ipgroup

Evolving GREAT IDEAS into WORLD-CHANGING businesses

IP Group plc

Annual Report and Accounts

for the year ended 31 December 2017

Registration Number: 04204490
Stock Code: IPO

The purpose of IP Group is to evolve great ideas into world-changing businesses.

The IP Group team has spent many years developing its approach to identifying attractive intellectual property ("IP"), nurturing and building businesses around such IP and then providing capital and support along the journey from "cradle to maturity". We are pioneering in our approach, including the concept of forming long-term partnerships with leading research universities, passionate about what we do, principled in how we work and committed to delivering results for all of our stakeholders.

The Group now has operations in the UK, the US and Australasia and, following the combination with Touchstone Innovations and capital raise in 2017, benefits from increased scale and critical mass, a more diverse portfolio and access to 16.8% of the world's Top Research. Our portfolio, which is currently valued at £1.1bn, comprises holdings in over 150 companies covering a broad range of commercial innovations across the life sciences and technology. We have a strong track record of success and are proud to have helped create and build some truly exciting businesses based on cutting-edge science.

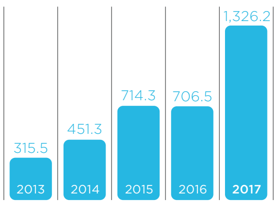
INVESTMENT CASE

- Strength of partnerships with leading research institutions, giving access to potentially disruptive IP around the world.
- Business-building expertise, including executive search, capital, networks, recruitment and business support.
- 'Patient capital' approach, enabling the provision of funding from 'cradle to maturity' unconstrained by traditional fixed-life VC fund approach.
- Strong track record built over 15+ years.
- Balanced and maturing portfolio of exciting companies.
- International exposure with growing businesses in US and Australasia.
- Combination with Touchstone creates clear international sector leader.
- Critical mass allows access to greater pool of capital.
- In-house 'technology transfer' capability to identify disruptive IP and help commercialise it.

Highlights

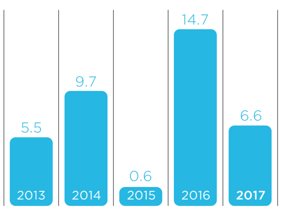
Hard NAV
(£m)

£1,326.2m
(2016: £706.5m)



Proceeds from sales of equity investments
(£m)

£6.6m
(2016: £14.7m)



Portfolio highlights

- Net portfolio gains of £94.2m (2016: £6.5m)
- Fair value of portfolio: £1,130.6m (2016: £614.0m) including £352.2m fair value of acquired Touchstone portfolio
- Capital provided by IP Group to portfolio companies and projects: £71.2m (2016: £69.7m), and £13.4m (2016: £nil) by Parkwalk Advisors.
- Portfolio cash realisations: £6.6m (2016: £14.7m)
- Total funds raised by portfolio companies of £315m (2016: £230m)
- Istesso commences Phase 2a clinical trials for its lead programme in Rheumatoid Arthritis and expands its R&D collaboration with Janssen
- Autifony Therapeutics signs €627.5m collaboration agreement with Boehringer Ingelheim
- Diurnal receives positive CHMP opinion for Alkindi®, a precursor to market launch for its first product in Q2 2018

Financial and operational highlights

- Net assets £1,508.5m (2016: £768.7m)
- Hard NAV £1,326.2m (2016: £706.5m)
- Return on Hard NAV of £64.1m (2016: negative £7.6m); Return on Hard NAV excluding acquisition and restructuring costs £73.2m (2016: negative £7.2m)
- Profit for the year £53.4m (2016: loss £14.8m)
- Gross cash and deposits £326.3m (2016: £112.3m)
- Increased scale and critical mass through all-share combination with Touchstone, integration progressing well
- Acquisition of Parkwalk Advisors Ltd, UK's leading growth EIS fund manager focused on university spin-outs
- Launch of IP Group Australasia; nine new partnerships signed with leading universities in Australia and New Zealand
- £181.0m (net) capital raise completed, including significant new shareholders from Australia, China, Singapore and the UK

Post period end highlights

- Oxford Nanopore completes £100m financing round in March, confirms orders of $23.5m in 2017 and signals 2018 order book to more than treble to $75m

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

What's inside

Q&A with the CEO

"2017 has been a significant year for IP Group. The underlying business has performed well and there have also been a number of individually important strategic transactions."

ALAN AUBREY CHIEF EXECUTIVE OFFICER

2017 has been a significant year for IP Group. The underlying business has performed well and there have also been a number of individually important strategic transactions. The Group completed two corporate transactions: the combination with AIM-listed Touchstone Innovations plc in October and the acquisition of Parkwalk Advisors Ltd in January. Touchstone Innovations creates, builds and invests in technology companies and licensing opportunities developed from scientific research from the 'Golden Triangle', the geographical region broadly bounded by London, Cambridge and Oxford and Parkwalk is the UK's leading university spin-out focused EIS fund manager. In addition, IP Group completed a placing to raise £181.0m of new capital and extended its model into Australasia, signing a landmark agreement with nine of Australasia's leading universities: the University of Adelaide, Australian National University, the University of Melbourne, Monash University, UNSW Sydney, the University of Queensland, the University of Sydney and the University of Western Australia in Australia, and the University of Auckland in New Zealand. The Group now has operations in three major geographic territories – the UK, US and Australasia, a stronger balance sheet and a large and diversified portfolio of exciting opportunities.

What are the main benefits of the combination with Touchstone Innovations?

Our vision is to create an international leader in IP commercialisation with an enlarged platform for growth and investment. The three most significant benefits to the Group of the combination with Touchstone are: (1) increased scale and critical mass; (2) further diversification of the Group's portfolio in terms of maturity and business sector and (3) further access to world-class research, including London's Imperial College and University College London. As a result of the transaction, the Group now operates the 'technology transfer operation' known as 'Imperial Innovations'. It also brings with it a number of experienced team members. We continue to believe that an 'industry champion' will be better placed to attract the best university partnerships; the best scientific and commercial talent; and a broader and deeper pool of investors. By creating a stronger, better-resourced company, we can help more scientists develop commercial businesses, and help prevent the flight of commercially viable enterprises that so often has to leave the UK and/or seek takeover before they have achieved what they set out to do. The transaction was declared wholly unconditional in October and Touchstone is consequently being integrated into the Group.

What is Imperial Innovations?

Imperial Innovations is Imperial College, London's 'Technology Transfer Office' or 'TTO' for short. University TTOs are dedicated to identifying research which has potential commercial interest and to then helping commercialise it. Following the Touchstone transaction, Imperial Innovations is now a wholly owned operating unit of IP Group and effectively gives the Group a direct pipeline to the research being carried out at one of the world's leading technical universities until mid-2020. Imperial Innovations works with researchers at Imperial College London to help develop their novel research into new businesses, products or services, supporting the process of taking an idea from the lab into the market. Imperial Innovations assesses inventions, protects intellectual property through patents and other appropriate forms of IP protection, provides advice on establishing proof of concept and may provide development funding or support inventors in their applications for funding from other sources. Its 'Venture Support Unit' establishes new businesses, finds mentors and management and provides access to preferred suppliers, similar in a number of ways to IP Group's existing IP Assist function.

READ ABOUT OUR BUSINESS MODEL ON PAGES 14 TO 15

Integration is often a challenge with acquisitions. How have the first few months worked out with Touchstone?

We have been really encouraged by the level of engagement and commitment shown by employees in both IP Group and Touchstone Innovations. After an initial review last Autumn, it was clear that staff in both companies felt strongly that it was important to start working together as one team as quickly as possible and we therefore focussed on making this happen. The integration process was overseen by a team comprising individuals from both IP Group and Touchstone and is now substantially complete. We have simplified and streamlined our organisational structure by moving to a two-sector model of Life Sciences and Technology and will operate both divisions from one central London office. Both the TTO and Parkwalk continue to be run as separate entities.

Are there any changes to IP Group's divisional reporting following the integration of the Touchstone portfolio?

As part of the integration we decided to move to a simpler 2-sector model of Life Sciences and Technology rather than our previous four sector model of Healthcare, Biotech, Technology and Cleantech. Going forward, both the Life Sciences and Technology sector will be managed as 'partnerships', comprising a Managing Partner responsible for its overall performance with a structure of partners, investment directors and managers and analysts specialising in particular fields and companies. In Life Sciences, the Managing Partner is Dr Sam Williams and in Technology, the Managing Partner is Dr Mark Reilly.

READ ABOUT OUR PORTFOLIO ON PAGES 23 TO 39

How has the Parkwalk acquisition helped IP Group's access to capital?

Founded in 2009, Parkwalk is the largest EIS growth fund manager focused on university spin-outs, having raised over £175m to date with the majority of funds coming from leading private wealth platforms and having backed over 80 companies across its managed funds since inception. In 2017 alone, Parkwalk committed over £70m to UK university spin-outs investing alongside IP Group, Touchstone Innovations, Oxford Sciences Innovation and Cambridge Innovation Capital. Parkwalk, which recorded a net contribution of £1.6m for the period since acquisition, has significant assets under management, an experienced team and strong links to many of IP Group's existing university partners. Its investment vehicles include the evergreen Parkwalk Opportunities Fund, the University of Cambridge Enterprise Funds, the University of Oxford Innovation Funds and the University of Bristol Enterprise Funds.

What benefits do you expect from the recently established Australasian operations?

One of the main reasons for selecting Australasia in terms of expansion was that it scored very highly in meeting our criteria of long-term partnerships with leading research institutions alongside access to significant pools of local capital with a potentially long-term investment horizon. It is still early days in the region for us but we now have a team in place, led by Dr Mike Molinari, who has been appointed to the position of Managing Director. It's a return to IP Group for Dr Molinari who was previously a Director of IP Group's IP Capital business in London. He re-joins from Brandon Capital, one of Australia's leading life science investors with >$500M under management, where he was an Investment Manager. Alistair McCreadie has been appointed Chief Investment Officer, Asia Pacific, and Dr Peter Grant, who is IP Group plc's Managing Director for New Business and Partnerships, is Chairman of the Australian subsidiary. This team will focus on building up the Australian and New Zealand operations as IP Group deepens its engagement with its nine university partners in the region. We have been encouraged by investors' response to the move with new investors including Temasek and Telstra both joining IP Group's share register through our fundraising last Summer and an AU$100m global co-investment mandate being agreed with Hostplus. The team has identified an attractive pipeline of opportunities and anticipates making initial investments in 2018.

Group at a glance

IP Group partners with leading research institutions in countries where leading research is produced. The Group has three areas of geographic focus; the UK, the US and our recently formed business in Australasia. In total, the Group has access to R&D emanating from 32 universities or research institutions around the world comprising 18 in the UK, 5 in the US and 9 in Australia/New Zealand. IP Group has access to commercialisable intellectual property from universities whose academic staff have published 16.8% of the world's Top Research. The Directors therefore believe the Group is the international market leader in the emerging university IP commercialisation sector.

UNPARALLELED ACCESS TO GLOBAL RESEARCH HUBS

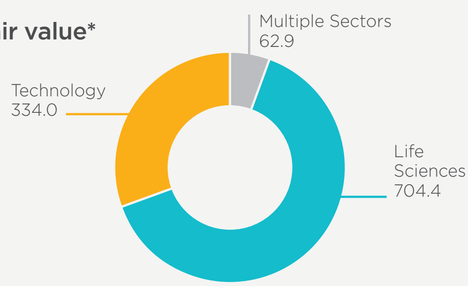
UK THE GOLDEN TRIANGLE
America THE AMTRAK CORRIDOR
Australasia THE GO9 UNIVERSITIES

- University of Adelaide
- Australian National University
- The University of Melbourne
- Monash University
- UNSW Sydney
- The University of Queensland
- The University of Sydney
- The University of Western Australia
- The University of Auckland

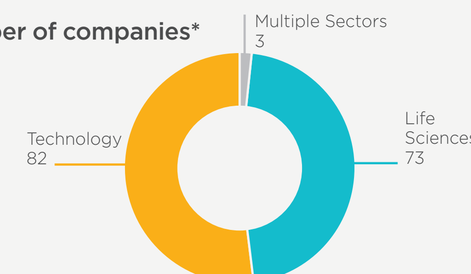
READ ABOUT OUR PARTNERS IN OUR BUSINESS MODEL ON PAGES 14 TO 15

A BALANCED PORTFOLIO WITH A STRONG RECORD OF GROWTH

By fair value*
(£m)

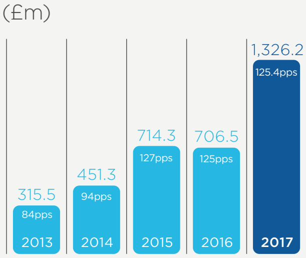


By number of companies*

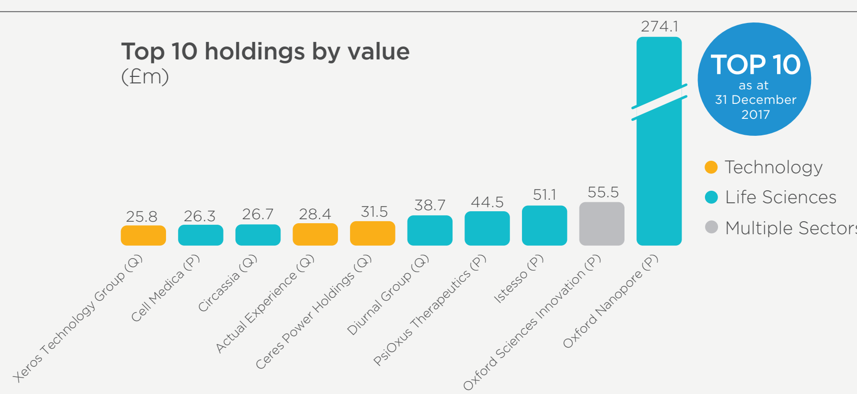


* Excludes de minimis & organic holdings

IP Group Hard NAV
(£m)



Top 10 holdings by value
(£m)



AN ENLARGED GLOBAL BUSINESS

IP Group's vision is to create an international leader in IP commercialisation with an enlarged platform for growth and investment. The combination with Touchstone provides the Group with critical mass, a better-balanced portfolio across two main sectors as well as additional partnerships including Imperial College London where the business also operates the 'technology transfer operation' known as 'Imperial Innovations'.

		Life Sciences	Technology	TOTAL
	Value of companies in the portfolio	£704.4m	£334.0m	£1,038.4m[1]
	2017 net portfolio gains	£63.2m	£30.5m	£94.2m[2]
	Number of portfolio companies	73	82	155
STAGE	Focus	12	7	19
STAGE	Development	40	44	84
STAGE	Early stage	21	31	52

[1] Excludes £69.9m related to multi-sector platforms, de minimis and organic portfolio holdings. See page 27 for further details
[2] Includes £0.5m gains relating to multi-sector platforms'

Create

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

STRATEGIC REPORT

Chairman's summary

> The Group now has operations in three major geographic territories – the UK, US and Australasia – a stronger balance sheet and a large and diversified portfolio of exciting opportunities

MIKE HUMPHREY CHAIRMAN

I am pleased to report a year of substantial progress at IP Group in 2017. The underlying business performed well with some notable commercial progress within the portfolio while at a corporate level, IP Group completed a number of individually significant strategic transactions. The Group now has operations in three major geographic territories – the UK, US and Australasia – a stronger balance sheet and a large and diversified portfolio of exciting opportunities.

Corporate transactions

2017 was a busy period in terms of corporate transactions for the Group. In June, the Group formally launched an all-share offer for Touchstone Innovations plc, a company which creates, builds and invests in technology companies and licensing opportunities developed from scientific research from the 'Golden Triangle', the geographical region broadly bounded by London, Cambridge and Oxford. The combination gives us critical mass, a better-balanced portfolio and additional partnerships. The transaction was declared wholly unconditional in October and Touchstone's portfolio, people and operations have been integrated into the Group.

In May, IP Group announced a £181.0m (net) capital raise and welcomed new shareholders from Australia, China, Singapore and the UK. The funding allows the Group to accelerate growth by investing in new and existing portfolio companies, build on its pool of valued scientific and commercial talent, and attract further investors and co-investment partners. It also furthers the transformation underway by expanding the Group's share register and by further extending its model into Australasia.

HIGHLIGHTS

Combination with Touchstone Innovations

Launch of Australasian operations

Acquisition of Parkwalk Advisors

TIMELINE

JANUARY 2017

Completed the acquisition of Parkwalk Advisors Ltd

In February, we completed the acquisition of Parkwalk Advisors Ltd. that was announced in December 2016. Founded in 2009, Parkwalk is the UK's leading university spin-out focused EIS fund manager. We are delighted to have the team on board and Parkwalk recorded a net contribution of £1.6m for the period since acquisition, while co-investing in six IP Group portfolio companies.

Expansion into Australasia

IP Group was also delighted to announce a landmark agreement with Australasia's leading universities in 2017, which will see at least A$200m invested in finding and developing companies involved in disruptive innovation. The commercialisation agreements, the first of their type in Australasia, were signed with nine universities: the University of Adelaide, Australian National University, the University of Melbourne, Monash University, UNSW Sydney, the University of Queensland, the University of Sydney and the University of Western Australia in Australia, and the University of Auckland in New Zealand. The Group committed to invest at least A$200m over a 10-year period to fund investments in spin-out companies based on the intellectual property (IP) developed by academics at the nine universities, generated from research in areas such as digital medicine, new medical therapies and quantum computing.

Key portfolio events

Turning to the portfolio, I would draw out a few highlights. During the year, Diurnal received positive CHMP opinion for its Alkindi® product, followed by market authorisation in February 2018, paving the way for Diurnal to become the first IP Group company to launch a new therapeutic in Europe, which is anticipated in Q2 2018. Istesso commenced Phase 2a clinical trials for its lead MBS2320 programme in Rheumatoid Arthritis and expanded its R&D collaboration with Janssen. Autifony Therapeutics Ltd, a Touchstone Innovations company, announced it had signed a €627.5m collaboration agreement with Boehringer Ingelheim. And finally, once again, Oxford Nanopore has shown significant commercial progress during the period, with the company recently announcing that 2017 order intake had increased approximately three-fold to $25.3m, with an expectation for a similar level of growth in 2018, and a number of product developments, including the launch of the GridION x5.

In addition, our portfolio companies continue to attract significant external funding, raising approximately £315m of new capital this year. Significant fund raisings included AIM-quoted Tissue Regenix Group plc (£40m), Actual Experience plc (£17.5m) and, among the private companies, Ultrahaptics Ltd (£17.9m) and Creavo Medical Technologies (£13.4m).

MAY 2017

IPG announced the result of £181m (net) capital raising with new shareholders from Australia, China, Singapore and the UK, and the launch of IP2IPO Australia with commercialisation agreements with nine leading Australian and New Zealand research universities

IPG announced an offer to acquire Touchstone Innovations plc

OCTOBER 2017

Offer for Touchstone Innovations goes wholly unconditional

Chairman's summary CONTINUED

Financial performance

In terms of financial performance, the Group continues to build on its strong track record. In 2017, IP Group's portfolio delivered a solid performance with net assets excluding goodwill and intangibles ("Hard NAV") totalling £1,326.2m (2016: £706.5m) with the fair value of the portfolio increasing to £1,130.6m (2016: £614.0m) and resulting in a reported profit of £53.4m (2016: £14.8m loss). The Group ended the year with gross cash and deposits of £326.3m (2016: £112.3m). I must stress however that our business model remains long term in nature and while our objective is to generate long term value for stakeholders, portfolio company valuations and therefore our results can and do fluctuate from year to year.

Changes to the Board

At Board level, there have been two changes this year. In October, we were delighted to welcome Professor David Begg as a non-executive director following the acquisition of Touchstone Innovations plc, where he was a non-executive director. Professor Begg joined Touchstone Innovations plc from Imperial College London, where he was Professor of Economics and Principal of the Business School from 2003 until 2012. He also acted as Vice Provost for Research for the College. During his earlier career, he held a number of distinguished advisory and academic appointments, including Professor of Economics at Birkbeck College, Visiting Fellow at the Reserve Bank of Australia, and Visiting Professor at M.I.T and at INSEAD, and Economic Policy Advisor in the Bank of England.

Doug Liversidge, CBE, retired from his position as a non-executive director of the Company at the end of 2017. Mr Liversidge served on the Board in a non-executive capacity since March 2014 following IP Group's acquisition of Fusion IP plc, where he was Chairman. He was also the Group's Senior Independent Director, a role that Professor Begg agreed to take on from the beginning of 2018. Mr Liversidge made an important contribution to the Group's growth and I would like to thank him for his commitment and wise counsel over the past four years.

Summary

The business made substantial progress in 2017, leaving IP Group well positioned for 2018 and beyond. I would like to welcome all our new colleagues and partners to the Group this year and to thank staff, academic partners and portfolio companies for their commitment and contribution to this positive performance. As ever, I would also like to extend the Board's thanks to all our stakeholders for their continued support without whom none of this would be possible. With a larger and maturing portfolio and an expanded pipeline of opportunities around the world, we look to the rest of the year with continued confidence.

MIKE HUMPHREY
CHAIRMAN

Market

The purpose of IP Group is to evolve great ideas into world-changing businesses.

IP Group is a leading intellectual property commercialisation company which focuses on evolving great ideas, mainly from its partner universities, into world-changing businesses. The Group has pioneered a unique approach to developing these ideas and the resulting businesses by providing access to business building expertise, capital (through its 100%-owned FCA-authorised subsidiaries IP Capital and Parkwalk Advisors), networks, recruitment and business support.

The Directors consider that the Group is operating and competing in two major areas. Firstly, the Group competes for access to great ideas with significant commercial potential. The Group primarily sources these ideas from a network of world-leading academic research institutions, frequently those with which it has a long-term partnership arrangement. Secondly, the Group competes for capital to develop these great ideas into viable businesses against other investment opportunities. While the market for capital is very broad and deep, the Group's companies are typically seeking earlier-stage and development risk capital.

Challenges facing the developed and developing world today

One of IP Group's core beliefs is that overcoming many of the world's common problems will require multiple scientific solutions. The common challenges facing the developed and developing world include issues such as ageing population, climate change, resource scarcity, energy availability and storage, rapid urbanisation, health challenges and increasing digitisation. Historically, many of the solutions to these global problems have come from fundamental R&D carried out in the world's leading research universities and institutions. IP Group believes that this will continue to be the case and therefore the Directors feel the Group's work, of helping commercialise cutting-edge science, is of such importance.

The search for solutions

IP Group partners with major leading research institutions in countries where research is produced. The Group has three areas of geographic focus; the UK, the US and our recently formed business in Australasia. In total, the Group has access to R&D emanating from 32 universities or research institutions around the world comprising 18 in the UK, 5 in the US and 9 in Australia/New Zealand. IP Group has access to intellectual property from universities whose academic staff have published 16.8% of the world's Top Research. The Directors therefore believe the Group is the international market leader in the emerging university IP commercialisation sector.

The Group's core business remains the UK, which has been further reinforced by the acquisition of Touchstone Innovations plc. IP Group does, however, continually assess potential opportunities in other territories that satisfy its criteria including long-term partnerships with leading research institutions and good access to both capital and entrepreneurial talent.

Economic backdrop

The overall economic backdrop has a significant bearing on the Group's ability to pursue its strategic objectives. In the shorter term, financial market volatility and investor risk appetite impacts access to capital for the development of spin-out companies, which in turn, can affect the likelihood of achieving exits and can influence the periodic valuations of holdings in portfolio companies. Over the longer-term, Government spending on fundamental R&D as well as policy support towards the commercialisation of IP are key areas affecting the Group's business model.

In this context, these are uncertain times both economically and politically, particularly following events including the UK's vote to leave the European Union and the economic policy changes made, and under consideration, in the US. Global economic activity, however, has been strengthening with the International Monetary Fund forecasting a global growth rate for 2018 of 3.9%. The forecast for strong growth is a result of upward revisions to the EU and for many parts of Asia, though it also includes downward revisions for both the US and UK. While the ongoing European Union exit negotiations may have an impact on the Group's business, IP Group is actively mitigating this through diversification to both research and capital. The Group has a burgeoning business in the US and, in 2017, established operations in Australasia. In addition, the Group has taken steps to broaden its shareholder register and now counts several large global investors among its shareholder base.

Global research landscape

Globally, the US remains the world's largest R&D investor with nearly $463bn of gross domestic R&D expenditures in 2015 according to the OECD. This exceeded by almost one-quarter the amount of R&D performed in the People's Republic of China ($377m), the second-largest performer, which is just over the combined level of the EU28 area ($346m). However, concerns remain that a potential decline in government funding of science and technology research in some countries could pose a threat to innovation. The OECD Science, Technology and Innovation Outlook 2016, published in December 2016, noted expenditure on R&D by universities and public research institutes in OECD countries began flattening out in 2010 following three decades of growth as other policy priorities, such as state pensions, health and social care, absorbed a growing share of public resources.

UK landscape

In the UK, where IP Group is predominantly based and where it has partnerships with 18 leading UK universities including access to innovation from both the universities of Oxford and Cambridge, the Government has announced a package of measures designed to support innovation and drive economic growth.

The Government's £4.7bn stimulus package for science and innovation was increased in the Autumn Statement 2016. The Government stated that this will grow by a further £2.3bn of additional spending in 2021-22, taking total direct R&D spending to £12.5bn per annum by 2021-22.

Stressing that research and development is a key driver of economic growth and a vital part of the Government's 'Industrial Strategy', the UK Government also announced that it would review the tax environment for R&D to ensure the system is strongly pro-innovation to make the UK an even more competitive place to carry out R&D.

The UK Government also concluded its review of long term investment into British firms. The 'Patient Capital' review, led by the Treasury, looked at how to remove the obstacles to getting long term investment into innovative firms. The results from the consultation with leading industry figures included references to the significant need for patient capital and various ways to increase government support, such as through public/private partnerships and tax incentives. It is also worth noting that the government has recently extended the applicability of its Enterprise Investment Scheme in the 2017 Autumn budget, including an increase to the upper annual limit of funding that each company can take.

Competitive landscape

The number of companies and organisations seeking to commercialise intellectual property, and/or provide capital to spin-out companies from universities and research-intensive institutions in the UK has increased in recent years. Further, the Group continues to face the risk of competition in new geographies in which it seeks to operate.

When approaching new opportunities, potential funders, including the Group, will often act in a collaborative manner through syndication of investment. However, there are also occasions when IP Group may need to participate in a competitive process to obtain an interest in a particular technology.

READ ABOUT OUR BUSINESS MODEL ON PAGES 14 TO 15

[1] 'Top Research' classified as the top 10% of publications cited globally. Includes the top 200 universities by volume of Top Research, 2012-2015, based on data from the Leiden University Rankings 2017. Includes UK, US and Australasian partnerships including Oxford and Cambridge through strategic holdings in Oxford Sciences Innovation and Cambridge Innovation Capital and University College London through interest in UCL Technology Fund.

IP GROUP'S KEY DIFFERENTIATORS

- Operations in three core geographic hubs: UK, US and Australasia
- Breadth of partnerships with leading research institutions, giving access to 16.8% of the world's Top Research
- Technology transfer capability to identify disruptive IP and to enable its transfer from research lab to commercial entity
- Business-building expertise, including executive search, administrative support, capital sourcing and innovative portfolio board and CEO programmes
- "Patient capital" approach, enabling the provision of funding from 'cradle to maturity' unconstrained by artificiality of fixed life funds
- International shareholder and co-investor network
- Strong track record built over 15+ years

The Group and its portfolio companies regularly compete with a range of technology, and other, businesses when seeking capital for the development of their business models. The competition for capital, and for opportunities on occasion, can come from a wide variety of entities, including:

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

IP Group's approach to building businesses is one of the ways in which it differentiates itself from more traditional venture funds. The Group actively supports the development of its portfolio companies through access to early-stage business-building expertise, interim executive support, technical and commercial networks and senior team recruitment and development in addition to the provision of capital.

In addition, the Group provides operational, legal, business and company secretarial support to its companies, with a view to minimising the most common administrative factors that can contribute to early-stage company failure. The Group has also successfully carried out several innovative programmes to accelerate company growth, including working with CEOs and company boards to improve performance.

In the UK, the Group also considers tax-advantaged Enterprise Investment Scheme ('EIS') funds to be an increasingly important source of financing for early-stage technology companies and has seen a strong operating performance from its new subsidiary, Parkwalk, the UK's largest EIS growth fund manager focused on university spin-outs, which has strong links to leading institutional wealth managers and university partners.

Business model

Evolving great ideas into world-changing businesses.

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

POTENTIAL OPPORTUNITY

START-UP PHASE

SELECTION

IP Group's specialists work closely with our university partners to identify promising research and to create and build businesses around this research. Working with technology transfer teams and academics, we assess initial 'disclosures' for their potential commercial viability alongside possible exploitation pathways.

INCUBATION

Typically a company will be set up, owned by the academic team, the university and any other founders. IP will be transferred in and an initial investment made with IP Group represented on the Board and typically taking a hands-on approach. Time and capital are then deployed to develop the ideas to an early commercial prototype and beyond with stringent milestones put in place.

SCALE-UP PHASE

SEED

Engagement with potential customers is sought and feedback used to direct effort. As milestones are met, further investment is released while commercial and technical teams are expanded. As the company shows signs of traction, an investment case is made for seed funding to accelerate growth.

SECTOR EXPERTISE

SECTOR EXPERTISE

LONG-TERM PATIENT CAPITAL

OUR SUPPORTING FRAMEWORK

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

ippartners

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

ipexec

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

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

COMMERCIALISATION

SCALE-UP PHASE

POST-SEED & BEYOND

As companies mature, IP Group continues to offer support and can help inform discussions around further funding as well as exit strategies whether trade sale or IPO. We take an active role in company development to help growth the value of the asset over time.

SECTOR EXPERTISE

LONG–TERM PATIENT CAPITAL

DELIVERING

Sustainable Value

Financial returns

New company creation

Solutions to global challenges

Purpose-led employment opportunities

ipassist iplegal

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

ipcapital

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

ipimpact

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

Our strategy

Systematically building businesses

OUR STRATEGIC AIMS	WHAT WE DID IN 2017 TO ADDRESS OUR OBJECTIVES
To **create** and maintain a pipeline of compelling intellectual property-based opportunities	• Provided capital for the first time to 21 companies or projects, 10 UK and 11 US (2016: 20/9/11) • 15-year partnership agreements signed with 'Go9' leading Australian and New Zealand universities • First spin-out opportunities completed under US agreements with the University of Washington and The Johns Hopkins University • Business combination with Touchstone Innovations providing world-class technology transfer operation with Imperial College and links to UCL
To **develop** and support these opportunities into a diversified portfolio of robust businesses	• Maintained board representation on approximately 70% of companies by number • IP Exec team placed 14 senior executives with portfolio companies, of which six were chair appointments and three were non-executive director appointments • IP Capital completed seven successful portfolio company financing engagements • Completed a significant follow on funding round in -US portfolio • Continued to provide other support services including business support and legal advice to 53 spin-out companies • Portfolio fair value increased to £1,130.6m, with net portfolio gains of £94.2m • Portfolio excluding de minimis holdings, multi-sector platforms and organic holdings of 155 companies (133 UK, 22 US)
To **deliver** attractive financial returns on our assets and third-party funds	• Generated net portfolio gains of £94.2m • Provided £71.2m of capital to 79 distinct portfolio investments • Completed the acquisition of Touchstone Innovations and Parkwalk Advisors • Generated proceeds from sale of equity and debt of £6.6m • Portfolio now stands at 155 companies and three multi-sector investments with a combined total value of approximately £5bn • Total funds under management of approximately £241.9m

OBJECTIVES FOR 2018	LINK TO KPIS
• Maintain a similar level of new opportunity formation in the UK and US • Create first new opportunities from Australasian partner universities • Maintain existing US and UK partnerships. Continue to explore potential partnerships with further world-class universities on a case by case basis	• Number of new portfolio companies READ MORE ON PAGES 18 TO 19
• Optimise approach of IP Group and Touchstone across combined Group • Increase value of portfolio company holdings through hands-on support and development • Replicate our successful UK support model in the US and Australasia through the provision of local business support, IP Exec and IP Capital offerings • Seek to maintain approach of direct IP Group representation on spin-out company boards • Increase the number of executive search mandates within IP Exec and assist portfolio companies to increase diversity of boards • Complete capital raising mandates for certain portfolio companies requiring finance from non-Group sources • Continue to provide specialist support services such as IP Exec, IP Impact, IP Assist and corporate finance advice	• Purchase of equity and debt investments • Change in fair value of equity and debt investments READ MORE ON PAGES 18 TO 19
• Seek to continue net long-term increase in portfolio value and net assets • Assist, directly or indirectly, portfolio companies to access public and private markets to raise development capital • Where appropriate, generate cash realisations from portfolio • Generate attractive performance in Group's managed funds • Substantially exit IP Venture Fund holdings	• Total equity • Profit/(loss) attributable to equity holders • Proceeds from sale of equity investments • Change in fair value of equity and debt investments READ MORE ON PAGES 18 TO 19

Key performance indicators

Measuring our performance: focusing on delivery against our strategy

FINANCIAL KPIS	FURTHER DESCRIPTION	2017 PERFORMANCE
Total equity ("net assets")	The value of the Group's assets less the value of its liabilities, including minority interest	**£1,508.5m** (2016: £768.7m)
Profit/loss attributable to equity holders	Profit/loss after tax for the year, attributable to owners of the parent	**£49.7m** (2016: £(13.5)m)
Purchase of equity and debt investments	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	**£71.2m** (2016: £69.7m)
Net portfolio gains	Movement in the value of holdings in the portfolio due to share price movements or impairments in value and realisations	**£94.2m** (2016: £6.5m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	**£6.6m** (2016: £14.7m)
NON-FINANCIAL KPIS		
Number of new portfolio investments	The number of portfolio investments that received initial capital from the Group during the year	**21** (2016: 20)

KEY

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

STRATEGIC ELEMENT	RISKS POTENTIALLY IMPACTING KPI	LINK TO PERFORMANCE-RELATED DIRECTOR REMUNERATION
To grow the value of our assets (and those we manage on behalf of third parties) and deliver attractive financial returns from these assets	1 2 5 6	LTIP 2015 – 2017
Portfolio fair value movement has the most material impact on this figure which also reflects corporate expenses. Measures the development of portfolio companies and return on our assets	1 2 5 6	2017 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	2 3 4 6	Indirectly impacts both net assets and Group profit/loss (See above)
To develop IP-based businesses and grow their value	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Cash from proceeds can be used for redeployment into the portfolio or for new opportunities	1 2 5	Indirectly impacts both net assets and Group profit/loss (See above)
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	3 4 5 6	Indirectly impacts both net assets and Group profit/loss (See above)

FOR MORE INFORMATION ON OUR STRATEGY SEE PAGES 16 TO 17

FOR MORE INFORMATION ON OUR RISK MANAGEMENT SEE PAGES 46 TO 53

FOR MORE INFORMATION ON OUR REMUNERATION SEE PAGES 80 TO 99

Operational review

"The Board continues to believe the fundamentals of the business remain strong and appeal to an increasingly broad set of international investors."

ALAN AUBREY CHIEF EXECUTIVE OFFICER

2017 was an important year for IP Group, which has seen a period of intense corporate activity including the transaction with Touchstone Innovations plc. The integration of the two businesses was a key operational focus throughout the latter part of the year that has continued into 2018. The combination added a maturing portfolio of 45[1] new companies to the Group, which we have fair valued at £352.2m on completion. This compares to Touchstone's last audited accounts at 31 July 2017, which reported a portfolio fair value of £461.1m. These businesses complement our existing portfolio companies while presenting growth opportunities across our newly-formed life sciences and technology sectors. Further information on the companies added through the Touchstone combination is included in the portfolio review on pages 38 to 39.

Throughout 2017 we have remained focussed on delivering attractive returns from the portfolio, delivering net portfolio gains of £92.4m, resulting from a combination of technical and commercial progress in our portfolio companies, and successful fundraising transactions. Included in the former category were gains from Istesso Limited (£45.1m). Oxford Nanopore Technologies Limited (£27.8m), Ceres Power Holdings plc (£13.5m) and Diurnal Group plc (£9.4m), while in the latter category were gains in Ultrahaptics Holdings Limited (£11.8m)[2], and Creavo Medical Technologies Limited (£5.3m)[2].

The most significant fair value reductions were seen in a small number of the Group's AIM-quoted portfolio companies including hVIVO plc (£15.0m), Tissue Regenix Group plc (£11.8m) and Applied Graphene Materials plc (£3.8m). In addition, there were write-downs in a small number of existing IP Group private companies (£10.0m).

During 2017, the Group provided £71.2m of incubation, seed and development capital to 79 portfolio companies (2016: £58.8m capital excluding multi sector platforms; 55 companies).

Significant portfolio company transactions and developments

Notable highlights in the portfolio in 2017 included:

LIFE SCIENCES

This year saw the transition of our single asset drug discovery company Istesso Limited (formerly Modern Biosciences plc) from a subsidiary to a portfolio company, resulting in a £45.1m profit on deconsolidation. We have operated Istesso Limited as a subsidiary since 2007 as it has progressed its MBS2320 lead product through product development and into the clinic, however it has always been our intention to spin out the business once it had achieved a significant value inflection point. Following the commencement of MBS2320's Phase 2a clinical trial in rheumatoid arthritis in partnership with Johnson and Johnson, we recruited two industry-expert non-executive directors in the latter half of the year as part of the establishment of an independent board for the company. In combination with a reduction in the Group's voting rights and a restructuring of debt funding the business, the company is now recognised in our portfolio rather than as a consolidated subsidiary.

The Group's largest holding, Oxford Nanopore, made significant commercial progress in the year. Oxford Nanopore is the company behind the world's only portable, real-time DNA/RNA sequencer, the MinION. Its goal is to enable the analysis of any living thing, by any person, in any environment – to disrupt multiple scientific and industrial markets. Oxford Nanopore is now entering its third commercial year and has reported having a customer base of thousands of MinION users, mostly in the scientific research community. The company also introduced larger formats in the year - GridION and PromethION - that start to access the higher-throughput end of the sequencing market. The company reported that orders for its products have trebled to $23.5m in 2017 and with an expectation of $75m for 2018.Based on the commercial and scientific progress made in the year, and that more than twelve months had elapsed since its last financing, the Group updated its valuation of the business, resulting in a fair value gain of £27.8m. The validity of this valuation assessment was confirmed in March 2018 on completion of a £100m fundraising with the addition of a group of major new investors from Singapore, China and Australia.

Another significant fair value gain of £9.4m came from AIM-listed Diurnal Group plc, one of the Group's most advanced biotech assets. Diurnal has two products either in or having completed Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency respectively, and anticipates market launch for its first product in Q2 2018. Among the larger assets, it was encouraging to note a positive impact from Circassia Pharmaceuticals plc, a Touchstone Innovations plc company, where positive share price performance led to a £4.2m fair value gain from the date of acquisition to the year end. Another Touchstone company, Autifony Therapeutics, signed a €627.5m collaboration agreement in December with Boehringer Ingelheim in respect of its voltage gated potassium channel modulator platform, including for the treatment of schizophrenia.

