGM.

ON BEHALF OF THE BOARD

Angela Leach
Company Secretary
3 March 2014

Statement of Directors' Responsibilities

The Annual Report and Accounts complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority and the UK Corporate Governance Code in respect of the requirements to produce an annual financial report.

The Annual Report and Accounts is the responsibility of, and has been approved by, the Directors.

Each of the directors confirms to the best of their knowledge:

- the Annual Report and Accounts, taken as a whole, is fair balanced and understandable and provides the information necessary for the assessment of the Group's performance, business model and strategy;
- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, the Companies Act 2006 and Article 4 of the IAS Regulation, while the Company accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description or the principal risks and uncertainties that they face.

ON BEHALF OF THE BOARD

Dr Bruce Smith
Chairman
3 March 2014

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs").

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing the Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with the standards specified above, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business; and
- prepare a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors, having prepared the financial statements, have permitted the auditor to take whatever steps and undertake whatever inspections it considers to be appropriate for the purpose of enabling it to give its audit opinion.

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website, including that of the financial statements contained therein, is the responsibility of the directors.

Independent auditor's report

We have audited the financial statements of IP Group plc for the year ended 31 December 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 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 European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Our assessment of risks of material misstatement and an overview of the scope of our audit

We identified the following risks that we believe have had the greatest impact on our audit strategy and scope:

- Valuation of unlisted equity investments – The Group has £148m of investments where no quoted market price is available. These have been valued by management in accordance with International Private Equity and Venture Capital Valuation Guidelines using a number of valuation techniques such as price of recent investment and earnings multiples. There is a risk that the carrying value of the portfolio does not fairly reflect its fair value as at balance sheet date.
  - We have documented and assessed the design and implementation of the investment valuation processes and controls in place.
  - Where a recent transaction was used to value an investment we obtained an understanding of the circumstances around the transaction and whether they were considered to be at an arm's length. We also agreed the price of recent investment to share purchase documentation.
  - We have challenged management and the investment managers on key judgements and assumptions affecting investment carrying values and adjustments made to the last price of recent investment in the context of the requirements of the International Private Equity and Venture Capital Valuation Guidelines. In particular we focussed on the appropriateness of the valuation basis selected as well as the underlying assumptions such as milestone analysis and/or industry and sector analysis. We compared key underlying financial inputs to external sources and management information as applicable.
  - We considered events subsequent to the year end and up to the date of this report.
- Accounting treatment and valuation of the Oxford equity rights contract - Included in the balance sheet of the Group is the right to future shares in spin-out companies and licensing income from the University of Oxford chemistry department ('Equity Rights'). During the year, a change in the fair value of the Equity Rights amounting to £5m was recognised. Management exercises significant judgement in determining the underlying assumptions used in the valuation model; the assumptions include the discount rate, number of spin-out companies and others. We therefore believe that there is a risk in the calculation of the value of the Equity Rights.
  - We have checked the arithmetic accuracy of the discounted cash flow model and audited the inputs and assumptions into the model which are supported by a combination of historical data and management's assessment of future events. We have obtained evidence to support and corroborate assumptions based on historical information and external industry data. For assumptions based on future events we have compared prior year assumptions against actual outcomes to understand the reasons for significant variances and considered whether they are indicative of bias or error in management's approach to making assumptions.
  - We have challenged management on key judgements and assumptions and corroborated these where possible. We involved our valuations specialists to assess the appropriateness of the model and underlying assumptions. We have also reviewed management's sensitivity analysis and in particular to changes in the discount rate and number of spin out companies and considered this in the context of the fair value range determined by management for this contract.

Independent auditor's report
continued

- Tax: Substantial Shareholdings Exemption (SSE) - SSE is an exemption from corporate tax on gains on the disposal of investments in which a trading group or company holds more than 10% of the share capital of a trading company, for more than 12 months in the 2 year period prior to the date of disposal. The Group does not provide for deferred tax liabilities in respect of portfolio valuation movements on the basis that the Group qualifies as a trading group under the SSE legislation. There is an ongoing risk that should IP Group's activities become substantially non-trading in nature or the legislation changes a deferred tax liability would be required to be provided.
  - We have engaged tax specialists to review the Group's activities, including the roles and responsibilities of the Group's employees in order to assess whether the Group meets the statutory test for not having substantially non-trading activities and tested the various relative financial measures included within the HMRC manuals to the Group's financial statements, as well as reviewing HMRC clearances obtained in prior years.
  - We have reviewed any relevent HMRC correspondence on SSE matters during the year and up to the date of this report.

The Audit Committee's consideration of these risks is set out on page 72.

Purpose of this report
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.

Respective responsibilities of directors and auditor
As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £3,400,000. In determining this, we based our assessment on a level of 1% of total assets which reflects the underlying precision within the valuation of the investment portfolio and the range of reasonable possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgment is that performance materiality for the financial statements should be 65% of materiality i.e. £2,200,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of £3,400,000 for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £34,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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; and
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 49, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street, London
United Kingdom
3 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	**82.4**	38.0
(Loss)/profit on disposal of equity investments		**(0.2)**	11.8
Change in fair value of limited and limited liability partnership interests		**0.8**	0.4
Revenue from services and other income	4	**2.4**	2.3
		85.4	52.5
Administrative expenses			
Research and development costs		**(0.4)**	(0.3)
Share-based payment charge	22	**(0.9)**	(0.8)
Change in fair value of Oxford Equity Rights asset		**(5.0)**	(6.0)
Other administrative expenses		**(6.9)**	(5.6)
		(13.2)	(12.7)
Operating profit	7	**72.2**	39.8
Finance income — interest receivable		**0.4**	0.9
Profit before taxation		**72.6**	40.7
Taxation	9	**—**	—
Profit and total comprehensive income for the year		**72.6**	40.7
Attributable to:			
Equity holders of the parent		**73.0**	40.7
Non-controlling interest		**(0.4)**	—
		72.6	40.7
Earnings per share			
Basic (p)	10	**19.60**	11.13
Diluted (p)	10	**19.27**	10.71

Consolidated statement of financial position

As at 31 December 2013

	Note	2013 £m	2012 £m
ASSETS			
Non-current assets			
Goodwill	11	**18.4**	18.4
Property, plant and equipment	12	**0.2**	0.3
Oxford Equity Rights asset and related contract costs	14	**3.1**	8.1
Portfolio:			
Equity investments	15	**283.1**	177.9
Debt investments	15	**2.8**	3.9
Limited and limited liability partnership interests	23	**4.8**	4.0
Other financial asset	17	**0.7**	0.7
Contingent value rights	18	**1.4**	1.4
Total non-current assets		**314.5**	214.7
Current assets			
Trade and other receivables	16	**0.8**	0.9
Deposits		**5.0**	32.5
Cash and cash equivalents		**19.1**	15.4
Total current assets		**24.9**	48.8
Total assets		**339.4**	263.5
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	20	**7.5**	7.3
Share premium account		**150.4**	150.4
Merger reserve		**12.8**	12.8
Retained earnings		**166.3**	92.6
Total equity attributable to equity holders		**337.0**	263.1
Non-controlling interest		**(0.4)**	–
Total equity		**336.6**	263.1
Current liabilities			
Trade and other payables	19	**1.5**	0.4
Non-current liabilities			
Loans from limited partners of consolidated funds		**1.3**	–
Total equity and liabilities		**339.4**	263.5