TECHNOLOGY

The most valuable holding in the Technology portfolio, AIM-listed Ceres Power Holdings plc, made excellent commercial progress in the year resulting in a positive movement in Ceres' share price which translated to a £13.5m gain for the Group. The company's annual results, announced in October, showed revenue increase "ahead of expectations" and up 140% from last year to £4.1m (2016: £1.7m) while in September, Ceres announced the successful conclusion of a one-year field trial in homes in the UK. The results showed that the Ceres SteelCell® technology is reliable and could reduce annual household energy costs by £400 and carbon emissions by up to 2 tonnes per year. Finally, the company announced that it has secured its fifth OEM partner in a pre-close trading update in December. Four of our other key technology assets all completed substantial fundraisings in 2017, each involving high-quality new institutional shareholders.

More detail on the performance of our assets is contained in the portfolio review.

North America

In North America, IP Group, Inc. continued its positive momentum, positioning the business well for 2018. We finished the year with eight institutional relationships, five with prominent universities and three with US Department of Energy Laboratories. Collectively, these institutions represented $7.9bn (£5.9bn) in total annual R&D spending, with four of the universities in the top 10 for annual R&D expenditure and notable for conducting world-leading research across a broad range of life and physical science disciplines. Initial investments in technologies from several partners were completed: TuneOptix (University of Washington), BetterClouds (Argonne National Laboratory) and Lorem (Johns Hopkins University). We also continued our incubation of new technologies at our mature partnerships: Penn (2), Princeton (1), Columbia (2), NREL (1), PNNL (2).

Operational review CONTINUED

By the end of the year, our team in North America had grown to 15 representing more than 13 advanced degrees, including six PhDs. The team has continued to work directly with our research partners in 'high-touch' engagement to develop a deep pipeline of future opportunities and to advance the existing portfolio of exciting companies, 22 in total so far. The North American business has established a portfolio that continues to attract strong US investor interest from both financial and strategic investors. During 2017, we continued to see strong external validation and support for our US portfolio. To date, our portfolio has attracted $11m of external investment. Exyn Technologies (University of Pennsylvania) in January 2018 raised $3m from new investors and Lumiode (Columbia University) received an investment from a large (c.$60bn) US strategic investor. In September, Cynash, Inc. (Pacific Northwest National Laboratories) commercialised three technologies from the Department of Homeland Security Science and Technology Directorate through its Transition to Practice program creating a novel cyber-defence technique and introducing the new cybersecurity solution to the marketplace. CARMA Therapeutics (University of Pennsylvania) was voted one of the top 20 life science start-ups to watch in 2018 by industry trade publication BioSpace.

In November, the Group hosted its third annual Hard Science Innovation Forum in Philadelphia, showcasing more than 16 investments to more than 200 investors, academics, politicians, and partners. This event comprised panel discussions that examined investing in innovation, advancements in oncology research, AI, robotics and drone technology.

Australasia/the Far East

In Australasia, the Group was excited to launch a landmark agreement with Australasia's leading universities, under which it anticipates investing at least AU$200m (c.£116m)[3] in funding and developing companies involved in disruptive innovation. The 10+10-year agreements with the Group of Eight (Go8) universities in Australia and Auckland University in New Zealand are the first of their kind, and provide for the Group to gain access to the intellectual property generated by academics at the partner universities.

The Go8 comprises Australia's eight leading research Universities - The University of Melbourne, The Australian National University, The University of Sydney, The University of Queensland, The University of Western Australia, The University of Adelaide, Monash University and the University of NSW. Each of the nine partner universities in Australasia is consistently ranked in the top 150 institutions worldwide, and each year spend in excess of A$6bn (c.£3.5bn) on research.

On the capital side, the Group was delighted to welcome TelstraSuper, a significant Australian superannuation fund with AU$19 billion under management, to the Group's shareholder register as part of the capital raising. In addition, it is pleased to be working with Hostplus, one of Australia's largest superannuation funds with over AU$30 billion in funds under management, who has committed AU$100m to a global co-investment mandate with the Group and who made its first investment as part of Oxford Nanopore's March 2018 financing. Following the appointment of the senior team for our Australasian business in October, we have identified what we consider to be an attractive pipeline of opportunities and anticipate making initial investments in 2018.

The Group also held 'Deep Tech Forum' events in Shenzhen and Beijing in China, bringing together ten of our portfolio companies (Oxford Nanopore, Tissue Regenix, Istesso, Diurnal, Ceres Power, Eight 19, Medaphor, Creavo, Xeros, Mirriad) and over 300 Chinese private equity and venture capital investors, corporate representatives and government bodies. The event was aimed at capitalising on strong Chinese investor interest in the IP Group story and the innovative companies we help build and resulted in many new relationships, investment and business opportunities and strategic collaboration opportunities both for the Group and our portfolio companies.

Outlook

The Board continues to believe the fundamentals of the business remain strong and appeal to an increasingly broad set of international investors. While it remains important to consider the Group as a long-term business where results can fluctuate from year to year, IP Group has a maturing portfolio of exciting assets as well as an expanded pipeline of opportunities around the world. The Group also has a sound balance sheet, a strong core business in the UK and exciting emerging opportunities in both the US and Australasia. These factors, combined with a number of anticipated value inflection points this year, particularly in our life sciences portfolio, means we look to the rest of the year with continued confidence.

1 Excluding a further 39 organic holdings and 42 de minimis holdings

2 Of the fair value gains noted above, the following amounts are attributable to the third party limited partners in the consolidated fund, IPVF II: Ultrahaptics Holdings Limited £2.0m, Creavo Medical Technologies Limited £0.9m

3 1.73 AUD/GBP at 31 December 2017

Portfolio Review

Our portfolio:
Significant enhancements to size and maturity

Overview

At 31 December 2017 the value of the Group's portfolio had increased to £1,130.6m, from £614.0m in 2016, as a result of the acquisition of Touchstone Innovations plc's portfolio of £352.2m, the fair value movements set out below and a net investment of £64.6m. The portfolio now consists of interests in 155 companies (133 UK and 22 US), strategic holdings in three multi-sector platform businesses as well as a further 42 de minimis holdings and 39 organic holdings (2016: 90,3,20,0). Of these 155 holdings, the 20 most valuable portfolio companies account for 65% of the total portfolio value (2016: 76%).

During the year to 31 December 2017, the Group provided pre-seed, seed and post-seed capital totalling approximately £71.2m to its portfolio companies (2016: £69.7m). In contrast to the prior year, in which there were large investments made into the Group's multi-sector platform holdings, this year the investments have been more broadly spread across the portfolio.

The Directors continue to believe that the Group's ability to utilise its capital to maintain its equity interests in its most promising companies will contribute to significant potential fair value increases in the portfolio over the medium to long term.

The Group deployed capital into 21 new companies or projects during the year (2016: 20), ten of which were sourced from the UK (2016: 13), and 11 from the US (2016: seven). Both geographies have again provided consistent pipelines of opportunities, helping to further diversify the portfolio geographically.

In addition to this organic growth, the Group's portfolio increased substantially in size following the acquisition of Touchstone Innovations plc in October 2017. This transaction resulted in the addition of 45 new actively managed investments, a further 39 organic investments and 27 investments which are considered de minimis. These investments fall relatively evenly by number across the Group's two sectors, Life Sciences and Technology, and help to diversity the Group's portfolio, with the proportion of the portfolio represented by Oxford Nanopore Technologies falling from 40.1% in 2016 to 24.4% at the end of 2017. The acquisition has contributed eight of the Group's 20 largest investments by year-end value.

Two companies were sold during the year (2016: three), two were acquired by existing portfolio companies, and a further two companies, with a total historic cost of £2.9m, were closed or fully provided against (2016: four, £4.8m).

During the year, cash proceeds from the realisation of investments were £6.6m (2016: £14.7m), with a further £1.0m received after the year-end. The proceeds received during the year were primarily driven by the disposal of interests in Puridify Limited and Plaxica Limited, cash received post year-end related to the sale of Theysay Limited in December 2017. Prior year realisations predominantly arose from the cash received from the sales of Tracsis plc, Gold Standard Simulations Limited and Summit Therapeutics plc.

Portfolio review

Performance summary

A summary of the Income Statement gains and losses which are directly attributable to the portfolio is as follows:

	2017 £m	2016 £m
Unrealised gains on the revaluation of investments	**99.3**	56.6
Unrealised losses on the revaluation of investments	**(49.2)**	(50.3)
Effects of movement in exchange rates	**(1.1)**	0.7
Change in fair value of equity and debt investments	**49.0**	7.0
Gain/(loss) on disposals of equity investments	**0.1**	(0.5)
Gain on deconsolidation of subsidiary	**45.1**	—
Net portfolio gains	**94.2**	6.5

The most significant contributors to unrealised gains on the revaluation of investments Oxford Nanopore Technologies Limited (£27.8m), Ceres Power Holdings plc (£13.5m), Ultrahaptics Holdings Limited (£11.8m)[4] and Diurnal Group plc (£9.4m). The major contributors to the unrealised losses on the revaluation of investments were hVivo plc (£15.0m), Tissue Regenix Group plc (£11.8m) and Applied Graphene Materials plc (£3.8m).

The performance of the Group's holdings in companies quoted on AIM saw a net unrealised fair value decrease of £1.0m (2016: decrease of £36.1m) while the Group's holdings in unquoted companies experienced a net fair value increase of £49.9m (2016: increase of £43.1m), in addition to a £45.1m gain in respect of the deconsolidation of Istesso Limited (formerly Modern Biosciences plc) and its recognition as a portfolio company.

Since the year-end, i.e. between 31 December 2017 and 28 March 2018, the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value decrease of £30.0m.

4 Of the fair value gains noted above, the following amounts are attributable to the third party limited partners in the consolidated fund, IPVF II: Ultrahaptics Holdings Limited £2.0m.

Investments and realisations

The Group's overall rate of capital deployment increased during 2017, with a total of £71.2m being deployed across 79 new and existing projects (2016: £58.8m (excluding the £7.5m and £3.4m strategic investments into OSI and CIC); 55 projects).

The average level of capital deployed per company decreased from £1.2m to £0.9m in 2017. Excluding the Group's participation in Oxford Nanopore Technologies Limited's 2016 financing round and Oxford Sciences Innovation plc's 2016 financing round, the average investment per company was £0.7m in 2016.

Cash invested by company stage was as follows:

	2017 £m	2016 £m
Focus	**33.7**	39.0
Development	**29.1**	10.8
Early stage	**8.4**	9.0
Total	**71.2**	58.8
Multi-sector platforms	**—**	10.9
Total purchase of equity and debt investments	**71.2**	69.7
Cash proceeds from sales of equity investments	**6.6**	14.7
Net investment	**64.6**	55.0

The Development stage group includes other businesses to which the Group has provided in excess of £0.5m as principal investor, or in excess of £1.0m of funding in conjunction with other significant investors. 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.

Early-stage companies include both incubation and seed opportunities. Incubation opportunities comprise businesses or pre-incorporation projects that are generally at a very early stage of development, at most within three years since the Group's first financing, and have received at least one stage of funding. Opportunities at this stage usually involve capital of less than £0.2m from IP Group, predominantly allowing for 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 the Group, in order to continue towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement.

Portfolio companies which are classed as being in the Focus stage are those which comprise the largest 20 investments by value (excluding multi-sector platform companies). In 2016 Focus investments were those in which the Group's holding had a fair value in excess of £4m, and this change has been made following the acquisition of Touchstone and the resulting larger portfolio.

Finally, the multi-sector platform companies in which the Group has taken a strategic stake operate a similar business model of sourcing and developing university spin-outs, typically from a single institution. These companies include Oxford Sciences Innovation plc ("OSI") and Cambridge Innovation Capital plc ("CIC").

Those companies which either do not progress beyond the incubation stage within three years of the Group's initial funding and/or whose value has subsequently fallen to below £0.1m, but remain as operating businesses are classed as de minimis holdings. Organic holdings are investments in which the Group has acquired a shareholding upon creating the company via our technology transfer relationship with Imperial College London, but in which we have not actively invested.

Since its inception in May 2013, IP Venture Fund II ("IPVFII"), the £30m venture capital successor fund to IP Venture Fund, has invested alongside the Group in 27 companies spun-out from IP Group's university partnerships and other collaborations. At 31 December 2017, IPVFII had invested £15.6m into spin-out companies from incubation stage through seed and post-seed stage (2016: £10.6m), with an investment ratio of 30:70 (IP Venture Fund II: IP Group). Further, IP Group holds a 33% interest in IP Venture Fund II. In complying with IFRS 10, the Group consolidates the assets, liabilities and results of IPVFII. In order to reflect meaningful information to its shareholders, the detailed sectoral analysis tables included in this Portfolio review reflect the Group's economic interest in portfolio company holdings, including an estimate of its "look through" interest via IPVFII, which as noted above is calculated as one third of IPVFII's holdings in such companies. The minority interest ownership, i.e. that element of IPVFII's holdings that is attributable to external limited partners, is reflected in a separate section within those tables.

During the year, 21 opportunities received initial incubation or seed funding (2016: 19) and no companies received initial post-seed funding (2016: one).

FOR MORE INFORMATION ON LIFE SCIENCES SECTOR SEE PAGES 30 TO 33

Portfolio review CONTINUED

Portfolio analysis by stage of company maturity

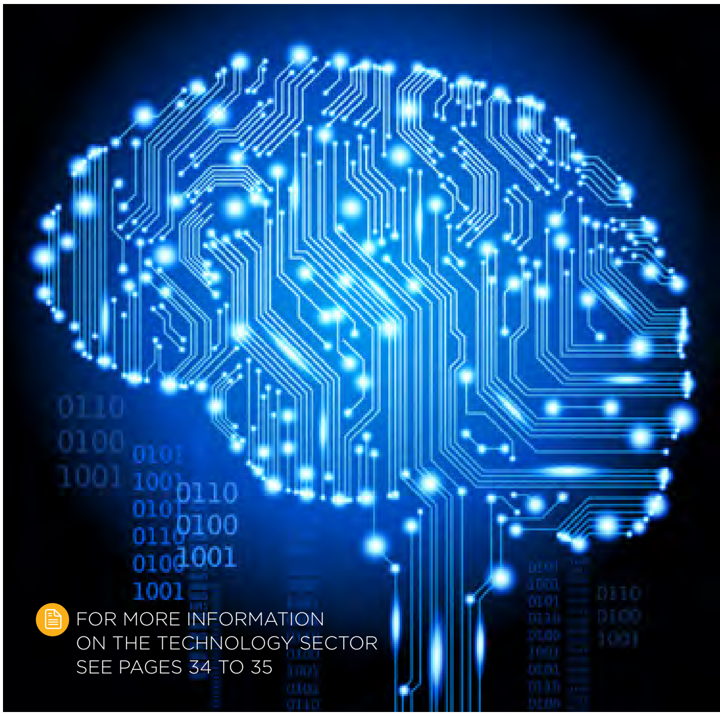
At 31 December 2017, the Group's portfolio fair value of £1,130.6m was distributed across stages of company maturity as follows:

	As at 31 December 2017				As at 31 December 2016			
	Fair value		Number		Fair value		Number	
Stage	**£m**	**%**		**%**	£m	%		%
Focus	**709.6**	**68%**	**19**	**12%**	463.5	86%	19	21%
Development	**307.2**	**30%**	**84**	**54%**	58.7	11%	32	36%
Early-stage	**21.6**	**2%**	**52**	**34%**	19.2	3%	39	43%
Total	**1,038.4**	**100%**	**155**	**100%**	541.4	100%	90	100%
Multi-sector platforms	**62.9**	**—**	**3**	**—**	62.5	—	3	—
De minimis holdings	**1.3**	**—**	**42**	**—**	0.9	—	20	—
Organic	**5.7**	**—**	**39**	**—**	—	—	—	—
Total Portfolio	**1,108.3**	**—**	**239**	**—**	604.8	—	113	—
Attributable to third parties[1]	**22.3**				9.2			
Gross Portfolio	**1,130.6**				614.0			

1 The amount attributable to third parties consists of £16.3m attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII, £5.7m attributable to Imperial College London and £0.3m to other third parties (2016: £9.2m, £nil, £nil).

Of the 155 companies in the Group's portfolio, 52% (2016: 76%) of the fair value resides in the ten most valuable companies (excluding multi-sector platforms) and the Group's holdings in these businesses are valued at a total of £573.8m (2016: £418.2m).

The total value of the Group's 155 portfolio companies (excluding multi-sector platforms, organic investments and de minimis holdings), calculated by reference to the Group's holding in such companies and grossed up to reflect their total value, is now in excess of £4bn, or approximately £5bn including the Group's three holdings in multi-sector platform companies (Oxford Sciences Innovation plc, Cambridge Innovation Capital plc and Frontier IP Group plc) (2016: £2.7bn, £3.3bn).



FOR MORE INFORMATION ON THE TECHNOLOGY SECTOR SEE PAGES 34 TO 35

Portfolio analysis by sector

The Group funds spin-out companies based on a wide variety of scientific research emerging from leading research-intensive institutions and does not limit itself to funding companies from particular areas of science. The Group splits its core opportunity evaluation, investment and business building team into two specialist divisions, Life Sciences and Technology. This is a departure from previous years when the management of the portfolio was split between Healthcare, Biotech, Technology and Cleantech and the change has been made as part of the acquisition of Touchstone Innovations plc. The sectors formerly known as Healthcare and Biotech now constitute the Life Sciences sector while those formerly known as Technology and Cleantech now constitute the Technology sector. Where the Group invests in businesses that cannot be classified within these divisions, primarily those portfolio companies which also invest in other opportunities, they are recorded in a separate sector as shown below. Together these three sectors make up the Group's 'university partnership' business segment. An update on the other two operating segments is included in the financial review on pages 40 to 45.

	As at 31 December 2017				As at 31 December 2016			
	Fair value		**Number**		Fair value		Number	
Sector	**£m**	**%**		**%**	£m	%		%
Life Sciences	**704.4**	**68%**	**73**	**47%**	375.4	69%	39	43%
Technology	**334.0**	**32%**	**82**	**53%**	166.0	31%	51	57%
Total	**1,038.4**	**100%**	**155**	**100%**	541.4	100%	90	100%
Multi-sector platforms	**62.9**	**—**	**3**	**—**	62.5	—	3	—
De minimis holdings	**1.3**	**—**	**42**	**—**	0.9	—	20	—
Organic	**5.7**	**—**	**39**	**—**	—	—	—	—
Total Portfolio	**1,108.3**	**—**	**239**	**—**	604.8	—	113	—
Attributable to third parties[1]	**22.3**				9.2			
Gross Portfolio	**1,130.6**				614.0			

1 The amount attributable to third parties consists of £16.3m attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII, £5.7m attributable to Imperial College London and £0.3m to other third parties (2016: £9.2m, £nil, £nil).

Portfolio review CONTINUED

The following table lists the value movements attributable to the largest twenty portfolio investments by value, which represent 69.0% of the total portfolio value (2016: 85.1%). Additional detail on the performance of these companies is included in the Life Sciences and Technology portfolio reviews.

COMPANY NAME	DESCRIPTION
Oxford Nanopore Technologies Limited	Enabling the analysis of any living thing, by any person, in any environment
Oxford Sciences Innovation plc	University of Oxford preferred IP partner under 15-year framework agreement
Istesso Limited	Reprogramming metabolism to treat autoimmune disease
PsiOxus Therapeutics Limited	Oncolytic viral therapeutics for cancer
Diurnal Group plc	Novel treatments of hormone deficiency
Ceres Power Holdings plc	World leading developer of next generation fuel cell technology
Actual Experience plc	Optimising the human experience of networked applications
Circassia plc	Developing a range of novel immunotherapies
Cell Medica Limited	T cell therapeutics for oncology
Xeros Technology Group plc	Polymer bead cleaning systems
Autifony Limited	Developing high value, novel medicines to treat CNS diseases
Ultrahaptics Holdings Limited	Contactless haptic technology "feeling without touching"
Mirriad Advertising plc	Native in-video advertising for post-production ad placement
Featurespace Limited	Leading predictive analytics company
Ieso Digital Health Limited	Live, online cognitive behavioural therapy
Creavo Medical Technologies Limited	Quantum cardiac imaging technology
Veryan Medical Limited	Development and commercialisation of novel 3D stent technology for the peripheral vasculature
First Light Fusion Limited	Net methodology for achieving extreme intensity cavity collapse
Tissue Regenix Group plc	Regenerative dCELL® soft tissue body parts
Topivert Limited	Small molecule therapeutics for G1 and Ophtha indications
Other companies (138 companies)	
De minimis investments	
Value not attributable to equity holders	
Total	

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

ii Includes £51.1m movement in respect of the deconsolidation of Istesso Limited and recognition as a portfolio company.

iii Includes £0.5m fees settled in equity.

Sector, Quoted (Q)/ Unquoted (U) %	Group stake at 31 Dec 2017 [i] %	Fair value of Group holding at 31 Dec 2016 £m	Acquisitions of Touchstone Innovations plc £m	Net investment/ (divestment)[ii] £m	Fair value movement and fees settled in equity[iii] £m	Fair value of Group holding at 31 Dec 2017 £m
Life Sciences (U)	19.6%	246.3	—	—	27.8	274.1
Multi-sector platforms (U)	7.9%	55.5	—	—	—	55.5
Life Sciences (U)	61.1%	—	—	51.1	—	51.1
Life Sciences (U)	26.3%	—	44.5	—	—	44.5
Life Sciences (Q)	44.7%	29.3	—	—	9.4	38.7
Technology (Q)	25.4%	18.0	—	—	13.5	31.5
Technology (Q)	22.2%	23.4	—	1.5	3.5	28.4
Life Sciences (Q)	8.0%	—	22.5	—	4.2	26.7
Life Sciences (U)	24.6%	—	20.6	5.7	—	26.3
Technology (Q)	10.9%	20.2	—	2.0	3.6	25.8
Life Sciences (U)	26.4%	—	23.9	—	—	23.9
Technology (U)	31.0%	8.0	—	4.0	9.8	21.8
Technology (Q)	27.7%	13.4	—	3.7	(0.6)	16.5
Technology (U)	27.9%	—	15.6	—	—	15.6
Life Sciences (U)	49.5%	—	10.2	4.5	—	14.7
Life Sciences (U)	39.5%	6.6	—	3.2	4.6	14.4
Life Sciences (U)	46.1%	—	11.7	2.3	—	14.0
Technology (U)	34.9%	13.9	—	—	—	13.9
Life Sciences (Q)	13.1%	20.6	—	5.0	(11.8)	13.8
Life Sciences (U)	29.6%	—	13.8	—	—	13.8
		148.8	183.4	28.5	(18.4)	342.3
		0.8	—	—	0.2	1.0
		9.2	6.0	3.4	3.7	22.3
		614.0	**352.2**	**114.9**	**49.5**	**1,130.6**

Portfolio review
LIFE SCIENCES

> **Significant commercial and scientific progress across the portfolio in 2017**

DR SAM WILLIAMS MANAGING PARTNER, LIFE SCIENCES

IP Group's Life Sciences portfolio comprises 73 companies worth £704.4m as at 31 December 2017. This includes an additional 23 companies, valued at £235.8m following the acquisition of Touchstone Innovations plc.

Review of the year

Oxford Nanopore

The Group's largest holding, Oxford Nanopore Technologies Ltd, made tremendous commercial progress in the year. Oxford Nanopore is the company behind the world's only portable, real-time DNA/RNA sequencer, the MinION. Its goal is to enable the analysis of any living thing, by any person, in any environment – to disrupt multiple scientific and industrial markets.

Oxford Nanopore is now entering its third commercial year and has reported having a customer base of thousands' of MinION users, mostly in the scientific research community. The company also introduced larger formats in the year - GridION and PromethION - that start to access the lucrative higher-throughput end of the market. Increasing numbers of publications and talks indicate expanding uses for their disruptive sequencing technology including the introduction of a new direct RNA sequencing method. This does not require reverse transcription or amplification and delivers full-length RNA transcripts; both highly compelling properties. It is estimated that about half the $3 billion research sequencing market is composed of RNA analysis.

As well as being used in scientific research, progress is being made towards 'applied' markets such as diagnostics, agriculture, food safety, water testing, biologics production and education. For example, reports emerged of a major international food company developing nanopore technology for food safety, a study to evaluate the MinION in rapid identification of hospital acquired pneumonia, work on rapid diagnosis of TB and other infectious diseases, and pilot projects to identify plant pathogens, rapidly, in rural areas.

Oxford Nanopore consolidated significant improvements in the performance of its technology, most notably on accuracy and the yields of data customers can achieve, by implication making the technology cheaper 'per base'. This marked a transition from an emerging technology with novel features such as portability, real-time data, direct analysis and simple preparation, to a technology that was also competitive on traditional metrics. In 2017, Oxford Nanopore noted that it required a performance of 50Gb per PromethION Flow Cell in order to release the product to customers. This was achieved in December 2017, and early in the New Year the Company reported achieving 150Gb of data from a single PromethION Flow Cell, approaching the requirement for two 30X human genomes on a single consumable (PromethION is designed to run up to 48 Flow Cells at any time). These increased yields correspond to a lower cost per Gb for customers, a key competitive metric, but also the ability to deliver real-time, long read nanopore sequencing data at large scale required for human, plant, or population studies. Early results from customers indicates examples of >70Gb per PromethION Flow Cell and we await further news with interest. In addition, the release of new chemistries, software and other materials has resulted in a consensus accuracy level of 99.98% when using certain tools - sufficient to serve most of the research market applications. The Company has spoken in presentations about its intended pathway to the highest levels of consensus accuracy.

Oxford NANOPORE Technologies

While Oxford Nanopore is private and does not report its financial results, the CEO remarked in a recent interview that the company anticipates 300% year on year growth of its order book. We look forward to updates, in particular noting:

- the company's anticipated growth in China: having launched its technology there in late 2017 the company has noted rapid growth in custom in China
- further rollout of GridION and nanopore service providers, who are expected to open up the market to more customers, more quickly
- the emergence of more PromethION news from customer laboratories. Instruments are already placed with numerous labs and the company has noted that it is now shipping early Flow Cells to participants in its early access programme
- with GridION and PromethION, further emergence of much larger datasets, for example in 'big game' projects in human genetics, cancer research and plant genetics.

In 2018, Oxford Nanopore announced its pathway to a sub $1000 genome, unveiled the Flongle, which will offer smaller, single-use consumables for rapid-result tests in the lab or in the field, and also introduced MinIT, which eliminates the need for a dedicated laptop for nanopore sequencing with MinION.

Finally, the company announced it had successfully defended a lawsuit with PacBio. In November 2016, PacBio filed a Complaint with the International Trade Commission ("ITC") alleging that Oxford Nanopore infringed two of PacBio's patents and seeking to prevent Oxford Nanopore from selling its product in the United States. The ITC Commission has made a Final Determination affirming the Administrative Judge's decision that Oxford Nanopore has not infringed PacBio's patents and also found that there was no violation of 19 U.S.C. §1337 and terminated the ITC investigation.

Based on the significant commercial and scientific progress made in the year and the fact that the company's previous financing round was greater than twelve months prior to the balance sheet date, the Group reviewed the value of its holding resulting in an increase of 12% or £27.8m as at 31 December 2017. This validity of the valuation assessment was confirmed in March 2018 by the completion of the company's £100m fundraising from significant new investors.

Other significant portfolio company updates

The largest gain for the Group came from the deconsolidation of Istesso Limited (formerly Modern Biosciences plc) and its recognition as a portfolio company, which resulted in a £45.1m profit on deconsolidation. Istesso, now the third largest company in the portfolio, also made considerable progress in 2017 with its lead product, MBS2320, moving into Phase 2a studies in rheumatoid arthritis, while demonstrating good safety and tolerability in Phase 1. In addition, changes in biomarkers of disease observed in a small patient cohort in the Phase 1 were observed that were consistent with the drug's mechanism-of-action.

Another significant gain of £9.4m came from Diurnal Group plc, one of the Group's most advanced biotech assets. Diurnal has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency respectively. During 2017, the company took significant steps towards the eventual market launch of both these Phase 3 products. These include the signing of a marketing and distribution agreement for both products in Israel with Israel's leading commercial group for niche healthcare products, the launch of a European patient access programme for Infacort in collaboration with Clinigen Group plc, and the dosing of a food-effect study for Infacort as the first step in its Phase 3 registration programme in the US.

In December, Diurnal announced that the Committee for Medicinal Products for Human Use (CHMP), an advisory committee of the European Medicine Agency (EMA), issued a positive opinion to the European Commission (EC) recommending Alkindi® (development programme name: Infacort®; hydrocortisone granules in capsules for opening) as replacement therapy for paediatric adrenal insufficiency (AI). In February 2018, Diurnal was granted a paediatric use marketing authorisation (PUMA) from the EC and anticipates first launch of Akindi (R) is anticipated in Q2 2018.

Among the larger assets, it was encouraging to note a positive impact from Circassia Pharmaceuticals plc, a Touchstone Innovations plc company, where positive share price performance led to a £4.2m gain. Another company from the Touchstone stable, Autifony Therapeutics Ltd also signed a €627.5m collaboration agreement in December with Boehringer Ingelheim about certain aspects of its voltage gated potassium channel modulator platform. Autifony, a UK-based biotechnology company formed in 2011 as a spin-out from GSK with investment from Touchstone Innovations plc, is focused on the development of high value, novel medicines to treat serious diseases of the central nervous system. Boehringer Ingelheim now has an exclusive option to purchase Autifony's Kv3.1/3.2 positive modulator platform. Included in the agreement is the lead compound AUT00206, a novel, orally active small molecule that is currently being evaluated in two Phase Ib studies, including one in patients with schizophrenia. PsiOxus Therapeutics, also from the Touchstone stable, announced in December that the Clinical Trial Application for NG-348, an "armed" oncolytic virus for the treatment of solid tumours, was approved and, per the licensing agreement between the parties, Bristol-Myers Squibb will make a US $15m milestone payment to PsiOxus. Under the terms of the December 2016 agreement, Bristol-Myers Squibb granted PsiOxus an upfront payment of $50m. In aggregate, PsiOxus is eligible to receive development, regulatory and sales-based milestones of $936m, as well as royalties on net sales.

Creavo Medical Technologies Limited provided a £5.3m fair value gain following a £13.7m fundraising in the first half of 2017. The Company is developing and undertaking clinical trials on a 2017 FDA 510(k) approved device for diagnosing heart attacks which, if the clinical trials it is undertaking, prove successful envisages could save the NHS £200m per year.

Turning to more challenging matters, weak share price performance from hVIVO plc translated to a £15m fair value reduction for the Group. Addressing disappointment in clinical results earlier in the year, Dr Trevor Phillips was appointed to the post of Executive Chairman. Dr Phillips, who will work closely with Chief Executive Kym Denny to refine and focus hVIVO's strategy, has over thirty years' experience in the pharmaceutical industry and has a proven track record in corporate development. He was previously Chief Operations Officer and President of US Operations, as well as a member of the Board, at Vectura Group plc. On the back of this we look forward to developments in 2018.

The Group's second largest fair value reduction of £11.8m came from Tissue Regenix Group plc. In 2017, Tissue Regenix completed the acquisition of revenue-generating and profitable CellRight Technologies, LLC, a US regenerative medicine business based in San Antonio, Texas, concurrent with a £40m fundraising. The acquisition, which helps to position the business as a leading commercial stage regenerative medicine company was considered cautiously by the market, perhaps following the departure of Chief Executive Antony Odell and the company's Chief Financial Officer in the latter part of the year. Nevertheless, the new Chief Executive Steve Couldwell takes on the role with highly relevant experience, overseeing the integration of Cellright Technologies and prioritising sales and R&D. Most recently Mr Couldwell was Chief Operating Officer of Global Sanofi Biosurgery. Prior to this, he held several roles at Smith & Nephew including President, Orthopaedics, Europe and Senior VP Sales and Marketing of the Advanced Wound Management business.

Other positive developments in therapeutics included:

Avacta Group plc continues to advance the reagents and therapeutics side of its Affimers business, demonstrating low immunogenicity in an ex-vivo study versus a reference monoclonal antibody and signing several reagents/diagnostics deals with major biotechnology/ diagnostic players. In the unquoted portfolio, Karus Therapeutics Limited is now in Phase 1 trials for both of its lead cancer programmes. Glythera Limited continued to demonstrate the advantages of its Antibody Drug Conjugate technology and began the build-out of its executive and non-executive team. Finally, the division's newest company, Microbiotica Limited, which was founded in 2016 to exploit advances in microbiome science at the Sanger Institute in Cambridge, made great progress during 2017, building out its team, as well as replicating and expanding the scientific platform licensed from the Sanger.

In healthcare, the Group participated in equity co-investments in Oxford Drug Design Limited; which is using AI technologies to identify novel gram-negative antibiotics, Oxehealth Limited, which has deployed its technology with a number of NHS Trusts to improve UK patient care particularly in the complex mental health arena, and Alesi Surgical Limited, which secured FDA 510k approval for its device to clear smoke in laproscopic surgery procedures and is now accelerating commercial activities. There was also significant technical progress at OxSyBio Limited while Oxford based Genomics plc announced that it had entered into a strategically important collaborative deal with Biogen, Inc., the U.S.-based biotech, to work on multiple sclerosis (MS). Also over the summer Medaphor Group plc completed its acquisition of Healthcare AI specialist Intelligent Ultrasound Limited, concurrent with a £5.5m placing while Cronin Group plc, which is commercialising a platform to digitize chemistry announced it had acquired revenue-generating OpenIOLabs, a Cambridge-based specialist in developing hardware and software for scientific and industrial uses. As part of the acquisition, serial entrepreneur David Cleevely, a founder of Abcam plc and Chairman of the Raspberry Pi Foundation, joined the Board. Working with the New Business and Partnerships team, the team also completed or approved five new grub and seed investments, continuing to ensure a steady pipeline of high-growth opportunities as we head into 2018 and beyond.

Portfolio review

TECHNOLOGY

> Substantial fundraisings completed across the portfolio in 2017 alongside high-quality institutional investors

MARK REILLY MANAGING PARTNER, TECHNOLOGY

IP Group's Technology portfolio comprises 82 companies worth £334.0m as at December 31 2017. This includes an additional 22 companies, valued at £115.2m following the acquisition of Touchstone Innovations plc.

Review of the year

Technology

Several of the top Technology portfolio assets completed substantial fundraisings during 2017, each involving high-quality new institutional shareholders. In October, Featurespace Ltd, a Touchstone Innovations plc company and specialist in machine-learning and fraud prevention, completed a £16.5m funding round, led by Highland Europe and supported by Worldpay Group plc and Invoke Capital. The funding will enable Featurespace to drive revenues from its product platform and continue to expand internationally. Featurespace was recently featured in the Deloitte UK Fast 50, a ranking of the UK's fastest growing technology companies.

February saw Actual Experience plc announce that it had raised £17.5m before expenses to support channel partners deploying the company's technology into a global enterprise customer base. The company has now received its first production order from a channel partner for a major end-customer, and expects further orders to follow shortly.

Mid-air haptics pioneer Ultrahaptics hit a key commercial milestone during 2017, securing its first product royalty income. The company announced a series B round of £17.9m in early-May to support global expansion and entry into the virtual and augmented reality markets. IP Group participated in the round alongside new investors including Ultrahaptics' distribution partner Cornes and Dolby Family Ventures.

Late in the year came the listing of Mirriad Advertising plc on AIM with the company raising gross proceeds of £26.2m. The video advertising company made encouraging commercial progress during the year, exemplified by the announcement of a major customer deal secured via partner Alibaba/YouKu in China.

Elsewhere in the portfolio, SAM Labs, a Touchstone Innovations plc company, announced the completion of a $6.75m Series A round of financing led by Touchstone Innovations and E15 Ventures to develop a number of new educational products that support its mission to inspire every student to discover the fun in coding and creating. Positive news came also from Itaconix plc (formerly Revolymer plc) and Getech Group plc where new customer contracts were announced, whilst there was also encouraging commercial progress at Perpetuum Limited as the company continues to deploy its train monitoring technology to rail operators around the world, and at Anacail Limited, whose technology is gaining increasing traction with large food-producing companies. The falling share price of Applied Graphene Materials plc led to a £3.8m fall in the value of the Group's holding, which was the largest contributor to offsetting gains made elsewhere in the portfolio during the year but there is an opportunity for value recovery if the company can deliver commercial progress following its £9.0m placing completed in October.

Cleantech

In our Cleantech portfolio we focus on building outstanding, science-based businesses that mitigate the impacts of climate change and other environmental challenges. 2017 has been the most successful year for Cleantech at IP Group, with the portfolio achieving a fair value gain of £15.1m on a starting asset base of £74.4m. This reflects strong commercial progress by our companies and continued improvement in investment market sentiment and political support.

AIM-listed Ceres Power Holdings plc made excellent commercial progress in the year, resulting in a positive movement in Ceres' share price, which translated to a £13.5m gain for the Group. The company's annual results, announced in October, showed revenue increase "ahead of expectations" up 140% from last year to £4.1m (2016: £1.7m) while in September, Ceres announced the successful conclusion of a one-year field trial in homes in the UK. The results showed that the Ceres SteelCell® technology is reliable and can reduce household energy costs by £400 and carbon emissions by up to 2 tonnes per year. Finally, the company announced that it has secured its fifth OEM partner in a pre-close trading update in December.

Xeros Technology Group plc continued to develop additional applications for its polymer fabric processing technology and launched a new business model for its lead market of commercial laundry. First Light Fusion Ltd, the Oxford spin-out developing novel implosion processes that can achieve the high temperatures and compression necessary for fusion, also made notable progress. The company achieved its interim technology milestones set in the £22.7m August 2015 funding round three months ahead of schedule, triggering the second tranche of funding of just under £9m. It also recruited the former UK Government Chief Scientist, Professor Sir David King, to its advisory board. In November, Oxford Sciences Innovation plc acquired a stake in the company in a secondary transaction.

Azuri Technologies Ltd had another good year, launching a programme to deliver 20,000 PayGo solar home systems in Nigeria in January. Azuri has secured strong backing from the Nigerian government for its plans, and its programme in the country was announced by the Acting President, HE Professor Yemi Osinbajo. The company followed this up by securing a $5m debt facility from Standard Chartered in February and in March hit the milestone of 100,000 unit sales, achieved across 12 countries. This progress has helped Azuri dramatically increase its turnover, up from $2.5m in calendar 2016 to $8.7m in 2017.

Elsewhere, despite some good engineering progress at Magnomatics Ltd, the company has struggled commercially. We have therefore written down the value of this asset by approximately £2m. Since the year-end, the Group has also exited its position in AIM-quoted Ilika plc. Founded in 2004 to develop high-throughput materials discovery technology, the company has more recently focussed on developing solid-state battery technology.