Registered number: 4204490

The financial statements on pages 80 to 107 were approved by the Board of Directors and authorised for issue on 3 March 2014 and were signed on its behalf by:

Greg Smith
Chief Financial Officer

Alan Aubrey
Chief Executive Officer

Consolidated statement of cash flows

For the year ended 31 December 2013

	2013 £m	2012 £m
Operating activities		
Profit before taxation	**72.6**	40.7
Adjusted for:		
Finance income — interest receivable	**(0.4)**	(0.9)
Change in fair value of equity and debt investments	**(82.4)**	(38.0)
Change in fair value of limited and limited liability partnership interests	**(0.8)**	(0.4)
Depreciation of property, plant and equipment	**0.1**	0.1
Loss/(profit) on disposal of equity investments	**0.2**	(11.8)
Change in fair value of Oxford equity rights asset	**5.0**	6.0
Share-based payment charge	**0.9**	0.8
Other portfolio income classified as investing activities cash flows	**(0.3)**	–
Changes in working capital		
Decrease in trade and other receivables	**0.1**	0.1
Increase/(decrease) in trade and other payables	**1.1**	(0.3)
Increase in non-current liabilities	**1.3**	–
Net cash flow from deposits	**27.5**	17.5
Other operating cash flows		
Interest received	**0.7**	1.1
Net cash inflow from operating activities	**25.6**	14.9
Investing activities		
Purchase of property, plant and equipment	**–**	(0.1)
Purchase of equity and debt investments	**(27.5)**	(26.3)
Investment in limited and limited liability partnerships	**(0.2)**	(0.4)
Proceeds from sale of equity investments	**5.5**	16.7
Distributions from limited and limited liability partnerships	**0.2**	0.1
Other portfolio income received	**0.1**	–
Net cash outflow from investing activities	**(21.9)**	(10.0)
Financing activities		
Proceeds from the issue of share capital	**–**	–
Net cash inflow from financing activities	**–**	–
Net increase in cash and cash equivalents	**3.7**	4.9
Cash and cash equivalents at the beginning of the year	**15.4**	10.5
Cash and cash equivalents at the end of the year	**19.1**	15.4

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Attributable to equity holders of the parent						
	Share capital £m	Share premium[i] £m	Merger reserve[ii] £m	Retained earnings[iii] £m	Total £m	Non-controlling interest[iv] £m	Total equity £m
At 1 January 2012	7.3	150.4	12.8	51.1	221.6	—	221.6
Profit and total comprehensive income for the year	—	—	—	40.7	40.7	—	40.7
Share-based payment charge	—	—	—	0.8	0.8	—	0.8
At 1 January 2013	**7.3**	**150.4**	**12.8**	**92.6**	**263.1**	**—**	**263.1**
Profit and total comprehensive income for the year	**—**	**—**	**—**	**73.0**	**73.0**	**(0.4)**	**72.6**
Equity issued to settle share-based payments	**0.2**	**—**	**—**	**(0.2)**	**—**	**—**	**—**
Share-based payment charge	**—**	**—**	**—**	**0.9**	**0.9**	**—**	**0.9**
At 31 December 2013	**7.5**	**150.4**	**12.8**	**166.3**	**337.0**	**(0.4)**	**336.6**

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

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

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

(iv) Non-controlling interest — Share of losses attributable to the Limited Partners of IP Venture Fund II L.P. – a consolidated fund which was created in May 2013.

Notes to the consolidated financial statements

1. Accounting Policies

Basis of preparation

The Annual Report and Accounts of IP Group plc ("IP Group" or the "Company") and its subsidiary companies (together, the "Group") are for the year ended 31 December 2013. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs").

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

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2013

IFRS 10 Consolidated Financial Statements: which became effective for periods beginning on or after 1 January 2013, establishes principles for the preparation and presentation of consolidated financial statements when a reporting entity controls one or more other entities. The new standard replaces the consolidation requirements in SIC-12 Consolidation — Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. While IFRS 10 specifies new criteria for the assessment of control, it has not resulted in any conclusions differing to those reached under the previously applicable standards.

IFRS 12 Disclosure of Interests in Other Entities: IFRS 12 sets out the disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the reporting entity's relationship with other entities. As the new standard affects only disclosure, there is no effect on the Group's financial position or performance.

IFRS 13 Fair Value Measurement: IFRS 13 sets out the framework for determining the measurement of fair value and the disclosure of information relating to fair value measurement, when fair value measurements and/or disclosures are required or permitted by other IFRSs. As a result, the guidance and requirements relating to fair value measurement that were previously located in other IFRSs have now been relocated to IFRS 13. While there has been some rewording of the previous guidance, there are few changes to the previous fair value measurement requirements. Instead, IFRS 13 is intended to clarify the measurement objective, harmonise the disclosure requirements, and improve consistency in application of fair value measurement. IFRS 13 did not materially affect any fair value measurements of the Group's assets or liabilities, with changes being limited to presentation and disclosure, and therefore has no effect on the Group's financial position or performance. In addition, IFRS 13 is to be applied prospectively and therefore comparative disclosures have not been presented. See note 3 Significant accounting estimates and judgements for more details and further references related to fair value measurement.

No other new standards, interpretations and amendments effective for the first time from 1 January 2013 have had a material effect on the Group's financial statements.

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

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

IFRS 9 Financial Instruments: IFRS 9 will eventually replace IAS 39 in its entirety. The process has been divided into three main components, being classification and measurement; impairment; and hedge accounting. The Group provisionally assesses the potential effect to be immaterial given the majority of its financial assets are currently held at fair value through profit or loss. The previous effective date of 1 January 2015 has been withdrawn and is now expected to be implemented in 2018.

Amendment to IFRS 10 — Investment Entities: The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements. The Group, after a provisional examination expects to not qualify for the investment entity exemption and consequently, considers that the amendment is unlikely to result in changes to the preparation and presentation of the Group's subsidiaries, associates or Limited Partnerships. The mandatory adoption starts for periods beginning on or after 1 July 2014 following EU endorsement in November 2013.

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

Basis of consolidation

(i) Subsidiaries

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

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

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

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

(ii) Associates

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

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

(iii) Limited partnerships and limited liability partnerships ("Limited Partnerships")

Limited partnerships

Group entities act as general partner and investment manager to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund II L.P. ("IPVFII")	33.3
IP Venture Fund ("IPVF")	10.0
Top Technology Ventures IV LP ("TTV IV")	1.0
The North East Technology Fund L.P. ("NETF")	—

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

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

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

1. Accounting Policies continued

In the case of IPVF and TTV IV, the directors consider that the minority limited partnership interests do not create an exposure of such significance that it indicates that the Group acts as anything other than agent for the other limited partners in the arrangement. Similarly, the lack of a stake in NETF indicates the Group's role as an agent for the limited partner. As a result, the directors consider that the Group does not have the power to govern the operations of theses limited partnerships so as to obtain benefits from their activities and accordingly do not meet the definition of a subsidiary under IFRS 10 Consolidated Financial Statements. However the Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group's accounting treatment for the interests in IPVF and TTV IV is consistent with that of associates as described earlier in this report, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

Limited liability partnerships

The Group has a 16.7% interest in the total capital commitments of Technikos LLP ("Technikos"). The general partner and investment manager of Technikos are parties external to the Group.

(iv) Non-controlling interests

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

Portfolio return and revenue

Change in fair value

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

Revenue from services and other income

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

Advisory fees: Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded.

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

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

Property, plant and equipment

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

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

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

Intangible assets

Goodwill

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

Impairment of intangible assets (including goodwill)

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

Financial assets

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

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

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

(i) At fair value through profit or loss

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

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

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

Fair value hierarchy

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

Level 1 – Quoted prices in active markets.

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

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

Equity Investments

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

Cost

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

Price of recent investment

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

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

Notes to the consolidated financial statements
continued

1. Accounting Policies continued

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

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

Other valuation techniques

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

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

No reliable estimate

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

Equity rights

The equity rights asset represent consideration paid to the University of Oxford between December 2000 and June 2001 that gives the Group contractual rights to the receipt of shares in unlisted spin-out companies (or cash) based on research carried out in the university's Department of Chemistry. It is considered to be a derivative financial asset and is designated as at fair value through profit and loss. Further details on the treatment of this asset are included in note 14.

Debt investments

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

Contingent value rights

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

(ii) Loans and receivables

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

Deposits

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

Cash and cash equivalents

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

Financial liabilities

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

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

Share capital

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

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

Employee benefits

(i) Pension obligations

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

(ii) Share-based payments

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

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

The difference between the fair value of the employee services received in respect of the shares granted and the price payable is recognised as an expense over the appropriate performance and vesting period. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

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

Deferred tax

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

Leases

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

2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 34 to 37, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

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

(a) Market risk

(i) Price risk

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

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

2. Financial Risk Management continued

The Group holds investments which are publicly traded on AIM or ISDX and investments which are not traded on an active market.

The net increase in fair value of the Group's equity and debt investments during 2013 of £82.4m represents a 45% change against the opening balance (2012: net increase of £38.0m, 31%) and a similar increase or decrease in the prices of quoted and unquoted investments is considered to be reasonably possible. The table below summarises the impact of a 1% increase/decrease in the price of both quoted and unquoted investments on the Group's post-tax profit for the year and on equity.

	2013 Quoted £m	2013 Unquoted £m	2013 Total £m	2012 Quoted £m	2012 Unquoted £m	2012 Total £m
Equity investments and investments in limited partnerships	**1.4**	**1.5**	**2.9**	0.8	1.0	1.8

(ii) Interest rate risk

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

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

	2013 Fixed rate £m	2013 Floating rate £m	2013 Interest free £m	2013 Total £m	2012 Fixed rate £m	2012 Floating rate £m	2012 Interest free £m	2012 Total £m
Financial assets								
Equity rights	**–**	**–**	**2.9**	**2.9**	–	–	7.9	7.9
Equity investments	**–**	**–**	**283.1**	**283.1**	–	–	177.9	177.9
Debt investments	**0.6**	**–**	**2.2**	**2.8**	3.0	–	0.9	3.9
Contingent value rights	**–**	**–**	**1.4**	**1.4**	–	–	1.4	1.4
Deposits	**5.0**	**–**	**–**	**5.0**	32.5	–	–	32.5
Cash and cash equivalents	**–**	**19.1**	**–**	**19.1**	–	15.4	–	15.4
Other financial assets	**–**	**–**	**0.7**	**0.7**	–	–	0.7	0.7
Trade receivables	**–**	**–**	**0.4**	**0.4**	–	–	0.4	0.4
Other receivables	**–**	**–**	**0.4**	**0.4**	–	–	0.5	0.5
	5.6	**19.1**	**291.1**	**315.8**	35.5	15.4	189.7	240.6
Financial liabilities								
Trade payables	**–**	**–**	**(0.1)**	**(0.1)**	–	–	(0.1)	(0.1)
Other accruals and deferred income	**–**	**–**	**(1.4)**	**(1.4)**	–	–	(0.3)	(0.3)
Loans from limited partners of consolidated funds	**–**	**–**	**(1.3)**	**(1.3)**	–	–	–	–
	–	**–**	**(2.8)**	**(2.8)**	–	–	(0.4)	(0.4)

At 31 December 2013, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.2m (2012: £0.2m) higher/lower as a result of higher interest received on floating rate cash deposits.

(b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly, the Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

(c) Credit risk

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by making short-term deposits with counterparties, or by investing in treasury funds with an "AA" credit rating or above managed by institutions. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3bn and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2013 £m	2012 £m
P1	**14.2**	14.8
P2	**9.9**	30.6
AA	**–**	2.5
Total deposits and cash and cash equivalents	**24.1**	47.9

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks, including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2013 was £10m (2012: £10m).

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

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

3. Significant Accounting Estimates and Judgements

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

(i) Valuation of unquoted equity investments

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

(ii) Impairment of goodwill

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

(iii) Equity rights

On initial recognition, the equity rights arrangement was considered in substance to be a derivative financial asset. This conclusion was reached after considering that the asset's value changes in response to a change in an 'underlying', being the number and value of spin-out companies created, the net investment was considered to be smaller than would be expected for other contracts with similar response to changes in market factors and it is to be settled at a future date.

As the asset is not quoted on an active market the fair value is determined using valuation techniques, including discounted cash flows. The asset has historically been held at cost since no reliable estimate of fair value could be reached. At 31 December 2013 the information available to the directors and the time remaining in the contract produced a sufficiently accurate estimate of fair value at balance sheet date. In the discounted cash flow model the directors considered the historic asset performance, the spin-out pipeline and available economic data to estimate the unobservable inputs. Those inputs include the average spin-out rate and the projected cash flows on IPO or trade sale from anticipated spin-out opportunities. The discount rate used for valuing the equity rights asset is determined based on the Group's cost of capital.

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

Notes to the consolidated financial statements
continued

4. Revenue From Services
All revenue from services is derived from the provision of advisory and venture capital fund management services.

5. Operating Segments
For both the year ended 31 December 2013 and the year ended 31 December 2012 the Group's revenue and profit/loss before taxation were derived almost entirely from its principal activities within the UK. Though the Group has initiated operations in the US the associated revenues and costs are currently immaterial and accordingly no additional geographical disclosures are given.
For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partner relationships with universities; (ii) management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Strategic report on pages 01 to 37.