Portfolio review CONTINUED

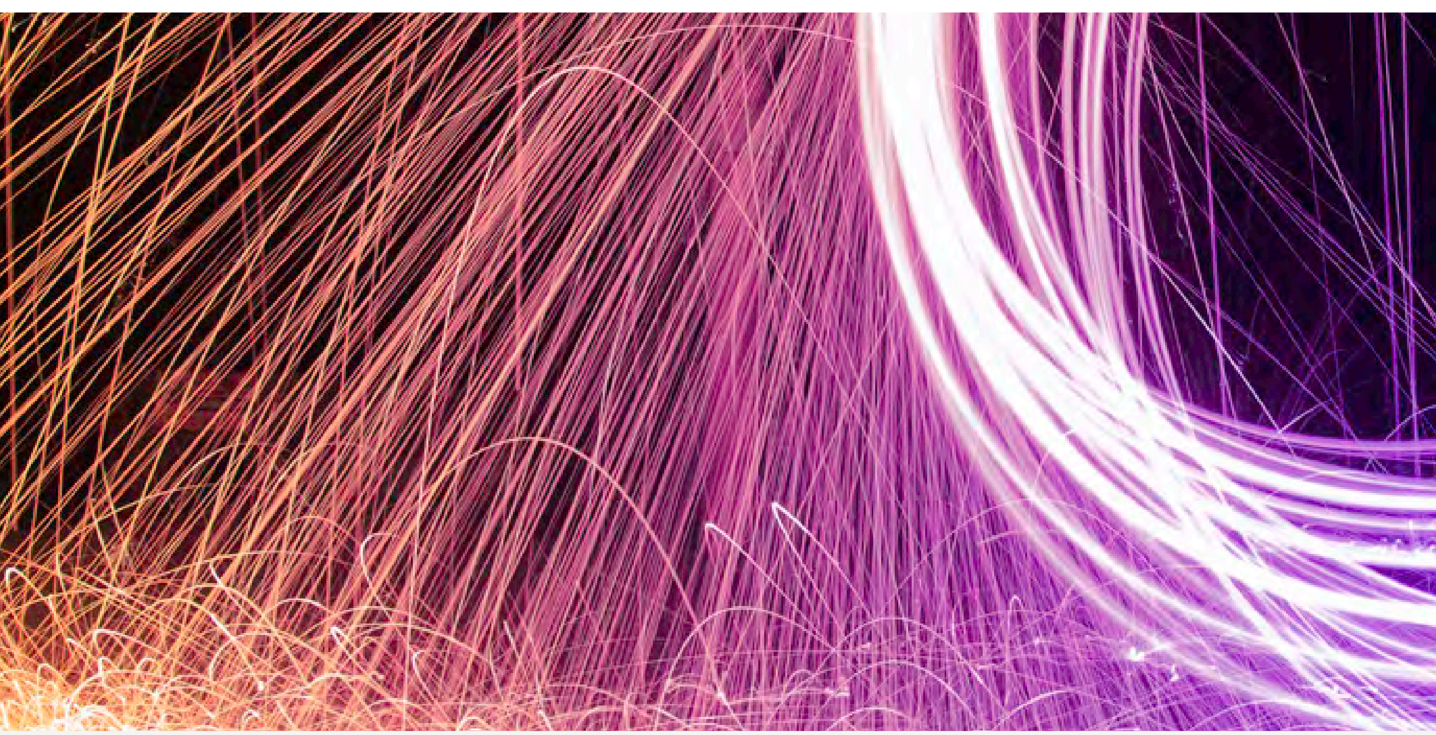
Multi-Sector Platforms

The Group has maintained its strategic stakes in its three multi-sector platform companies, Oxford Sciences Innovation plc (OSI), Cambridge Innovation Capital plc (CIC) and Frontier IP Group plc. The value of the Group's holdings in these companies remains largely unchanged during 2017, aside from a £0.4m gain in the Group's holding in AIM-listed Frontier IP Group plc as a result of an increase in its share price.

As a result of its 15-year framework agreement with the University of Oxford, OSI is the preferred intellectual property partner for the provision of capital to, and development of, Oxford spin-out companies and is entitled to 50 per cent of the university's founder equity in spin-out companies. OSI has raised in excess of £580m to date, and 2017 was another good year for OSI as the portfolio continued to develop with a further 20 companies being added to the portfolio at seed stage and the completion of the first Series A investments. The number of investments now stands at 47 with a total portfolio value of £126m. Net Asset Value per share has increased from 107.6p to 111.2p. The most significant Series A investments were those of $17m in Diffblue and £20m in Vaccitech. These investments were also pleasing as they attracted funds and world class companies who had not previously invested in Oxford including Goldman Sachs, Google Ventures and just post year-end, Sequoia China.

The quality and volume of the deal flow is a result of applying OSI's capital and expertise to the world leading science being conducted at the University. With over 12,000 academics and more than £480m being spent annually on research, it is unlikely that the deal flow will reduce in the foreseeable future. The quality of research has also been endorsed by the Times Higher Education supplement, which has awarded Oxford the accolade of best research University in the world for the second year running.

Cambridge Innovation Capital (CIC) is a preferred investor for the University of Cambridge for the commercialisation of intellectual property created at the University under a 10-year memorandum of understanding and a Cambridge-based investor in technology and healthcare companies from the Cambridge Cluster. CIC has raised £125.0m to date. In July, CIC announced that it had committed a total of £40.0m (2016: £19.0m) into seven new and nine existing portfolio companies in the year ending March 2017. By the end of 2017, CIC had invested £77.2m since inception, in 23 companies.



Portfolio additions resulting from the Touchstone combination

Below is a high-level introduction to some of the investments that IP Group has gained exposure to following the combination.

PsiOxus Therapeutics Limited is an Oxford-based immune-oncology company which has developed a patented platform for the systemic delivery of tumour targeted oncolytic immune therapeutics. The company was founded in 2010 in its present form, having been created by the merger of Imperial College London spin-out Myotec Therapeutics with Oxford spin-out Hybrid BioSystems. PsiOxus' Tumour-Specific Immuno-Gene (T-SIGn) therapy platform is based on the company's oncolytic virus, enadenotucirev, which has unique properties that allow it to be delivered systemically via intravenous administration and to replicate only in tumour cells. The virus's anti-cancer capability can be further enhanced through 'arming' – a process that involves the addition of new genes to the virus. The armed T-SIGn platform makes possible creation of a broad range of systemically delivered oncolytic immune therapeutics, including oncolytic viruses that express one or more antibodies, cytokines, immunomodulatory proteins, and nucleotide (RNA)-based payloads. In December 2017 the company received a $15m milestone payment pursuant to its licensing agreement with Bristol-Myers Squibb, following the announcement that the Clinical Trial Application for NG-348, an "armed" oncolytic virus for the treatment of solid tumours, had been approved.

Cell Medica Limited develops, manufactures and markets personalised cellular immunotherapeutics for cancer and infectious diseases. It is committed to improving patients' lives through the significant therapeutic potential of cellular immunotherapy. Its approach is to apply innovative technologies with the aim of improving the treatment of cancer and immune reconstitution following hematopoietic stem cell transplant. In December 2017 Cell Medica announced the appointment of industry leader Dr. Annalisa Jenkins as Chair of the Board of Directors. Dr. Annalisa Jenkins is a life sciences business and thought leader with over 25 years of biopharmaceutical industry experience in advancing programs from scientific research through clinical development, regulatory approval and into healthcare systems globally. In March 2017 the company raised £60m in a funding round, with £13.7m committed by Touchstone Innovations, alongside co-investors Invesco Asset Management and Woodford Investment Management.

Circassia Pharmaceuticals plc is a world-class specialty pharmaceutical business focused on respiratory disease. It has a growing commercial organisation to promote its innovative asthma management products directly to specialist physicians. It markets the COPD product Tudorza® in the US and has a pipeline of asthma and COPD treatments in development. In February 2018 it received a multi-year Innovative Technology contract for its NIOX VERO® asthma management products from Vizient, Inc., the largest member-owned health care company in the United States. Circassia's NIOX VERO® range is used to assist asthma diagnosis and management and is based on the discovery that patients with Th2 or type 2 driven airway inflammation, the major underlying cause of asthma, generally have higher than normal levels of nitric oxide in their exhaled breath. By measuring the concentration of this fractional exhaled nitric oxide (FeNO), NIOX® enables clinicians to evaluate airway inflammation in patients with underlying asthma, aiding diagnosis and helping guide treatment and reduce exacerbations.

Portfolio review CONTINUED

Autifony Therapeutics Limited is a company focused on the development of high value, novel medicines to treat serious diseases of the central nervous system. The company was founded in 2011 as a spin-out from GlaxoSmithKline by Charles Large and Giuseppe Alvaro, previously Directors in GSK's Neuroscience Centre of Excellence for Drug Discovery. Autifony is backed by Touchstone Innovations, SV Life Sciences, Pfizer Venture Investments, International Biotechnology Trust PLC and UCL Business. In December 2017 the company signed a EUR627.5m agreement with Boehringer Ingelheim about certain aspects of Autifony's voltage gated potassium channel modulator platform.

Featurespace Limited is an Adaptive Behavioural Analytics company which has developed a machine learning software platform, the behaviour analytics engine (ARIC) that enables the identification of abnormal behaviour in high-volume real-time applications such as online betting and credit card transactions. Featurespace's software, which is based on Bayesian statistics and research undertaken at the University of Cambridge, delivers significant economic benefits to customers by providing a granular view of transactions which allows them to predict likely fraud and take appropriate action. For example, for a UK credit card company it reduced fraud loss by 40% and cut the ratio of false positives to genuine rejections from 23:1 to 6:1. The company raised £16.5m in a funding round during October 2017, led by investor Highland Europe and supported by Worldpay Group plc and Invoke Capital.

Mission Therapeutics Limited was founded in 2011 to commercialise expert research into the ubiquitin pathway for the treatment of cancers and non-malignant disease. It has built a world-leading platform for the discovery and development of first-in-class, small molecule drugs that selectively target deubiquitinating enzymes ('DUBs') – an emerging, and hitherto intractable drug class that is attracting significant commercial interest as the potential 'next kinase area'. DUBs are involved in multiple cellular processes, including DNA damage response and cell proliferation. The inhibition of these enzymes has considerable potential for the generation of novel drugs for treating cancer and other unmet medical needs. The company presented two posters with new research and preclinical data from its USP30 inhibitor Parkinson's disease programmes at Neuroscience 2017. USP30 is a mitochondrial-associated DUB that has emerged as a promising new target in Parkinson's disease, and has been implicated in the control of mitophagy, a cellular mitochondrial quality control mechanism.

Ieso Digital Health Limited is a company providing online cognitive behavioural therapy, and is transforming the accessibility, affordability and accountability of mental health treatment. Discreet 1-to-1 therapy is delivered in real time using written conversation, with patients meeting an accredited therapist in a secure virtual therapy room, at a time and location that is both convenient and comfortable for them. The use of technology and written conversation offers greater patient choice, more widespread access to effective, evidence-based therapy and a freedom for patients to express themselves by communicating online. Ieso is also treating patients in the US via a partnership with Beacon Health Options, the largest behavioural health managed care organisation in the USA and covers 45 million lives. In December 2017, Ieso Digital Health was named as one of the top ten 'disruptors' in the 'Sunday Times Virgin Media Business Disruptors to Watch 10, powered by Fast Track'. The company has been recognised for its outstanding business model and cutting-edge technology, which is helping people with anxiety, depression and other common mental health problems to get better faster.

Veryan Medical Limited is a medical technology company that has developed and patented a three-dimensional stent, BioMimics 3DTM, for use in peripheral (leg) arteries. The shape of the stent improved its biomechanical performance and blood flow in the vessel, with a demonstrated benefit on clinical outcomes in peripheral arterial disease. Existing stents indicated for placement in leg arteries have a straight tubular design that tends to straighten any curvature present in vessels. This straightening effect may interfere with normal shortening of the femoropopliteal artery during lower limb movement, such as when the knee is bent. However, Veryan's BioMimics 3D™ stent technology involves adapting traditional straight stent designs to a patented three-dimensional helical shape, which more closely mimics the natural geometry of the human vascular system. In February 2018 the company announced it had submitted a Premarket Approval (PMA) application for the BioMimics 3D Vascular Stent System to the U.S. Food and Drug Administration (FDA) following the achievement of a successful outcome to its pivotal 271-subject MIMICS-2 study in January 2018.

TopiVert Pharma Limited is a clinical-stage biotechnology company developing narrow spectrum kinase inhibitors (NSKIs) as novel, locally-acting medicines for the local treatment of chronic inflammatory diseases of the gastrointestinal tract and eye. TopiVert's most advanced drug candidate, TOP1288 for the treatment of ulcerative colitis, has successfully completed Phase I development, and in January 2018 it announced positive results from the study.

Financial review

> A strong balance sheet position: £326.3m of gross cash and a diversified portfolio of investments worth £1,130.6m

GREG SMITH CHIEF FINANCIAL OFFICER

Statement of comprehensive income

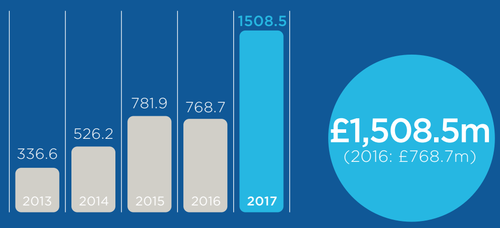
Overall the Group recorded a profit for the year of £53.4m (2016: loss of £14.8m) and a Return on Hard NAV, i.e. on the Group's net assets excluding goodwill and intangible assets, of £64.1m (2016: negative £7.6m).

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

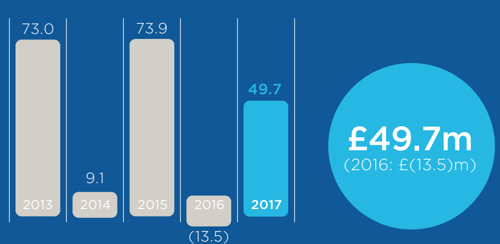
	2017 £m	2016 £m
Net portfolio gains [1]	94.2	6.5
Change in fair value of limited and limited liability partnership interests	(0.2)	(0.3)
Fair value loss on contingent value rights	—	(1.4)
Licensing income	3.4	0.2
Other income	6.1	2.6
Carried interest plan charge	(1.3)	—
Amortisation of intangible assets	(3.9)	(5.6)
Administrative expenses – Istesso group	(3.5)	(1.4)
Administrative expenses – other consolidated portfolio companies	(2.1)	(1.1)
Administrative expenses – performance-based staff incentives and share based payments charge	(4.9)	(1.5)
Administrative expenses – all other central expenses	(21.2)	(13.0)
IFRS3 charge in respect of acquisition of subsidiary	(4.4)	—
Acquisition and restructuring costs	(9.1)	(0.4)
Net finance income	0.3	0.6
Profit/(loss) for the year	**53.4**	(14.8)
Other comprehensive income	—	0.1
Total comprehensive income/(loss) for the year	**53.4**	(14.7)
Exclude:		
Amortisation of intangible assets	3.9	5.6
Share based payment charge	2.4	1.5
IFRS charge in respect of acquisition of subsidiary	4.4	—
Return on Hard NAV	**64.1**	(7.6)
Exclude:		
Acquisition and restructuring costs	9.1	0.4
Return on Hard NAV excluding acquisition and restructuring costs	**73.2**	(7.2)

(1) Defined in Note 28 Alternative Performance Measures

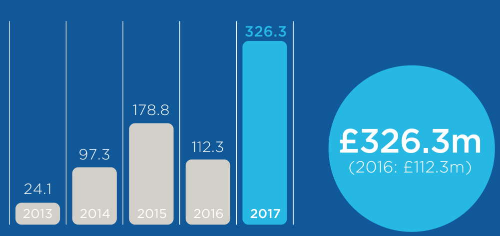
Total Equity ("Net Assets")
(£m)



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



Cash, cash equivalents and deposits
(£m)



Net portfolio gains consist of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in portfolio companies and deconsolidated subsidiaries. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 23 to 39.

Other income comprises fund management fees, corporate finance fee income and other fees typically chargeable to the Group's portfolio companies for services including executive search and selection, legal and administrative support. Other income for the year increased to £6.1m (2016: £2.6m). The increase was largely due to the acquisition of Parkwalk Advisors in January and the resultant fund management related fees and commissions (£3.2m) which were consolidated into the Group's results for the first time.

In addition to Parkwalk Advisors, fund management fees are also received from the Group's existing three managed funds, two of which, IP Venture Fund ("IPVF") and The North East Technology Fund LP ("NETF"), also have the potential to generate performance fees from successful investment performance. The results of the Group's third managed fund, IPVFII, are consolidated into those of the Group and accordingly the fund management fees received are not reflected in the statement of comprehensive income.

As described in the portfolio review, the Group's drug development subsidiary, Istesso Limited (formerly Modern Biosciences plc) was deconsolidated from the Group after a share and board re-organisation which resulted in the Group no longer holding a controlling interest in the company. The consolidated results show the licencing income received (£3.4m) and the expenses incurred (£3.5m) by Istesso before the re-organisation occurred and a gain of £45.1m to the Group on deconsolidation, representing Istesso Limited's cumulative losses since inception and the fair value ascribed to the business, which was calculated based on it.

Included within the Group's administrative expenses are costs in respect of a small number of other portfolio companies. Typically, the Group owns a non-controlling interest in its portfolio companies however, in certain circumstances the Group will take a controlling stake and hence consolidate the results of a portfolio company into the Group's financial statements. The administrative expenses included in the Group's results for such companies primarily comprise staff costs, R&D and other operating expenses.

Other central administrative expenses, have increased to £21.2m during the period (2016: £13.0m). This increase was primarily due to an increase in staffing costs, the result of Parkwalk Advisors (£1.4m) and Touchstone Innovations (£3.7m) being consolidated for the first time.

Administrative expenses resulting from performance-based staff incentives and share-based payment charges increased to £4.9m during the period (2016: £1.5m), as the Group's return on Hard NAV during the period exceeded the minimum threshold for payments to be awarded under the Group's Annual Incentive Scheme. This expense is inclusive of a non-cash IFRS 2 share-based payments charge totalling £2.4m (2016: £1.5m) and the cost of the Group's 2017 Long Term Incentive Plan and Deferred Bonus Share Plan awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or "net assets".

Additional costs of £4.4m were incurred in relation to the deferred and contingent consideration paid to the sellers of Parkwalk Advisors in the year deemed under IFRS3 to be a payment for post-acquisition services.

The Group's carried interest plan recognised a charge of £1.3m in its first year of operation as a result of a net increase in the value of those companies included within one or more of the Group's carry vintages that is in excess of the hurdle return. There is no cash payment due to members of the scheme until the Group has made sufficient cash realisations.

This year's results include one-off costs relating to the acquisition of Touchstone Innovations of £9.1m, £6.2m of which was for the provision of legal, corporate broker and other professional advice in relation to the transaction, and £2.9m of restructuring costs including redundancy and onerous lease provisions and accelerated depreciation on the fixed assets within Touchstone's central London office. In excess of £4.0m of annual synergy cost savings have been identified across the enlarged Group going forward.

Statement of financial position

The Group ended the period with net assets of £1,508.5m, representing an increase of £739.8m from the position at 1 January 2017 (£768.7m). As described above, this increase in net assets was largely as a result of the £53.4m profit in the year, the successful equity placing and the acquisition of Touchstone Innovations. "Hard" net assets, i.e. those excluding goodwill and other intangible assets, totalled £1,326.2m at 31 December 2017 (2016: £706.5m). Based on the Group's 1,057,383,601 shares in issue at 31 December 2017, this represents 125.4p per share (2016: 565,221,967 shares; 125.0p).

	2017 £m	2016 £m
Total Equity or Net Assets	**1,508.5**	768.7
Exclude:		
Goodwill	**(172.1)**	(57.1)
Other intangible assets	**(10.2)**	(5.1)
Hard NAV	**1,326.2**	706.5
Hard NAV per share	**125.4p**	125.0p

At 31 December 2017, the Group held gross cash and deposits of £326.3m (2016: £112.3m) and a diversified portfolio of equity and debt investments in 155 private and publicly listed technology companies (2016: 90).

The value of the Group's holdings in portfolio companies increased to £1,130.6m at year end (2016: £614.0m) after net portfolio gains of £94.2m (2016: £6.5m), net investment of £64.6m (2016: £55.0m) and the acquisition of the Touchstone portfolio (£352.2m). The Portfolio review on pages 23 to 39 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 £172.1m (2016: £57.1m) and acquired intangible assets of £10.2m (2016: £5.1m). The increase since the prior year is largely attributable to the Group's combination with Touchstone Innovations in October where £108.5m of goodwill and £6.9m of acquired intangible assets were recognised, the goodwill (£5.7m) and intangibles (£2.1m) recognised on the acquisition of Parkwalk Advisors in January and goodwill (£0.8m) recognised on purchase of a 3rd party's minority holding in subsidiary MobilION Inc. £38.7m of the goodwill and the majority of the remaining acquired intangible asset value arose as a result of the Group's acquisition of Fusion IP in 2014. The remainder of the goodwill balance arose from historical acquisitions of IP Assist Services Limited (formerly known as Techtran Group Limited (university partnership business, £16.3m; 2016: £16.3m)) and Top Technology Ventures Limited (venture capital fund management business, £2.1m; 2016: £2.1m). Goodwill is tested at least annually for impairment, as described in note 12. The intangible assets are separately identifiable assets resulting from Fusion IP's agreements with its partner universities.

The fair value of the intangible assets is amortised on a straight-line basis over each partnership's useful economic life.

All-share acquisition of Touchstone Innovations plc

As described above, on 17 October 2017 the Group acquired control of 100% of the ordinary shares in Touchstone Innovations in exchange for 357,518,520 new ordinary shares in IP Group plc. A summary of the assets acquired, and consideration is as follows:

Net assets acquired	Fair value net assets/ (liabilities) £m
Investment portfolio	352.2
Cash and cash equivalents	119.1
Other net current assets	2.1
Non-current liabilities (predominantly EIB debt finance)	(88.3)
Acquired intangible assets	6.9
Net assets	392.0
Goodwill	108.5
Total consideration (being 357,518,520 IP Group shares at 140p per share)	500.5

The fair values of the companies within Touchstone's investment portfolio at the acquisition date have been determined using the Group's accounting and valuation policies. In several cases, these values differed from those within Touchstone's audited financial statements for the year ended 31 July 2017, which valued their investment portfolio at £461.1m. Such differences primarily related to combinations of the following factors: (i) differing views on the appropriate valuation based on the commercial and technical progress of a company; (ii) clinical stage set-backs and, in a limited number of cases; (iii) technical/scientific failure. A number of these differences were anticipated based on our due diligence and this was an important factor taken into account by the Directors in determining the appropriate level of consideration to offer for the business. If subsequent information comes to light in respect of a particular portfolio company within twelve months of the acquisition date that is indicative of conditions that existed at that time, the directors will review and, if necessary, adjust the acquisition valuations.

Goodwill has been recognised as the difference between the net assets acquired and the consideration paid, in the form of newly issued IP Group shares, and relates to the value attributable to Touchstone's access to early stage commercialisation activities with top tier UK universities and the benefits from increased scale and critical mass, and a more diverse portfolio the Group expects to benefit from.

UCL Technology Fund and Apollo Therapeutics

In addition to investments into its core portfolio, Touchstone has committed £24.8m towards the UCL Technology Fund LP and £3.3m towards Apollo Therapeutics LLP. The actual cash will be invested over a number of years.

Financial review CONTINUED

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

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

	2017 £m	2016 £m
Net Cash generated/(used) by operating activities (excluding cash flows from deposits)	**(22.4)**	(11.4)
Net Cash generated/(used) in investing activities	**(67.6)**	(55.2)
Cash acquired on acquisition of subsidiary undertakings	**107.8**	—
Issue of share capital	**181.0**	—
Drawdown of debt facility	**15.0**	—
Effect of foreign exchange rate changes	**0.2**	0.1
Movement during period	**214.0**	(66.5)

At 31 December 2017, the Group's Cash totalled £326.3m, an increase of £214.0m from a total of £112.3m at 31 December 2016 predominantly due to net placing proceeds of £181.0m, the business combinations with Touchstone and Parkwalk Advisors which included £119.1m and £2.1m in cash respectively at the acquisition date, offset by net investment in the Group's spin-out companies and operating expenses.

Cash generated in operations has decreased from the comparable period in 2016, most significantly due to the receipt of £3.0m of payments under MBS's agreement with Janssen Biotech in 2017 and an increase in revenue from services and other income in the year predominantly due to the acquisition of Parkwalk Advisors Ltd which contributed £3.2m of revenue in the period since acquisition.

The Group's net cash generated in investing activities increased during 2017, reflecting an increase in the level of investment (2017: £71.2m; 2016: £69.7m), a decreased level of realisations after a record year for the group in 2016 (2017: £6.6m; 2016: £14.7m), an increase in spending on property, plant and equipment predominantly due to IP Group's head office relocation in April and the cash acquired on acquisition of Touchstone (£119.1) and the deconsolidation of Istesso Limited (negative £6.1m).

In 2015, the Group secured a £30m, 8-year debt facility from the European Investment Bank ("the EIB"). The facility is to be disbursed in two tranches, with the first tranche of £15m having been drawn down in December 2015 and the second tranche was drawn in December 2017. The size of the facility has significantly increased in the year following the acquisition of Touchstone who had a similar facility with the EIB which brings the total EIB debt facility to £104.0m, £6.3m of which is due to be repaid within twelve months of the year-end. The facility provides IP Group with an additional source of long-term capital and represents an evolution in the Group's capital structure to support its future growth and development.

It remains the Group's policy to place cash that is surplus to near-term working capital requirements on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria or in low-risk treasury funds rated "A" or above. The Group's treasury policy is described in

HIGHLIGHTS

The value of the Group's holdings in portfolio companies increased to **£1,130.6m** at year end

Net assests have increased by **£739.8m** from the position at 1 January 2017 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 2017, the Group had a total of £1.2m (2016: £1.1m) held in US Dollars and less than £0.1m (2016: £nil) held in AUS Dollars to meet the short-term working capital requirements of its US and Australasian operations, including capital anticipated to be required by new and existing spin-out company opportunities.

At 31 December 2017, the Group recognised £13.1m of loans (2016: £9.8m) from the Limited Partners of IPVFII, a fund raised during 2013 that is consolidated by the Group. These loans are repayable only upon IPVFII generating sufficient returns to repay the Limited Partners.

At 31 December 2017, the Group recognised a carried interest plan liability of £8.8m (2016: £nil) which consists of a carried interest plan established in 2017 and separately, an existing carried interest plan liability acquired on acquisition of Touchstone. There is no cash payment due to members of either scheme until the Group has made sufficient cash realisations.

Taxation

The Group's business model seeks to deliver long-term value to its stakeholders through the commercialisation of fundamental research carried out at its partner universities. To date, this has been largely achieved through the formation of, and provision of services and development capital to, spin-out companies formed around the output of such research. The Group primarily seeks to generate capital gains from its holdings in spin-out companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings, however, since the Group typically holds in excess of 10% in its portfolio companies and those companies are themselves trading, the Directors continue to believe that the majority of its holdings will qualify for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying holdings are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity holdings that meet the qualifying criteria. Gains arising on sales of non-qualifying holdings would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time. The Group's unrecognised deferred tax assets and liabilities are set out in note 9 to the financial statements.

The Directors consider that the SSE regime has been simplified and enhanced during the period, with a number of changes being enacted in the Finance (No.2) Act 2017 that are effective for disposals on or after 1 April 2017. From the Group's perspective the key changes were to remove the requirement for the investing entity (in this case, IP Group) to be a sole trading entity or member of a trading group and extending the minimum 10% holding period to any 12-month period in the six years prior to disposal. The Group welcomed these changes and the directors anticipate that they will have a favourable impact on the Group, giving greater certainty over the exemption of qualifying gains under SSE, and increasing the Group's flexibility over the timing of future portfolio company disposals.

The changes in the Finance (No.2) Act 2017 also included a restriction on companies' use of brought forward losses. As a result, the amount of profit that can be mitigated by brought forward losses will be restricted to 50% of the amount of profits in excess of £5m. The Directors do not currently consider that these proposed changes will result in the recognition of a deferred tax liability in respect of any unrealised gains that do not qualify for SSE, but note that such liabilities may arise in the future.

Assets held in Luxembourg, which were acquired via the combination with Touchstone in the year, are also subject to capital gains and ordinarily the Group would be taxed on their realisation. The participation exemption, similar to the UK SSE scheme described above, is available for certain share disposals. Dividends and gains arising to Imperial Innovations Sárl through its interest in Touchstone Innovations Businesses LLP should be exempt from tax under Luxembourg law provided the conditions for the participation exemption are met for each investment or each investment can be attributed to a UK permanent establishment. Tax residence of Imperial Innovations Sárl will be maintained in Luxembourg and no UK tax should arise on the applicable gains.

The Group complies with relevant global initiatives including the US Foreign Account Tax Compliance Act (FATCA) and the OECD Common Reporting Standard.

Risk management

Managing risk: our framework for balancing risk and reward

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

Governance

Overall responsibility for the risk framework and definition of risk appetite rests with the Board, who through regular review of risks ensure that risk exposure is matched with an ability to achieve the Group's strategic objectives. Risk identification is carried out through bottom-up process via operational risk registers maintained by individual teams, with additional top-down input from the management team with non-executive review being carried out by the audit and risk committee.

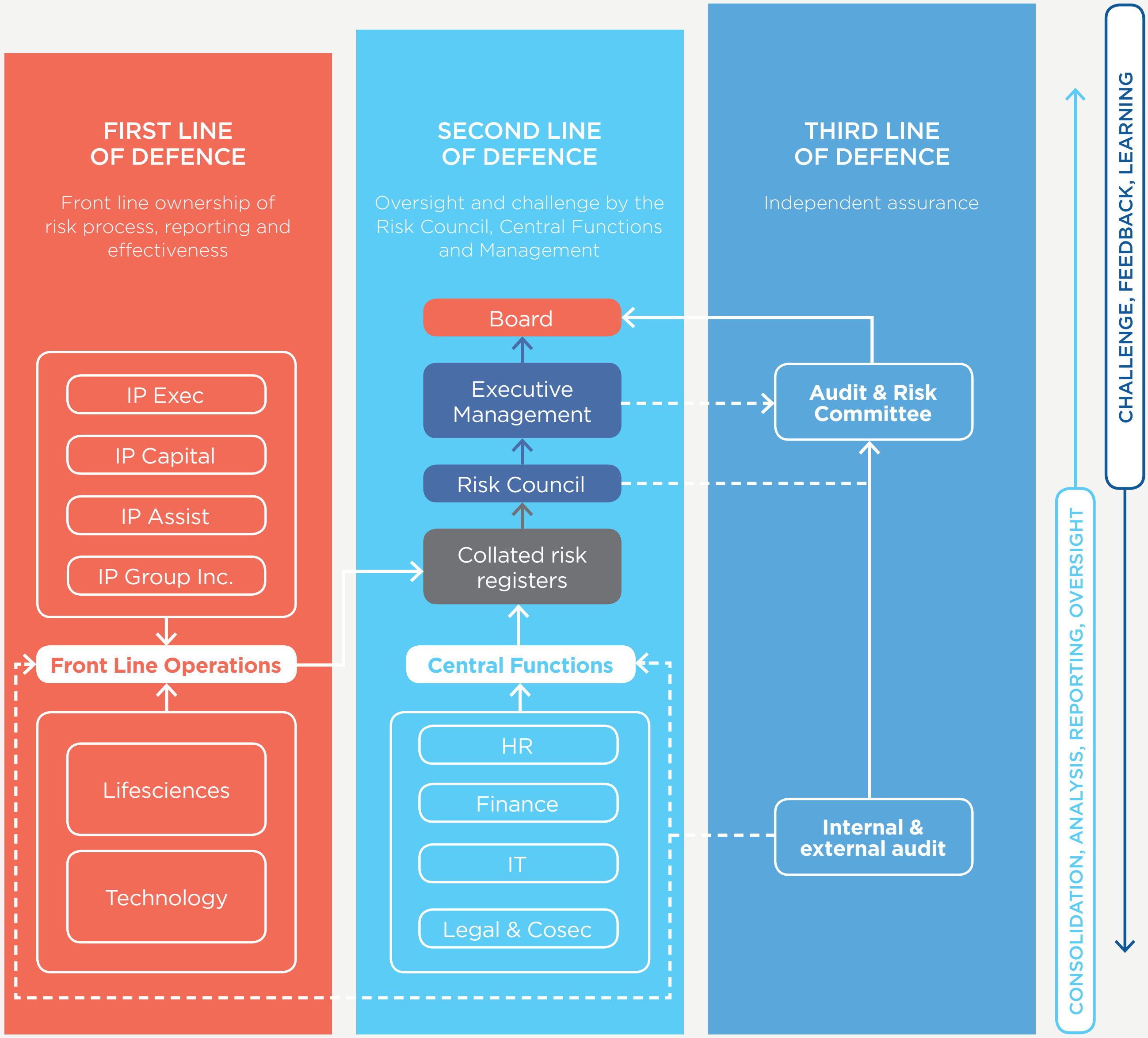
Risk management process

Ranking of the Group's risks is carried out by combining the economic, operational or environmental impact of risks and the likelihood that they may occur. Those risks that are considered to pose the greatest threat to the Group and score the highest are identified as 'principal risks'. The operations of the Group, and the implementation of its objectives and strategy, are subject to a number of principal risks and uncertainties. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

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

During 2017 we have continued to build on our existing risk management framework, enhancing risk management and internal control processes. This activity included the development of operational risk registers for front line operations and central functions, a number of control reviews supported by our external risk consultants PwC, including a review of the US operations, an integration risk review and a review of the controls over our principal risks. We have continued to support the Executive Committee and Board through regular meetings of the Risk Council. Priorities for 2018 include amending our risk management framework to reflect new team structure post the integration of Touchstone Innovations plc.

IP Group risk management framework



Risk management CONTINUED

Summary of principal risks and mitigants

A summary of the principal risks affecting the Group and the steps taken to manage these is set out below. Further discussion of the Group's approach to principal risks and uncertainties are given on page 78 of the Corporate Governance Report and pages 100 to 103 of the Report of the Audit and Risk Committee, while further disclosure of the Group's financial risks is set out in note 2 to the consolidated financial statements on pages 130 and 132.

RISK AND DESCRIPTION	IMPACT	MITIGATION
1 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 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.	• 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. • The Group frequently forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary limits, treasury policy guidelines and transaction authorisation controls. • The Group acquired Parkwalk Advisors Ltd in the year, the leading EIS fund manager in the UK. While Parkwalk Advisors operates independently they have been and continue to be an important co-investor of the Group supporting shared portfolio companies.
2 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: • 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. Oxford Nanopore is an example of such a portfolio company that has the potential to materially impact the Group's results. • The value of the Group's drug discovery and development portfolio companies may be significantly impacted by a negative clinical trial result. • Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.	• The Group's staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including use of the Group's systematic opportunity evaluation and business building methodologies within delegated board authorities. • 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 managed by experienced sector-specialist teams 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.

KEY Increase Decrease No change Create Develop Deliver

RISK TREND	DEVELOPMENTS DURING THE YEAR	STRATEGY	KPI
	• The Group completed a successful equity placing, raising net proceeds of £181.0m. • The Group completed a business combination with Touchstone Innovations plc; the rationale for this transaction includes improved access to capital via increased scale and critical mass. • The Group held 'Deep Tech Forum' events in Shenzhen and Beijing in China, bringing together ten of our portfolio companies and over 300 Chinese private equity and venture capital investors, corporate representatives and government bodies.		• Change in fair value of equity and debt investments. • Total equity ("net assets"). • Profit/loss attributable to equity holders.
	• The group completed a combination with Touchstone Innovations plc, resulting in increased diversification of the Group's portfolio. • The Group's portfolio companies raised approximately £315m of capital. • The Group maintained board representation on approximately 70% of companies by number.		• Change in fair value of equity and debt investments. • Purchase of equity and debt investments. • Proceeds from the sale of equity investments.

SEE OUR STRATEGY ON PAGES 16 TO 17

SEE OUR KPIs ON PAGES 18 TO 19

Risk management CONTINUED

RISK AND DESCRIPTION	IMPACT	MITIGATION
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 Oxford Sciences Innovation plc, Cambridge Innovation Capital and the UCL Technology Fund . University partners may terminate their partnerships or may move to non-exclusive sourcing models.	• 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.	• Dedicated New Business & Partnerships team to service existing partnerships and source new opportunities. • 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.
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, particularly into foreign jurisdictions such as the US, 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 experienced staff could have an adverse effect on the Group's competitive advantage, business, financial condition, operational results and/or future prospects.	• Senior team succession plans are in place and updated regularly. • The Group's corporate culture and values are well-articulated and consistently promoted. • The Group carries out regular market comparisons for staff and executive remuneration and seeks to offer a balanced incentive package comprising a mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working and salary sacrifice arrangements. • The Group encourages staff development and inclusion through coaching and mentoring, and carries out regular objective setting and appraisal.
5 Macroeconomic conditions may negatively impact the Group's ability to achieve its strategic objectives. Adverse macroeconomic conditions could reduce the opportunity to deploy capital into opportunities or may limit the ability of such portfolio companies to raise third party funds, develop profitable businesses or achieve increases in value or exits. Political uncertainty, including impacts from Brexit or similar scenarios, could have a number of potential impacts, including changes to the labour market available to the Group for recruitment or regulatory environment in which the Group operates.	• The UK's recession has had (and may continue to have) an adverse effect on trading conditions and availability of capital in the UK, particularly for smaller businesses. • The success of those portfolio companies which require significant external funding may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient. • A significant proportion of the Group's portfolio value is held in companies quoted on the AIM market and decreases in values to this market could result in a material fair value impact to the portfolio as a whole.	• Management team receives regular capital market and economic updates from the Group's capital markets team and its brokers. • Six-monthly budget and capital allocation process and monitoring against agreed budget. • Regular oversight of upcoming capital requirements of portfolio from both the Group and third parties.

KEY Increase Decrease No change Create Develop Deliver

RISK TREND	DEVELOPMENTS DURING THE YEAR	STRATEGY	KPI
	• Completed investments with two new US university partners. • The Group acquired Parkwalk Advisors Ltd during the year. Parkwalk's investment vehicles include the University of Cambridge Enterprise Funds, the University of Oxford Innovation Funds and the University of Bristol Enterprise Funds. The Directors believe that Parkwalk's strong links to university partners will be beneficial to the Group. • The Group strengthened its university partnership network during the year having signed 9 new commercialisation agreements with the top universities in Australia and New Zealand and through the combination with Touchstone adding strong links with Imperial College London through its Technology Pipeline agreement ("TPA"). • Completed seed investments with both Oxford Sciences Innovation and Cambridge Innovation Capital as co-investors, demonstrating the value of our strategic stakes in these partners.		• Number of new portfolio companies.
	• The Group continues to promote an open culture of communication and provides an inspiring and challenging workplace where people are given autonomy to do their jobs. We are fully supportive of flexible working and have enabled employees with technology to work flexibly. The Group also continues to dedicate resources to remuneration and incentivisation. • Staff attrition increased during the year to 11%, it remained at low absolute levels. Approximately 44% of staff have been with the Company for at least five years.		• Total equity. • "Net assets". • Number of new portfolio companies.
	• Macroeconomic and geopolitical conditions remain uncertain in the UK, Europe and the rest of the world. • The Brexit process remains a source of uncertainty in the year.		• Change in fair value of equity and debt investments. • Total equity. • "Net assets". • Profit/loss attributable to equity holders.