Year ended 31 December 2013	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	82.4	–	–	82.4
Loss on disposal of equity investments	(0.2)	–	–	(0.2)
Change in fair value of limited and limited liability partnership interests	0.8	–	–	0.8
Revenue from advisory services and other portfolio income	0.8	0.3	–	1.1
Revenue from fund management services	–	1.3	–	1.3
Change in fair value of Oxford Equity Rights asset	(5.0)	–	–	(5.0)
Administrative expenses	(6.9)	(0.8)	(0.5)	(8.2)
Operating profit/(loss)	71.9	0.8	(0.5)	72.2
Finance income – interest receivable	0.4	–	–	0.4
Profit/(loss) before taxation	72.3	0.8	(0.5)	72.6
Taxation	–	–	–	–
Profit/(loss) and total comprehensive income for the year	72.3	0.8	(0.5)	72.6
STATEMENT OF FINANCIAL POSITION				
Assets	332.8	6.4	0.2	339.4
Liabilities	(1.3)	(1.4)	(0.1)	(2.8)
Net assets	331.5	5.0	0.1	336.6
Other segment items				
Capital expenditure	–	–	–	–
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	–	–	–

Year ended 31 December 2012	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	38.0	–	–	38.0
Profit on disposal of equity investments	11.8	–	–	11.8
Change in fair value of limited and limited liability partnership interests	0.4	–	–	0.4
Revenue from advisory services	0.5	0.4	–	0.9
Revenue from fund management services	–	1.4	–	1.4
Change in fair value of Oxford equity rights asset	(6.0)	–	–	(6.0)
Administrative expenses	(5.5)	(0.7)	(0.5)	(6.7)
Operating profit/(loss)	39.2	1.1	(0.5)	39.8
Finance income – interest receivable	0.9	–	–	0.9
Profit/(loss) before taxation	40.1	1.1	(0.5)	40.7
Taxation	–	–	–	–
Profit/(loss) and total comprehensive income for the year	40.1	1.1	(0.5)	40.7
STATEMENT OF FINANCIAL POSITION				
Assets	257.9	5.6	–	263.5
Liabilities	(0.2)	(0.2)	–	(0.4)
Net assets	257.7	5.4	–	263.1
Other segment items				
Capital expenditure	0.1	–	–	0.1
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	–	–	–

6. Auditor's Remuneration

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

	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**64**	64
The audit of the Company's subsidiaries, pursuant to legislation	**36**	34
Total fees for audit services	**100**	98
Audit-related assurance services	**23**	21
Total assurance services	**123**	119
Tax compliance services	**46**	44
Taxation advisory services	**26**	28
Corporate finance services	**–**	–
All other services	**7**	7
Total non-assurance services	**79**	79
	202	198

7. Profit/(loss) From Operations

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

	2013 £m	2012 £m
Amortisation of intangible assets	–	–
Depreciation of tangible assets	0.1	0.1
Employee costs (see note 8)	5.1	4.0
Operating leases – property	0.4	0.2
(Loss)/profit on disposal of equity investments	(0.2)	11.8

8. Employee Costs

Employee costs (including directors) comprise:

	2013 £m	2012 £m
Salaries	3.7	2.7
Defined contribution pension cost	0.1	0.1
Share-based payment charge (see note 22)	0.9	0.8
Social security	0.4	0.4
	5.1	4.0

The average monthly number of persons (including executive directors) employed by the Group during the year was 35, all of whom were involved in management and administration activities (2012: 34). Details of directors' remuneration can be found in the Directors' Remuneration Report on pages 53 to 70.

9. Taxation

	2013 £m	2012 £m
Current tax	–	–
Deferred tax	–	–

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

	2013 £m	2012 £m
Profit before tax	72.6	40.7
Tax at the UK corporation tax rate of 23.5% (2012: 24.5%)	16.9	10.0
Non-taxable income	(19.9)	(7.2)
Movement in tax losses arising not recognised	3.0	(2.8)
Other adjustments	–	–
Tax credit	–	–

At 31 December 2013, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £53.0m (2012: £22.6m). An analysis is shown below:

	2013		2012	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs	13.7	2.7	–	–
Unused tax losses	39.3	7.9	22.6	4.5
	53.0	10.6	22.6	4.5

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

10. Earnings Per Share

Earnings	2013 £m	2012 £m
Earnings for the purposes of basic and dilutive earnings per share	**73.0**	40.7

Number of shares	2013 Number of shares	2012 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**372,513,387**	365,763,664
Effect of dilutive potential ordinary shares: Long-Term Incentive Plan	**6,515,903**	14,142,480
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**379,029,290**	379,906,144

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

11. Goodwill

	£m
At 1 January 2012	18.4
At 1 January 2013	18.4
At 31 December 2013	**18.4**

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

	2013 £m	2012 £m
University partnership CGU	**16.3**	16.3
Fund management CGU	**2.1**	2.1
	18.4	18.4

Impairment review of venture capital fund management CGU

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

	2013	2012
Discount rate	**9%–11%**	9%–11%
Number of funds under management	**3**	3
Management fee	**2%–3.5%**	2%–3.5%
Cost inflation	**3%**	4%
Percentage of assets under management	**2%–7%**	n/a

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

Impairment review of the university partnership CGU

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

For the purposes of impairment testing, the university partnership CGU comprises those elements connected with the Group's university partnership business other than those that specifically relate to the Group's contract with the University of Oxford's Department of Chemistry (see note 14). The directors consider that for each of the key variables which would be relevant in determining a recoverable value for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out overleaf:

Notes to the consolidated financial statements
continued

11. Goodwill continued

	2013	2012
Number of spin-out companies per year	**7–10**	4–8
Annual investment rate	**£20m–£35m**	n/a
Rate of return achieved	**18%–22%**	n/a
Initial equity stake acquired by the Group under the university partnership	**12%–30%**	12%–30%
Proportion of spin-out companies failing	**32%–45%**	30%–45%
Weighted average holding period (years)	**3–5**	n/a
Dilution rates prior to exit as a result of financing for spin-out companies	**40%–60%**	40%–60%
Proportion of IPO exits	**25%–35%**	25%–35%
IPO exit valuations	**£35m–£45m**	£20m–£40m
Proportion of disposal exits	**28%–32%**	25%–35%
Disposal valuations	**£25m–£35m**	£10m–£30m
Discount rate	**9%–11%**	8%–12%

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

12. Property, Plant and Equipment

	Total £m
Cost	
At 1 January 2013	1.0
Additions	–
At 31 December 2013	**1.0**
Accumulated depreciation	
At 1 January 2013	0.7
Charge for the year	0.1
At 31 December 2013	**0.8**
Net book value	
At 31 December 2013	**0.2**
At 31 December 2012	0.3

	Total £m
Cost	
At 1 January 2012	0.8
Additions	0.2
At 31 December 2012	1.0
Accumulated depreciation	
At 1 January 2012	0.6
Charge for the year	0.1
At 31 December 2012	0.7
Net book value	
At 31 December 2012	0.3
At 31 December 2011	0.2

13. Categorisation of Financial Instruments

Financial assets	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Loans and receivables £m	Total £m
At 31 December 2013				
Equity rights	**3.1**	**–**	**–**	**3.1**
Equity investments	**–**	**283.1**	**–**	**283.1**
Debt investments	**–**	**2.8**	**–**	**2.8**
Other financial assets	**0.7**	**–**	**–**	**0.7**
Contingent value rights	**–**	**1.4**	**–**	**1.4**
Limited and limited liability partnership interests	**–**	**4.8**	**–**	**4.8**
Trade and other receivables	**–**	**–**	**0.8**	**0.8**
Deposits	**–**	**–**	**5.0**	**5.0**
Cash and cash equivalents	**–**	**–**	**19.1**	**19.1**
Total	**3.8**	**292.1**	**24.9**	**320.8**
At 31 December 2012				
Equity rights	8.1	–	–	8.1
Equity investments	–	177.9	–	177.9
Debt investments	–	3.9	–	3.9
Other financial assets	0.7	–	–	0.7
Contingent value rights	–	1.4	–	1.4
Limited and limited liability partnership interests	–	4.0	–	4.0
Trade and other receivables	–	–	0.9	0.9
Deposits	–	–	32.5	32.5
Cash and cash equivalents	–	–	15.4	15.4
Total	8.8	187.2	48.8	244.8

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

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2012: £nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2012: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

14. Equity Rights and Related Contract Costs

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

14. Equity Rights and Related Contract Costs continued

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2012 and 31 December 2012	19.9	0.5	20.4
Aggregate amortisation and change in fair value of contract costs			
At 1 January 2012	(6.0)	(0.3)	(6.3)
Change in fair value during the year	(6.0)	–	(6.0)
At 31 December 2012	(12.0)	(0.3)	(12.3)
Net book value			
At 31 December 2012	7.9	0.2	8.1
At 31 December 2011	13.9	0.2	14.1

Carrying amount of equity rights

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

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

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

The contract expires on 23 November 2015.