SEE OUR STRATEGY ON PAGES 16 TO 17

SEE OUR KPIs ON PAGES 18 TO 19

Risk management CONTINUED

RISK AND DESCRIPTION	IMPACT	MITIGATION
6 There may be changes to, impacts from, or failure to comply with, 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 monies are made available to universities and research institutions and the ownership of any resulting intellectual property.	• Changes could result in universities and researchers no longer being able to own, exploit or protect intellectual property on attractive terms. • 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. • Regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions for the Group's FCA-authorised subsidiary resulting in loss of fund management contracts, reputational damage or fines. • A data security or cyber breach could occur or the Group could otherwise fail to adhere to data protection regulations.	• 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 utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax, insurance 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. • The Group maintains D&O, professional indemnity and clinical trial insurance policies. • The Group reviews its data and cyber-security processes with its external outsourced IT provider and applies the UK Government's 'ten steps' framework.

KEY: Increase · Decrease · No change — Create · Develop · Deliver

RISK TREND	DEVELOPMENTS DURING THE YEAR	STRATEGY	KPI
Decrease	• Changes to UK Substantial Shareholding Exemption rules reduce the level of uncertainty around the exemption of disposal gains were enacted in Finance (No, 2) Act 2017. • Ongoing focus on regulatory compliance including third party reviews. • UK Government has committed to university funding and has emphasised the importance of science and innovation. • Specialist therapeutics advisory panel continually consulted. • Increased focus on cyber security including further development of the Group's controls using the UK Government's 'ten steps' approach and review of the Cyber Essentials regime and how this applies to the Group.	Create, Deliver	• Total equity. • ("net assets").

SEE OUR STRATEGY ON PAGES 16 TO 17

SEE OUR KPIs ON PAGES 18 TO 19

Viability statement

The Directors have carried out a robust assessment of the viability of the Group over a three-year period to December 2020, considering its strategy, its current financial position and its principal risks.

The strategy and associated principal risks underpin the Group's three-year financial plan and scenario testing, which the Directors review at least annually. The three-year plan is built using a bottom up model. The three-year plan makes certain assumptions about the level of capital deployed into, and realisations from, its portfolio of companies, the financial performance (and valuation) of the underlying portfolio companies, the Group's utilisation of its debt finance facility and ability to raise further capital, and the level of the Group's net overheads.

To assess the impact of the Group's principal risks on the prospects of the Group, the plan is stress-tested by modelling several severe but plausible downside scenarios as part of the Board's review of the principal risks of the business. These scenarios envisage the impact of adverse outcomes in the Group's principal risk areas, primarily through reducing the fair value of the Group's portfolio company interests, reducing the amount of capital that the Group can raise, lowering the deployment of capital and decreasing portfolio company divestment proceeds. The scenarios also consider the impact of available mitigating actions.

Based on this assessment, the Directors have a reasonable expectation that the Group will continue to operate and meets its liabilities, as they fall due, up to December 2020.

Our business ethics and social responsibility

Our goal is to build a sustainable and viable business.

As part of that, the Group seeks to conduct all of its operating and business activities in an honest, ethical and socially responsible manner and these values underpin our business model and strategy.

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships with consideration for the needs of all of our stakeholders including university partners, investors, suppliers, employees, and the businesses in which the Group has holdings.

IP Group pioneered the concept of the long-term partnership model and has arrangements covering 18 of the UK's leading universities, 9 of Australasia's and 5 leading universities in the US. Our 'New Business & Partnerships' team and sector teams work closely with the universities to identify exciting opportunities and to ensure these partnerships are mutually beneficial. We believe that our approach to providing executive and administrative support, where appropriate, to portfolio companies gives their founders the best possible chance of building a successful business. Our support of early-stage businesses demonstrates our alignment with government initiatives in science and innovation and contributes to employment growth in the communities in which our portfolio companies operate.

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

The Group's day-to-day activities have limited adverse social and environmental impact. There can, however, be a more significant impact indirectly through the nature and operations of the companies that we support with financial and human capital. Our portfolio companies, which are primarily focused on the healthcare, technology, clean technology and biotechnology sectors, are developing solutions to some of the most significant social, environmental and health challenges faced in the world today. Consequently, the Group recognises the importance of ensuring that the businesses it establishes and nurtures comply with all applicable environmental, ethical and social legislation. Further, our direct involvement in these companies allows greater scope to engage with their management teams and offer guidance.

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

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

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. We take a zero tolerance approach to bribery and corruption and implement and enforce effective systems. The Group is bound by the laws of the UK, including the Bribery Act 2010, and has implemented policies and procedures based on such laws. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses.

Employee diversity and employment policies

Diversity is key to how we work and we believe that great ideas can come from anyone. As such, we believe in equal opportunity for all people when it comes to recruitment, selection and career development. For the year ended 31 December 2017, the Group employed an average of 118 employees and had five non-executive directors. A breakdown of our people by gender can be seen in the table above. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and, insofar as it is able to, ensures that all transactions the Group enters into uphold these principles.

Total Staff 151 [(1)]	Male	Female
Board [(2)]	70%	30%
Senior Leadership Team [(3)]	82%	18%
Senior managers/partners	76%	24%
All Employees	51%	49%

[(1)] Excludes NEDs (5)

[(2)] Includes Company Secretary

[(3)] Includes EDs, Company Secretary, and direct reports to CEO

People management

Our mantra is to recruit exceptional people to do exceptional things and we believe our unique culture is important in attracting and retaining the best talent. Our values – passionate, principled, pioneering – describe how we want our staff to feel when working in IP Group. We give our people a high degree of freedom and authority to accomplish the extraordinary things we do and we are necessarily highly supportive of 'flexible working'. We consider these to be important in our approach to turning ground-breaking science into world-changing businesses.

Because we operate in a highly specialised segment of our industry, we endeavour to recruit people with a combination of rare skills such as scientists with commercial and entrepreneurial backgrounds, who can operate with equal confidence in both academia and fast-paced start-ups while speaking the language of the City. Our people gain significant experience from working with a significant number of start-up enterprises and seeing first-hand what works and what doesn't. Sharing knowledge and discussing these experiences as well as structured training is key to leveraging this learning across the Group.

HIGHLIGHTS

Internship – between Summer 2011 and Summer 2017, 69 interns have taken part in the programme

We have long-term partnerships with **17 of the UK's leading universities**

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

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

Internship programme

Touchstone Innovations has run a regular paid internship programme for six years, with the majority of those recruited working in the Technology Transfer business, Imperial Innovations. Between summer 2011 and summer 2017, 69 interns have taken part in the programme, playing a vital role in providing market analyses, patent management and contract administration, among other things. This internship programme recruits heavily from Imperial College London and other leading UK universities, and many candidates have PhDs or experience with post-doctoral research. The internship programme offers valuable experience of the commercial aspects of science and research. Interns who have completed the programme have gone on to work as patent attorneys, technology transfer executives, and in research positions at start-ups, as well as starting their own ventures.

Our business ethics and social responsibility
CONTINUED

Health and Safety

All our people are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The Chief Operating Officer has overall responsibility for the implementation of the Group's health and safety policies and procedures.

The primary purpose of the Group's health and safety policy is to enable all of the Group's people to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the years ended 31 December 2017 and 31 December 2016, 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

Community engagement

The Group seeks to have a positive impact on the communities in which it operates and one of the ways in which it achieves this is through charitable support at both a Group level and by staff. In 2017 the Group changed the approach to charity donations and signed a 3-year strategic partnership with a charity closely aligned to the Group's values. Generating Genius, set up to support talented young people from disadvantaged backgrounds to help realise their potential in STEM subjects (science, technology, engineering and maths) received a £33,333 donation from IP Group in 2017. Generating Genius used the first tranche of funding to help support 50 newly recruited students in Year 10 from a range of schools across London, all with a passion for science:

- 60% of the new cohort is female
- 64% have previously/are currently claiming free school meals
- 38% will be the first in their family to go to university
- 28% come from local areas with the lowest participation in higher education.

The new year 10 pupils, called 'Junior Genius', attended chemistry masterclasses at L'Oreal Young Scientist Centre and Maths Masterclasses with Think Maths during the October half–term. Year 10 students took part in a colour chemistry session, working together to extract a natural dye from pomegranate and producing a synthetic dye - Para-red - through chemical reactions. In addition, the donation from IP Group helped support the sixth form programme 'Uni Genius' with Year 13 students intending to apply to Oxbridge or to highly selective universities across the country receiving expert advice from university admissions staff. Generating Genius was supported by staff from the University of Bath, Imperial College London and the independent school sector to deliver this programme. Support was also provided to students to help them make informed choices with a session on "Alternatives to Medicine", supported by Queen Mary, University of London. Students were challenged to think beyond medicine and learned about other diverse university disciplines related to science and engineering, led by a Student Ambassador. A list of the other charities that IP Group has supported to date can be found on the Group's website: www.ipgroupplc.com.

Environmental policy

While we believe the direct environmental impact of IP Group plc and its subsidiary companies is relatively small, the Group is committed to ensuring the environmental impacts of our business operations remain as low as possible. We recognise our responsibility to ensure that the business operates in an environmentally responsible and sustainable manner. Employees are encouraged to reduce their impact on the environment by hosting meetings via video conference where possible, thereby only engaging in business travel when necessary, using public transport and by minimising the usage of paper by using the recycling facilities provided in our offices. While the Board as a whole has primary responsibility for environmental issues, it has allocated day-to-day responsibility for the review of environmental and social issues to the Chief Financial Officer, Greg Smith.

In addition, major investment themes for IP Group have included, and will continue to include, areas which have the potential to develop technologies which could result in significant environmental benefits.

Organisation boundary and scope of emissions

The following section includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial year. We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1 and 2 emissions for which the Group is responsible.

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

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that IP Group Plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

GHG reporting

The section below includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial 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 organisational boundary. This is the basis for determining the Scope 1, 2 and 3 emissions for which the Group is responsible.

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

Methodology

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

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

- 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;
- application of location-based and market-based Scope 2 emissions factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO^2e;
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents).

Our business ethics and social responsibility
CONTINUED

Absolute emissions
The total greenhouse emissions from IP Group plc's operations in the financial year 2017 (year ending 31 December 2017) were:

Location-based:
1,275.1 tonnes of CO_2 equivalent (tCO_2e)

Market-based:
1,249.8 tonnes of CO_2 equivalent (tCO_2e)

There were significant changes to the company's operations since 2016. The Group acquired Parkwalk Advisors and Touchstone Innovations during 2017. The Group changed office locations in London, Sheffield and the US. The head office in London was based at two locations for four months of the year. There has been an increase in Scope 1 emissions due to natural gas use. Scope 2 emissions have also increased, although there has been a reduction in district heating due to the Sheffield office move. The most significant change was a reduction in Scope 3 emissions due to changes in business travel and also a decrease in waste. There was also an increase in emissions from employee commuting.

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

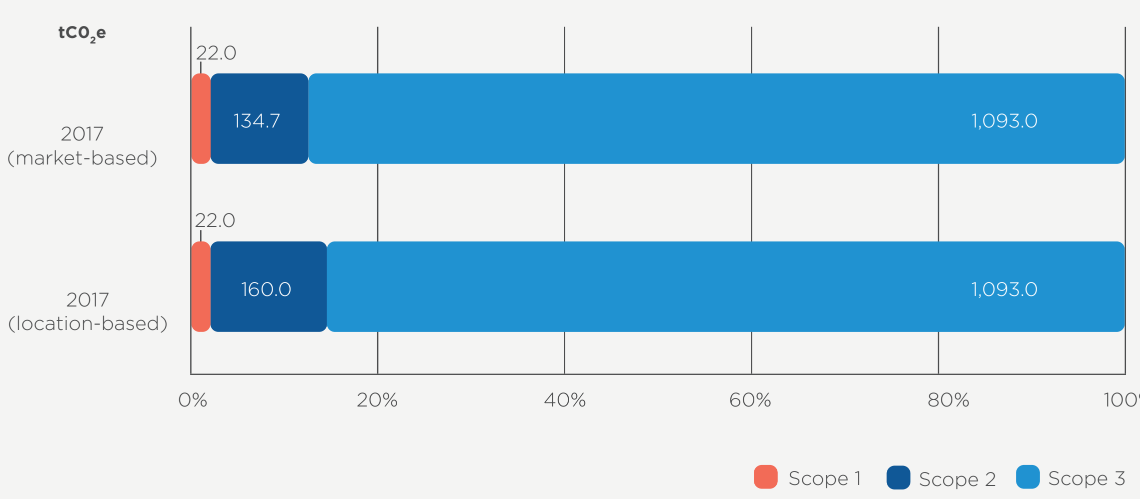
Target and baselines
Given the comparatively low GHG impact of the Group's operations, the Group's objective is to maintain or reduce its GHG per square metre of office space each year and will report each year whether it has been successful in this regard.

For 2017, the intensity metric using the location-based method has decreased from 0.09 tCO_2e per m^2 to 0.04 tCO_2e per m^2. The main source of this decrease is from Scope 2 emissions. This is due to a reduction in the carbon intensity of the electricity grid in the United Kingdom.

The 2017 intensity metric using the market-based method decreased slightly from 0.04 tCO_2e per m^2 to 0.03 tCO_2e per m^2.

Key figures

IP Group emissions by scope



	2017 Tonnes CO_2e	2016 Tonnes CO_2e	2015 Tonnes CO_2e	**2017 Tonnes CO_2e**	2016 Tonnes CO_2e	2015 Tonnes CO_2e
GHG emissions						
Scope 1[1]	**22**	4.7	127.7	**0.00**	0.01	0.15
Scope 2 (location-based)[2]	**160**	74.9	97.7	**0.03**	0.09	0.12
Scope 2 (market-based)[2]	**135**	24.6	—	**0.03**	0.03	—
Subtotal (location-based)	**182.1**	79.7	225.3	**0.04**	0.09	0.27
Subtotal (market-based)	**156.8**	29.4	—	**0.03**	0.04	—
Scope 3[3]	**1,093.0**	3,093.5	235.2	**—**	—	—
Total GHG emissions (Location-based Scope 2)	**1,275.1**	3,173.2	460.5	**—**	—	—
Total GHG emissions (Market-based Scope 2)	**1,249.8**	3,122.9	—	**—**	—	—

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

2 Scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use.

3 Scope 3 being all indirect emissions (not in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions 2017 (114 employees & 4,706 m^2 office space)

	2017 Tonnes	2016 Tonnes	2015 Tonnes
Waste production			
Landfill waste	**0.6**	1.2	6.7
Recycled waste	**2.1**	2.1	2.1
Total Waste	**2.7**	3.3	8.8

Board approval

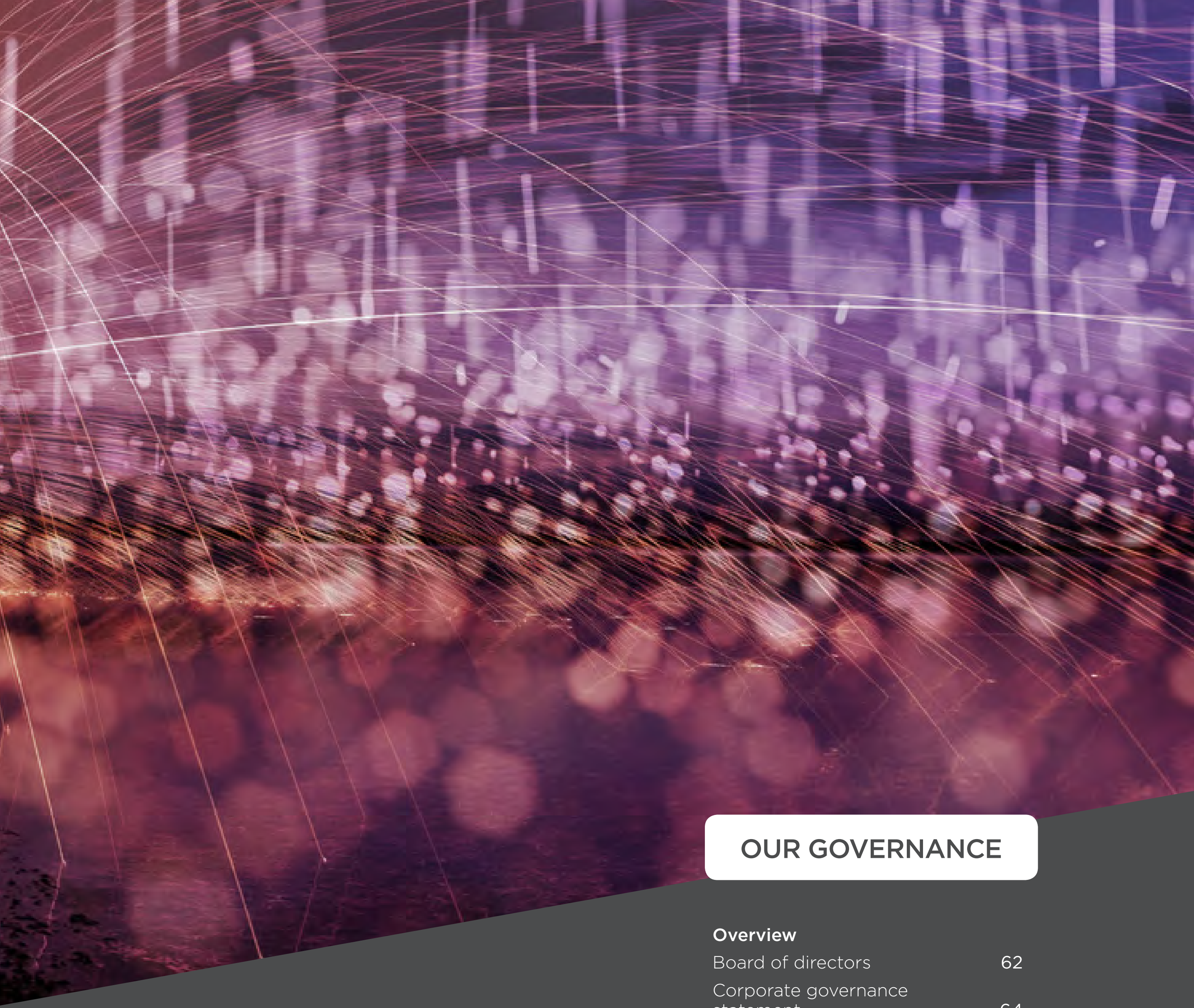
The Strategic Report as set out on pages 7 to 59 has been approved by the Board.

ON BEHALF OF THE BOARD

MIKE HUMPHREY
29 March 2018

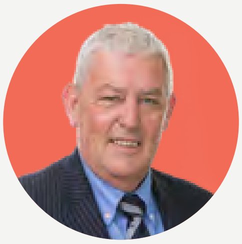
Develop

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



OUR GOVERNANCE

Board of directors



Mike Humphrey Non-executive Chairman

Effective date of current letter of appointment 24 March 2015
Age: 66
Independent: N/A[1]
Tenure: 6 years

Term of office 3 years, 3 months' notice
Re-election to Board Annually at AGM
Experience Formerly 40+ years at Croda plc including 13 years as CEO

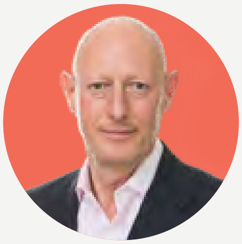
Current external appointments[2] None
Committee memberships Nomination (chair) and Remuneration

Alan Aubrey Chief Executive Officer

Effective date of current letter of appointment 20 January 2005
Age: 56
Independent: No
Tenure: 13 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[2] Non-executive Chairman Proactis Holdings plc
Committee memberships Executive, Disclosure



Mike Townend Chief Investment Officer

Effective date of current letter of appointment 5 March 2007
Age: 55
Independent: No
Tenure: 11 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, Donaldson, Lufkin and Jenrette.

Current external appointments[2] None
Committee memberships Executive

Greg Smith Chief Financial Officer

Effective date of current letter of appointment 2 June 2011
Age: 39
Independent: No
Tenure: 6 years

Term of office Permanent, 6 months' notice
Re-election to Board Annually at AGM
Experience KPMG background, FCA 10+ years

Current external appointments[2] None
Committee memberships Executive, Disclosure

David Baynes Chief Operating Officer

Effective date of current letter of appointment 20 March 2014
Age: 54
Independent: No
Tenure: 4 years

Term of office Permanent, 6 months' notice
Re-election to Board Annually at AGM
Experience 10 years as CEO at Fusion IP plc, previous experience taking companies from start-up to full listing on the London Stock Exchange

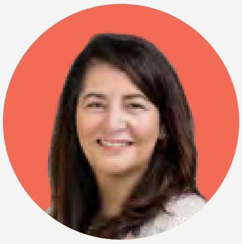
Current external appointments[2] None
Committee memberships Executive

Jonathan Brooks Non-executive Director

Effective date of current letter of appointment 31 August 2011
Age: 62
Independent: Yes
Tenure: 6 years
Term of office 3 years, 3 months' notice
Re-election to Board Annually at AGM
Experience Formerly CFO ARM Holdings plc, 20+ years technology sector experience, FCMA
Current external appointments NCC Group plc
Committee memberships Nomination, Audit (chair) and Remuneration (chair)

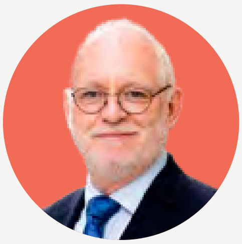
Professor Lynn Gladden, CBE Non-executive Director

Effective date of current letter of appointment 26 March 2014
Age: 56
Independent: Yes
Tenure: 4 years
Term of office 3 years, 3 months' notice
Re-election to Board Annually at AGM
Experience Fellow of the Royal Society, Royal Academy of Engineering, Institution of Chemical Engineers, Royal Society of Chemistry and Institute of Physics, Shell Professor of Chemical Engineering
Current external appointments The British Land Company PLC
Committee memberships Nomination, Audit and Remuneration



Dr Elaine Sullivan Non-executive Director

Effective date of current letter of appointment 30 July 2015
Age: 57
Independent: Yes
Tenure: 2 years
Term of office 3 years, 3 months' notice
Re-election to Board Annually at AGM
Experience 25+ years pharmaceutical industry experience, senior management teams of Eli Lilly and Astra Zeneca, currently CEO of Carrick Therapeutics
Current external appointments Supervisory Board of Evotec AG, CEO of Carrick Therapeutics UK Limited
Committee memberships Nomination, Audit and Remuneration



Professor David Knox Houston Begg Senior Independent Director

Effective date of current letter of appointment 18 October 2017
Age: 67
Independent: Yes
Tenure: Less than 1 year
Term of office 3 years, 3 months' notice
Re-election to Board Annually at AGM
Experience Professor of Economics at Imperial College London, Principal of Imperial College Business School 2003-2011. Previous appointments include Professor of Economics at Birkbeck College, Visiting Fellow at the Reserve Bank of Australia and Visiting Professor at M.I.T and acting as an economic policy advisor to the Bank of England.
Current external appointments None
Committee memberships Nomination, Audit and Remuneration

1 Mr Humphrey was considered by the Board to be independent on appointment.
2 Excludes appointments to Group portfolio company boards.

Corporate governance statement

"The Board continues to recognise the importance of a top-down focus on corporate governance as an integral part of all of the Group's activities."

MIKE HUMPHREY CHAIRMAN

2017 has been a busy year for the Group with the combination with Touchstone Innovations, the completion of a significant equity fundraising and expansion into Australasia, alongside strong performances from portfolio companies in each of its sectors.

The Board continues to focus on developing a robust corporate governance strategy alongside promoting a culture of risk identification, reporting and mitigation. The Board remains focused on the execution of the Group's strategy and working with its partner institutions to develop outstanding businesses based on unique intellectual property. In doing so, it continues to recognise the importance of a top-down focus on corporate governance as an integral part of all of the Group's activities.

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

The Board looks forward to being able to discuss these matters with shareholders at the Group's forthcoming AGM in June 2018 or indeed at any other point during the year.

MIKE HUMPHREY
CHAIRMAN

Compliance with the UK Corporate Governance Code

The Directors are committed to a high standard of corporate governance and to compliance with the best practice of the UK Corporate Governance Code (the "Code"). The version of the Code applicable to reporting periods beginning on or after 17 June 2016 was the version issued by the Financial Reporting Council in April 2016. The Directors consider that the Group has been and continues to be in compliance with all of the provisions set out in the Code.

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

The Board

Role and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group as a whole. Whilst seeking to support entrepreneurial behaviour in its partner institutions through the identification of compelling intellectual property with the potential to grow into robust, unique and world changing business propositions, the Board also seeks to provide entrepreneurial leadership within a framework of controls for assessing and managing risk; defining, challenging and interrogating the Group's strategic aims and direction.

The Board recognises that in doing so it is necessary to support the maintenance and evolution of a 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 those aims; monitoring performance against key financial and non-financial indicators; succession planning; overseeing the system of risk management; setting values and standards in governance matters; monitoring policies and performance on corporate social responsibility and helping to shape and embed the Group's corporate culture and values.

The Directors recognise that the long-term nature of the business of the Group in evolving great ideas into world changing businesses presents novel and unique challenges from both an operational and strategic standpoint. In supporting the evolution of novel technologies into outstanding intellectual based companies, the Board acknowledges the key roles of Group functions in the fields of executive search, capital raising, company secretarial and legal support alongside the delivery of in-house mentoring and development of portfolio company management teams, as well as from time to time facilitating portfolio company board strategy days. The Directors believe that the Group's approach to supporting the portfolio companies it develops in this way is unique and serves not only to build sustainable businesses with longevity, but also to provide attractive returns for stakeholders by creating value over the longer term.

The robustness of the Group's portfolio, supported in this way, has been borne out over the course of the year in review. The impact of Brexit negotiations and other political transitions has continued to provide a volatile backdrop to what has proven to be a year of notable commercial progress within the Group's portfolio.

The Directors are responsible for promoting the long-term success of the Company, and thereby the Group, taking into account the interests of shareholders and other key stakeholders including employees, suppliers, customers, universities and other partners, the community and the environment; for ensuring that obligations to shareholders and other stakeholders are understood and met; and in maintaining a satisfactory dialogue with shareholders. All Directors are equally accountable to the Company's shareholders for the proper stewardship of its affairs and its long-term success. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-executive Directors. The Executive Directors are directly responsible for running the business operations, and developing and implementing strategy, and the Non-executive Directors are responsible for constructively challenging and contributing to proposals on strategy, scrutinising the performance of management, determining levels of remuneration and for succession planning for the Executive Directors and senior management. 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 and comprehensive. Further details in relation to the Group's approach to the management of its business risks, and the function and ongoing roles and responsibilities of its internal Risk Council are set out on pages 46 to 53 and on pages 100 to 104.

Strategy

The Board reviews the strategy of the Group and any issues arising from it on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. 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 a Board paper and presentations by the Executive Directors on the same and a detailed process of review, discussion and constructive challenge by the Board as a whole. Once made, the Executive Directors are fully empowered to implement those decisions.

READ ABOUT OUR STATEGY ON PAGES 16 TO 17

Schedule of Matters

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group's operations to the Executive Directors, supported closely by its senior management team comprising, amongst others, the newly created roles of Managing Partner, Life Sciences and Managing Partner, Technology. Through 2017 and the early part of 2018, this day-to-day management had previously been delegated to an Executive Committee but the constitution of the same was reviewed in detail as part of the integration of the Touchstone Innovations business and the decision was made to make some changes in order to ensure each component of the Group's business was properly represented and had a direct report into the Chief Executive Officer. The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial and/or reputational implications. The previous schedule, which was adopted by the Board in August 2014 has been reviewed in early 2018 as part of the integration of the Touchstone business, with particular attention being given to the effect of the increased size of the combined Group on delegated investment authorities to the new created Life Sciences and Technology Partnerships, headed by their respective Managing Partners, as well as to the US and Australia.

The schedule of matters reserved for the Board includes, without limitation, those matters more particularly set out in the box in the table on page 67 and the full schedule can be found within the Corporate Governance section of the Group's website at www.ipgroupplc.com.

Committees and Oversight

In addition to the Executive Directors, the Board delegates specific responsibilities to certain additional Committees that assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management.

The three principal Board Committees (Audit and Risk, Remuneration and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each Committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board.

The current terms of reference for the Audit and Risk Committee, which were updated in December 2015, are fully compliant with the provisions of the Code and reflect best practice. The terms of reference were reviewed by the Audit and Risk Committee throughout the year and no amendments were considered necessary.

A previous review of the terms of reference of each of the Remuneration Committee and Nomination Committee during 2016 concluded that, whilst compliant with the provisions of the Code, certain amendments were desirable to reflect current best and market practice and the actual workings of the relevant Committee. The terms of reference for the Remuneration Committee and Nomination Committee were updated, recommended for approval and adopted by the Board in February 2016 and May 2016 respectively. No further updates were made during 2017.

Each Committee will continue to review its own terms of reference at least annually and propose any updates where necessary. All of the current Committee terms of reference are available on request from the Company Secretary or within the Corporate Governance section of the Group's website at www.ipgroupplc.com.

Matters Reserved for the Board	• Approval of the Annual Report and accounts and half-year results statement, accounting policies and procedures and any matter having a material impact on future financial performance of the Group. • Strategic acquisitions or disposals by the Group. • Major portfolio investment decisions, being those: (i) into the Group's strategic assets (as defined by the Board from time to time); (ii) in excess of £10m per investment; and (iii) in excess of £10m on a cumulative basis in a single portfolio company (and £5m increments thereafter). • Entry by the Group into strategic partnerships and collaborations with universities and other research institutions. • Major realisations from the Group's portfolio being those: (i) relating to the Group's strategic assets (as defined by the Board from time to time; and (ii) in excess of £10m. • Approval and monitoring of the Group's strategic aims and objectives. • Approval of the annual budget and any material changes to it. • Considering and, where appropriate, approving Directors' conflicts of interest where permitted by the Company's Articles of Association. • Approving appointments to the Board and, subject to shareholder approval, determining and approving policies relating to Directors' remuneration and any changes in relation to the same. • Approval of terms of reference and membership of Board committees. • Approval, subject to shareholder approval, of the appointment and remuneration of the external auditors. • Approval of all circulars, prospectuses and other documents issued to shareholders governed by the FCA's Listing Rules, Disclosure Guidance and 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. • The introduction of new share incentive plans or major changes to existing plans. • Material borrowings by the Group. • Material litigation.	Available from the Company Secretary or on our corporate website www.ipgroupplc.com

Board Committees	The terms of reference of each Committee establish its responsibilities and are available from the Company Secretary and on the Group's corporate website: www.ipgroupplc.com.	Available from the Company Secretary or on our corporate website www.ipgroupplc.com
Executive Directors	Day-to-day decisions are delegated to the Executive Directors who, in turn, have delegated those portfolio investment and realisation decisions other than those reserved for the Board (see above) to the Managing Partner, Life Sciences and Managing Partner, Technology (see below).	
Managing Partners, Life Sciences and Technology	Portfolio investment and realisation decisions other than those reserved for the Board are delegated to the Managing Partner, Life Sciences and the Managing Partner, Technology, with a tiered level of decision within defined parameters being delegated further to sub-committees of the Life Sciences and Technology Partnerships, as well as to the US and Australia.	

Disclosure Committee established in 2016 continues to assist the Group to make timely and accurate disclosure of all information that is required to be disclosed to meet its legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange. It also enables the Group to meet its obligations under the Market Abuse Regulation and takes responsibility for the assessment and control of inside information.

Board size and composition

As at 31 December 2017 and following the retirement of Doug Liversidge as noted below, there were nine Directors on the Board: the Chairman, four Executive Directors and four Non-executive Directors. The biographies of all Directors are provided on pages 62 and 63.

2017 saw two changes to the Board: Doug Liversidge, who had previously served as chairman of Fusion IP plc prior to its acquisition by the Group in March 2014, was appointed as Non-Executive Director on 24 March 2014 and became Senior Independent Director in March 2015, retired from the Board with effect from 31 December 2017 after a lengthy period of distinguished service; Professor David Begg, previously a non-executive director of Touchstone Innovations plc, was appointed as a Non-executive Director of the Group on 18 October 2017 in connection with the Group's combination with Touchstone Innovations plc. Professor Begg was subsequently appointed as the Senior Independent Director with effect from 31 December 2017, succeeding Mr Liversidge upon his retirement.

New directors may be appointed by the Board from time to time but the appointee is always subject to election by shareholders at the first Annual General Meeting following their appointment. Accordingly, Professor Begg will submit himself for election by shareholders at the Group's Annual General Meeting to be held on 18 June 2018. In accordance with both the Code and the Group's policy, all of the other Directors will submit themselves for annual re-election by shareholders at the Group's Annual General Meeting on 18 June 2018.

The Board unanimously recommends to shareholders the appointment of Professor Begg as a Director of the Company given both his highly esteemed background in economics, academia and business, as well as his in depth knowledge of the Touchstone business, portfolio companies and people, having served as a non-executive director of Touchstone Innovations since 20 March 2012. Furthermore, the Board unanimously recommends to shareholders the reappointment of all of the other Directors retiring at the meeting and offering themselves for re-election, on the basis that the annual Board evaluation demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles.

An extract of the Group's Policy relating to the terms of appointment and the remuneration of both Executive Directors and Non-executive Directors is detailed in the Directors' Remuneration Report on pages 80 to 99.

Board Observers

With effect from the Board meeting in February 2018, each of the Group's newly appointed Managing Partners of Life Sciences and Technology, Dr Sam Williams and Mark Reilly, will be invited to attend the Group's Board meetings as observers. Such attendance will at all times be entirely at the Chairman's discretion and the observers shall, upon attendance but subject to disclosing and managing any conflicts of interest (which may require the relevant observer to be excluded from all or part of future Board meetings), be able to speak and participate in the discussions of the Board, but not to vote on any decisions required by the Board.

In agreeing to extend such invite to these individuals, the Board felt that as the two most senior investment professionals in the business, with oversight and accountability for the performance of a majority of the value of the Group's portfolio, it was important for them to have a degree of direct representation at Board meetings and to be available to report to, and respond directly to questions and challenge from, the Board over the assets they managed. In addition, the Board welcomes the additional diversity of viewpoints that will be offered by such individuals, their contribution to the quality of the debate on key issues affecting the Group and its portfolio and the increased stakeholder engagement offered by their attendance (for example, employees and portfolio company investors).

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 Group. In that culture, diversity across a range of criteria is valued. The Board recognises that diversity, in all its forms, is key for introducing different perspectives into board debate and decision making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, knowledge, experiences and backgrounds, as well as representing differences in nationality, race and gender.

The Board's policy is to make appointments to the Board based upon merit against objective criteria. In addition, the Board agrees that diversity (including gender, ethnic and cultural diversity) remains a key aspect in creating an optimal board in terms of balance and composition.

In relation to gender diversity, the Nomination Committee gave further consideration throughout the year as to whether to set a target in relation to the number of women on the Board and in particular with reference to the Women on Boards Report by Lord Davies issued in March 2015 and the Hampton-Alexander Review issued in November 2017. Whilst the Group endorses Lord Davies' recommendations and the target of 33% women in FTSE 250 leadership teams contained in the Hampton-Alexander Review, it does not consider it appropriate nor in its best interests to set either Board or Group-wide fixed targets at this stage and prefers instead to continue to consider all aspects of diversity (including, but not limited to gender) when assessing the overall Board composition and in making further new appointments. Notwithstanding that it does not have a fixed target in relation to the number of women on the Board, the Company currently has two female directors on its Board and will aim to maintain female representation on the Board at least at this current level. In addition, the terms of reference of the Nomination Committee include a requirement for the Nomination Committee to consider diversity including but not limited to gender, nationality and race in evaluating the composition of the Board and in identifying suitable candidates for Board appointments.

In relation to ethnic diversity, the Nomination Committee has reviewed the final Parker Review Committee Report on the ethnic diversity of boards issued in October 2017 and is aware of the recommendation that each FTSE 250 board should have a director of colour by 2024. Similar to the approach adopted by the Committee with respect to gender diversity, the Committee does not consider it appropriate to set Board or Group-wide fixed targets at this stage with respect to ethnic diversity and will continue to consider all aspects of diversity when making further appointments.

When Board vacancies arise, the Group's Nomination Committee will require the Group's in-house executive search function and/or external search consultants (as appropriate) to identify and present qualified people of a range of diverse backgrounds, gender, nationality and ethnicity to be considered for appointment.

Corporate governance statement CONTINUED

The Group's commitment to diversity at the senior management level is also very strong and it actively works to increase the number of women, ethnic and other cultural diversities in leadership positions within the Group. Specifically on gender, whilst, as stated above, the Group does not consider it appropriate nor in its best interests to set Group-wide fixed targets for women in leadership positions at this stage, both the Group's Chief Executive Officer and Chairman signed up to the 30% Club in January 2018, in connection with which they have committed to setting an aspirational target of 30% female representation in the Group's leadership team by 2020. The Group is in the process of setting up a working group whose mandate will be to examine ways in which this aspirational target may be achieved and to thereafter lead action on those actions decided upon.

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 55.

Non-executive Directors

The Non-executive Directors provide a wide range of unique skills and experience to the Group. By virtue of such a diverse mix of skills and experience, the Non-executive Directors are and continue to be well placed to constructively challenge and scrutinise the performance of executive management at both Board and Committee meetings.

The Code sets out the circumstances that should be relevant to the Board in determining whether each Non-executive Director is independent. The Board considers Non-executive Director independence on an annual basis as part of each Non-executive Director's performance evaluation. Having undertaken this review, and with due regard to provision B.1.1 of the Code, the Board has concluded this year that all of the Non-executive Directors are considered by the Board to be independent of management and free of any relationship or circumstance which could materially influence or interfere with, or affect, or appear to affect, the exercise of their independent judgement.

Since 2009, the Board's policy has been to prohibit personal investments by the Non-executive Directors in any of the Group's portfolio companies, whether new or existing, and including all Touchstone portfolio companies from the date of completion of the combination on 17 October 2017. This policy remains unchanged and accordingly, none of the Non-executive Directors presenting themselves for election or re-election at the Annual General Meeting in 2018 have holdings in any of the Group's portfolio companies.

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

The roles of Chairman and Chief Executive Officer

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

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

Senior Independent Director

Doug Liversidge was the Senior Independent Director until his retirement on 31 December 2017. Upon his retirement, Professor David Begg was appointed as his successor to the role of Senior Independent Director.