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

	2013	2012
Number of spin-out companies per year from University of Oxford's Department of Chemistry	**1–2**	1–2
Initial equity stake acquired by the Group under the equity rights contract	**20%–25%**	20%–25%
Proportion of spin-out companies failing	**30%–40%**	30%–40%
Dilution rates prior to exit as a result of financing for spin-out companies	**35%–60%**	35%–60%
Proportion of IPO exits	**30%–40%**	30%–40%
IPO exit valuations	**£30m–£50m**	£30m–£50m
Proportion of disposal exits	**25%–35%**	25%–35%
Disposal valuations	**£30m–£40m**	£30m–£40m
Discount rate	**9%–11%**	9%–11%

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement, from £2.3m to £4.4m using a range of reasonably possible variables, with the number of spin-outs being the variable giving rise to the widest variation in estimated fair values. In order to calculate a more accurate valuation figure given the multitude of reliable scenarios generated when altering the discounted cash flows variables, a probability weighting expected return method is utilised. Having applied probabilities to the various possible scenarios, the method returned an estimated asset value of £3.1m at 31 December 2013 (2012: £8.1m).

15. Investment Portfolio

Group	Level 1	Level 2		Level 3	
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	Total £m
At 1 January 2013	**84.6**	**86.5**	**3.9**	**6.8**	**181.8**
Investments during the year	**9.4**	**14.1**	**4.0**	**–**	**27.5**
Transaction-based reclassifications during the year	**—**	**3.6**	**(3.7)**	**0.1**	**—**
Other transfers between hierarchy levels during the year	**0.6**	**(12.0)**	**(0.4)**	**11.8**	**—**
Disposals	**(5.6)**	**(0.2)**	**—**	**—**	**(5.8)**
Change in fair value in the year	**46.1**	**39.0**	**(1.0)**	**(1.7)**	**82.4**
At 31 December 2013	**135.1**	**131.0**	**2.8**	**17.0**	**285.9**
At 1 January 2012	50.0	47.9	3.4	22.5	123.8
Investments during the year	8.5	14.5	2.6	0.7	26.3
Transaction-based reclassifications during the year	3.5	(2.6)	(1.2)	0.3	—
Other transfers between hierarchy levels during the year	—	(1.2)	—	1.2	—
Disposals	(5.4)	—	(0.1)	(0.8)	(6.3)
Change in fair value in the year	28.0	27.9	(0.8)	(17.1)	38.0
At 31 December 2012	84.6	86.5	3.9	6.8	181.8

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. Investments in 25 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions. For instances where the fair values are based upon the most recent market transaction but which occurred more than twelve months previously, the investments are reclassified as Level 3 in the fair value hierarchy. However, if the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company. The effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

The net increase in fair value for the year of £82.4m (2012: £38.0m) includes a net decrease of £1.7m (2012: £9.9m increase) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments. During the period then has been a net transfer between the level 2 heirarchy to level 3 of circa £12m. This is due to a number of portfolio companies not receiving financing in the previous 12 months and subsequently being reclassified. However these companies had previously raised sufficient capital to allow extended periods of development and continue to make good progress against technical milestones.

Change in fair value in the year

	2013 £m	2012 £m
Fair value gains	**90.2**	64.5
Fair value losses	**(7.8)**	(26.5)
	82.4	38.0

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

Notes to the consolidated financial statements
continued

16. Trade and Other Receivables

	2013 £m	2012 £m
Trade debtors	**0.3**	0.4
Prepayments	**0.1**	0.2
Other receivables	**0.4**	0.3
	0.8	0.9

The directors consider the carrying amount of trade and other receivables to approximate their fair value. All receivables are interest free, repayable on demand and unsecured.

17. Other Financial Asset

Other financial asset comprises a zero-cost forward contract giving the Group the right to receive sale proceeds when University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £0.7m following £nil receipt of sale proceeds during 2013 (2012: £0.7m receivable). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the statement of comprehensive income. Fair value is determined by discounting expected cash flows at prevailing market rates of interest and accordingly, the Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years. If the assumptions used in the valuation techniques are varied by using a range of possible alternatives, there is no material difference to the statement of financial position, nor the consolidated statement of comprehensive income.

18. Contingent Value Rights

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

19. Trade and Other Payables

Current liabilities	2013 £m	2012 £m
Trade payables	**0.1**	0.1
Social security expenses	**0.1**	0.1
Other accruals and deferred income	**1.3**	0.2
	1.5	0.4

Non-current liabilities	2013 £m	2012 £m
Loans drawn down from the Limited Partners of consolidated funds	**1.3**	–
	1.3	–

20. Share Capital

	2013		2012	
Issued and fully paid:	Number	£m	Number	£m
Ordinary Shares of 2p each				
At 1 January	**365,763,664**	**7.3**	365,763,664	7.3
Issued under employee share plans	**9,495,195**	**0.2**	–	–
At 31 December	**375,258,859**	**7.5**	365,763,664	7.3

In April 2013 the Group issued 9,495,195 new ordinary shares with a par value of 2p in order to settle the 2010 LTIP scheme which partially achieved its vesting conditions and consequently became payable to the Group's employees. The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation or otherwise, and no right to fixed income.

21. Operating Lease Arrangements

	2013 £m	2012 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	**0.4**	0.4

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 £m	2012 £m
Within one year	**0.3**	0.3
In the second to fifth years inclusive	**0.6**	0.9
	0.9	1.2

Operating lease payments represent rentals and other charges payable by the Group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

22. Share-Based Payments

Annual Incentive Scheme

In 2013, following the reduction in scope of the LTIP scheme, the Annual Incentive Scheme was introduced to provide an element of short-term incentive. Some awards will include an element of IP Group shares, which will be subject to further time-based vesting over two years (typically 50% after year 1 and 50% after year 2). As at 31 December 2013 no such options or shares had been granted and there is no associated fair value. However, as the number shares to be granted are based as a percentage of employees' salary, the share-based payments line includes the associated expense incurred in 2013.

Long-Term Incentive Plan ("LTIP") awards

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report set out on pages 53 to 70.

No LTIP awards were made in 2013.

The 2012 LTIP awards will ordinarily vest on 31 March 2015, to the extent that the performance conditions have been met. The awards are based on the performance of Group's Hard NAV and TSR. Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration report on page 63. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE Small Cap index, which can reduce the awards by up to 50%. The matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2012 to 31 December 2014 and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2015, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2011 LTIP awards will ordinarily vest on 31 March 2014, to the extent that the performance conditions have been met. Deloitte LLP provided independent external advice to IP Group's Remuneration committee on the appropriate performance conditions to attach to the 2011 LTIP awards based on their experience of current market practice. The 2012 awards were designed using on the same matrix structure, together with the FTSE small-cap index underpin, as was incorporated into the 2011 LTIP.

The 2010 LTIP awards partially vested on 16 April 2013 and on this date shares in IP Group were issued via the Group's employee benefit trust to the relevant members of the Company's staff accordingly. 50% of the awards were based on the increase in IP Group's Hard NAV, and 50% were based on IP Group's share price performance. The table overleaf sets out the performance measures relating to the 2010 LTIP awards and the actual performance achieved.

Notes to the consolidated financial statements
continued

22. Share-Based Payments continued

Performance condition	Vesting criteria	Actual performance	Percentage vesting
Hard NAV[(i)]	£226.8m: 25% £267.4m: 50%	£236.6m	31%
TSR performance (share price)	60p: 25% 67p: 50%	119.9p	50%
Total			81%

Hard NAV target increased by the net proceeds of the Group's 2011 placing plus 8%-15% growth from the date of completion of the placing.

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

	2013	2012
At 1 January	**18,000,923**	17,055,803
Forfeited during the year	**(2,342,292)**	(767,746)
Vested during the year	**(9,495,195)**	–
Notionally awarded during the year	**–**	1,712,866
At 31 December	**6,163,436**	18,000,923

No shares were notionally awarded during 2013. The fair value of awards made in the prior year was calculated using a Monte Carlo pricing model with the following key assumptions:

	2012
Share price at date of award	£1.355
Exercise price	£nil
Fair value at grant date	£0.38
Expected volatility (median of historical 50-day moving average)	35%
Expected life (years)	2.75
Expected dividend yield	0%
Risk-free interest rate	1.1%

The fair value charge recognised in the statement of comprehensive income during the year in respect of LTIP share awards was £0.9m (2012: £0.8m).

23. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2012	3.3
Additions during the year	0.4
Realisations in the year	(0.1)
Change in fair value during the year	0.4
At 1 January 2013	4.0
Additions during the year	0.2
Realisations in the year	(0.2)
Change in fair value during the year	0.8
At 31 December 2013	**4.8**

The Group considers interests in limited and limited liability partnerships to be Level 3 in the fair value hierarchy throughout the current and previous financial years. If the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company. The effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

24. Related Party Transactions

The Group has various related parties arising from its key management, subsidiaries, equity stakes in portfolio companies and management of certain limited partnership funds.

a) Limited partnerships

The Group manages a number of investment funds structured as limited partnerships. Group entities have a limited partnership interest (see note 1) and act as the general partners of these limited partnerships. The Group therefore has power to exert significant influence over these limited partnerships. The following amounts have been included in respect of these limited partnerships:

Statement of comprehensive income	2013 £m	2012 £m
Revenue from services	1.3	1.4

Statement of financial position	2013 £m	2012 £m
Investment in limited partnerships	3.6	2.8
Amounts due from related parties	–	–

b) Key management transactions

The key management had investments in the following spin-out companies as at 31 December 2013:

Director	Company name	Number of shares held at 1 January 2013	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2013	%
Alan Aubrey	Amaethon Limited – A Shares	104	–	104	3.1%
	Amaethon Limited – B Shares	11,966	–	11,966	1.0%
	Amaethon Limited – Ordinary shares	21	–	21	0.3%
	Avacta Group plc	20,276,113	–	20,276,113	0.6%
	Capsant Neurotechnologies Limited	11,631	–	11,631	0.8%
	Chamelic Limited	26	–	26	0.4%
	Crysalin Limited	1,447	–	1,447	0.1%
	EmDot Limited	15	–	15	0.9%
	Evocutis plc	767,310	–	767,310	0.4%
	Getech Group plc	15,000	–	15,000	0.1%
	Green Chemicals plc	108,350	–	108,350	0.8%
	Icona Solutions Limited	1,674	(1,674)	–	–
	Ilika plc	117,500	–	117,500	0.2%
	Karus Therapeutics Limited	223	–	223	0.1%
	Mode Diagnostics Limited	3,226	–	3,226	0.4%
	Modern Biosciences plc	1,185,150	–	1,185,150	2.1%
	Modern Water plc	519,269	–	519,269	0.7%
	Oxford Advanced Surfaces Group plc	2,172,809	–	2,172,809	1.1%
	Oxford Nanopore Technologies Limited	114,420	–	114,420	0.6%
	Oxtox Limited	25,363	–	25,363	0.3%
	Pharminox Limited	685	–	685	0.3%
	Photopharmica (Holdings) Limited[1]	37,020	–	37,020	1.0%
	Plexus Planning Limited	1,732	–	1,732	0.8%
	Retroscreen Virology Group plc	37,160	–	37,160	0.1%
	Revise Limited	–	19	19	0.5%
	Revolymer plc	88,890	–	88,890	0.2%
	Salunda Limited	53,639	–	53,639	0.8%
	Structure Vision Limited	212	–	212	1.0%
	Surrey Nanosystems Limited	393	–	393	0.3%
	Sustainable Resource Solutions Limited	30	–	30	1.2%
	Tissue Regenix Group plc	2,389,259	–	2,389,259	0.4%
	Tracsis plc	168,010	(46,821)	121,189	0.5%
	Velocys plc	122,109	(100,591)	21,518	<0.1%
	Xeros Limited	241	–	241	0.1%