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

Board support

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance matters and relevant regulatory matters. All Directors have access to the impartial advice and services of the Company Secretary. The Company Secretary acts as a key point of contact for the Chairman and has an important role in the quality of information that flows between the Executive Directors and the Non-executive Directors and the Company Secretary is also responsible for ensuring agreed actions are completed. The Company Secretary supports the Chairman on performance evaluation, the induction of new directors and the continuing development of current directors including ensuring directors receive suitable training to enable them to comply with their duties and effectively carry out their roles.

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

Board meetings, provision of information and decisions

The Board meets regularly during the year as well as on an ad hoc basis, as required in response to the needs of the Group's business.

The Board had seven scheduled Board meetings in 2017 with six Board meetings scheduled for 2018 to ensure that the meeting schedule is sufficient to meet the needs of the business. The requirement for additional scheduled meetings shall be kept under review by the Chairman and the Company Secretary. In order to assist the Board in gaining a deeper understanding of the breadth, stage of development and diversity of the Group's portfolio, the Heads of the Group's previous four sector teams (Healthcare, Biotech, Technology and Cleantech) presented to the Board throughout the year to enable the Board to review the progress, performance and objectives (for the next twelve to eighteen months) of each sector. The Board also received presentations from the New Business and Partnerships Team on the Group's sourcing strategy and an update from the US team.

The majority of Board meetings are held at the Group's offices in London. The Board also aims to have at least one of its scheduled meetings, or its annual strategy day(s), at either the Company's offices in Leeds, Oxford, Sheffield or Cardiff or at the location of one of the Group's partner universities in order to encourage further interaction with the Group's stakeholders. Meetings between the Chairman and the Non-executive Directors, both with and without the presence of the Chief Executive Officer, are also held as the need arises.

In addition to the seven scheduled Board meetings, the Board would ordinarily have held a two-day strategy meeting in October 2017. Given the significant corporate transactions during the year, including the combination with Touchstone Innovations which only formally completed on 17 October 2017, it was agreed that, in place of the annual strategy meeting this year, the Board

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should spend a full day across the two main offices of Touchstone Innovations, receiving detailed presentations from each of the Touchstone Chief Executive Officer, the Touchstone Chief Investment Officer and the Managing Director of Imperial Innovations on the Touchstone Innovations business and its strategy, its key assets and the workings of the Imperial Innovations' Technology Transfer Office. This enabled each member of the Board to gain a proper insight into, and ask questions of the previous executive directors of, the business of Touchstone Innovations.

The Board intends to reinstate its annual strategy days in October 2018 to provide an opportunity for all Directors, and particularly the Non-executive Directors, to reflect on the first 12 months of the Group and Touchstone Innovations operating as a combined Group; to ensure that the strategy of the combined Group is on course; to discuss medium and longer term strategic objectives, and the key drivers underpinning these; and to review the combined Group's risk framework and risk appetite, including considering the major risks facing the combined Group and its strategy and how to assess, manage, mitigate and/or monitor the same.

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. Board meetings are often split over two days to ensure sufficient time is allocated for the business of the Committees and the Board and that full engagement is possible across all meetings from those in attendance. Further, such scheduling allowed for more in-depth engagement between the Non-executive Directors and the Executive Directors and other staff of the Group outside of the formally scheduled meetings.

Supplementary meetings of the Board and/or the Committees are held as and when necessary in response to business needs. In addition, the Board (including both Executive and Non-executive Directors) met for two formal dinners and the Chairman and the Non-executive Directors met without the presence of the Executive Directors once during the year.

Not less than five business days prior to each scheduled Board meeting, every member of the Board receives detailed Board packs, which include an agenda based upon the schedule of matters reserved for its approval along with appropriate reports and briefing papers, save in respect of meetings called on short notice or where late papers are permitted to be included with the consent of the Chairman. 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 Company Secretary will at all times facilitate access to Board meetings by electronic means (videoconference, telephone conference or other equivalent methods) to ensure maximum attendance at Board meetings throughout the year for all Executive and Non-executive Directors.

The Chairman, Chief Executive Officer, Chief Financial Officer, Company Secretary and Managing Partners of the Life Sciences and Technology Partnerships (previously the heads of two of the four sectors) work together to ensure that the Directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes monthly management accounts containing an analysis of performance against budget and other forecasts, as well as monthly reports from each of the Life Sciences and Technology Partnerships. Additional information is provided as appropriate or if requested. At each meeting, the Board receives information, reports and presentations from the Chief Executive Officer, the other Executive Directors and, by invitation, other members of senior management, as required. Going forward, given their attendance as observers from February 2018, the Board will also receive a report direct from each of Managing Partner, Life Sciences and Managing Partner, Technology. This ensures that all Directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy, and its management of risk.

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

Board and committee attendance

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

	SCHEDULED BOARD MEETINGS	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Mike Humphrey[1]	● ● ● ● ● ● ●	● ● ● ● ●	● ●	● ●
Alan Aubrey	● ● ● ● ● ● ●			
Mike Townend[2]	● ● ● ● ● ● ○			
Greg Smith[1]	● ● ● ● ● ● ●			
David Baynes[1]	● ● ● ● ● ● ●			
Jonathan Brooks	● ● ● ● ● ● ●	● ● ● ● ●	● ●	● ●
Doug Liversidge	● ● ● ● ● ● ●	● ● ● ● ●	● ●	● ●
Prof. Lynn Gladden	● ● ● ● ● ● ●	● ● ● ● ●	● ●	● ●
Dr Elaine Sullivan[3]	● ● ● ● ● ● ●	● ● ● ● ○	● ●	● ●
Prof. David Begg[4]	● ●	●	●	●

1 Mike Humphrey attended the Audit Committee as an observer.

2 Mr Townend did not attend the board meeting held in July 2017 due to a combination of travel commitments in connection with a business trip to the US and the Board meeting being brought forward at short notice in connection with the Touchstone transaction

3 Including one Board meeting attendance by telephone.

4 Appointed to the Board on 18 October 2017

KEY

● Attended

○ Did not attend

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Directors' conflicts of interest

Each director has a statutory duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty is in addition to the continuing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she is interested. The Company's Articles of Association permit the Board to authorise conflicts or potential conflicts of interest.

The Board has established procedures for managing and, where appropriate, authorising any such conflicts or potential conflicts of interest. It is a recurring agenda item at all Board meetings and this gives the directors the opportunity to raise at the beginning of every Board meeting any actual or potential conflict of interests that they may have on the matters to be discussed, or to update the Board on any change to a previous conflict of interest already declared.

In deciding whether to authorise any conflict, the directors must have regard to their general duties under the CA 2006 and their overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors are able to impose limits or conditions when giving authorisation to a conflict or potential conflict of interest if they think this is appropriate. The authorisation of any conflict matter, and the terms of any authorisation, may be reviewed by the Board at any time. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Induction, awareness and development

A comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her so that he or she can gain a better understanding of the Group and its businesses. This process includes an overview of the Group and its businesses, structure, functions and strategic aims; training on key legal matters relevant to the Group and its policies (such as matters relevant to Anti-Bribery and Whistleblowing policies and procedures), site visits to the Group's head office in London and a number of the Group's portfolio companies, including, where possible, at least one or more within the Group's top ten holdings (by value), which will include (as a minimum) 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 external governance specialists, to ensure that any new directors are fully aware of and understand their responsibilities and obligations as a director of a FTSE 250 company and of the governance and legislative framework within which they must operate.

The content of the induction process is regularly re-evaluated by the Board to ensure it remains tailored to the needs of the business of the Group and the specific profile of any incoming candidate. Following the completion of an induction process for a new director, the Company Secretary will seek feedback from the relevant incoming director to assist with this refreshing of induction processes.

Following his appointment to the Board in October 2017 but given his existing in depth knowledge of both the Touchstone side of the combined Group and its portfolio companies as well as his understanding of the combined Group's business of commercialising science (having sat as a non-executive director of Touchstone Innovations plc since 20 March 2012), an abbreviated induction programme is currently being formulated with Professor David Begg to enable him to familiarise himself with the key assets on the IP Group side of the combined business, as well as its international and regulated businesses.

On an ongoing basis for all Directors, the Company Secretary arranges for an external governance specialist to attend one Board meeting annually to present on the key corporate governance changes over the previous 12 months and to signpost expected developments going forwards. In addition, the Board are kept updated on key legislative changes affecting the Group and how the Group is ensuring its compliance, including most recently, presentations on the preparatory work being undertaken by the Group in advance of the implementation of the General Data Protection Regulation (GDPR) and the work being done in response to the introduction of the corporate criminal offences in relation to the failure to prevent facilitation of tax evasion.

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 all of the Group's offices, its portfolio companies and its partner universities. Throughout 2018, it is anticipated that at least one of the Group's Board meetings or its strategy day(s) will be held off-site and a day where the Non-executive Directors receive presentations from management teams of a number of the Group's portfolio companies has been arranged to further this objective. In addition, 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. In 2018, it is intended that further presentations will be provided on a rolling basis by members of the newly created Life Sciences and Technology Partnerships (in place of the sector heads), as well as on the Group's sourcing strategy, and incorporated into the Board agenda in order to continue to update the Board on progress, to enhance the awareness of the Board as to how the Group operates on a day-to-day basis and explain how such functions assist in the execution of the Group's core strategy of systematically helping create, build and support outstanding intellectual property-based businesses.

As a further aspect of their ongoing development, each director also receives feedback on his or her performance following the Board's performance evaluation in each year and the Chairman reviews and agrees with each director their training and development needs for the year ahead. Access to training and development opportunities, including those relevant to the Non-executive Directors' membership on the Board's Committees, is facilitated through the Company Secretary. Details relating to the assessment of the Board's performance are set out below.

Board effectiveness and performance evaluation

In line with best practice under the Code a performance evaluation of the Board, its Committees and individual directors is conducted annually to ensure that Board performance continues to be effective, that each of the directors demonstrates commitment to his or her respective role and has sufficient time to meet their commitment to the Group. Further, the Code requires FTSE 350 companies to have an externally facilitated evaluation at least every three years.

The Group undertook an externally facilitated process of review for the year ended 31 December 2015 and so its next external review will be due towards the end of 2018. Accordingly, the review for the year ended 31 December 2017 (the "2017/2018 Effectiveness Review") was conducted internally by the Company Secretary, with support from Deloitte LLP on a limited scope basis. Deloitte LLP has no connection to the Group other than the provision of ad-hoc advice to the Remuneration Committee and the undertaking of prior Board evaluation activities.

This limited scope of engagement with Deloitte LLP for the 2017/2018 Effectiveness Review comprised:

- The distribution of an on-line internal survey for the purposes of assessing Board and Committee effectiveness, and including case studies around the Group's fundraising, its commencement of business in Australasia and its combination with Touchstone Innovations plc; and
- The completion of an analysis of the online survey data and collation of those results, reporting to the Company Secretary on the top-line findings.

The anonymity of all respondents was ensured throughout the process in order to encourage an open and frank exchange of views. The results were collated into a report by Deloitte and shared with the Board in February 2018, where the five areas which had scored lowest in the survey, as well as specific comments which had been made, were debated by the Board and certain actions were identified to be taken forward as follows:

- Deloitte LLP are to provide some guidance on what other company boards do by way of setting themselves performance specific goals distinct from the organisational goals to enable the Board to debate this further and settle on any such appropriate goals for itself; and
- The Company Secretary is to follow up further with the Chairman and the Non-executive Directors to discuss and agree what changes and/or additions they wish to see to the Board meeting agenda and papers and what specific reports they wish to receive at Board meetings on the combined business going forward and/or on each of the companies in the enlarged portfolio, from whom and the frequency of such reports.

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As part of its debate, the Board considered the merits of holding a mini-strategy day in the first 6 months of 2018; however, it was agreed that, in order to enable the integrated business to properly bed down, it was prudent to wait until its annual strategy day(s) in October 2018.

Finally, the Board considered the implementation of some of the findings of the 2016/2017 review and noted the following:

- In response to feedback regarding individual director assessments, an updated format was used this year which focuses on four key areas: board skills, board behaviours, governance and specific roles of the Board and its members; and
- In response to a request from Board members for opportunities to engage more fully with the Group's portfolio companies, a day has been scheduled in April 2018 for the Non-executive Directors to undertake site visits of a number of portfolio companies and to meet and receive presentations from members of their management teams.

Overall, it was concluded that the Board continues to work effectively, with demonstrable improvements being identified from the implementation of the findings of the previous year's review.

Director performance assessment and review

In addition to the 2017/2018 Effectiveness Review, 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.

Further, the performance of each of the Non-executive Directors on the Board is reviewed by the Chairman with support from the Company Secretary, the performance of the Chief Executive Officer is reviewed by the Chairman and the operational performance of the other Executive Directors is reviewed by the Chief Executive Officer as part of the annual appraisal process. In addition to the aforementioned annual reviews, the performance of the Executive Directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review, in order to avoid a conflict of interest.

Director rotation and independence

The Nomination Committee and the Company Secretary have agreed a standardised rotation schedule for each of the Non-executive Directors (including the Chairman), with each being appointed for an initial three year term pursuant to the terms of their respective letters of appointment; such initial three year team is then subject to renewal for subsequent three year term(s) and, other than the Chairman, to a maximum of three rolling three year terms in order to maintain his or her independence from a governance perspective in accordance with the Code. There is currently no maximum term on the Chairman's appointment but the Nomination Committee has agreed to keep this under review in light of possible amendments to the Code (currently being consulted upon) over the next 12 months.

During 2017, the second rolling three year terms of each of the tenures of Mike Humphrey and Jonathan Brooks were up for further renewal and the Board approved each of the same upon recommendation of the Nomination Committee to this effect.

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 table on page 73.

Remuneration and Audit and Risk Committees

Separate reports on the role, composition, responsibilities and operation of the Remuneration Committee and the Audit and Risk Committee are set out on pages 80 to 99 and pages 100 to 104 respectively.

Nomination Committee

The Nomination Committee leads the process for Board appointments and the re-election and succession of directors and the Chairman. Its key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that the Board is effective in discharging its duties.

It is responsible for making recommendations to the Board concerning the composition and skills of the Board including any changes considered necessary in the identification and nomination of new directors, the reappointment of existing directors and the appointment of members to the Board's Committees. It also assesses the roles of the existing directors in office to ensure there continues to be a balanced Board in terms of skills, knowledge, experience and diversity. Additionally, the Nomination Committee reviews the senior leadership needs of the Group which will enable it to compete effectively in the marketplace. The Nomination Committee also advises the Board on succession planning for Executive Director appointments although the Board as a whole is responsible for succession generally.

The Committee is chaired by Mike Humphrey. Its other members, as at 31 December 2017, were Jonathan Brooks, Professor Lynn Gladden, Professor David Begg and Dr Elaine Sullivan, ensuring a majority of independent Non-executive Directors as prescribed by the Code. To ensure compliance with the provisions of the Code, the independence of the Committee and to avoid any potential conflicts of interest, the Committee has agreed that Mike Humphrey will not chair any meetings of the Committee dealing with the appointment of a successor to the chairmanship of the Group.

The Nomination Committee meets as and when required, or as requested by the Board, and met twice during 2017. The attendance by each member of the Committee at the meetings during 2017 is set out on page 73. The Nomination Committee recommended the appointment of Professor David Begg as an additional Non-executive Director during the year in connection with the Group's combination with Touchstone Innovations. The Committee did not appoint an external search consultancy or use open advertising in connection with this Non-executive role as it saw no benefit in doing so, given its desire for the Board to have the advantage of Professor Begg's personal knowledge of the Touchstone business and its portfolio following the completion of the combination (as explained earlier under "Board size and composition").

In connection with any future appointments to the Board, the Committee will continue to adopt a formal, rigorous and transparent procedure, including giving full consideration to the balance, skills, knowledge, independence and diversity (including gender) on the Board in advance of any new search for a director to ensure a suitable balance is maintained (see paragraph headed "Diversity" on page 69 for a further explanation of the considerations made by the Committee in this regard). Consideration will also always be given to whether identified candidates have enough time available to devote to the role.

Succession Planning

The Nomination Committee recognises that putting in place a robust succession planning framework is a key factor in ensuring the ongoing, long term success of the business of the Group; in mitigating the risk of any unforeseen circumstances; and in ensuring that changes in Board or senior executive positions are effectively managed and do not cause significant disruption to the Group. In parallel to succession planning at the Board and senior executive level, developing internal talent at all levels within the Group remains a continuous process. The Nomination Committee is responsible for overseeing that suitable leadership and talent development plans and processes are in place to maximise the potential of the Group's employees and that the Group has effective recruitment policies to continue to attract and retain talented employees.

During 2017, the Group's HR Director continued to work with the Nomination Committee to further advance the Group's approach to succession planning although it was acknowledged at the Committee's meeting in December 2017 that the formalised plan which had been prepared in 2016 by the Group's HR Director in consultation with the Chairman, the Group's Chief Executive Officer, and Company Secretary would require a detailed review and updating to reflect the Board and senior management structure of the combined Group following the Touchstone Innovations combination. It is intended that this review work will be commenced in March 2018, led by the Group's HR Director in consultation with the Chairman and others as necessary subject to the succession matter in question.

In addition, the Committee together with the Group's HR Director is responsible for developing and monitoring the Group's own internal talent pipeline. Whilst it is the opinion of the Committee that sound systems and procedures are already in place to ensure the development of the Group's employees at all levels of the organisation, the Committee along with the Executive Directors will continue to oversee further enhancement of the same for the staff of the enlarged Group during 2018, with support from the HR Director and her team.

Corporate governance statement CONTINUED

Internal control

The Board fully recognises the importance of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Group's internal controls, which are Group-wide and were in place during the whole of 2017, were reviewed by the Board and were considered to be effective throughout the year ended 31 December 2017.

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 are up to the date when 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 2017.

Identification and evaluation of principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. The Board actively identifies and evaluates the risks inherent in the business, formally reviews these on at least an annual basis (or as market or business developments require) and ensures that appropriate controls and procedures are in place to monitor and, where possible, mitigate these risks. Specifically, all decisions relating to strategic partnerships and other collaborations and strategic acquisitions and disposals 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. In order to ensure the effective facilitation of this review the Board receives a formal presentation and update from the Group's Managing Director, New Business and Partnerships Team annually alongside regular reporting within the regular Board papers on a rolling agenda basis.

The Board also reviews equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate dependent on their relative size as regards the aggregate portfolio as a whole.

The Board maintains an up-to-date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 48 to 53. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

Information and financial reporting systems

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

Relations with shareholders

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

Where considered appropriate, major institutional shareholders are consulted on significant changes to the Board and the structure of the Executive Directors' remuneration. In addition, during 2017, the Executives Directors and the Chairman had various dialogue with major shareholders in connection with the Touchstone combination in order to develop an understanding of their views. These views were then communicated to the Board as a whole so they could be considered during the Board discussions and deliberations in connection with the transaction.

The Company uses the Annual General Meeting ("AGM") as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 10.30am on 18 June 2018 at IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF is enclosed with this report. In line with the Code, the Notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against or to withhold their vote on each resolution. The results of all proxy voting are published on the Group's website after the meeting and declared at the meeting itself to those shareholders who attend. Shareholders who attend the AGM will have the opportunity to ask questions and all directors are expected to be available to take questions.

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

Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties, and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board has raised a concern 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 10 May 2017 as per previous AGMs, 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 10 May 2017 up to the conclusion of the 2018 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 2018 AGM, to be held on 18 June 2018, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

Going concern

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

ON BEHALF OF THE BOARD

MIKE HUMPHREY
CHAIRMAN

29 March 2018

Directors' remuneration report
REMUNERATION STATEMENT

"Evolving our principles of remuneration to create a more attractive employment proposition for the enlarged Group."

JONATHAN BROOKS CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of your Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 31 December 2017.

2017 Performance and incentive out-turns

The Group's Return on Hard NAV for 2017 was £64.1m, a significant improvement on the negative £7.6m return for 2016. The acquisition of Touchstone completed in October 2017. The Committee decided that the one-off acquisition and restructuring costs of £9.1m relating to the Touchstone combination as well as the £0.3m uplift in the Touchstone NAV between completion and 31 December 2017 should be excluded from the determination of the Return on Hard NAV for the purposes of the 2017 award. The resulting AIS outturn for 2017 is 57.3% of maximum opportunity.

In contrast, the cumulative three-year return on the Group's Hard NAV did not meet the 8% per annum threshold target for the Group's 2015 LTIP awards scheduled to vest in March 2018. Further, while the actual absolute Total Shareholder Return ("TSR") performance period for the 2015 LTIP awards runs until 31 March 2018, based on the Group's share price at the date of this report, the minimum 8% annualised return has not been met. As a result, it is currently anticipated that none of the 2015 awards will vest.

The Committee considers that these outcomes reflect the Committee's 'pay for performance' principles and the stretching, objective incentive targets.

We provide transparent disclosure of our annual bonus performance targets on both a retrospective and, where appropriate, prospective basis. Details of the annual bonus targets for 2017 and forward-looking targets for 2018 are contained in this report.

Remuneration Principles

The enlargement of the Group in 2017 necessitated a review of our existing approach across the entire senior management team to ensure our principles of remuneration continued to be appropriate. We have reviewed our remuneration approach and are pleased to conclude that, in general terms, the existing remuneration principles did not require fundamental change though it was necessary to rebalance the incentive components of remuneration for some senior managers as well as modifying the blend of individual and team performance targets in determining AIS outcomes. No changes were proposed, however, for the longer term incentive plans, which for executive directors and managers remains the LTIP, while those employees most able to influence portfolio company performance (excluding Executive Directors) also participate in the Long Term Incentive Carry Scheme ("LTICS").

The framework for our executive directors is summarised below:

Salary	• Typically, salaries approach the bottom end of a market competitive range for similar sized companies
Pension	• 10% of salary contribution to Company defined contribution plan, personal pension plan or cash equivalent
AIS	• Maximum 100% of salary • Based on stretching return on Hard NAV targets disclosed retrospectively and prospectively and other relevant 'leading indicators' of performance as determined by the Committee each year • Half of any bonus above a minimum amount deferred into equity over two-year period • AIS arrangements cascade to all employees in the business
LTIP	• Annual awards of 300% of salary (CEO) and 200% of salary (other executive directors) • Based on stretching Hard NAV and TSR growth targets (with a relative TSR underpin) • Includes a two-year post-vesting holding period • LTIP arrangements will no longer cascade to all employees in the business but will be reserved for managerial levels and roles which are expected to have a material financial impact on the Group's outcomes.
Shareholding guidelines	• 200% of salary (CEO) and 150% (other executive directors)
Clawback	• Comprehensive clawback provisions on all variable elements

Executive Directors' base salaries for 2018

As described in the 2016 Remuneration Report the salaries of the executive directors have been increased using a phased approach over several years to reach a level close to the lower quartile when compared to a peer group of companies of similar size and complexity. Although the Group increased significantly in size and complexity during 2017, the Committee decided that increases in base salaries for 2018 should not exceed the average increase awarded to other UK-based employees at this juncture. Instead it decided to review the salaries of the executive directors only after all of the organisational changes associated with the enlargement of the Group had been established. The Committee therefore expects to review the Executive Directors' remuneration in the second half of 2018 to ensure they remain market-competitive.

The average increase in base salaries for employees in 2018 is 4%. The Committee has determined that the base pay increases for the executive directors, to be implemented in April 2018, will be lower than the average for the wider employee population as follows:

- The CEO's base salary will be increased by 3.8% to £415,000;
- The other Executive Directors' salaries will be increased by 3.8% to £275,000.

More detail on the executive director salary increases is set out on page 88.

Directors' remuneration report CONTINUED

REMUNERATION STATEMENT

Executive Directors' AIS and LTIP opportunities

There will be no change to the maximum AIS or LTIP opportunities for 2018. However, for 2018, in addition to basing the AIS on the improvement in 'Hard NAV' the Committee is introducing three further components that it considers are 'leading indicators' of underlying business performance. These measures are (i) cash realisations from the portfolio, (ii) third party capital raised by portfolio companies, and (iii) the level of net operating expenses.

Committee Chairmanship

As I described in last year's report, my intention was to stand down as Chair of the Remuneration Committee during 2017. The Nominations Committee have now determined that Professor Lynn Gladden, who has been a member of the Remuneration Committee since 2014, will assume the role of Chair with effect from the date of the Group's 2018 AGM. I will remain a member of the Committee and look forward to continuing to work with Professor Gladden to further develop and monitor the Group's remuneration strategy.

Approval of the Remuneration Report in 2017

The 2016 Directors' Remuneration Report received 98.9% of votes cast in favour at our AGM in May 2017 and, while this indicated a strong level of support, the Group remains as committed as ever to engagement and 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. I know that Professor Gladden shares this view and would herself welcome discussion on the Group's remuneration.

Structure of this report

The following pages contain an extract of our Remuneration Policy (as approved by shareholders), a summary of how we intend to implement the policy during 2018, and the detailed disclosure of outcomes in respect of 2017.

ON BEHALF OF THE BOARD

JONATHAN BROOKS
CHAIRMAN OF THE REMUNERATION COMMITTEE

29 March 2018

Directors' remuneration report

REMUNERATION POLICY AND COMPONENTS

The Remuneration Policy was approved at the AGM held on 12 May 2016 and was effective as of that date. An extract of the policy table for executive directors contained in that policy is re-produced below for information only. The full Remuneration Policy is contained on pages 65 to 74 of the 2015 annual report which is available in the investor relations section of the Group's website.

Where relevant, references previously to 2015 or 2016 have been updated to reflect the application in 2016, 2017 and 2018.

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	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. Following shareholder consultation in 2015, the Committee has implemented a number of phased salary increases to executive directors over 2015 – 2018.	None, although performance of the individual is considered by the Committee when setting and reviewing salaries annually.

Directors' remuneration report

REMUNERATION POLICY AND COMPONENTS

Component	Purpose and link to strategy	How this component of	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. No element other than base salary is pensionable.	Maximum pension is 15% of base salary, however current operation is 10% of base salary for all executive directors.	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 Ride 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 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 limit.	Not applicable

Component	Purpose and link to strategy	How this component of	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"). 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. Given the Group's salary year currently runs from 1 April to 31 March, the base salary used will normally be that which is in effect at the end of the annual financial year to which the award relates.	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. • Performance will typically be measured over one year.

Directors' remuneration report CONTINUED

REMUNERATION POLICY AND COMPONENTS

Component	Purpose and link to strategy	How this component of	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 was 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 a significant error in financial information the Company will be entitled to reduce the number of shares in respect of an unvested award and/or claw back any shares subject to the post vesting holding period. Calculations of the achievement of the vesting targets are reviewed and approved by the Committee.	The maximum annual level of award is: • 300% of salary for the Chief executive officer; and • a lower percentage for other Executive Directors Each year the Committee determines the annual award for each executive director within the above Policy limits. The award level for 2018 shall continue to be 300% of the 2018/19 base salary for the Chief Executive Officer and 200% for all other executive directors. 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 where an award could not be made in the relevant year and needs to be made in a subsequent year).	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.

Directors' remuneration report

ANNUAL REMUNERATION STATEMENT

Statement of implementation of remuneration policy in the following financial year

Following the extensive consultation with shareholders undertaken during 2015 and early 2016, we undertook phased changes to certain of the Executive Directors' base salaries so that from 2017/18 they would be around lower quartile of a peer group of companies of a similar size and complexity to the Group. In addition, new Executive Directors' LTIP opportunities were implemented reflecting our performance-based philosophy with a focus on the long term and consistent with a 'lower base/higher variable' approach.

Salary and fixed components

With effect from 1 April 2018, the base salaries of the Executive Directors will be:

	2018/19 base salary	%
Alan Aubrey (CEO)	£415,000	3.8% (£15,000)
Mike Townend (CIO)	£275,000	3.8% (£10,000)
Greg Smith (CFO)	£275,000	3.8% (£10,000)
David Baynes (COO)	£275,000	3.8% (£10,000)

As has been the case for a number of years, the Committee considers that, as part of a competitive overall package, base salaries should be within a market-competitive range. Given IP Group's business model and stage of development, this is currently considered to be within lower quartile to median of companies of a similar size and complexity.

While the Group has significantly increased in size and complexity during, the Committee has determined that it will continue with its previously-stated approach as set out in the Remuneration Policy whereby any increases will not normally exceed the average increase awarded to other UK-based employees. For context, the average increase across all employees in the UK business, excluding executive directors and new joiners, was higher than the executive director population at 4.86% in 2017 and is anticipated to be approximately 6.35% for 2018. The Committee intends to review the Executive Directors' base salaries later in 2018 to ensure they remain market-competitive.

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

Incentives

As described above, in 2016 the Committee implemented a change in the variable earning opportunity for the executive directors consistent with our 'pay for performance' and 'low base/high long-term variable' approach to executive remuneration and intends to continue to apply the same approach in 2018.

Consistent with the maximum opportunity for the 2017 LTIP awards, the 2018 LTIP awards will continue to be made at 300% of base salary for the CEO and 200% of base salary for all other Executive Directors. Performance will continue to be assessed against growth in Hard NAV and TSR performance (with the underpin based on relative TSR against the FTSE 250) as per the vesting tables for the 2015 LTIP set out on page 89. Any awards that vest, net of any tax and NICs liabilities, will continue to be subject to a further two-year holding period.

The maximum AIS opportunity will remain at 100% of base salary for all Executive Directors. The 2017 AIS had a single performance measure, being the annual return achieved on the Group's Hard NAV. The Committee considers that it remains appropriate for a significant proportion of the AIS to be based on this performance measure since it is one of the most important metrics on which to judge the underlying success of the business. However, for 2018 the Committee is introducing three further components that it considers are 'leading indicators' of underlying business performance. These measures are (i) cash realisations from the portfolio, (ii) third party capital raised by portfolio companies, and (iii) the level of net operating expenses. In line with the Group's Remuneration Policy, in excess of 50% of the AIS performance will be based on annual return on Hard NAV.

Directors' remuneration report CONTINUED
ANNUAL REMUNERATION STATEMENT

As in prior years, the Committee has determined the performance metrics that are required to be achieved. In terms of the Return on Hard NAV target, as before the Committee has taken into consideration the blend of assets that constitute the Group Hard NAV, particularly the relative level of cash on which it is not currently possible to achieve a return in excess of approximately 1%. Reflecting our commitment to transparency, we are again disclosing this AIS target on a prospective basis. For 2018, the Committee has determined that threshold vesting for this of 25% of the maximum award will be available provided a minimum return of 6% is achieved while the maximum awards pool will be available should a return of 16% or greater be achieved. In absolute terms, this requires the achievement of a return on hard NAV in excess of £80m before any AIS may be awarded and a return in excess of £210m in order for full awards to be made. The targets relating to the additional measures outline above, as well as the performance against these targets, will be disclosed in the 2018 Directors' Remuneration Report. Overall, the targets are considered by the Committee to be appropriately stretching, particularly in light of the 2017 performance out-turns and the current economic climate.

Chairman and Non-Executive Directors

The fees for the Chairman for 2018/19 shall be £156,000, a 4.0% increase from the annual fee since his appointment in 2015. The fees of the Non-Executive Directors will be increased to £43,500 reflecting a 3.6% increase compared to 2017/18. Additional fees for chairmanship of a board committee, or for being senior independent director, shall increase to £10,000.

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 2016 and 2017.

	Base salary/fees		Benefits		Pension[1]		Annual Bonus (AIS)[2]		LTIP[3]		Total	
All £000s	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Executive Directors												
Alan Aubrey[4]	**284**	232	**6**	4	**33**	29	**229**	—	**—**	—	**552**	265
Mike Townend	**263**	254	**8**	7	**23**	23	**152**	—	**—**	—	**446**	284
Greg Smith	**259**	232	**5**	5	**27**	23	**152**	—	**—**	—	**443**	260
David Baynes[5]	**263**	254	**10**	17	**27**	25	**152**	—	**—**	—	**452**	296
Non-executive directors												
Mike Humphrey	**150**	150	**4**[6]	3	**—**	—	**—**	—	**—**	—	**154**	153
Jonathan Brooks	**57**	55	**—**	—	**—**	—	**—**	—	**—**	—	**57**	55
Doug Liversidge	**50**	47	**1**[6]	1	**—**	—	**—**	—	**—**	—	**51**	48
Lynn Gladden	**42**	40	**—**	—	**—**	—	**—**	—	**—**	—	**42**	40
Elaine Sullivan	**42**	40	**1**[6]	1	**—**	—	**—**	—	**—**	—	**43**	41
David Begg[7]	**9**	—	**—**	—	**—**	—	**—**	—	**—**	—	**9**	—

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

2 The Group did not achieve the threshold performance level required for there to be an AIS bonus pool in 2016. AIS Bonus reflects total award value however any awards are payable 50% in cash and 50% in IP Group shares, with the share element subject to time-based vesting over two years.

3 The LTIP values for 2017 are based on none of the 2015 LTIP awards vesting in March 2018 based on the performance conditions at 23 March 2017. The 2014 LTIPs did not vest in 2016. Further information about the level of vesting for both of these awards is provided in the additional disclosures section pages 89 and 90.

4 In addition, Alan Aubrey retained board fees in 2017 totalling £102,499 (2016: £101,667) from portfolio companies in which the Group is a shareholder and that were deducted from his base salary, as described further under "Outside appointments for executive directors" on page 86.

5 David Baynes received reimbursement of certain travel costs considered commensurate with a car allowance, which were subject to PAYE/NI.

6 Commuting costs for Non-Executive Directors are reimbursed and are subject to PAYE/NI.

7 Prof. David Begg joined the Group's Board on 18 October 2017.

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

Annual incentive scheme

The targets for the 2017 AIS were solely financial in nature and were based on the annual return on hard net assets (i.e. excluding intangible assets) which were £706.5m at 31 December 2016. The targets for 2017 and the outturn against these were as follows:

Performance condition	Vesting criteria	Actual Performance
Return on Hard NAV	6% return (£42.4m): 25% of maximum opportunity ("threshold")16% return (£113.0m): 100% of maximum opportunity	10.3% return (£73.2m): 57.3% of maximum opportunity

As shown previously, the Group's Return on Hard NAV for 2017, including acquisition and restructuring costs of £9.1m, was £64.1m, a significant improvement on the negative £7.6m return for 2016. The acquisition of Touchstone completed in October 2017. The Committee decided that these one-off costs relating to the Touchstone combination as well as the £0.3m uplift in the Touchstone NAV between completion and 31 December 2017 should be excluded from the determination of the Return on Hard NAV for the purposes of the 2017 award. The resulting Return on Hard NAV for 2017 is 10.3% and the Committee allocated 57.3% of the total available award pool. In accordance with the Group's Remuneration Policy, all amounts to individuals above an initial minimum amount paid in cash, which for the 2017 AIS will be £25,000, will be paid 50% in cash and 50% in shares (deferred over two years using the Group's DBSP).

Long-term incentive scheme

2015 LTIP awards due to vest in March 2018

The 2015 LTIP awards are based on the performance of the Group's Hard NAV (the Group's net assets excluding intangibles and the Oxford Equity Rights asset) for the three financial years ending on 31 December 2017 and Total Shareholder Return ("TSR") from March 2015 to the ordinary vesting date, being 31 March 2018, using a one-month average. Both performance measures are combined into a matrix format as per the vesting table below. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%.

Vesting matrix: estimated 2015 LTIP out-turn

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[1] (at 31 Dec 2017)	8%: £1,369m 15%: £1,540m	£1,326m (6% p.a. growth)
Annual TSR[2] (share price)	8%: 261p 15%: 12p	106p (-22% p.a. growth)
Comparative TSR	FTSE 250 +14.5%	IP Group -51%

1 Hard NAV target increased by Committee to reflect £385.1m Touchstone Hard net assets acquired in 2017 and net proceeds of £359.9m from the Group's 2015 and 2017 placings.

2 TSR performance shown reflects the Group's one-month average share price to 23 March 2018. Actual performance period is the one-month average to 31 March 2018.

The actual performance of the Group in terms of Hard NAV growth was below threshold and based on the 1-month average share price to 23 March 2018, was below the lower TSR target and that of the FTSE 250 TSR performance. On this basis, the 2015 LTIP award is not expected to meet the minimum performance criteria required for vesting. The amounts disclosed above in the single remuneration figure table are based on this performance and resulting expected outcome. Actual vesting will be based on TSR performance to 31 March 2018.

Directors' remuneration report CONTINUED

ANNUAL REMUNERATION STATEMENT

2014 LTIP awards that were due to vest in March 2017

The following table sets out the outcomes of the performance measures relating to the 2014 LTIP awards against the vesting criteria.

Vesting matrix: actual 2014 LTIP out-turn

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

Performance condition	Target Performance	Actual Performance
Hard NAV[1] (at 31 Dec 2016)	8%: £750m 15%: £885m	£706m (6% p.a. growth)
Annual TSR[2] (share price)	8%: 266p 15%: 321p	158p (-8% p.a. growth)
Comparative TSR[2]	FTSE 250 +28%	IP Group -25%

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

2 Group TSR performance based on the one-month average to 31 March 2017.

As can be seen from the performance outcomes table, the Hard NAV growth performance measure and Group's Annual TSR did not meet the minimum threshold performance. Based on the vesting matrix, this resulted in none of the 2014 awards vesting.

2017 LTIP awards

The 2017 LTIP awards were made based on 29 August 2017 with a face value of 300% of salary for the CEO and 200% of salary for other Executive Directors, based on the share price at date of grant and vesting subject to performance. Awards are calculated by reference to the salary effective for the 2017/18 salary year. Any conditionally-awarded shares that vest (net of tax) shall be subject to a two-year holding period.

The performance conditions that apply to both of these awards will follow the same matrix structure with the same vesting parameters as that set out above for the previous awards. Hard NAV growth will be measured over the three-year period to 31 December 2019 (starting point: £706.5m). TSR would ordinarily be measured from the day before the date of award (in this case 30 August 2017) to 31 March 2020 with a one-month average however given the one month average at this time was lower than the Group's recent placing price of 140p, the Committee determined that the performance condition should be based on this higher starting point of 140p. The underpin will be with reference to TSR performance against the FTSE 250 over this same period. Similarly, the number of conditional LTIP awards granted for the Executive Directors was calculated based on the 140p placing price rather than the 115.1p closing price on the day before the awards were made.

Executive Director	Type of interest	Basis of award (% salary)	Face value[1] (000s)	Threshold vesting[2]	End of performance period
Alan Aubrey	2017 LTIP	300%	£1,200	30%	31 Dec 2019 (NAV) / 31 Mar 2020 (TSR)
Mike Townend	2017 LTIP	200%	£530	30%	31 Dec 2019 (NAV) / 31 Mar 2020 (TSR)
Greg Smith	2017 LTIP	200%	£530	30%	31 Dec 2019 (NAV) / 31 Mar 2020 (TSR)
David Baynes	2017 LTIP	200%	£530	30%	31 Dec 2019 (NAV) / 31 Mar 2020 (TSR)

1 The number of shares corresponding to the face value is calculated using the share price of 140p for all Executive Directors rather than the 115.1p that was the closing price of the Group's shares on the date of award.

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

Loss of office payments or payments to former directors (audited information)

No payments for loss of office were made to past directors during the year nor were any payments made to former directors for director duties that have not already been included in their historic single figures of remuneration.

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

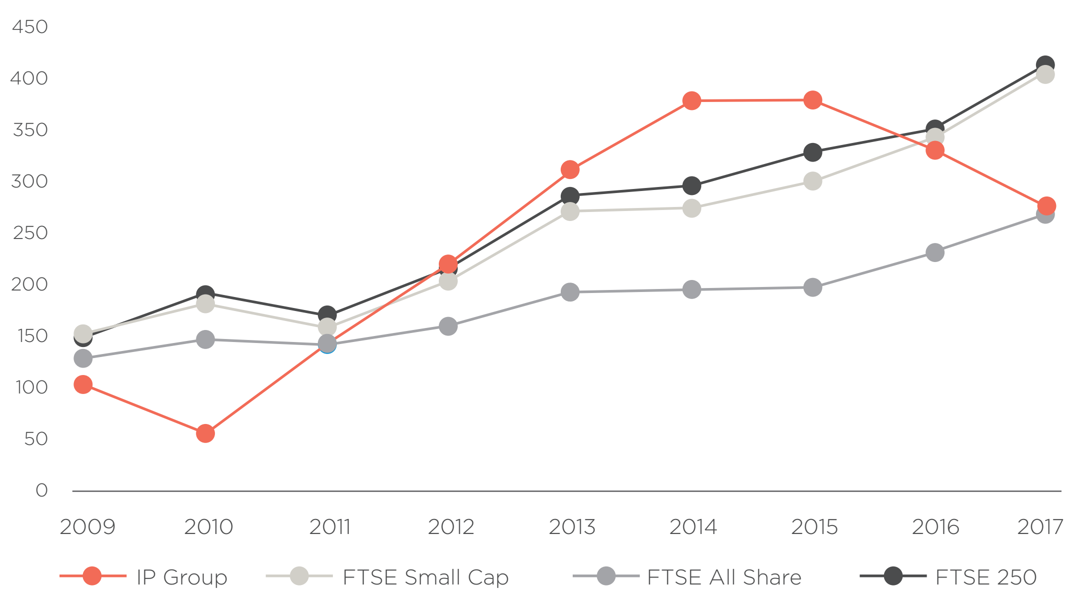
The table below sets out the increase in the remuneration of the CEO and that of our UK employees (excluding Directors and new joiners/leavers):

	% change in base salary 2016 to 2017	% change in bonus 2016 to 2017	% change in benefits (exc. pensions) 2016 to 2017
CEO	15.9%	100%	50%
UK employees	4.4%	100%	6.4%

Historical executive pay and Group performance

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

The chart below shows the Group's TSR performance against the performance of the FTSE All-Share, FTSE SmallCap and FTSE 250 indices over the nine-year period to 31 December 2017. The Directors have selected these indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during a significant proportion of the period in question and against which total shareholder return of IP Group plc should be measured.



Directors' remuneration report CONTINUED
ANNUAL REMUNERATION STATEMENT

Historical Chief Executive Officer remuneration outcomes

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

Chief Executive Officer: Alan Aubrey	2009	2010	2011	2012	2013	2014	2015	2016	**2017**[1]
CEO single figure of remuneration (£000s)	223	193	209	3,257	2,231	902	669	265	**552**
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%	0%	100%	0%	**57%**
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%	100%	57%	0%	**0%**

1 LTIP vesting is based on the current expectations of the performance against the 2015 LTIP targets as discussed on page 89.

Relative spend on pay

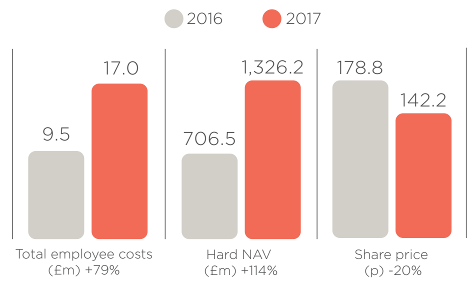
The chart below shows the total employee costs, change in Hard NAV and change in share price from 2016 to 2017.

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

Total employee pay: Total employee costs from note 9 on page 137 including wages and salaries, social security costs, pension and share-based payments.

Change in "hard" NAV: change in the Group's net assets excluding goodwill, intangibles and the Oxford Equity Rights asset taken from the statement of financial position on page 117.

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 2016 to 31 December 2017.



Directors' shareholdings and share interests (audited information)

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

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

This level of shareholding is required to be met within four years of each director's date of appointment (or by 1 July 2017, if later). If the guideline is not met by any Executive Director 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, Alan Aubrey, Mike Townend and Greg Smith met this requirement while David Baynes was required to meet the requirement by 19 March 2018 (being the date which is four years following his appointment as director). David Baynes has previously met this requirement and share price fluctuations during the year have resulted in this requirement being marginally off targeted levels at 19 March 2018. The directors are mindful of Committee guidance on this matter and will work with the Committee to ensure that minimum levels are maintained, including as described above, retaining all shares received under the AIS or LTIP awards, other than as required to meet tax and NIC liabilities.

Interests in shares

The Directors who held office during 2017 had the following beneficial interests in the ordinary shares of the Company:

	31 December 2017	
Current directors	**Number of shares**	**% of share capital**
Alan Aubrey	2,566,428	0.24%
Mike Townend	1,136,902	0.11%
Greg Smith	288,351	0.03%
David Baynes	246,975	0.02%
Jonathan Brooks	64,616	0.01%
Mike Humphrey	86,153	0.01%
Doug Liversidge	75,297	0.01%
Lynn Gladden	–	–
Elaine Sullivan	–	–
David Begg	40,628	0.00%

There have been no changes in the interests of the directors set out above between 31 December 2017 and 29 March 2018.

Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2017	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2017	Share price at date of conditional award (p)	Earliest vesting date(s)
Alan Aubrey							
2014 LTIP	147,042	—	—	(147,042)	—	177.5	31-Mar-17
2015 LTIP	124,751	—	—	—	124,751	214.5	31-Mar-18
2016 LTIP	664,313	—	—	—	664,313	155.8	31-Mar-19
2017 LTIP	—	857,142	—	—	857,142	112.5*	31-Mar-20
	936,106	**857,142**	**—**	**(147,042)**	**1,646,206**		
Mike Townend							
2014 LTIP	117,634	—	—	(117,634)	—	177.5	31-Mar-17
2015 LTIP	99,801	—	—	—	99,801	214.5	31-Mar-18
2016 LTIP	327,342	—	—	—	327,342	155.8	31-Mar-19
2017 LTIP	—	378,571	—	—	378,571	112.5*	31-Mar-20
	544,777	**378,571**	**—**	**(117,634)**	**805,714**		
Greg Smith							
2014 LTIP	94,310	—	—	(94,310)	—	177.5	31-Mar-17
2015 LTIP	89,409	—	—	—	89,409	214.5	31-Mar-18
2016 LTIP	306,803	—	—	—	306,803	155.8	31-Mar-19
2017 LTIP	—	378,571	—	—	378,571	112.5*	31-Mar-20
	490,522	**378,571**	**—**	**(94,310)**	**774,783**		
David Baynes							
2014 LTIP	117,634	—	—	(117,634)	—	177.5	31-Mar-17
2015 LTIP	99,801	—	—	—	99,801	214.5	31-Mar-18
2016 LTIP	327,342	—	—	—	327,342	155.8	31-Mar-19
2017 LTIP	—	378,571	—	—	378,571	112.5*	31-Mar-20
	544,777	**378,571**	**—**	**(117,634)**	**805,714**		

* note that the number of conditional LTIP awards made in 2017 was calculated using the Group's recent 140p placing price

Deferred bonus share plan ("DBSP")

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

	Options held at 1 January 2017	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2017	Share price at date of award (p)	Earliest vesting date(s)
Alan Aubrey							
Deferral from 2013 AIS	33,037	—	(33,037)	—	—	192.4	15-Apr-16
Deferral from 2015 AIS	42,710	—	(42,710)	—	—	175.6	31-Mar-17
Deferral from 2015 AIS	42,710	—	—	—	42,710	175.6	31-Mar-18
	118,457	**—**	**(75,747)**	**—**	**42,710**		
Mike Townend							
Deferral from 2013 AIS	22,024	—	(22,024)	—	—	192.4	15-Apr-16
Deferral from 2015 AIS	25,981	—	(25,981)	—	—	175.6	31-Mar-17
Deferral from 2015 AIS	25,981	—	—	—	25,981	175.6	31-Mar-18
	73,986	**—**	**(48,005)**	**—**	**25,981**		
Greg Smith							
Deferral from 2013 AIS	15,593	—	(15,593)	—	—	192.4	15-Apr-16
Deferral from 2015 AIS	22,637	—	(22,637)	—	—	175.6	31-Mar-17
Deferral from 2015 AIS	22,637	—	—	—	22,637	175.6	31-Mar-18
	60,867	**—**	**(38,230)**	**—**	**22,637**		
David Baynes							
Deferral from 2015 AIS	25,981	—	(25,981)	—	—	175.6	31-Mar-17
Deferral from 2015 AIS	25,981	—	—	—	25,981	175.6	31-Mar-18
	51,962	**—**	**(25,891)**	**—**	**25,981**		

Save-as-You-Earn ("SAYE")

The Group operates an HMRC-registered SAYE share save scheme for all UK employees in which two Executive Directors are current participants. Their currently outstanding option contracts under the SAYE and the respective maturity dates are listed in the table below.

	Options held at 1 January 2017	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2017	Option exercise price (p)	Share price at date of award (p)	Earliest vesting date(s)
Greg Smith								
2014 SAYE	4,105	—	—	(4,105)	—	144.7p	198.3p	01-Aug-17
2015 SAYE	3,459	—	—	(3,459)	—	171.7p	235.6p	01-Oct-18
2017 SAYE	—	12,631	—	—	12,631	114.0p	141.3p	31-Aug-20
	7,564	**12,631**	**—**	**(7,564)**	**12,631**			
David Baynes								
2014 SAYE	4,975	—	—	—	4,975	144.7p	198.3p	01-Aug-17
2015 SAYE	4,193	—	—	(4,193)	—	171.7p	235.6p	01-Oct-18
2017 SAYE	—	9,473	—	—	9,473	114.0p	141.3p	31-Aug-20
	9,168	**9,473**	**—**	**(4,193)**	**14,448**			

Directors' remuneration report CONTINUED

ANNUAL REMUNERATION STATEMENT

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 2017 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2017 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2017 £000
Executive Directors							
Alan Aubrey	56	0.18%	55	—	55	—	34
Mike Townend	56	0.18%	55	—	55	—	34
Greg Smith	35	0.11%	35	—	35	—	21
Total	**147**	**0.47%**	**145**	**—**	**145**	**—**	**89**

Carried interest arrangements

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

	Fund[i]	Carried interest[ii] at 1 January 2017	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme Interest at 31 December 2017[iii]	Accrued value[iv] of scheme interest at 31 December 2017 £000
Executive Directors							
Alan Aubrey	IPVF	1.81%	—	—	—	1.81%	340
	NETF	1.55%	—	—	—	1.55%	—
Mike Townend	IPVF	1.81%	—	—	—	1.81%	340
	NETF	1.15%	—	—	—	1.15%	—
Greg Smith	IPVF	1.14%	—	—	—	1.14%	214
	NETF	0.85%	—	—	—	0.85%	—

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

ii Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits assuming the relevant hurdle return has been met.

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

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

Former Fusion IP LTIP

While serving as an executive director of Fusion IP plc, which was acquired by the Group in 2014, Mr Baynes was conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, Mr Baynes' Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards were originally due to vest on

31 December 2017 provided certain performance conditions were met which relate to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. In summary, if Fusion NAV growth of 10% per annum is achieved then 30% of an award shall vest. Maximum vesting will occur if Fusion NAV growth of 20% per annum is achieved with straight-line vesting between 30% and 100% if Fusion NAV growth of 10%-20% per annum is achieved. The options expired on 31 December 2017 as the vesting criteria had not been met.

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

Outside appointments for executive directors

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

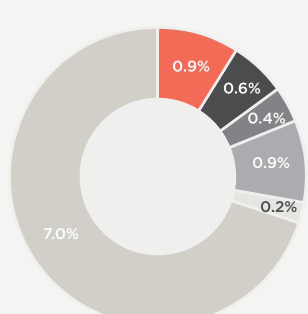
Any outside appointments (i.e. excluding those companies in which the Group is a shareholder) held by executive directors are set out on page 97.

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 2017.

As at 31 December 2017, the Company's headroom position, which remains within such guidelines, was as shown in the chart to the right.



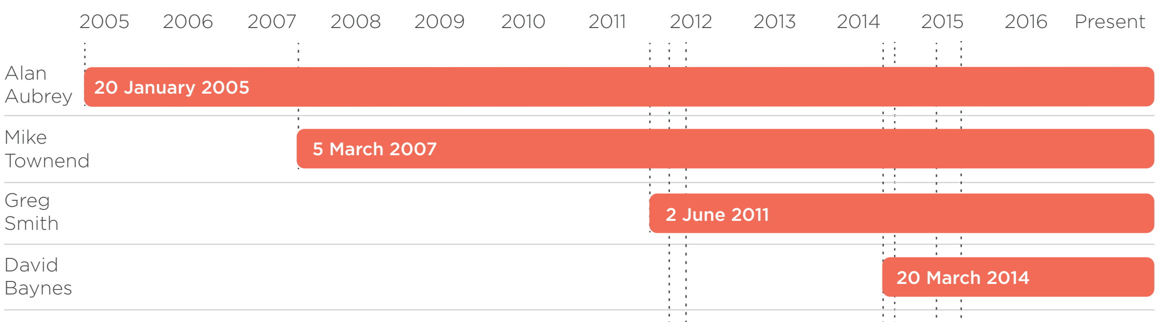
- Vested LTIP awards in past 10 years – Executives 0.9%
- Vested LTIP awards in past 10 years – Other staff 0.6%
- Outstanding LTIP awards – Executives 0.4%
- Outstanding LTIP and Former Touchstone LTIP awards – Other staff 0.9%
- Other share schemes (Sharesave, DBSP, etc.) 0.2%
- Additional headroom 7.0%

Directors' remuneration report CONTINUED
ANNUAL REMUNERATION STATEMENT

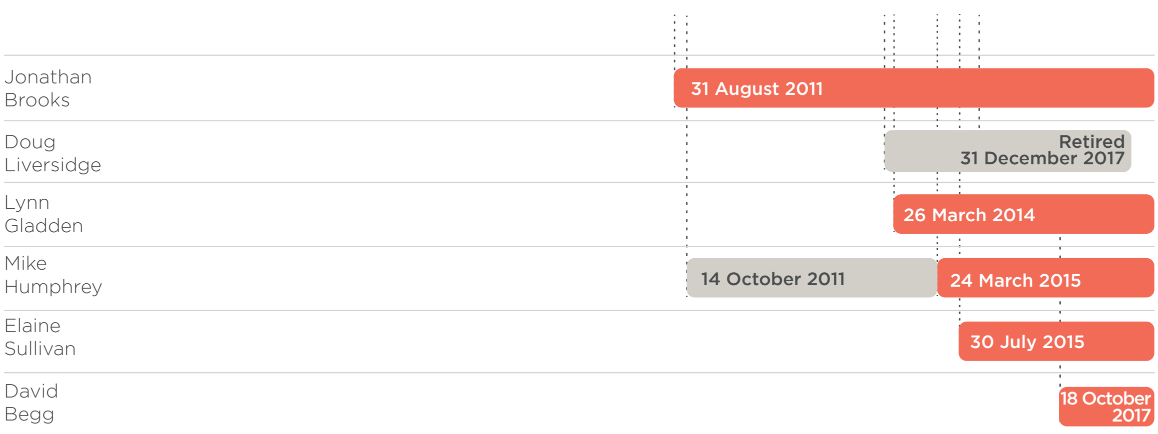
Service agreements

The Executive Directors have service contracts that commenced on the dates set out in the chart below 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 below 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



Consideration by the Directors of matters relating to directors' remuneration

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

The Remuneration Committee currently comprises the following independent non-executive directors whose backgrounds and experience are summarised on pages 62 and 63:

Jonathan Brooks (Chair)
Mike Humphrey
Lynn Gladden (Chair-designate, with effect from the 2018 AGM)
Elaine Sullivan
David Begg

Doug Liversidge retired from the Board and its committees in December 2017 but served as a member of the Committee throughout 2017. David Begg joined the Committee in October 2017.

Committee meetings are administered and minuted by the Company Secretary. In addition, the Committee received assistance from the CFO, CEO and COO 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 philosophy to ensure it continues to promote the Group's strategy, including the blend of fixed and short and longer-term variable pay.
- Consideration of the skills and experience of the Executive Directors and carrying out of benchmarking in order to determine base salaries and total remuneration opportunity for the period 1 April 2017 to 31 March 2018 and giving further consideration to base salaries and total remuneration opportunity with effect from 1 April 2018.
- Review of the Group's approach to non-director remuneration including base salaries and incentive scheme targets and pay-outs.
- Consideration of LTIP awards and vesting targets for 2017 and 2018 awards and outturns for the 2014 and 2015 awards.
- Consideration of AIS awards and vesting targets for 2017 and 2018 as well as outturns for 2017.
- Review and consideration of the further evolution of the application of the Group's Remuneration Policy for non-director employees with particular consideration for matters related to the integration of Touchstone Innovations.
- Approval of the Group's DRR.

External advisers

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

During the year the Remuneration Committee continued its review of executive remuneration and took into consideration professional advice from Deloitte LLP in respect of the development of the Group's Remuneration Policy and its application, and reporting under the revised Directors' Remuneration Reporting Regulations. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Fees paid to Deloitte LLP in connection with advice to the Committee in 2017 were £14,700. Deloitte LLP also provided advice to the Group in 2017 in connection with its internal assessment of the effectiveness of the operation of its Board and in connection with valuations of certain of its unlisted portfolio company holdings.

Statement of shareholder voting

The table below sets out the proxy results of the votes on the Group's Remuneration Report at the Group's 2017 AGM.

	Votes for		Votes against			
	Number	% of votes cast	Number	% of votes cast	Total votes cast	Votes withheld
Remuneration Report	443,440,166	98.91	4,762,647	1.06	448,328,875	13,842,298

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 & risk committee

> 2017 represented a particularly busy year for the Audit and Risk Committee following the completion of the acquisition of Parkwalk Advisors in the first quarter, the expansion into Australia and associated fundraising in the summer and the major acquisition of Touchstone Innovations Plc in the latter half of the year.

JONATHAN BROOKS CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

Audit and Risk Committee ("ARC" or the "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. Finally, the Committee takes responsibility on behalf of the Board for the review of risk management and controls within the Group, as well as conducting an annual robust assessment of these.

A full copy of the Committee's Terms of Reference is available from the Company's website at www.ipgroupplc.com.

Committee membership

The Committee comprises four independent non-executive directors, with myself as Chair. As the Chair of the Committee, I am deemed by the Board to have recent and relevant financial experience, being a Fellow of the Chartered Institute of Management Accountants and having held senior financial positions in my career. The Board is satisfied that for the year under review, and thereafter, that the Audit and Risk Committee as a whole has competence relevant to the sector in which the company operates.

Exceptionally, with the additional work resulting from the acquisition of Touchstone Innovations plc in 2017, the Committee met five times during the year. All of the meetings were attended by the four independent Non-executive Directors. The members of the Committee for the entire year were Professor Lynn Gladden, Dr Elaine Sullivan and Doug Liversidge with myself as Chair. Doug Liversidge retired from the Committee and the Board following our final meeting in December and was replaced by Professor David Begg who joined the IP Group board in November 2017 and who attended the meeting in December as an Observer.

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

Activities during the year

The main activities of the Committee during 2017 can be seen by referring to the summary agenda items in the table overleaf. During 2017 this was clearly divided between matters of financial oversight and those concerned with the management of risk. 2017 was an extremely active year for the Committee with the completion of the acquisition of Parkwalk Advisors in early 2017, the expansion into Australia and associated fund-raising in the summer and the acquisition of Touchstone Innovations which eventually completed in November.

Valuation of assets and liabilities

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

The most material area of judgement in the financial statements has always related to the valuation of the unquoted equity investments, and the acquisition of Touchstone in November 2017 made this task more difficult.

With respect to the "pre-Touchstone" unquoted portfolio, the Committee was able to satisfy itself that the portfolio valuations were materially correct after considering findings from the year end valuations review meeting, taken together with additional valuation materials including written reports on the Group's portfolio companies. However, the inclusion of the unquoted portfolio from Touchstone was more difficult since several of its unquoted investments had not completed a funding round within the previous year and a number were only held by a small number of investors, thus limiting the ability to validate the carrying values by reference to recent funding rounds or an extensive shareholder base. As a result, an extensive and detailed analysis was undertaken, backed up, where necessary, with independent valuation work by third parties and discussions with KPMG. At the end of this process it was decided that 12 of these investments should be written down and one should be written up, by an aggregate value of £112.5m, or 24.4%, out of a total Touchstone portfolio pre-adjusted carrying value of £461.1m.

At year end the fair value of the Group's intangible assets was £182.3m and goodwill was £172.1m, compared with £62.2m and £57.1m respectively at the end of 2016. The goodwill balance is tested annually for impairment. The intangible assets are reviewed for impairment indicators and impairment tests are performed if any indicators are noted.

Summary agendas for the Audit & Risk Committee meetings in 2017

	Primarily audit-focused business	Primarily risk-focused business
February 2017	• Full year financial statements and discussions with auditor; significant accounting judgements • Fair, balanced and understandable review of Annual Report • Audit & Risk Committee effectiveness review	• Principal risks, risk appetite and controls • Review and division of annual agenda of Audit & Risk Committee • Long term viability statement & going concern review for 2016 financial statements • Third party review of cyber security • Third party review of US Operations • Risk Council terms of reference approval
May 2017	• Planning of internal audit projects • Half year results planning • Update on new accounting system • Auditor effectiveness review • Acquisition accounting for Parkwalk	• Risk Council update • Review of Group Treasury Policy • Prevention of facilitation of tax evasion • External review of FCA-authorised business controls including presentation by Parkwalk • Consideration of the requirement for a formal internal audit function
July 2017	• Half year financial statements and review with auditor of significant accounting judgements • Financial Positions and Prospects Procedures related to potential Touchstone acquisition	• Risk Council update • Ratification of provision of non-audit services by auditor in respect of Touchstone acquisition

Report of the audit & risk committee CONTINUED

	Primarily audit-focused business	Primarily risk-focused business
October 2017	• Review of auditor's 2017 audit planning document to include Touchstone	• Risk register update • Touchstone integration plan • Australian business update • Controls against facilitation of tax evasion • Cyber security update • Review of D&O and PI insurances • Anti-bribery update • Whistleblowing policy; annual review of process
December 2017	• KPMG Audit planning • Asset valuation methodology post Touchstone acquisition • Accounting impact of Touchstone acquisition • Long term viability statement paper • Annual review of Committee rolling agenda • Annual review of Committee terms of reference	• Risk Council update: integration risks • GDPR Update • Australian regulated activities update

Regulatory Compliance

Ensuring compliance for FCA regulated businesses also represents an important control risk from the perspective of the ARC. Ongoing internal reviews are conducted through the use of a compliance monitoring programme and an annual external evaluation is also conducted by a specialist firm. This was made more complex with the addition of the Parkwalk Advisors business in January and one regulated entity within the Touchstone group similar to IP Capital in October, but during the 2017 review, no specific issues were identified.

Review of Annual Report and Accounts and Half-yearly Report

The Committee carried out a thorough review of the Group's 2017 Annual Report and Accounts and its 2017 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its portfolio companies during the year.

Going Concern and Long Term Viability

Annually, the Committee considers the going concern principle on which the financial statements are prepared and also considers and approves the long term viability review prepared by management. As a business which seeks to establish and invest in new ventures as well as support existing investments with further capital, the business model is currently inherently cash-consuming. With a closing cash balance in 2017 of £326.3m the Group has sufficient cash reserves to continue to provide capital to its existing portfolio and to create and fund new businesses at a similar rate to previous years for at least two years assuming broadly similar levels of net operating expenditure and portfolio realisations.

The Committee, as in previous years, decided that the long term viability of the Group remained principally related to a number of factors. These included the scaling of the business across different territories, changes in the ability to raise further capital, different outcomes following an Oxford Nanopore 'exit' event, with the integration of the former Touchstone business a new risk factor to consider. The impact of these on each of a series of forecast scenarios was assessed. In the scenario with significant downside, where no further funding was available to the Group for the next three years, together with a halving in value of the entire portfolio, assuming a corresponding reduction in overheads, the business remained viable for three years. In the light of this, both the Committee and the wider Board came to the conclusion that the viability period should not be greater than three years.

Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on page 78. The principal risks the Group faces are set out on pages 48 to 53. During the year, the Audit Committee devoted part of each meeting to items concerning risk and its management. With the expansion in Australia combined with the acquisition of Touchstone Innovations, the Committee felt that scalability, integration and management bandwidth issues were now of much greater importance.

One important change in the management of risk was the decision in 2016 to establish a Risk Council, whose permanent members would be the Chief Financial Officer, Company Secretary and Group Financial Controller, with other executives and management from across the business attending periodically during the year as necessary. In establishing the Risk Council the purpose was to further formalise management's processes for identifying group-wide risks, the controls in place to mitigate such risks and to assess the design and effectiveness of such internal controls, as well as to disseminate and embed established practices consistently across the Group. The Risk Council met six times during its first full year of operation, and reported to the Committee following each meeting.

Whistleblowing Policy

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

Cyber Security and GDPR

Recognising the increasing importance of this subject following numerous well-publicised cyber-security breaches suffered by other businesses, the Group continued to invest more time and effort in improving its cyber security during 2017. Cyber security, a standing agenda item for the Committee, was discussed twice during the year. A review of the Group's cybersecurity practices and procedures was carried out by Nettitude Limited following their review in 2016 and it was noted that progress continued to be made. In addition, the Group continued to work with PwC and others to ensure compliance with the General Data Protection Regulation which will come into force in May 2018.

Internal audit

The Group does not maintain a separate internal audit function. This is principally due to the size of the Group where close control over operations is exercised by a small number of executives. The Audit and Risk 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 and Risk Committee does review the need to have its own separate internal audit function each year.

The Audit and Risk 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 and Risk Committee of the whole system of internal financial and operational controls.

During 2017, the principal internal audit project undertaken was a review of the Group's business in the US. The Committee engaged a third party professional services firm, PwC, to examine the risk profile of the US business, ensure that it was compliant with all local laws and regulations and had appropriate financial controls and operational systems. PwC concluded that the systems and processes were at a higher level than they might have expected and that overall the business was being operated within Group policies.

Report of the audit & risk committee CONTINUED

External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In December, the Committee discussed the Auditor's audit plan for 2017. This included a summary of the proposed audit scope and a summary of what the Auditor considered to be the most significant financial reporting risks facing the Group together with the Auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the valuation of investments in the newly acquired unquoted companies within the former Touchstone portfolio and the corresponding goodwill arising from these, the valuation of Istesso Limited, following its de-consolidation from the IP Group, and as in previous years, the valuation of Oxford Nanopore Technologies Limited.

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. In 2017 the Group's Auditor, KPMG LLP carried out a non-audit engagement to perform in respect of the acquisition of Touchstone Innovations plc. Given the natural overlap between this work and the financial audit of the group's results, the Committee judged KPMG the most effective party to perform this work. In other matters, the Committee prefers to engage other firms to perform consulting engagements to ensure that the independence of the Auditor is not compromised and during 2017 engaged the services of BDO, PwC and Deloitte. An analysis of audit and non-audit fees is provided in note 6 to the financial statements on page 136.

Auditor Independence

A formal statement of independence is received from the auditor each year and the Board and the Audit Committee are satisfied that the independence of the auditor has been maintained.

Auditor Effectiveness

The Committee will complete its formal assessment of the effectiveness of the Group's external auditor following the completion of the 2017 audit cycle and will report on this assessment in the 2018 annual report. With respect to the 2016 audit, the Committee formally considered this at its May 2017 meeting and, as in the previous year, decided that the substantive and detailed approach taken by the auditor, Jon Mills of KPMG, was entirely appropriate and effective. As in the previous year, the vast majority of the Group's assets were reviewed as part of the audit, and once again there was particular emphasis on the valuation of Oxford Nanopore which continued to represent such an important part of the Group's unquoted portfolio. Specialist corporate finance staff were used for some of the valuation work and overall, the auditor's risk-based approach drew on both his knowledge of the business and the wider economic and business environment.

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

JONATHAN BROOKS
CHAIRMAN OF THE AUDIT COMMITTEE

29 March 2018

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 2017.

Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance Statement on pages 64 to 79 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 2017 of £53.4m (2016: £14.8m loss). The directors do not recommend the payment of a dividend (2016: £nil).

Directors

The names of directors who currently hold office or did so during 2017 are as follows:

Executive Directors

Alan Aubrey
Mike Townend
Greg Smith
David Baynes

Non-executive Directors

Mike Humphrey (Chairman)
Jonathan Brooks
Doug Liversidge (resigned on 31 December 2017)
Prof Lynn Gladden
Dr Elaine Sullivan
Prof David Begg (appointed with effect from 18 October 2017)

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 93.

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 46 to 47 and in the Corporate Governance report on page 78. 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 18 UK universities, five US universities and nine universities in Australasia. In addition, the Group has entered into agreements to act as general partner and investment manager to three limited partnerships. Further details can be found in the strategic report and in the notes to the financial statements.

Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 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 10 May 2017 (the "2017 AGM"), authority was given to the Directors pursuant to the relevant provisions of the Companies Act 2006 to allot shares and grant rights over securities in the Company up to a maximum amount equivalent to approximately one-third of the issued ordinary share capital on 5 April 2017 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2018. In addition, at the 2017 AGM, the Directors were also given authority effective for the same period as the aforementioned authority to allot shares and grant rights over securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 5 April 2017 in connection with an offer by way of a fully pre-emptive rights issue. The Directors propose to renew both of these authorities at the Company's next AGM to be held on 18 June 2018. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2017 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 5 April 2017 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 5 April 2017, each authority exercisable at any time up to the earlier of the

Directors' report CONTINUED

conclusion of the next AGM of the Company and 1 August 2018. The Directors will seek to renew these authorities for a similar period at the next AGM to be held on 18 June 2018.

Under Part 18, Chapter 5 of the Companies Act 2006, the Company has the power to purchase its own shares. At the 2017 AGM, a special resolution was passed which granted the Directors authority to make market purchases of the Company's shares pursuant to these provisions of the Companies Act 2006 up to a maximum of approximately 10% of the Company's issued share capital on 5 April 2017 provided that the authority granted set a minimum and maximum price at which purchases can be made and is exercisable at any time up to the earlier of the conclusion of the next AGM and 1 August 2018. 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 18 June 2018.

Articles of Association

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

Substantial shareholders

As at 29 March 2018, 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 Asset Management Limited	28.1
Woodford Investment Management LLP	19.9
Lansdowne	11.8
Imperial College of Science Technology & Medicine	5.2
Bailie Gifford	4.0

Political donations

The Group did not make any political donations during 2017.

Corporate and social responsibility

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including details of its greenhouse gas emissions, are included in the Sustainability section on pages 54 to 59.

Directors' indemnity and liability insurance

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

Regulation

Top Technology Ventures Limited, Touchstone Innovations Investment Management Limited and Parkwalk Advisors Ltd, all 100%-owned subsidiaries of the Group are authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000.

Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the Strategic Report and in note 29 to the Group's financial statements.

Disclosure of information to auditor

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

so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

the Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Appointment of auditor

A resolution to reappoint KPMG LLP, together with a resolution to authorise the Directors to determine their remuneration, will be proposed at the AGM to be held on 18 June 2018.

ON BEHALF OF THE BOARD

ANGELA LEACH
COMPANY SECRETARY

29 March 2018

Statement of directors' responsibilities

In respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

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

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

ON BEHALF OF THE BOARD

MIKE HUMPHREY
CHAIRMAN

29 March 2018

Deliver

To deliver attractive financial returns from our assets

OUR FINANCIALS

Independent auditor's report

TO THE MEMBERS OF IP GROUP PLC ONLY

1. Our opinion is unmodified

We have audited the financial statements of IP Group plc ("the Group") for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the Group consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the Company balance sheet and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 13 May 2014. The period of total uninterrupted engagement is for the four financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of unquoted equity investments (£860.3m; 2016: £433.8m) Risk vs 2016:

Refer to pages 100 to 104 (Audit Committee Report), pages 125 to 127 (accounting policy) and pages 143 to 145 (financial disclosures).

- **The risk: Subjective valuation** – 51.8% of the Group's total assets (by value) is held in investments where no quoted market price is available. In October 2017 the Group acquired Touchstone Innovations plc. This acquisition lead to significant increase in the number of unquoted equity investments held by the Group.

  Unquoted investments are measured at fair value which is estimated by the directors based on methods such as prices of recent investment and discounted cash flows. Where price of recent investment is used, due to the relatively low number of investors partaking in funding rounds, there is a risk that recent funding round prices on which fair value is based are not sufficiently at arm's length to ensure an independent market valuation representative of fair value. Whether it remains appropriate to use the price of the recent funding rounds depends on the specific circumstances of the investment, the stability of the external environment and the period since the last funding round occurred. There are a number of assumptions made by the directors when using alternative valuation methods, such as a discounted cash flows, including the probability of achieving milestones and the discount rate used.

There is a concentration of risk within the unquoted valuation of Oxford Nanopore, of which the Group's stake is valued at £274.1m (2016: £246.2m), comprising 24% of the portfolio (2016: 40%) and 17% of total assets (2016: 36%).

This risk is applicable to the parent company, which also holds investments where no quoted market price is available.

- **Our response** – Our procedures included:
- **Methodology choice**: For a selection of investments, assessing the reasonableness of the valuation approach used, considering these against IPEV guidelines;
  - For those valued using the price of recent investment as an appropriate basis for the measurement of the fair value at the time, evaluating the independence of the funding round on which this valuation is based and corroborating the price to signed Share Subscription Agreements;
  - For those valued based on a funding round aged greater than 12 months, corroborating judgements through discussions with the investment team and independent support, such as investee board minutes;
  - For those valued using alternative valuation methods, such as a discounted cash flows, corroborating the underlying information back to independent support, such as signed license agreements;
- **Our corporate finance expertise**: For a selection of investments, when alternative valuation methods are used, assessing the principles and integrity of the method using our own valuation specialist;
- **Independent research**: Conducting research into publicly available information, including news websites and the companies own website, for indicators of fair value changes since the last funding round was set;
- **Valuation meetings attendance**: Observing the Directors and senior finance personnel to assess their discussion and review of the investment valuations and methodology choice;
- **Assessing transparency**: Considering the appropriateness, in accordance with relevant accounting standards, of the disclosures related to unquoted investments.
- **Our results**: We found the valuation of unquoted equity investments to be acceptable.

Carrying value of goodwill (£172.1m; 2016: £57.1m) Risk vs 2016:

Refer to pages 100 to 104 (Audit Committee Report), page 124 (accounting policy) and pages 139 to 140 (financial disclosures).

- **The risk: Forecast based valuation** – IP Group's impairment review of goodwill involved the calculation of value-in-use through a discounted cash flow model. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows in the UK university spin-out company market. Significant levels of judgement are inherent within the assumptions used, including the discount rate, gains on future investments, the annual investment rate and the weighted average holding period of the Group's investments.
- **Our response** – Our procedures included:
- **Assessing methodology**: Assessing the principles and integrity of the value in use discounted cash flow;
- **Historical comparisons**: Comparing the assumptions to actual cashflows achieved in the year, such as the annual investment rate;
- **Sensitivity analysis**: Considering the sensitivity of the valuation model to the key assumptions above through a sensitivity analysis that considered the impact of each assumption on the value in use;
- **Assessing transparency**: Assessing the Group's disclosures of the sensitivity of the outcome of the impairment reviews to changes in key assumptions against IAS 36.
- **Our results**: We found the resulting estimate of the recoverable amount of goodwill to be acceptable.

Acquisition of Touchstone Innovations plc – Goodwill recognition (£108.5m) Risk vs 2016 New:

Refer to page pages 100 to 104 (Audit Committee Report), page 124 (accounting policy) and pages 159 to 161 (financial disclosures).

- **The risk: Subjective estimate** – On acquisition, identifiable assets acquired, including intangible assets, and liabilities assumed are recognised separately from goodwill. All assets acquired and liabilities assumed in the acquisition of Touchstone Innovations plc are measured at acquisition-date fair value.

  The valuation of the unquoted portfolio has been estimated by the directors based on methods such as prices of recent investment and discounted cash flows.

  The Directors have exercised judgement in identifying and estimating the fair value of the unquoted investments. For any movements in fair value of the assets at the acquisition date, there would be a corresponding impact on the amount of goodwill recognised.

- **Our response** – Our procedures included:
  - **Our sector experience**: We considered the rationale for the acquisition to challenge the identification of intangible assets and goodwill. We inspected available documents including the acquisition agreements and due diligence reports, inspected board minutes and discussed with Directors;
  - **Assessing methodology**: Assessing the principles and integrity of the valuation methods used by the directors to determine fair value of net assets at the acquisition date;
  - **Assessing Transparency**: We assessed the Group's disclosures regarding the acquisition and estimation assumptions and whether they have been disclosed appropriately.
  - **Our results**: We found the identification and valuation of goodwill acquired to be acceptable.

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

The materiality for the Group financial statements as a whole was set at £16.8m (2016: £8.0m), determined with reference to a benchmark of Group total assets, of which it represents 1% (2016: 1%).

Materiality for the parent company financial statements as a whole was set at £12.9m (2016: £5.4m), determined with reference to a benchmark of total assets, of which it represents 1% (2016: 1%). We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements relating to the statement of financial position exceeding £840,000 (2016: £400,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 38 components (2016: 33), the Group audit team subjected 15 (2016: 8) to audits to component materiality for Group audit purposes. Due to nature of the Group's operations and the audit approach, aggregation risk was deemed to be low and component materiality was set at £16.3m (2016: £7.9m). These 15 entities account for 95.7% of the Group's portfolio revenue and return (2016: 89.3%), 86.2% of total profits and losses that made up the Group's profit before tax (2016: 78.6%) and 98.5% of the Group's total assets (2016: 97.4%).