Notes to the consolidated financial statements
continued

24. Related Party Transactions continued

Director	Company name	Number of shares held at 1 January 2013	Number of shares acquired/ (disposed) in the period	**Number of shares held at 31 December 2013**	%
Mike Townend	Amaethon Limited – A Shares	104	–	**104**	3.1%
	Amaethon Limited – B Shares	11,966	–	**11,966**	1.0%
	Amaethon Limited – Ordinary shares	21	–	**21**	0.3%
	Avacta Group plc	931,367	–	**931,367**	<0.1%
	Capsant Neurotechnologies Limited	11,282	–	**11,282**	0.8%
	Chamelic Limited	23	–	**23**	0.3%
	Crysalin Limited	1,286	–	**1,286**	0.1%
	EmDot Limited	14	–	**14**	0.8%
	Getech Group plc	20,000	–	**20,000**	<0.1%
	Green Chemicals plc	113,222	–	**113,222**	0.8%
	Icona Solutions Limited	1,515	(1,515)	**–**	–
	Ilika plc	10,000	–	**10,000**	<0.1%
	Mode Diagnostics Limited	1,756	–	**1,756**	0.2%
	Modern Biosciences plc	1,185,150	–	**1,185,150**	2.1%
	Modern Water plc	575,000	–	**575,000**	0.7%
	Oxford Advanced Surfaces Group plc	932,994	–	**932,994**	0.5%
	Oxford Nanopore Technologies Limited	3,490	–	**3,490**	0.2%
	Oxtox Limited	25,363	–	**25,363**	0.3%
	Photopharmica (Holdings) Limited[1]	37,020	–	**37,020**	1.0%
	Retroscreen Virology Group plc	37,160	–	**37,160**	0.1%
	Revise Limited	–	18	**18**	0.5%
	Revolymer plc	35,940	–	**35,940**	0.1%
	Structure Vision Limited	212	–	**212**	1.0%
	Surrey Nanosystems Limited	350	–	**350**	0.2%
	Sustainable Resource Solutions Limited	28	–	**28**	1.1%
	Synairgen plc	20,000	–	**20,000**	<0.1%
	Tissue Regenix Group plc	1,950,862	–	**1,950,862**	0.3%
	Tracsis plc	70,004	(44,574)	**25,430**	0.1%
	Velocys plc	5,000	–	**5,000**	<0.1%
	Xeros Limited	213	–	**213**	0.1%
Greg Smith	Avacta Group plc	390,407	–	**390,407**	<0.1%
	Capsant Neurotechnologies Limited	895	–	**895**	<0.1%
	Chamelic Limited	3	–	**3**	<0.1%
	Crysalin Limited	149	–	**149**	<0.1%
	EmDot Limited	4	–	**4**	0.2%
	Encos Limited	5,671	–	**5,671**	0.3%
	Getech Group plc	8,000	–	**8,000**	<0.1%
	Green Chemicals plc	4,830	–	**4,830**	<0.1%
	Icona Solutions Limited	148	(148)	**–**	–
	Mode Diagnostics Limited	361	–	**361**	<0.1%
	Modern Biosciences plc	313,425	–	**313,425**	0.6%
	Modern Water plc	7,250	–	**7,250**	<0.1%
	Oxford Nanopore Technologies Limited	150	–	**150**	<0.1%
	Retroscreen Virology Group plc	61,340	–	**61,340**	0.1%
	Revise Limited	–	6	**6**	0.2%
	Revolymer plc	4,500	–	**4,500**	<0.1%
	Summit Corporation plc	–	15,972	**15,972**	<0.1%
	Surrey Nanosystems Limited	76	–	**76**	0.1%
	Sustainable Resource Solutions Limited	9	–	**9**	0.4%
	Tissue Regenix Group plc	175,358	–	**175,358**	<0.1%
	Velocys plc	2,559	–	**2,559**	<0.1%
	Xeros Limited	33	–	**33**	<0.1%

Director	Company name	Number of shares held at 1 January 2013	Number of shares acquired/ (disposed) in the period	**Number of shares held at 31 December 2013**	%
Charles Winward	Amaethon Limited — A Shares	15	—	**15**	0.5%
	Amaethon Limited — B Shares	1,766	—	**1,766**	0.2%
	Amaethon Limited — Ordinary shares	3	—	**3**	<0.1%
	Capsant Neurotechnologies Limited	2,264	—	**2,264**	0.2%
	Chamelic Limited	3	—	**3**	<0.1%
	Crysalin Limited	189	—	**189**	<0.1%
	EmDot Limited	5	—	**5**	0.3%
	Encos Limited	6,530	—	**6,530**	0.3%
	Icona Solutions Limited	376	(376)	**—**	—
	Mode Diagnostics Limited	421	—	**421**	0.1%
	Modern Biosciences plc	360,914	—	**360,914**	0.7%
	Modern Water plc	12,400	—	**12,400**	<0.1%
	Oxford Advanced Surfaces Group plc	156,213	—	**156,213**	0.1%
	Oxford Nanopore Technologies Limited	150	—	**150**	<0.1%
	Oxtox Limited	3,742	—	**3,742**	<0.1%
	Photopharmica (Holdings) Limited[1]	3,590	—	**3,590**	0.1%
	Retroscreen Virology Group plc	66,080	—	**66,080**	0.2%
	Revise Limited	—	6	**6**	0.2%
	Revolymer plc	4,500	—	**4,500**	<0.1%
	Structure Vision Limited	26	—	**26**	0.1%
	Surrey Nanosystems Limited	87	—	**87**	0.1%
	Sustainable Resource Solutions Limited	10	—	**10**	0.4%
	Tissue Regenix Group plc	482,236	—	**482,236**	0.1%
	Tracsis plc[2]	56,500	—	**56,500**	0.2%
	Xeros Limited	39	—	**39**	<0.1%
Bruce Smith	Capsant Neurotechnologies Limited	20,724	—	**20,724**	1.4%
	Evocutis plc	15,241	—	**15,241**	<0.1%
	Getech Group plc	15,000	—	**15,000**	0.1%
	iQur Limited	2,000	—	**2,000**	0.8%
	Nanotecture Group plc	50,000	—	**50,000**	0.5%
	Synairgen plc	200,000	—	**200,000**	0.3%
	Velocys plc	10,000	—	**10,000**	<0.1%

1. Photopharmica (Holdings) Limited was restructured in 2012 and its trade and assets were transferred to Photopharmica Limited.

2. In addition, Charles Winward holds options over 137,517 ordinary shares in Tracsis plc.

Compensation to key management comprises that paid to Executive and Non-executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 53 to 70 and these amounts are included within the employee costs set out in note 8.

c) Portfolio companies

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

Statement of comprehensive income	**2013 £m**	2012 £m
Revenue from services	**0.7**	0.9

Statement of financial position	**2013 £m**	2012 £m
Trade receivables	**0.3**	0.3

24. Related Party Transactions continued

d) Subsidiary companies

Subsidiary companies that are not 100% owned either directly or indirectly by the parent company have intercompany balances with other Group companies totalling as follows:

	2013 £m	2012 £m
Intercompany balances with other Group companies	**7.8**	7.1

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

25. Capital Management

The Group's key objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of issue new shares or dispose of interests in more mature portfolio companies.

During 2013, the Group's strategy, which was unchanged from 2012, was to maintain healthy cash and short-term deposit balances that enable it to provide capital to all portfolio companies as determined by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

26. Capital Commitments

Commitments to university partnerships

A number of the Group's partnerships with research intensive universities in the UK include certain arrangements to provide seed capital to spin-out companies arising from such universities. As at 31 December 2013, the balances were as follows:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton(i)	2002	5.0	3.6	1.4
King's College London(ii)	2003	5.0	1.8	3.2
University of York – CNAP(iii)	2003	0.8	0.2	0.6
University of Leeds(iv)	2005	4.2	0.7	3.5
University of Bristol(v)	2005	5.0	1.0	4.0
University of Surrey(vi)	2006	5.0	0.5	4.5
University of York(iii)	2006	5.0	0.1	4.9
Queen Mary University of London(vii)	2006	5.0	0.7	4.3
University of Bath(viii)	2006	5.0	0.2	4.8
University of Glasgow(ix)	2006	5.0	1.2	3.8
University of Manchester(x)	2013	5.0	–	5.0
		50.0	**10.0**	**40.0**

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

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

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

iv. The Group extended its partnership with the University of Leeds in July 2005 by securing the right with associated contractual commitment to invest up to £5.0m in University of Leeds spin-out companies. This agreement was varied in March 2011 to, amongst other things, remove the Group's entitlement to a share of out-licensing income generated by the University of Leeds except in certain specific circumstances where the Group is involved in the relevant out-licensing opportunity. Under the terms of the variation agreement, subject to quality and quantity of the investment opportunities, the Group, Techtran and the University of Leeds have agreed to target annual investments of at least £0.7m in aggregate and, subject to earlier termination or the parties otherwise agreeing alternative target, to review this target on 30 April 2017.