For the remaining components, we performed specified risk-focused audit procedures on specific balances and we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 53 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement page 53 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 107, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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

JONATHAN MILLS
(SENIOR STATUTORY AUDITOR)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
29 March 2018

Consolidated statement of comprehensive income
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £m	2016 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	**49.0**	7.0
Gain/(loss) on disposal of equity investments		**0.1**	(0.5)
Gain on deconsolidation of subsidiary		**45.1**	—
Change in fair value of limited and limited liability partnership interests	23	**(0.2)**	(0.3)
Change in fair value of contingent value right	17	**—**	(1.4)
Other portfolio income		**—**	—
Licensing income		**3.4**	0.2
Revenue from services and other income		**6.1**	2.6
		103.5	7.6
Administrative expenses			
Research and development costs		**(2.9)**	(1.0)
Carried interest plan charge		**(1.3)**	—
Share-based payment charge	22	**(2.4)**	(1.5)
Amortisation of intangible assets	13	**(3.9)**	(5.6)
Acquisition and restructuring costs	8	**(9.1)**	(0.4)
Other administrative expenses		**(30.8)**	(14.5)
		(50.4)	(23.0)
Operating profit/(loss)	7	**53.1**	(15.4)
Finance income		**1.0**	1.1
Finance costs		**(0.7)**	(0.5)
Profit/(loss) before taxation		**53.4**	(14.8)
Taxation	10	**—**	—
Profit/(loss) for the year		**53.4**	(14.8)
Other comprehensive income			
Exchange differences on translating foreign operations		**—**	0.1
Total comprehensive income/(loss) for the year		**53.4**	(14.7)
Attributable to:			
Equity holders of the parent		**49.7**	(13.5)
Non-controlling interest		**3.7**	(1.2)
		53.4	(14.7)
Earnings per share			
Basic (p)	11	**7.05**	(2.39)
Diluted (p)	11	**7.04**	(2.39)

Consolidated statement of financial position
AS AT 31 DECEMBER 2017

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	12	172.1	57.1
Acquired intangible assets	13	10.2	5.1
Property, plant and equipment		2.0	0.2
Portfolio:			
Equity investments	15	1,085.4	594.9
Debt investments	15	45.2	19.1
Limited and limited liability partnership interests	23	11.0	4.2
Total non-current assets		1,325.9	680.6
Current assets			
Trade and other receivables	16	8.3	2.6
Deposits		95.0	—
Cash and cash equivalents		231.3	112.3
Total current assets		334.6	114.9
Total assets		1,660.5	795.5
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Called up share capital	20	21.1	11.3
Share premium account		683.1	504.7
Merger reserve		508.6	12.8
Retained earnings		291.7	239.6
Total equity attributable to equity holders		1,504.5	768.4
Non-controlling interest		4.0	0.3
Total equity		1,508.5	768.7
Current liabilities			
Trade and other payables	18	19.7	2.1
EIB debt facility	19	6.3	—
Non-current liabilities			
EIB debt facility	19	97.7	14.9
Carried interest plan liability		8.8	—
Loans from limited partners of consolidated funds	19	13.1	9.8
Provisions for liabilities and charges		6.4	—
Total equity and liabilities		1,660.5	795.5

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 116 to 119 were approved by the Board of Directors and authorised for issue on 29 March 2018 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 2017

	Note	2017 £m	Re-presented 2016[i] £m
Operating activities			
Operating profit/(loss) for the period		53.1	(15.4)
Adjusted for:			
Change in fair value of equity and debt investments	15	(49.0)	(7.0)
Change in fair value of limited and limited liability partnership interests		0.2	0.3
Change in fair value of contingent value right		—	1.4
(Gain)/loss on disposal of equity investments		(0.1)	0.5
Gain on deconsolidation of subsidiary		(45.1)	—
Depreciation of property, plant and equipment		0.9	0.1
Amortisation of intangible non-current assets	13	3.9	5.6
Long term incentive carry scheme charge		1.3	—
Fees settled in the form of equity		(0.5)	(0.4)
Share-based payment charge		2.4	1.5
Changes in working capital			
(Increase)/decrease in trade and other receivables		(6.1)	0.2
Increase/(decrease) in trade and other payables		7.7	(1.8)
Increase in non-current liabilities		8.6	2.7
Other operating cash flows			
Net interest received		0.3	0.9
Net cash inflow/(outflow) from operating activities		(22.4)	(11.4)
Investing activities			
Purchase of property, plant and equipment		(1.6)	(0.1)
Purchase of equity and debt investments	15	(71.2)	(69.7)
Investment in limited and limited liability partnerships		(1.4)	(0.1)
Net cash flow to deposits		(95.0)	70.0
Acquisition of subsidiary undertaking		107.8	—
Proceeds from sale of equity investments		6.6	14.7
Net cash inflow/(outflow) from investing activities		(54.8)	14.8
Financing activities			
Proceeds from the issue of share capital		184.7	—
Transaction costs related to issue of share capital		(3.7)	—
Proceeds from drawdown of EIB facility	19	15.0	—
Net cash inflow from financing activities		196.0	—
Net increase in cash and cash equivalents		118.8	3.4
Cash and cash equivalents at the beginning of the year		112.3	108.8
Effect of foreign exchange rate changes		0.2	0.1
Cash and cash equivalents at the end of the year		231.3	112.3

[i] Re-presented from prior year. See note 1 for details.

Consolidated statement of changes in equity
FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016	11.3	504.7	12.8	251.6	780.4	1.5	781.9
Comprehensive income	—	—	—	(13.5)	(13.5)	(1.2)	(14.7)
Equity-settled share-based payments	—	—	—	1.5	1.5	—	1.5
At 1 January 2017	**11.3**	**504.7**	**12.8**	**239.6**	**768.4**	**0.3**	**768.7**
Comprehensive income	—	—	—	49.7	49.7	3.7	53.4
Issue of equity	9.8	178.4	495.8	—	684.0	—	684.0
Equity-settled share-based payments	—	—	—	2.4	2.4	—	2.4
At 31 December 2017	**21.1**	**683.1**	**508.6**	**291.7**	**1,504.5**	**4.0**	**1,508.5**

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

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

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

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

Notes to the consolidated financial statements

1. Accounting Policies

Basis of preparation

The Annual Report and Accounts of IP Group plc ("IP Group" or the "Company") and its subsidiary companies (together, the "Group") are for the year ended 31 December 2017. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs").

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

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

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2017

No new standards, interpretations and amendments effective for the first time from 1 January 2017 have had a material effect on the Group's financial statements.

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

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

IFRS 15 Revenue from Contracts with Customers:

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

IFRS 9 Financial Instruments:

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

1. Accounting Policies continued

IFRS 16 Leases:

IFRS 16 Leases was issued on 13 January 2016 and replaces IAS 17 Leases. IFRS 16 requires all operating leases in excess of one year, where the Group is the lessee, to be included on the Group's statement of financial position, and recognised as a right-of-use ("ROU") asset and a related lease liability representing the obligation to make lease payments. The ROU asset will be amortised on a straight-line basis with the lease liability being amortised using the effective interest method. Optional exemptions are available under IFRS 16 for short-term leases (lease terms less than 12 months) and for small-value leases. Based on the preliminary assessment, the Group expects its existing operating lease arrangements as a lessee to be recognised as ROU assets with corresponding lease liabilities under the new standard. The Group has assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16 and does not foresee any material effect when the Standard is applied. Early adoption is permitted if IFRS 15 Revenue from Contracts with customers has been applied but IFRS 16 has an effective date of 1 January 2019 with the year ending 31 December 2019 being the first annual financial statements to which the standard applies.

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

Basis of consolidation

(i) Business Combinations

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

(ii) Subsidiaries

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

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

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

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

Notes to the consolidated financial statements
CONTINUED

1. Accounting Policies continued

(iii) Associates

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

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

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 10 of the Company financial statements. Similarly, those investments which may not have qualified as Associate but fall within the wider scope of significant holdings and so are subject to Section 409 disclosure acts are also included in Note 10 of the Company financial statements.

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

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

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

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

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

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

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

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

1. Accounting Policies continued

In addition to Limited Partnerships where Group entities act as general partner and investment manager the Group has interests in three further entities which are all managed by third parties:

Name	Interest in limited partnership %
UCL Technology Fund LP ("UCL Fund")	46.4
Technikos LLP ("Technikos")	18.0
Apollo Therapeutics LLP ("Apollo Fund")	8.3

The Group has a 46.4% interest in the total capital commitments of the UCL Technology Fund LP ("UCL Fund"). The Group has committed £24.8m to the fund alongside the European Investment Fund ("EIF"), University College London and other investors. Participation in the fund provides the Group with visibility of potential intellectual property from across University College London's research base.

The Group has a 18.0% interest in the total capital commitments of Technikos LLP ("Technikos").

The Group has an 8.3% interest in the total capital commitments of Apollo Therapeutics LLP ("Apollo"), a £40.0m venture between AstraZeneca, GlaxoSmithKline, Johnson & Johnson and the technology transfer offices of Imperial College London (via Imperial Innovations Limited), University College London (via UCL Business plc) and the University of Cambridge (via Cambridge Enterprise Limited). The venture supports the translation of academic therapeutic science into innovative new medicines by combining the skills of the university academics with industry expertise at an early stage.

(v) Non-controlling interests

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

Portfolio return and revenue

Change in fair value

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

Licence income

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

Notes to the consolidated financial statements
CONTINUED

1. Accounting Policies continued

Revenue from services and other income

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

Advisory fees

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

Fund management services

Fund management fees include fiduciary fund management fees which are generally earned as a fixed percentage of total funds under management and are recognised as the related services are provided and performance fees payable from realisation of agreed returns to investors which are recognised as performance criterion are met.

Dividends

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

Property, plant and equipment

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

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

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

Intangible assets

Goodwill

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

Other intangible assets

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

1. Accounting Policies continued

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 asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 — Quoted prices in active markets.

Level 2 — Inputs other than quoted prices that are observable, such as prices from market transactions.

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

Notes to the consolidated financial statements
CONTINUED

1. Accounting Policies continued

Equity investments

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

Cost

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

Price of recent investment

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

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

Where the equity structure of a portfolio company involves different class rights in a sale or liquidity event, the Group takes these different rights into account when forming a view on the value of its investment.

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, or an alternative valuation technique is used where this is deemed more appropriate. 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.

1. Accounting Policies continued

Other valuation techniques

Where it is no longer deemed appropriate to use the price of recent investment as a valuation basis, the Group uses 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.

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

No reliable estimate

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

Debt investments

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt on initial recognition is measured at fair value which is equal to cost and subsequent remeasurement will be recognised as changes in fair value in the statement of comprehensive income.

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.

The directors have reconsidered the classification of cash flows related to amounts held on deposit and have presented the net cash flow to Deposits within Investing activities, rather than as an adjustment within cash flows from operating activities. Comparatives have been represented accordingly.

Notes to the consolidated financial statements
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1. Accounting Policies continued

Financial liabilities

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

Non-current liabilities are composed of loans from Limited Partners of consolidated funds, outstanding amounts drawn down from a debt facility provided by the European Investment Bank, carried interest plans liabilities, provisions for liabilities and charges, liabilities recognised in relation to Higher Education Innovation Fund (HEIF) and University Challenge Seed Fund (UCSF) investment revenue sharing schemes and deferred consideration payable on acquisition of Parkwalk Advisors.

The loans from Limited Partners of consolidated funds are repayable only upon the applicable funds generating sufficient returns to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities. Non-current liabilities are recognised initially at fair value net of transaction costs incurred, and subsequently at amortised cost.

The Group operates a carried interest plan or Long-Term Incentive Carry Scheme ("LTICS") for eligible employees. Before any payment to a participant becomes due under the scheme, the Group must first have received back the amount of their investment in the relevant vintage together with a hurdle rate of 8% per annum compound on their investment. At the point at which the hurdle rate has been exceeded a provision is included for the unrealised gain due to members of the scheme vintage. The provision is measured by reference to the fair value of the relevant investments, with movements in the provision taken to the consolidated statement of comprehensive income.

The Group provides for liabilities in respect of revenue sharing with Imperial College London, arising under the Technology Pipeline Agreement ("TPA"), and other parties. Provision for revenue-share, based on fair value, on the future realisation of quoted and unquoted investments is recognised as part of the movement in fair value through profit or loss.

Deferred and contingent consideration payable on acquisition are comprised of amounts due to the sellers of Parkwalk Advisors.

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, Parkwalk Advisors Ltd and Touchstone Investment Management Limited, are Group subsidiaries which are 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 their respective financial statements.

1. Accounting Policies continued

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 employees to this scheme or to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(ii) Share-based payments

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

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

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

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

Deferred tax

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

Leases

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

Notes to the consolidated financial statements
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2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 46 to 53, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

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

(a) Market risk

(i) Price risk

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

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

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

The net portfolio gains in 2017 of £94.2m represents a 15.3% change against the opening balance (2016: net increase of £6.5m, 1.4% change) 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.

	2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	**2.3**	**8.7**	**11.0**	1.6	4.6	6.2

(ii) Interest rate risk

The EIB debt facility bears interest at a fixed rate of 1.98% with an additional variable spread equal to the six month GBP Libor rate as at the first date of each six-month interest period. The first £15.0m tranche was disbursed on 17 December 2015 and the average floating interest rate (including the fixed element) for 2016 was 2.66% (2015: 2.48%)

The Group also holds an additional debt facility totalling £104.0m with the EIB as a consequence of the combination with Touchstone Innovations during the year. The first tranche of their EIB loan is linked to quarterly LIBOR rate. The loan was disbursed on 30 July 2013 and the floating interest rate including LIBOR was 3.3%. There are no hedging instruments in place to cover against interest rate fluctuation as exposure is deemed insignificant. The second tranche of the Touchstone EIB loan is based on a fixed interest rate of 4.235%. Touchstone entered a second loan agreement for £50.0m with a fixed interest rate of 3.026%.

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

(iii) Concentrations of risk

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

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

2. Financial Risk Management continued

	2017				2016			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
Financial assets								
Equity investments	—	—	1,085.4	1,085.4	—	—	594.9	594.9
Debt investments	—	—	45.2	45.2	0.2	—	18.9	19.1
Limited and limited liability partnership interests	—	—	11.0	11.0	—	—	4.2	4.2
Deposits	95.0	—	—	95.0	—	—	—	—
Cash and cash equivalents	7.5	223.8	—	231.3	30.0	82.3	—	112.3
Trade receivables	—	—	1.9	1.9	—	—	2.3	2.3
Other receivables	—	—	6.4	6.4	—	—	0.3	0.3
	102.5	223.8	1,149.9	1,476.2	30.2	82.3	620.6	733.1
Financial liabilities								
Trade payables	—	—	(2.0)	(2.0)	—	—	(0.7)	(0.7)
Other accruals and deferred income	—	—	(17.7)	(17.7)	—	—	(1.4)	(1.4)
EIB debt facility	(65.0)	(39.0)	—	(104.0)	—	(14.9)	—	(14.9)
Carried interest plan liability	—	—	(8.8)	(8.8)	—	—	—	—
Provisions for liabilities and charges	—	—	(6.4)	(6.4)	—	—	—	—
Loans from limited partners of consolidated funds	—	—	(13.1)	(13.1)	—	—	(9.8)	(9.8)
	(65.0)	(39.0)	(48.0)	(152.0)	—	(14.9)	(11.9)	(26.8)

At 31 December 2017, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £1.8m (2016: £0.8m) higher/lower as a result of higher interest received on floating rate cash deposits.

2. Financial Risk Management continued

(b) Liquidity risk

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

(c) Credit risk

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

Credit rating	2017 £m	2016 £m
P1	117.9	76.7
P2	208.4	35.6
Total deposits and cash and cash equivalents	326.3	112.3

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2017 was £50m (2016: £50m).

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

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

3. Significant Accounting Estimates and Judgements

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

(i) Valuation of unquoted equity investments

The estimates 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 estimates include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and marketability and other risk discounts as further described in note 2.

(ii) Valuation of unquoted equity investments acquired via combination with Touchstone Innovations

As described in (i) above, the valuation of unquoted equity investments requires management to make estimates to determine an appropriate valuation methodology of unquoted equity investments. Additionally, the directors have used their judgement in determining whether valuation changes affect the fair value at the date of acquisition or in the period post acquisition. Again, these estimates are further described in note 2.

(iii) Impairment of goodwill

Goodwill is tested for impairment annually or whenever there is an indication that the carrying amount may not be recoverable based on management's judgements regarding the future prospects of the business, estimates of future cash flows and discount rates. When assessing the appropriateness of the carrying value of goodwill, 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.

For the purpose of testing goodwill for impairment, the Group considers each of its cash-generating units separately to which goodwill is allocated. Any impairment losses in respect of goodwill will not be reversed.

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

4. Revenue from Services

All revenue from services is derived from either the provision of advisory and venture capital fund management services or from licensing activities, royalty revenues and patent cost recoveries.

5. Operating Segments

For both the year ended 31 December 2017 and the year ended 31 December 2016, 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 and Australasia, the associated revenues and costs are currently immaterial and accordingly, no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partner relationships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions which due to a share reorganisation in December 2017 was deconsolidated as a Group company and will be recognised on the statement of financial position as part of the IP Group investment portfolio going forward. These activities are described in further detail in the Strategic report on pages 7 to 59.

5. Operating Segments continued

Year ended 31 December 2017	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	49.0	–	–	49.0
Gain on disposal of equity investments	0.1	–	–	0.1
Gain on deconsolidation of subsidiary	–	–	45.1	45.1
Change in fair value of limited and limited liability partnership interests	(0.2)	–	–	(0.2)
Other portfolio income				
Licensing income	–	–	3.4	3.4
Revenue from services and other income	1.1	0.9	–	2.0
Revenue from fund management services	–	4.1	–	4.1
Carried interest plan charge	(1.3)	–	–	(1.3)
Amortisation of intangible assets	(3.9)	–	–	(3.9)
IFRS3 charge in respect of acquisition of subsidiary	(4.4)	–	–	(4.4)
Acquisition and restructuring costs	(9.1)	–	–	(9.1)
Administrative expenses	(25.9)	(2.3)	(3.5)	(31.7)
Operating profit	5.4	2.7	45.0	53.1
Finance income	1.0	–	–	1.0
Finance costs	(0.7)	–	–	(0.7)
Profit before taxation	5.7	2.7	45.0	53.4
Taxation	–	–	–	–
Profit for the year	5.7	2.7	45.0	53.4
STATEMENT OF FINANCIAL POSITION				
Assets	1,643.4	17.1	–	1,660.5
Liabilities	(147.8)	(4.2)	–	(152.0)
Net assets	1,495.6	12.9	–	1,508.5
Other segment items				
Capital expenditure	1.6	–	–	1.6
Depreciation	(0.9)	–	–	(0.9)

5. Operating Segments continued

Year ended 31 December 2016	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	7.0	–	–	7.0
Loss on disposal of equity investments	(0.5)	–	–	(0.5)
Change in fair value of limited and limited liability partnership interests	(0.3)	–	–	(0.3)
Change in fair value of contingent value right	(1.4)	–	–	(1.4)
Other portfolio income				
Licensing income	0.2	–	–	0.2
Revenue from services and other income	0.8	0.9	–	1.7
Revenue from fund management services	–	0.9	–	0.9
Amortisation of intangible assets	(5.6)	–	–	(5.6)
Acquisition costs	(0.4)	–	–	(0.4)
Administrative expenses	(14.9)	(0.7)	(1.4)	(17.0)
Operating loss	(15.1)	1.1	(1.4)	(15.4)
Finance income	0.6	–	–	0.6
Loss before taxation	(14.5)	1.1	(1.4)	(14.8)
Taxation	–	–	–	–
Loss for the year	(14.5)	1.1	(1.4)	(14.8)
STATEMENT OF FINANCIAL POSITION				
Assets	778.4	10.9	6.2	795.5
Liabilities	(26.5)	(0.1)	(0.2)	(26.8)
Net assets	751.9	10.8	6.0	768.7
Other segment items				
Capital expenditure	–	–	–	–
Depreciation	(0.1)	–	–	(0.1)

Notes to the consolidated financial statements
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6. Auditor's Remuneration

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

	2017 £'000s	2016 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	118	74
Fees payable to the Company's auditor for the audit of the Company's interim accounts	50	—
The audit of the Company's subsidiaries, pursuant to legislation	100	87
Total fees for audit services	268	161
Audit-related assurance services	—	21
Total assurance services	268	182
Tax compliance services	—	—
Taxation advisory services	—	—
All other services	23	18
Total non-assurance services	23	18
	291	200

7. Operating Profit

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

	2017 £m	2016 £m
Amortisation of intangible assets	(3.9)	(5.6)
Depreciation of tangible assets	(0.9)	(0.1)
Employee costs (see note 9)	(17.0)	(9.5)
Operating leases (see note 21)	(1.1)	(0.5)
Gain on deconsolidation of subsidiary	45.1	—
Gain/(loss) on disposal of equity investments	0.1	(0.5)

8. Acquisition and Restructuring Costs

Acquisition and restructuring costs in the year comprised:

	2017 £m	2016 £m
Financial and corporate broking advice	5.0	—
Legal advice	1.0	0.3
Other professional advice	0.2	0.1
Other costs	2.9	—
	9.1	0.4

Acquisition and restructuring costs are largely comprised of professional fees incurred for the acquisition of Touchstone Innovations which was affected by means of a takeover under the City Code. Other costs include a provision for employee redundancies, an onerous lease provision for London office space surplus to requirements and accelerated depreciation on the fixed assets within the Touchstone office. Costs incurred in the prior year were wholly incurred in respect of the acquisition of Parkwalk Advisors.

9. Employee Costs

Employee costs (including executive directors) comprise:

	2017 £m	2016 £m
Salaries	10.2	7.0
Defined contribution pension cost	0.5	0.4
Share-based payment charge (see note 22)	2.4	1.5
Other bonuses accrued in the year	2.5	—
Social security	1.4	0.6
	17.0	9.5

The average monthly number of persons (including executive directors) employed by the Group during the year was 115, all of whom were involved in management and administration activities (2016: 70). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 80 to 99.

10. Taxation

	2017 £m	2016 £m
Current tax	—	—
Deferred tax	—	—

The Group primarily seeks to generate capital gains from its holdings in spin-out companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings. The Directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE"). The Directors consider that the SSE regime has been simplified and enhanced during the period, with a number of changes being enacted in the Finance (No.2) Act 2017 that are effective for disposals on or after 1 April 2017. From the Group's perspective the key changes were to remove the requirement for the investing entity (in this case, IP Group) to be a sole trading entity or member of a trading group and extending the minimum 10% holding period to any 12-month period in the six years prior to disposal. The Group welcomed these changes and the directors anticipate that they will have a favourable impact on the Group, giving greater certainty over the exemption of qualifying gains under SSE, and increasing the Group's flexibility over the timing of future portfolio company disposals.

The changes in the Finance (No.2) Act 2017 also included a restriction on companies' use of brought forward losses. As a result, the amount of profit that can be mitigated by brought forward losses will be restricted to 50% of the amount of profits in excess of £5m. The Directors do not currently consider that these proposed changes will result in the recognition of a deferred tax liability in respect of any unrealised gains that do not qualify for SSE but note that such liabilities may arise in the future.

Assets held in Luxembourg, which were acquired via the combination with Touchstone in the year, are also subject to capital gains and ordinarily the Group would be taxed on their realisation. The participation exemption, similar to the UK SSE scheme described above, is available for certain share disposals. Dividends and gains arising to Imperial Innovations Sárl through its interest in Touchstone Innovations Businesses LLP should be exempt from tax under Luxembourg law provided the conditions for the participation exemption are met for each investment or each investment can be attributed to a UK permanent establishment. Tax residence of Imperial Innovations Sárl will be maintained in Luxembourg and no UK tax should arise on the applicable gains.

10. Taxation continued

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

	2017 £m	2016 £m
Profit before tax	53.4	(14.8)
Tax at the UK corporation tax rate of 20.0% (2015: 20.3%)	10.3	(3.0)
Expenses not deductible for tax purposes	1.6	0.9
Non taxable income on deconsolidation of Istesso group	(8.7)	—
Fair value movement on investments qualifying for SSE	(9.4)	(1.3)
Movement on share-based payments	0.3	(0.1)
Unrecognised other temporary differences	—	—
Movement in tax losses arising not recognised	5.9	3.3
Total tax charge	—	—

At 31 December 2017, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £246.9m (2016: £141.7m). An analysis is shown below:

	2017		2016	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs and other temporary differences	15.1	2.6	14.1	2.4
Unused tax losses	231.8	39.4	127.6	21.7
	246.9	42.0	141.7	24.1

At 31 December 2017, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2016: £nil). An analysis is shown below:

	2017		2016	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	7.1	1.2	2.6	4.4
Unused tax losses	(7.1)	(1.2)	(2.6)	(0.4)
	—	—	—	—

11. Earnings per Share

Earnings	2017 £m	2016 £m
Earnings for the purposes of basic and dilutive earnings per share	49.7	(13.5)

Number of shares	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	704,227,751	565,056,171
Effect of dilutive potential ordinary shares:		
Options or contingently issuable shares	657,673	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	704,885,424	565,056,171

Potentially dilutive ordinary shares include contingently issuable shares arising under the Group's LTIP arrangements, and options issued as part of the Group's Sharesave schemes and Deferred Bonus Share Plan (for annual bonuses deferred under the terms of the Group's annual incentive scheme).

12. Goodwill

	£m
At 1 January 2017	57.1
Recognised on acquisition of subsidiary undertakings (see note 27)	115.0
At 31 December 2017	**172.1**

Goodwill arising on business combinations is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Recoverable amounts for CGUs are based on the higher of value in use and fair value less costs of disposal. Value in use in calculated from cashflow projections for the CGUs to which the goodwill has been allocated. The goodwill allocated to each CGU is summarised in the table below.

	2017 £m	2016 £m
University partnership CGU	169.6	55.0
Fund management CGU	2.1	2.1
Parkwalk Advisors CGU	0.4	—
	172.1	57.1

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12. Goodwill continued

Impairment review of the university partnership CGU

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

For the purposes of impairment testing, the university partnership CGU comprises those elements connected with the Group's university partnership business. The Directors consider that for each of the key variables which would be relevant in determining a recoverable value for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2017	2016
Number of spin-out companies per year	13–15	10–15
Annual investment rate	£50m–£60m	£40m–£75m
Rate of return achieved	15%–20%	15%–22%
Proportion of IPO exits	25%–30%	25%–35%
Proportion of disposal exits	25%–28%	25%–32%
IPO & Disposal valuations	£30m–£35m	£25m–£35m
Long term growth rate	1.5%–1.7%	1.9%
Discount rate	10%–15%	9%–11%

When determining the key variables, management has, where possible and appropriate, used historical performance data as a basis. In instances where the forecasted volumes and scale of activity do not align with the Group's prior performance, management applies its judgement in determining these variables. Two different value-in-use models were assessed in order to evaluate the recoverable value of the CGU, neither of which resulted in an impairment being required.

Impairment review of venture capital fund management CGU

The key assumptions of the DCF model used to assess the value in use are shown below:

	2017 £m	2016 £m
Discount rate	9%–11%	9%–11%
Number of funds under management	3	4
Management fee	2%–3.25%	2%–3.25%
Cost inflation	2.5%	1.5%
Long term growth rate	1.9%	—

The value-in-use models were assessed in order to evaluate the recoverable value of the CGU does not indicate an impairment being required.

13. Intangible Assets

	£m
Cost	
At 1 January 2017	21.6
Additions acquired through business combinations	9.0
At 31 December 2017	**30.6**
Accumulated amortisation	
At 1 January 2017	16.5
Charge for the year	3.9
At 31 December 2016	**20.4**
Net book value	
At 31 December 2017	**10.2**
At 31 December 2016	5.1

The intangible assets represent contracts with customers and other contractual arrangements with UK universities acquired through acquisition of subsidiaries. The contractual arrangements have fixed terms and, consequently, the intangible assets have a finite life which align with the remaining terms which, at the end of the period, range from 2 months to 29 months. The individual contractual arrangements are amortised in a straight line over the remainder of their terms with the expense being presented directly on the primary statements.

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14. Categorisation of Financial Instruments

Financial assets	At fair value through profit or loss			
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	Total £m
At 31 December 2017				
Equity investments	—	1,085.4	—	1,085.4
Debt investments	—	45.2	—	45.2
Other financial assets	—	—	—	—
Limited and limited liability partnership interests	—	11.0	—	11.0
Trade and other receivables	—	—	8.3	8.3
Deposits	—	—	95.0	95.0
Cash and cash equivalents	—	—	231.3	231.3
Total	—	1,141.6	334.6	1,476.2
At 31 December 2016				
Equity investments	—	594.9	—	594.9
Debt investments	—	19.1	—	19.1
Other financial assets	—	—	—	—
Limited and limited liability partnership interests	—	4.2	—	4.2
Trade and other receivables	—	—	2.6	2.6
Deposits	—	—	—	—
Cash and cash equivalents	—	—	112.3	112.3
Total	—	618.2	114.9	733.1

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 (2016: £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 (2016: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

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

15. Net Investment Portfolio

	Level 1	Level 2		Level 3			
				Level 3a		Level 3b	
	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	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	Total £m
At 1 January 2017	161.1	—	—	368.0	19.1	65.8	614.0
Investments during the year	15.2	—	—	36.3	11.5	8.2	71.2
Acquired with Touchstone Innovations plc	35.3	—	—	131.6	19.9	165.4	352.2
Transaction-based reclassifications during the year	—	—	—	5.6	(12.5)	6.9	—
Other transfers between hierarchy levels during the year	13.4	—	—	(266.7)	—	253.3	—
Disposals	1.2	—	—	—	(0.8)	(7.8)	(7.4)
Adjustments for deconsolidation of subsidiaries	—	—	—	—	8.4	42.7	51.1
Fees settled via equity	—	—	—	0.5	—	—	0.5
Change in fair value in the year(i)	(1.1)	—	—	26.9	(0.4)	23.6	49.0
At 31 December 2017	**225.1**	**—**	**—**	**302.2**	**45.2**	**558.1**	**1,130.6**
At 1 January 2016	201.3	—	—	308.6	9.1	33.2	552.2
Investments during the year	10.9	—	—	50.9	6.2	1.7	69.7
Transaction-based reclassifications during the year	—	—	—	0.7	(0.7)	—	—
Other transfers between hierarchy levels during the year	—	—	—	(39.8)	6.7	33.1	—
Disposals	(15.0)	—	—	(0.2)	(0.1)	—	(15.3)
Fees settled via equity	—	—	—	0.4	—	—	0.4
Change in fair value in the year(i)	(36.1)	—	—	47.4	(2.1)	(2.2)	7.0
At 31 December 2016	161.1	—	—	368.0	19.1	65.8	614.0

i The change in fair value in the year includes a loss of £1.1m (2016: gain of £0.7m) in exchange differences on translating foreign currency investments.

15. Net Investment Portfolio continued

In order to align the Group's reporting with that of Touchstone Innovations, we have classified our investments which were previously level 2 as level 3a, and we have re-presented the 2016 investment level data accordingly.

The Group's policy is to classify equity investments in unquoted spin-out companies as Level 3a where prices have been determined from recent investments in the last twelve months. The impact of changing the qualifying criteria for Level 3a to be determined from recent investments in the last six months would mean 23.0% (2016: 4.4%) of the equity investments in unquoted spin-out companies would be reclassified to Level 3b.

Fair values of unquoted spin-out companies classified as Level 3b 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. This includes where prices have been determined from the most recent market transaction, but that transaction occurred more than twelve months prior to the balance sheet date, and a variety of other valuation techniques. Investments in 190 (2016: 54) companies have been classified as Level 3b. If the fair value of all Level 3b investments were to decrease by 10%, the net assets figure would decrease by £28.4m (2016: £6.6m), with a corresponding increase if the unobservable inputs were to increase by 10%.

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.

Due to the significant increase in the size of the unquoted investment portfolio during the year, which resulted from the acquisition of Touchtone Innovations, the Group have reconsidered the observability of the inputs in all unquoted valuations within the Group and aligned the classification of the level 3 investments with that previously reported by Touchstone Innovations. The prior year presentation has been reclassified accordingly.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Transfers between tiers are then made as if the transfer took place on the first day of the period in question, except in the cases of transfers between tiers based on an initial public offering ("IPO") of an investment wherein the changes in value prior to the IPO are calculated and reported in tier 3a, and those changes post are attributed to tier 1.

Transfers between Level 3a and Level 1 occur when a previously unquoted investment undertakes an initial public offering, resulting in its equity becoming quoted on an active market. In the current period, transfers of this nature amounted to £13.4m (2016: £nil).

Transfers between Level 1 and Level 3a would occur when a quoted investment's market becomes inactive, or the portfolio company elects to delist. There have been no such instances in the current period (2016: one instance, £nil value).

Transfers between Level 3b and Level 3a occur when an investment which previously had a most recent investment of over twelve months ago undertakes an investment, resulting in an observable market rate. In the current period, transfers of this nature amounted to £26.7m (2016: £7.3m).

Transfers between Level 3a and Level 3b occur when an investment's recent investment becomes more than twelve months old, with the price being deemed unobservable. In the current period, transfers of this nature amounted to £280.0m (2016: £45.3m).

15. Net Investment Portfolio continued

Change in fair value in the year	2017 £m	2016 £m
Fair value gains	99.3	57.3
Fair value losses	(50.3)	(50.3)
	49.0	7.0

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

16. Trade and Other Receivables

	2017 £m	2016 £m
Trade debtors	1.9	2.3
Prepayments	1.4	0.3
Other receivables	5.0	—
	8.3	2.6

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

17. Contingent Value Rights

As a result of the disposal of Proximagen Group plc in August 2012, the Group received contingent consideration, in the form of contingent value rights ("CVRs"), based upon future net revenues of two associated drug programmes. In line with the Group's policies, these have previously been recognised as financial assets at fair value through profit and loss. The Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years. This asset is fair valued at £nil (2016: £nil) and the directors do not expect any value to be realised in the future.

18. Trade and Other Payables

Current liabilities	2017 £m	2016 £m
Trade payables	2.0	0.7
Social security expenses	0.7	0.3
Deferred consideration payable	4.3	—
Redundancy and restructuring cost accrual	2.4	—
Bonus accrual	2.8	—
Other accruals and deferred income	7.5	1.1
	19.7	2.1

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19. Borrowings

Non-current liabilities	2017 £m	2016 £m
EIB debt facility	97.7	14.9
Loans drawn down from the Limited Partners of consolidated funds	13.1	9.8
	110.8	24.7

Current liabilities	2017 £m	2016 £m
EIB debt facility	6.3	—
	6.3	—

Loans drawn down from the Limited Partners of consolidated funds

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

EIB debt facility

On 8 July 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank. The facility is to be disbursed in two tranches. The Group will use the proceeds to continue to fund UK university spin-out companies as they develop and mature.

The first tranche of £15.0m was drawn down on 17 December 2015. There were £0.1m of initial transaction costs incurred in the arrangement of the facility. This balance was set against the loan amount and is to be subsequently amortised over the term of the loan. The associated charge to the statement of comprehensive income for 2017 was £nil (2016: nil). The loan is based on a fixed rate of 1.98% with an additional variable spread equal to the six month GBP Libor rate as at the first date of each six-month interest period. The capital is repayable in ten equal payments over a five-year period with the first payment due on 7 January 2019.

The second tranche of £15.0m was drawn down on 7 December 2017. The capital is repayable in ten equal payments over a five-year period with the first payment due on 7 January 2019. The loan is based on a fixed interest rate of 3.016% and is repayable over a ten year period.

The Group also holds an additional debt facility with the EIB as a consequence of the combination with Touchstone Innovations during the year. The first tranche of a £30.0m debt facility was drawn down on 30 July 2013. Transaction costs of £0.2m were incurred to obtain the loan and were set against the loan amount. These costs are subsequently amortised over the life time of the loan. The loan is based on a floating interest rate related to LIBOR and is repayable in 10 equal annual instalments over a twelve year period.

The second tranche was drawn down on 30 June 2015. Transaction costs of £0.2m were incurred to obtain the loan and were set against the loan amount. These costs are subsequently amortised over the life time of the loan. The loan is based on a fixed interest rate of 4.235% and is repayable over a ten year period.

On 13 July 2015, Touchstone entered a second loan agreement of £50.0m available to draw down in up to four tranches with a minimum tranche value of £10.0m. There is a non-utilisation fee calculated on the daily undrawn, uncancelled balance of the loan from the date falling six months after the date of the agreement at a rate of 0.10% per annum. This facility was fully drawn down in February 2017 and is repayable over an eight-year period.

The Touchstone loans contain a debt covenant requiring that the ratio of the total fair value of investments plus cash and qualifying liquidity to debt should a no time fall below 4:1. The loan also stipulates that on any date, the aggregate of all amounts scheduled for payment to the EIB in the following six months should be kept in a separate bank account.

19. Borrowings continued

The IP Group loans contain covenants requiring that the ratio between the value of the portfolio along with the value of the Group's cash net of any outstanding liabilities, and the outstanding debt facility does not fall below 6:1. The Group must maintain that the amount of unencumbered funds freely available to the Group is not less than £15.0m. The Group is also required to maintain a separate bank account which must at any date maintain a minimum balance equal to that of all payments due to the EIB in the forthcoming six months.

20. Share Capital

	2017		2016	
Issued and fully paid:	**Number**	**£m**	Number	£m
Ordinary Shares of 2p each				
At 1 January	**565,221,967**	**11.3**	564,648,168	11.3
Issued under share placings	**131,913,567**	**2.6**	—	—
Issued as consideration in acquisitions	**359,304,235**	**7.2**	—	—
Issued under employee share plans	**943,832**	**—**	573,799	—
At 31 December	**1,057,383,601**	**21.1**	565,221,967	11.3

The Company has one class of ordinary shares with a par value of 2p ("Ordinary Shares") which carry equal voting rights, equal rights to income and distributions of assets on liquidation, or otherwise, and no right to fixed income.

In June 2017, the Group issued 131,357,140 new Ordinary Shares as part of a fund raising which raised £184.7m before expenses at a price of £1.40 per share. Later in August, an additional subscription for 556,427 Ordinary Shares was made at the same terms as the previous share placing bring total funds raised to £181.0m net of expenses.

In October 2017, the Group's offer to acquire 100% of the share capital of Touchstone Innovations plc became unconditional in all respects and 357,518,520 new Ordinary Shares were issued to the existing Touchstone shareholders in exchange for shares in IP Group plc.

Also in October 2017, the Group issued 1,785,715 new Ordinary Shares as consideration to the sellers of Parkwalk Advisors (see Note 27).

In June and November 2017, the Group issued 436,689 new Ordinary Shares in order to settle the exercise of options that had been issued under the Group's Deferred Bonus Share Plan ("DBSP", see Note 22).

Finally, in November 2017, the Group issued 507,143 new Ordinary Shares in exchange for Touchstone Innovations shares that were issued under the rules of the Imperial Innovations 2016 Long Term Incentive Plan ("LTIP", see Note 22). Prior to the completion of the all-share acquisition by IP Group, the Remuneration Committee of Touchstone Innovations plc determined that one third of the shares comprised in the 2016 awards granted over shares in Touchstone under the 2016 LTIP would become immediately exercisable upon the IP Group offer becoming wholly unconditional, notwithstanding that the performance conditions had not been met at that time.

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21. Operating Lease Arrangements

	2017 £m	2016 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	1.1	0.5

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

	2017 £m	2016 £m
Within one year	1.7	0.6
In the second to fifth years inclusive	4.6	3.1
	6.3	3.7

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

22. Share-Based Payments

In 2017, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 80 to 99.