v. In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.

vi. Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ("Surrey"), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property.

vii. In July 2006, the Group entered into an agreement with Queen Mary University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies. The agreement was amended in January 2014 primarily to remove the Group's entitlement to licence fees save where it is involved in the development or licensing of the relevant IP and in most cases to replace the Group's automatic entitlement to a share of the initial equity in any spin-out company with an equivalent warrant exercisable at the seed stage of the relevant company.

viii. In September 2006, the Group entered into an agreement with the University of Bath ("Bath") to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies. The agreement with Bath was amended during 2009 so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by Bath from the commercialisation of its intellectual property in the event the Group and its employees have not been actively involved in developing the relevant opportunity.

ix. In October 2006, the Group entered into an agreement with the University of Glasgow ("Glasgow") to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies.

x. In February 2013, the Group entered into a commercialisation agreement with the University of Manchester. Initially the Group had agreed to make available an initial facility of up to £5.0m to provide capital to new proof of principle projects (excluding grapheme projects) intended for commercialisation through spin-out companies. During January 2014, the Group extended its agreement to include funding for Graphene projects, increased the capital commitment by a further £2.5m, bringing the total to £7.5m, and extended the agreement to 2019.

Commitments to limited partnerships

Pursuant to the terms of their limited partnership agreements, the Group has committed to invest the following amounts into limited partnerships as at 31 December 2013:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
IP Venture Fund	2006	3.1	2.7	0.4
IP Venture Fund II L.P.	2013	10.0	0.4	9.6
		13.1	**3.1**	**10.0**

Company balance sheet

As at 31 December 2013

	Note	2013 £m	2012 £m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	**25.3**	25.3
Investment in associated undertakings	3	**10.5**	7.1
Other investments	4	**0.5**	0.5
Loans to subsidiary undertakings	5	**120.4**	123.7
Total assets		**156.7**	156.6
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	**7.5**	7.3
Share premium account	6	**150.4**	150.4
Merger reserve	6	**12.8**	12.8
Profit and loss reserve	6	**(14.0)**	(13.9)
Total equity shareholders' funds and liabilities		**156.7**	156.6

Registered number: 4204490

The financial statements on pages 108 to 111 were approved by the Board of Directors and authorised for issue on 3 March 2014 and were signed on its behalf by:

Greg Smith
Chief Financial Officer

Alan Aubrey
Chief Executive Officer

Notes to the financial statements

1. Accounting Policies

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

Investments

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

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

Intercompany loans

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

Impairment

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

Financial instruments

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

2. Investments in Subsidiary Undertakings

	£m
At 1 January 2013	25.3
Additions	–
Impairment	–
Disposals	–
At 31 December 2013	**25.3**

Details of the Company's subsidiary undertakings at 31 December 2013 are as follows:

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

Notes to the financial statements
continued

2. Investments in Subsidiary Undertakings continued

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP Venture Fund GP Limited[1,3]	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited[1,3]	Scotland	100.0	100.0	Acquisition
North East Technology (GP) Limited[1,3]	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited[1,2]	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited[1,2]	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited[1,2]	England and Wales	100.0	100.0	Acquisition
Techtran Limited[1,2]	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc[4]	England and Wales	54.3	69.0	Acquisition
PIMCO 2664 Limited[1,4]	England and Wales	54.3	69.0	Acquisition
Modern Biosciences Nominees Limited[1,2]	England and Wales	54.3	69.0	Acquisition
MBS Secretarial Limited[1,2]	England and Wales	54.3	69.0	Acquisition
MBS Director Limited[1,2]	England and Wales	54.3	69.0	Acquisition
IP2IPO Nominees Limited[2]	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited[2]	England and Wales	100.0	100.0	Acquisition
LifeUK (IP2IPO) Limited[2]	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited[2]	England and Wales	100.0	100.0	Acquisition
Union Life Sciences Limited	England and Wales	80.0	80.0	Acquisition

1. Company held indirectly.
2. Dormant company.
3. Company engaged in fund management activity.
4. Company engaged in in-licensing of drugable intellectual property activity.
5. Company limited by guarantee.

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland and IP Group Inc. which is incorporated in Delaware, USA. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

3. Investment In Associated Undertakings

	£m
At 1 January 2013	7.1
Additions	3.4
Impairment	–
Disposals	–
At 31 December 2013	**10.5**

At 31 December 2013 the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets £000	Loss before tax £000	Date of financial statements
Fusion IP plc	20.1%	52,108	(1,204)	31 July 2013
Modern Water plc	20.0%	25,327	(5,487)	31 December 2012

All companies are incorporated in England and Wales.

Subsequent to 31 December 2013 the Group has proposed to acquire the remaining stake in Fusion IP plc, for paper, dependent on the approval of the OFT.

No profit/(loss) information is presented in respect of companies that have filed abbreviated accounts.

4. Other Investments

	£m
At 1 January 2013	0.5
Additions	–
Impairment	–
Disposals	–
At 31 December 2013	**0.5**

5. Loans to Subsidiary Undertakings

	£m
At 1 January 2013	123.7
Repayment during the year	(3.3)
At 31 December 2013	**120.4**

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

6. Share Capital and Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m
At 1 January 2013	7.3	150.4	12.8	(13.9)
Profit for the year	–	–	–	0.1
Issue of equity	0.2	–	–	(0.2)
At 31 December 2013	**7.5**	**150.4**	**12.8**	**(14.0)**

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 100. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity on page 83.

7. Profit and Loss Account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £0.1m (2012: £7.7m loss).

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

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

The remuneration of the directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 53 to 70. Full details of the share-based payments charge and related disclosures can be found in note 22 to the consolidated financial statements.

The Company had no employees during 2013 or 2012.

Company information

Company registration number	4204490
Registered office	24 Cornhill London EC3V 3ND
Directors	**Dr Bruce Gordon Smith CBE** (Non-executive Chairman) **Alan John Aubrey** (Chief Executive Officer) **Michael Charles Nettleton Townend** (Chief Investment Officer) **Gregory Simon Smith** (Chief Financial Officer) **Charles Stephen Winward** (MD of Top Technology Ventures) **Mike Humphrey** (Senior Independent Director) **Francis Adam Wakefield Carpenter** (Non-executive Director) **Jonathan Brooks** (Non-executive Director) **Professor Lynn Gladden** (Non-executive Director)
Company secretary	Angela Leach
Brokers	Numis Securities Limited The London Stock Exchange 10 Paternoster Square London EC4M 7LT
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU

Printed on Cocoon Silk 100.

A recycled paper containing 100% recycled waste and manufactured at a mill certified with ISO 14001 environmental management standard.

Fully recyclable and biodegradable.

The pulp used in this product is bleached using an Elemental Chlorine Free process. (ECF)

Created by Jonesandpalmer www.jonesandpalmer.co.uk

empowering corporate communications

IP Group plc
24 Cornhill
London
EC3V 3ND

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

www.ipgroupplc.com