Deferred Bonus Share Plan ("DBSP")

Awards made to employees under the Group's AIS above a certain threshold include 50% deferred into IP Group equity through the grant of nil-cost options under the Group's DBSP. The number of nil-cost options granted under the Group's DBSP is determined by the share price at vesting date. The DBSP options are subject to further time-based vesting over two years (typically 50% after year one and 50% after year two).

An analysis of movements in the DBSP options outstanding is as follows:

	Number of options 2017	Weighted-average exercise price 2017	Number of options 2016	Weighted-average exercise price 2016
At 1 January	837,995	—	187,869	—
AIS deferral shares award during the year	—	—	781,148	—
Exercised during the year	(436,689)	—	(101,622)	—
Lapsed during the year	(6,812)	—	(29,400)	—
At 31 December	394,494	—	837,995	—
Exercisable at 31 December	—	—	86,247	

The options outstanding at 31 December 2017 had an exercise price in the range of £nil (2016: £nil) and a weighted-average remaining contractual life of 0.3 years (2016: 0.8 years).

The weighted average share price at the date of exercise for share options exercised in 2017 was 139.17p (2016: £178.90p).

As the 2017 AIS financial performance targets were met and as the number of DBSP options to be granted in order to defer such elements of the AIS payments as are required under our remuneration policy are based on a percentage of employees' salary, the share-based payments line includes the associated share-based payments expense incurred in 2017.

22. Share-Based Payments continued

Long-Term Incentive Plan ("LTIP")

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report on pages 80 to 99.

The 2017 LTIP awards were made on 29 August 2017. The awards will ordinarily vest on 31 March 2020, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2017 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2017 to 31 December 2019, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2020, 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 2016 LTIP awards were made on 16 May 2016. The awards will ordinarily vest on 31 March 2019, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2016 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2016 to 31 December 2018, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2019, 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 2015 LTIP awards were made on 21 May 2015. The awards will ordinarily vest on 31 March 2018, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2015 to 31 December 2017, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2018, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2014 LTIP awards did not meet the threshold performance target and lapsed on 31 March 2017.

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22. Share-Based Payments continued

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

	Number of options 2017	Weighted-average exercise price 2017	Number of options 2016	Weighted-average exercise price 2016
At 1 January	**5,614,837**	**—**	3,378,595	—
Lapsed during the year	**(1,227,666)**	**—**	(349,655)	—
Forfeited during the year	**(3,766)**	**—**	(144,294)	—
Vested during the year	**—**	**—**	(457,877)	—
Notionally awarded during the year	**4,682,712**	**—**	3,188,078	—
At 31 December	**9,066,117**	**—**	5,614,837	—
Exercisable at 31 December	**—**	**—**	—	—

The options outstanding at 31 December 2017 had an exercise price in the range of £nil (2016: £nil) and a weighted-average remaining contractual life of 1.6 years (2016: 1.6 years).

The fair value of LTIP shares notionally awarded during 2017 was calculated using Monte Carlo pricing models with the following key assumptions:

	2017	2016
Share price at date of award	**£1.151**	£1.558
Exercise price	**£nil**	£nil
Fair value at grant date	**£0.34**	£0.41
Expected volatility (median of historical 50-day moving average)	**36%**	31%
Expected life (years)	**3.0**	2.83
Expected dividend yield	**0%**	0%
Risk-free interest rate	**0.4%**	1.0%

Former Touchstone LTIP

Also in 2017, as a result of the combination with Touchstone, award holders under existing Touchstone long term incentive share schemes were entitled to receive 2.2178 new IP Group shares in exchange for each Touchstone share, an exchange ratio set out in the Offer Document for the acquisition (the "Exchange Ratio").

2016 schemes:

It was proposed that given the short period of time since grant, awards would not become exercisable in connection with the Offer and therefore that no progress towards meeting performance targets had been made. Instead award holders were offered the opportunity to release their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group and the exercise price was set at 3.33 pence divided by the Exchange Ratio . The vesting dates on the replacement awards remained the same as the original award being 1 December 2020, 1 December 2022 and 1 December 2022. The replacement awards are subject to performance conditions adjusted from those attaching to the original Touchstone award as follows: a) the Net Asset Value ("NAV") condition will be adjusted to reflect Touchstone's portfolio being part of the enlarged group following the acquisition and b) the Total Shareholder Return ("TSR") condition will be adjusted so that TSR shall be measured by reference to the performance of IP Group shares over the performance period with the starting share price for such purpose being adjusted by dividing the existing starting share price of 290 pence by the exchange ratio detailed above. The TTO specific targets remain the same.

22. Share-Based Payments continued

	Number of options 2017	Weighted-average exercise price 2017	Number of options 2016	Weighted-average exercise price 2016
At 1 January	—	—	—	—
Replacement shares awarded on 17 October 2017	2,875,606	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
At 31 December	**2,875,606**	**—**	—	—
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2017 had an exercise price of £0.015 (2016: £nil) and a weighted-average remaining contractual life of 2.7 years (2016: n/a).

2006 schemes:

Holders of 2006 Touchstone awards were offered the opportunity to release each of their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group. The exercise period and time-based vesting provisions for the replacement awards remained the same as the original Touchstone awards but the shareholder return performance condition will be updated by reference to the Exchange Ratio. Awards under the 2006 scheme were exercisable to some extent at the time of the grant of replacement awards, subject to meeting the applicable vesting conditions.

	Number of options 2017	Weighted-average exercise price 2017	Number of options 2016	Weighted-average exercise price 2016
At 1 January	—	—	—	—
Replacement shares awarded on 17 October 2017	1,808,001	£2.13	—	—
At 31 December	**1,808,001**	**£2.13**	—	—
Exercisable at 31 December	1,808,001	£2.13	—	—

The options outstanding at 31 December 2017 had an exercise price of £2.13 (2016: £nil) and a weighted-average remaining contractual life of 6.9 years (2016: 7.9 years).

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22. Share-Based Payments continued

Former Fusion IP LTIP

In 2014, three former employees of Fusion IP plc were each conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, the Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards were scheduled to vest on 31 December 2017 provided certain performance conditions are met which related to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. The options expired on 31 December 2017 as vesting criteria had not been met.

The movement in the number of shares conditionally awarded under the Former Fusion IP LTIP is set out below:

	2017	2016
At 1 January	1,338,000	1,338,000
Expired during the year	(1,338,000)	—
At 31 December	—	1,338,000

Fair value charge

The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £2.4m (2016: £1.5m).

23. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2016	4.4
Additions during the year	0.1
Realisations in the year	—
Change in fair value during the year	(0.3)
At 1 January 2017	4.2
Additions during the year	1.4
Acquired on acquisition of subsidiary	5.6
Realisations in the year	—
Change in fair value during the year	(0.2)
At 31 December 2017	**11.0**

The Group considers interests in Limited and Limited Liability Partnerships to be Level 3b 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	2017 £m	2016 £m
Revenue from services	0.7	0.9

Statement of financial position	2017 £m	2016 £m
Investment in limited partnerships	2.6	2.8
Amounts due from related parties	0.7	0.2

b) Key management personnel

i) Key management personnel transactions

Key management had investments in the following spin-out companies as at 31 December 2017:

Director/ Company Secretary	Company name	Shares held at 1 January 2017	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2017	%
Alan Aubrey	Accelercomm Limited	333	–	333	0.3%
	Alesi Surgical Limited	18	–	18	0.2%
	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	202,761	–	202,761	0.3%
	Boxarr Limited	1,732	–	1,732	0.3%
	Capsant Neurotechnologies Limited	11,631	–	11,631	0.8%
	Cloud Sustainability Limited	26	(26)	–	0.0%
	Crysalin Limited	1,447	–	1,447	0.1%
	Ditto AI Limited(iv)	119,965,750	468,801	120,434,525	9.0%
	Diurnal Group plc	15,000	–	15,000	<0.1%
	EmDot Limited	15	–	15	0.9%
	Getech Group plc	15,000	–	15,000	<0.1%
	Gunsynd plc	767,310	–	767,310	<0.1%
	hVivo plc	37,160	–	37,160	<0.1%
	Ilika plc	69,290	–	69,290	<0.1%
	Istesso Limited(v)	1,185,150	–	1,185,150	1.7%
	Karus Therapeutics Limited	223	–	223	<0.1%
	Microbiotica Limited	3,750	6,250	10,000	<0.1%
	Mirriad Advertising plc(i)	33,333	–	33,333	<0.1%
	MDL 2016 Limited — Ordinary shares	3,226	–	3,226	0.4%
	MDL 2016 Limited — A shares	229	–	229	0.5%
	Modern Water plc	519,269	–	519,269	0.7%

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24. Related Party Transactions continued

Director/ Company Secretary	Company name	Shares held at 1 January 2017	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2017	%
Alan Aubrey	Cronin Group plc	2,172,809	—	2,172,809	0.4%
continued	Oxford Nanopore Technologies Limited	101,208	—	101,208	0.4%
	Perachem Holdings plc	108,350	—	108,350	0.8%
	Salunda Limited	53,639	—	53,639	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	453	—	453	0.3%
	Tissue Regenix Group plc	2,389,259	—	2,389,259	0.3%
	Xeros Technology Group plc	40,166	—	40,166	<0.1%
	Zeetta Networks Limited	424	—	424	<0.1%
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%
	Applied Graphene Materials plc	7,619	15,000	22,619	<0.1%
	Avacta Group plc	20,001	—	20,001	<0.1%
	Capsant Neurotechnologies Limited	11,282	—	11,282	0.8%
	Cloud Sustainability Limited	25	(25)	—	0.0%
	Creavo Technologies Limited	117	—	117	<0.1%
	Crysalin Limited	1,286	—	1,286	0.1%
	Ditto AI Limited(iv)	—	613,048	613,048	<0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	14	—	14	0.8%
	Getech Group plc	20,000	—	20,000	<0.1%
	Istesso Limited	1,185,150	—	1,185,150	1.7%
	Ilika plc	10,000	—	10,000	<0.1%
	Itaconix plc(iii)	64,940	—	64,940	<0.1%
	Mirriad Advertising plc(i)	25,000	—	25,000	<0.1%
	Mode Diagnostics Limited	1,756	—	1,756	0.1%
	Modern Water plc	575,000	—	575,000	0.7%
	Cronin Group plc	932,944	—	932,944	0.2%
	Oxford Advanced Surfaces Limited	5,000	—	5,000	0.2%
	Oxford Nanopore Technologies Limited	30,967	—	30,967	0.1%
	Perachem Holdings plc	113,222	—	113,222	0.8%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	404	—	404	0.2%
	Tissue Regenix Group plc	1,950,862	—	1,950,862	0.3%
	Ultrahaptics Holdings Limited	35	1,189	1,224	<0.1%
	Xeros Technology Group plc	35,499	—	35,499	<0.1%
Greg Smith	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc	3,904	—	3,904	<0.1%
	Capsant Neurotechnologies Limited	896	—	896	<0.1%
	Cloud Sustainability Limited	8	(8)	—	0.0%
	Crysalin Limited	149	—	149	<0.1%
	Ditto AI Limited(iv)	—	144,248	144,248	0.0%
	Diurnal Group plc	15,000	—	15,000	<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%
	hVivo plc	61,340	—	61,340	<0.1%

24. Related Party Transactions continued

Director/ Company Secretary	Company name	Shares held at 1 January 2017	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2017	%
Greg Smith	Istesso Limited	313,425	—	313,425	0.5%
continued	Perachem Holdings plc	4,830	—	4,830	<0.1%
	Mirriad Advertising plc(i)	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary shares	361	—	361	<0.1%
	MDL 2016 Limited — A shares	28	—	28	<0.1%
	Modern Water plc	7,250	—	7,250	<0.1%
	Oxford Nanopore Technologies Limited	1,581	—	1,581	<0.1%
	Summit Therapeutics plc	798	—	798	<0.1%
	Surrey Nanosystems Limited	88	—	88	<0.1%
	Tissue Regenix Group plc	50,000	—	50,000	<0.1%
	Xeros Technology Group plc	1,392	—	1,392	<0.1%
David Baynes	Alesi Surgical Limited	4	—	4	<0.1%
	Arkivum Limited	377	—	377	<0.1%
	Creavo Technologies Limited	46	—	46	<0.1%
	Diurnal Group plc	73,000	—	73,000	0.1%
	Mirriad Advertising plc(i)	16,667	—	16,667	<0.1%
	Oxford Nanopore Technologies Limited	174	—	174	<0.1%
	Ultrahaptics Holdings Limited	26	—	26	<0.1%
	Zeetta Networks Limited	424	—	424	<0.1%
Angela Leach	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc	1,897	—	1,897	<0.1%
	Boxarr Limited	102	—	102	<0.1%
	Capsant Neurotechnologies Limited	1,858	—	1,858	0.1%
	Cloud Sustainability Limited	10	(10)	—	0.0%
	Creavo Technologies Limited	23	—	23	<0.1%
	Cronin Group plc	68,101	—	68,101	<0.1%
	Ditto AI Limited(iv)	—	180,308	180,308	>0.1%
	Diurnal Group plc	11,500	—	11,500	<0.1%
	Gunsynd plc	7,990	—	7,990	<0.1%
	First Light Fusion Limited	17	10	27	<0.1%
	Getech Group plc	2,083	—	2,083	<0.1%
	hVivo plc	25,903	—	25,903	<0.1%
	Istesso Limited	322,923	—	322,923	0.5%
	Mirriad Advertising plc(i)	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary Shares	606	—	606	<0.1%
	MDL 2016 Limited — A Shares	102	—	102	0.2%
	Modern Water plc	15,570	—	15,570	<0.1%
	Oxford Nanopore Technologies Limited	1,782	—	1,782	<0.1%
	Structure Vision Limited	21	—	21	0.1%
	Surrey Nanosystems Limited	90	—	90	<0.1%
	Tissue Regenix Group plc	276,791	(130,000)	146,791	<0.1%
	Ultrahaptics Holdings Limited	5	—	5	<0.1%
	Xeros Technology Group plc	5,666	(3,971)	1,695	<0.1%

i Mirriad Advertising plc was formerly known as Mirriad Advertising Limited

ii Cloud Sustainability Limited was acquired during the year by Ditto AI Limited

iii Itaconix plc was formerly known as Revolymer plc

iv Ditto AI Limited was formerly known as Empircom Limited

v Istesso Limited was formerly known as Modern Biosciences plc

24. Related Party Transactions continued

ii) Key management personnel compensation

Key management personnel compensation comprised the following:

	2017 £'000s	2016 £'000s
Short-term employee benefits[i]	2,144	1,489
Post-employment benefits[ii]	116	71
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments[iii]	837	623
Total	3,097	2,183

i Represents key management personnel's base salaries, benefits including cash in lieu of pension where relevant, and the cash settled element of the Annual Incentive Scheme.

ii Represents employer contributions to defined contribution pension and life assurance plans

iii Represents the accounting charge for share based payments, reflecting LTIP and DBSP options currently in issue as part of these schemes. See note 22 for a detailed description of these schemes.

c) Portfolio companies

i) Services

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. Through the lack of control over portfolio companies these fees are considered arms-length transactions. The following amounts have been included in respect of these fees:

Statement of comprehensive income	2017 £m	2016 £m
Revenue from services	1.9	1.6

Statement of financial position	2017 £m	2016 £m
Trade receivables	0.5	0.7

24. Related Party Transactions continued

ii) Investments

The Group makes investments in the equity and debt of unquoted and quoted investments where it does not have control but may be able to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the investment entity exception as permitted by IFRS 10 and has not equity accounted for these investments, in accordance with IAS 28, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

Statement of comprehensive income	2017 £m	2016 £m
Net gains/(losses) on disposals	0.7	—
Change in fair value of equity and debt investments	49.0	(17.9)

Statement of financial position	2017 £m	2016 £m
Equity and debt investments	619.5	200.7

d) Subsidiary companies

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

Statement of financial position	2017 £m	2016 £m
Intercompany balances with other Group companies	3.2	10.7

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 light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of issued new shares or dispose of interests in more mature portfolio companies.

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain healthy cash and short-term deposit balances that enable it to provide capital to all portfolio companies, as determined by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

The Group has an external debt facility with associated covenants that are described in Note 19.

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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 2017, 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	1.5	2.7
University of Bristol(v)	2005	5.0	1.2	3.8
University of Surrey(vi)	2006	5.0	0.5	4.5
University of York(iii)	2006	5.0	0.3	4.7
Queen Mary University of London(vii)	2006	5.0	0.8	4.2
University of Bath(viii)	2006	5.0	0.4	4.6
University of Glasgow(ix)	2006	5.0	2.0	3.0
University of Manchester(x)	2013	7.5	0.5	7.0
		52.5	**12.8**	**39.7**

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 agreed to target investing the remaining commitment of £3.2m over a three-year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

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

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

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

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

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

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

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

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

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26. Capital Commitments continued

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 2017:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
IP Venture Fund	2006	3.1	3.0	0.1
IP Venture Fund II L.P.	2013	10.0	6.6	3.4
UCL Technology Fund LP	2016	24.8	6.1	18.7
Apollo Therapeutics LLP	2016	3.3	0.4	2.9
Total		**41.2**	**16.1**	**25.1**

27. Acquisition of subsidiaries

The Group completed two corporate transactions in 2017, the combination with AIM-listed Touchstone Innovations plc in October and the acquisition of Parkwalk Advisors Ltd in January. Touchstone Innovations creates, builds and invests in technology companies and licensing opportunities developed from scientific research from the 'Golden Triangle', the geographical region broadly bounded by London, Cambridge and Oxford and Parkwalk is the UK's leading university spin-out focused EIS fund manager.

Touchstone Innovations plc:

On 17 October 2017 the Group acquired 100% of the ordinary shares in Touchstone Innovations in exchange for 357,518,520 ordinary shares in IP Group plc. The acquisition has been accounted for using the acquisition method. The consolidated financial statements for the year ending 31 December 2017 include the results of Touchstone Innovations for the period post the acquisition date.

	Fair value net assets/ (liabilities) £m
Net assets acquired	
Acquired intangible assets	6.9
Investment portfolio	352.2
Other non-current assets	6.7
Trade and trade receivables	2.9
Cash and cash equivalents	119.1
Current liabilities	(7.5)
Non-current liabilities	(88.3)
Net assets	392.0
Goodwill	108.5
Total consideration	**500.5**
Consideration satisfied by:	
Issue of share capital (357,518,520 IP Group ordinary shares at 140.0 pence per share[(i)])	**500.5**

(i) Being the closing price of IP Group plc shares on 17 October 2017, the date of acquisition

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27. Acquisition of subsidiaries continued

Goodwill recognised on acquisition of Touchstone relates to the value attributable to its access to early stage commercialisation activities with top tier UK universities and the benefits from increased scale and critical mass and a more diverse portfolio the Group expects to benefit from. None of the goodwill recognised is expected to be deductible for tax purposes.

In the period since acquisition, Touchstone contributed £3.8m in portfolio return and revenue and profit of £0.3m to the Group's results. Ordinarily the Group would also disclose the group consolidated revenue and profit had the acquisition occurred on 1 January 2017 in accordance with IFRS 3 however, management have determined it impractical to do so. It has been determined to be impractical as the retrospective application requires assumptions about what management's intent would have been for the period and also requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that provides evidence of circumstances that existed on the dates as at which those amounts are to be recognised, measured and disclosed and would have been available when the financial statements for that prior period were authorised for issue from other information. Specifically, this relates to the valuation of unquoted equity investments.

In accordance with the terms of the acquisition agreement, the Group exchanged equity-settled share based payment awards held by employees of Touchstone for equity settled share based payment awards of IP Group. The details of the acquiree's awards and replacement awards were as follows:

	Acquirees' awards	Replacement awards
Terms and conditions		
Scheme 1:		
Grant date:	26/11/2014	n/a
Vesting date:	26/11/2019 – 26/11/2024	26/11/2019 – 26/11/2024
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.4	£0.4
Scheme 2:		
Grant date:	04/11/2015	n/a
Vesting date:	26/11/2019 – 26/11/2024	26/11/2019 – 26/11/2024
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.4	£0.4
Scheme 3:		
Grant date:	23/11/2016	n/a
Vesting date:	02/12/2019	02/12/2019
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.2m	£0.2m
Scheme 4:		
Grant date:	23/11/2016	n/a
Vesting date:	02/12/2020	02/12/2020
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.2m	£0.2m

27. Acquisition of subsidiaries continued

	Acquirees' awards	Replacement awards
Scheme 5:		
Grant date:	23/11/2016	n/a
Vesting date:	02/12/2021	02/12/2020
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.2m	£0.2m

	Acquirees' awards	Replacement awards
Scheme 6:		
Grant date:	17/10/2017	n/a
Vesting date:	02/12/2022	02/12/2022
Service conditions:	Continued employment	Continued employment
Fair value at acquisition:	£0.3m	£0.3m

The value of the total replacement awards was £1.7m.

The Group incurred acquisition costs of £6.2m and a further £2.9m of restructuring costs in relation to the combination with Touchstone. Further details on acquisition and restructuring costs are included in note 8.

Parkwalk Advisors Ltd:

On 31 January 2017, the Group acquired 100% of the share capital of Parkwalk Advisors Ltd ("Parkwalk"), the UK's leading university spin-out focused EIS fund manager. The initial consideration comprises £5.0m payable in cash, £2.5m payable in the form of newly issued IP Group ordinary shares and an additional working capital payment of £1.8m.

	Fair value net assets/ (liabilities) £m
Net assets acquired	
Net assets	1.5
Acquired intangible assets	2.1
Net assets	3.6
Goodwill	5.7
Total consideration	**9.3**

Consideration satisfied by:	
Cash	6.8
Issue of share capital	2.5

Total consideration paid includes the cost of cash paid, shares issued to date and the present value of contingent amounts expected to be paid

Goodwill recognised on the acquisition of Parkwalk is attributable to the technical skills, experience and track record of its investment and marketing teams in its niche sector as specialist EIS fund manager, its significant assets under management and its strong links to leading UK universities. None of the goodwill recognised is expected to be deductible for tax purposes.

27. Acquisition of subsidiaries continued

For the period from acquisition to 31 December 2017, Parkwalk contributed net revenue of £3.2m and profit of £1.6m to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that the consolidated net revenue would have been £4.5m and consolidated profit would have been £1.9m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Consideration of £9.3m has been recognised to date, and a further £4.4m cost has been recognised in relation to the deferred and contingent consideration payable to the sellers in the year and deemed under IFRS3 to represent a payment for post-acquisition services.

The Group incurred acquisition costs of £0.1m in relation to the acquisition of Parkwalk in January and a further £0.4m was incurred in 2016 which comprised legal and due diligence fees. Further details on acquisition and restructuring costs are included in note 8.

28. Alternative Performance Measures ("APM")

IP Group management believes that the alternative performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the business' performance between financial periods and provide more detail concerning the elements of performance which the managers of the Group are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the directors. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and aid the user in understanding the Group's performance. Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes.

28. Alternative Performance Measures ("APM") continued

APM	Reference for reconciliation	Definition and purpose	Calculation	2017 £m	2016 £m
Hard NAV	Primary statements	Hard NAV is defined as the total equity of the Group less intangible assets.	Total equity	**1,508.5**	768.7
		Excluding intangible assets highlights the Group's assets that management can be reasonably expected to influence in the short term and therefore reflects the short-term resources available to drive future performance. Additionally, excluding intangible assets allows better comparison with the Group's competitors, many of which operate under fund structures and therefore would not include intangible assets.	*Excluding:*		
			Goodwill	**172.1**	57.1
			Other intangible assets	**10.2**	5.1
			Hard NAV	**1,326.2**	706.5
		The measure shows tangible assets managed by the Group. It is used as a performance metric for directors and employees as a part of annual incentives in the Group.			
Hard NAV per share	Primary statements	Hard NAV per share is defined as Hard NAV, as defined above, divided by the number of shares in issue.	Hard NAV	**£1,326.2m**	£706.5m
	note 20		Shares in issue	**1,057,383,601**	565,648,168
		The measure shows tangible assets managed by the Group per share in issue. It is a useful measure to compare to the Group's share price.	**Hard NAV per share**	**125.4p**	125.0p

Notes to the consolidated financial statements
CONTINUED

28. Alternative Performance Measures ("APM") continued

APM	Reference for reconciliation	Definition and purpose	Calculation	2017 £m	2016 £m
Return on Hard NAV	Primary statements	Return on Hard NAV is defined as the total comprehensive income or loss for the year excluding charges which do not impact on Hard NAV, specifically amortisation of intangible assets, share based payment charges and the charge in respect of deferred and contingent consideration deemed to represent post acquisition services under IFRS3. Return on Hard NAV is defined as the total comprehensive income or loss for the year excluding charges which do not impact on Hard NAV, specifically amortisation of intangible assets, share based payment charges and the charge in respect of deferred and contingent consideration deemed to represent post acquisition services under IFRS3. The measure shows a summary of the income statement gains and losses which directly impact Hard NAV.	Total comprehensive income	53.4	(14.7)
			Excluding:		
			Amortisation of intangible assets	3.9	5.6
			Share based payment charge	2.4	1.5
			IFRS3 charge in respect of acquisition of subsidiary	4.4	—
			Return on Hard NAV	64.1	(7.6)
Return on Hard NAV excluding acquisition and restructuring costs	Primary statements	Return on Hard NAV excluding acquisition and restructuring costs is defined as Return on Hard NAV, as above, excluding acquisition and restructuring costs. The measure shows the profit for the year excluding accounting adjustments and material one-off costs in relation to the corporate transactions. It allows for easier comparison with previous periods and normalises the performance return for the reader.	Return on Hard NAV	64.1	(7.6)
			Excluding:		
			Acquisition and restructuring costs	9.1	0.4
			Return on Hard NAV excluding acquisition and restructuring costs	73.2	(7.2)

28. Alternative Performance Measures ("APM") continued

APM	Reference for reconciliation	Definition and purpose	Calculation	2017 £m	2016 £m
Return on Hard NAV excluding acquisition and restructuring costs and Touchstone profits since acquisition for AIS performance targets	Primary statements	Return on Hard NAV excluding acquisition and restructuring costs and Touchstone profits since acquisition for AIS performance targets is defined as Return on Hard NAV excluding acquisition and restructuring costs, as above, further excluding Touchstone net results in the period from acquisition to year end. This measure has been agreed by the Remuneration Committee as the most appropriate basis for short term performance or "AIS" targets in the year due to the costs and performance not controllable by employees eligible for the scheme.	Return on Hard NAV excluding acquisition and restructuring costs	**73.2**	(7.2)
			Excluding:		
			Touchstone profit from 17 October 2017	**(0.3)**	–
			Return on Hard NAV excluding acquisition and restructuring costs and Touchstone profits since acquisition	**72.9**	(7.2)
Net portfolio gains	Note 15	Net portfolio gains are defined as the movement in the value of holdings in the portfolio due to share price movements or impairments in value, gains or losses on realisation of investments and gains or losses on disposals of subsidiaries. The measure shows a summary of the income statement gains and losses which are directly attributable to the portfolio which is a headline measure for the Group's performance. This is a key driver of the Return on Hard NAV which is the performance metric for directors' and employees' annual incentives.	Change in fair value of equity and debt investments	**49.0**	7.0
			Gain on disposal of equity investments	**0.1**	(0.5)
			Gain on disposal of subsidiary	**45.1**	
			Net portfolio gains	**94.2**	6.5

Notes to the consolidated financial statements
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29. Post Balance Sheet Events

Between 31 December 2017 and the date of these reports and accounts the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value decrease of £30.1m.

In March 2018 portfolio company Oxford Nanopore Technologies Limited announced it had raised £100m in new investment. Funds were raised from global investors including GIC (Singapore), CCB International (China), Hostplus (Australia) and existing investors. The funds will be used to support the company's next stage of commercial expansion.

Company balance sheet
AS AT 31 DECEMBER 2017

	Note	2017 £m	2016 £m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	**637.3**	127.6
Equity and debt investments	3	**52.3**	1.0
Other investments	4	**0.8**	0.6
Loans to subsidiary undertakings	5	**592.9**	409.0
Trade and other receivables		**—**	0.1
Total assets		**1,283.3**	538.3
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	**21.1**	11.3
Share premium account	6	**683.1**	504.7
Merger reserve	6	**508.6**	12.8
Retained earnings	6	**36.1**	(5.7)
Total equity		**1,248.9**	523.1
Current liabilities			
Trade and other payables		**1.1**	0.3
Non-current liabilities			
EIB debt facility		**29.9**	14.9
Deferred and contingent consideration payable on acquisition		**3.4**	—
Total liabilities		**34.4**	15.2
Total equity and liabilities		**1,283.3**	538.3

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 167 to 182 were approved by the Board of Directors and authorised for issue on 29 March 2018 and were signed on its behalf by:

GREG SMITH
CHIEF FINANCIAL OFFICER

ALAN AUBREY
CHIEF EXECUTIVE OFFICER

Statement of changes in equity

AS AT 31 DECEMBER 2017

	Attributable to equity holders of the parent				
	Share capital £m	Share premium(i) £m	Merger reserve(ii) £m	Retained earnings(iii) £m	Total £m
At 1 January 2016	11.3	504.7	12.8	(4.5)	524.3
Comprehensive income	—	—	—	(1.2)	(1.2)
At 1 January 2017	**11.3**	**504.7**	**12.8**	**(5.7)**	**523.1**
Comprehensive income	**—**	**—**	**—**	**41.8**	**41.8**
Issue of equity	**9.8**	**178.4**	**495.8**	**—**	**684.0**
At 31 December 2017	**21.1**	**683.1**	**508.6**	**36.1**	**1,248.9**

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

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

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

Notes to the company financial statements

1. Accounting Policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Cash Flow Statement and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures: IFRS 2 Share Based Payments in respect of group settled share based payments; and certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

Investments

Investments are held at fair value through profit and loss vision for impairment in value and are held for long-term investment purposes.

The valuation methods applied are the same as those at the Group level; details of which can be found in note 1 to the Group's financial accounts on pages 120 to 129.

Intercompany loans

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

Financial instruments

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

2. Investments in Subsidiary Undertakings

	£m
At 1 January 2017	127.6
Acquisition of subsidiary undertakings in the year	509.7
At 31 December 2017	**637.3**

Details of the Company's subsidiary undertakings as at 31 December 2017 are detailed in Note 9 of the Company financial statements.

Notes to the company financial statements

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3. Equity and debt investments

	£m
At 1 January 2017	1.0
Fair value gains in the year	0.2
De-recognition of subsidiary during the year	51.1
At 31 December 2017	**52.3**

Details of the Company's associated undertakings and significant holdings as at 31 December 2017 are detailed Note 10 of the Company financial statements.

4. Other Investments

	£m
At 1 January 2017	0.6
Investment during the year	0.2
At 31 December 2017	**0.8**

5. Loans to Subsidiary Undertakings

	£m
At 1 January 2017	409.0
Reclassification of intercompany debt to debt investments on derecognition of subsidiary during the year	(2.1)
Net advancement of loans to subsidiary undertakings during the year	186.0
At 31 December 2017	**592.9**

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 2017	11.3	504.7	12.8	(5.7)
Profit for the year	—	—	—	41.8
Issue of equity	9.8	178.4	495.8	—
At 31 December 2017	**21.1**	**683.1**	**508.6**	**36.1**

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. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity.

7. Profit and Loss Account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the year was £41.8m (2016: £1.2m loss).

Details of the 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 80 to 99. 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 2017 or 2016.

9. Details of subsidiary undertakings

Name of subsidiary undertakings	Proportion of ownership interest %(i)	Proportion of voting power held %(i)	Proportion of nominal value held %	Held by Parent/Group
IP2IPO Limited	100.0	100.0	100.0	Direct
IP2IPO Management Limited	100.0	100.0	100.0	Indirect
IP2IPO Carry Partner Limited	100.0	100.0	100.0	Indirect
IP2IPO Americas Limited	100.0	100.0	100.0	Indirect
IP2IPO FI Limited	100.0	100.0	100.0	Indirect
IP2IPO US Partners Limited	100.0	100.0	100.0	Indirect
IP Group Inc.	100.0	100.0	100.0	Indirect
Top Technology Ventures Limited(iii)	100.0	100.0	100.0	Direct
Fusion IP plc	100.0	100.0	100.0	Direct
Fusion IP Sheffield Limited	100.0	100.0	100.0	Indirect
Fusion IP Cardiff Limited	100.0	100.0	100.0	Indirect
IP Venture Fund (GP) Limited(iii)	100.0	100.0	100.0	Indirect
IP Venture Fund II (GP) LLP(iii)	100.0	100.0	100.0	Indirect
IP Ventures (Scotland) Limited(iii)	100.0	100.0	100.0	Indirect
North East Technology (GP) Limited(iii)	100.0	100.0	100.0	Indirect
IP2IPO Portfolio (GP) Limited(iii)	100.0	100.0	100.0	Indirect
IP Capital Limited(ii)	100.0	100.0	100.0	Indirect
IP2IPO Asia-Pacific Limited	100.0	100.0	100.0	Direct
IP Assist Services Limited	100.0	100.0	100.0	Direct
IP2IPO Australia Pty Limited	100.0	100.0	100.0	Direct
Parkwalk Advisors Ltd	100.0	100.0	100.0	Direct
Touchstone Innovations plc	100.0	100.0	100.0	Indirect
Touchstone Innovations Investment Management Ltd	100.0	100.0	100.0	Indirect
Imperial Innovations Ltd	100.0	100.0	100.0	Indirect
Touchstone Innovations Investments Ltd	100.0	100.0	100.0	Indirect
Innovations Limited Partner Ltd	100.0	100.0	100.0	Indirect
Imperial College Company Maker Ltd	100.0	100.0	100.0	Indirect
Imperial Innovations Sárl	100.0	100.0	100.0	Indirect
Touchstone Innovations Businesses LLP	100.0	100.0	100.0	Indirect
Imperial Innovations LLP	100.0	100.0	100.0	Indirect
MOBILion, Systems Inc	63.2	63.2	63.2	Indirect
FedImpact LLC	100.0	100.0	100.0	Indirect
IP2IPO Nominees Limited(ii)	100.0	100.0	100.0	Direct
IP2IPO Services Limited(ii)	100.0	100.0	100.0	Direct
LifeUK (IP2IPO) Limited(ii)	100.0	100.0	100.0	Direct
IP Industry Partners Limited(ii)	100.0	100.0	100.0	Direct
Union Life Sciences Limited — Ordinary shares	95.0	95.0	95.0	Indirect
Union Life Sciences Limited — Preference shares(ix)	100.0	100.0	100.0	Direct
Union Life Sciences Limited — Total	95.0	95.0	99.9	Indirect
Biofusion Licensing (Sheffield) Limited(ii),(vi)	100.0	100.0	100.0	Indirect
Fusion IP Nottingham Limited(ii),(vi)	100.0	100.0	100.0	Indirect
Fusion IP Two Limited(ii),(vi)	100.0	100.0	100.0	Indirect
Asterion Limited	66.8	66.8	66.5	Indirect
Medella Therapeutics Limited	60.0	60.0	60.0	Indirect
PH Therapeutics Limited	60.0	60.0	60.0	Indirect
Extraject Technologies Limited	60.0	60.0	60.0	Indirect
Stratium Limited	52.9	52.9	52.9	Indirect
IP Venture Fund II L.P.(vii)	33.3	33.3	33.3	Indirect

i All holdings are via Ordinary Shares unless separate classes are specified in the table.
ii Dormant/non-trading company.
iii Company/limited liability partnership engaged in fund management activity.
iv Acquired as part of the Fusion IP plc acquisition.
v As detailed in Note 1 of the Group financial statements, though less than 33.3% of beneficial and nominal interest is held by the Group, the Group's position as fund manager to IP Venture Fund II L.P. means the Group fulfils the control criteria set out in IFRS10 and the fund is thus consolidated.
vi Not consolidated due to immateriality.
vii Shares which have no economic or voting rights attributed to them.

Notes to the company financial statements

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9. Details of subsidiary undertakings continued

All companies above have their registered offices at The Walbrook Building, 25 Walbrook, London, EC4N 8AF unless separately listed below:
IP Group Inc: 1105 North Market Street, Suite 1800, Wilmington, DE 19801, USA.
IP Ventures (Scotland) Limited: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ.
IP Assist Services Limited: Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF.
MOBILion Systems Inc.: 1105 N. Market St, Suite 1800, Wilmington, DE 19801, USA.
Asterion Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.
Medella Therapeutics Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.
PH Therapeutics Limited: The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, South Yorkshire, SE 7RD.
Extraject Technologies Limited: Suite 18, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.
Progenteq Limited: Suite 18, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.
Stratium Limited: 15th Floor, Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB.
Parkwalk Advisors Ltd: 52 Princes Gate, Exhibition Road, London, SW7 2PG
Touchstone Innovations plc: 7 Air Street, London, W1B 5AD
Touchstone innovations Investment Management Limited: 7 Air Street, London, W1B 5AD
Touchstone Innovations Investments Ltd: 7 Air Street, London, W1B 5AD
Imperial Innovations Limited: 7 Air Street, London, W1B 5AD
Imperial College Company Maker Ltd: 52 Princes Gate, Exhibition Road, London, SW7 2PG
Imperial Innovations LLP: 52 Princes Gate, Exhibition Road, London, SW7 2PG
Innovations Limited Partner Ltd: 52 Princes Gate, Exhibition Road, London, SW7 2PG
Touchstone Innovations Businesses LLP: 17 Boulevard Prince Henri, Luxembourg, L1724
Imperial Innovations Sarl: 17 Boulevard Prince Henri, Luxembourg, L1724
IP2IPO Australia Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia.

All companies above are incorporated in England and Wales with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland, IP Group Inc and MobilION Inc which were incorporated in Delaware, USA, IP2IPO Australia Pty Limited which is incorporated in Australia and Touchstone Innovations Sarl and Imperial Innovations Sarl, both incorporated in Luxembourg.

All companies above undertake the activity of commercialising intellectual property unless stated otherwise. All companies are consolidated into the Group's financial performance and position following the acquisition method bar those specified which are omitted due being immaterial.

10. Details of significant holdings and associated undertakings

Name of undertaking	Registered address	Proportion of nominal value held %(i)	Held by Parent/ Group
IP Venture Fund(ii)	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	10.0%	Group
8Power Limited	Future Business Centre, King's Hedges Road, Cambridge, United Kingdom, CB4 2HY	33.0%	Group
Abingdon Health Limited:	National Agri-Food Innovation Campus, Sand Hutton, York, YO41 1LZ	33.6%	Group
Ordinary shares		0.0%	Group
Preferred ordinary shares		47.0%	Group
Absynth Biologics Limited:	Biohub at Alderley Park, Macclesfield, Cheshire, SK10 4TG	62.0%	Group
A Ordinary shares		43.8%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		52.0%	Group
Accelercomm Limited	2 Venture Road, Southampton Science Park, Chilworth, Southampton, SO16 7NP	25.6%	Group
Actual Experience plc	Quay House, The Ambury, Bath, Somerset, BA1 1UA	22.2%	Group
Alesi Surgical Limited:	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	28.7%	Group
B shares		100.0%	Group
Ordinary shares		57.0%	Group
Preferred B shares		9.7%	Group
Preferred Ordinary shares		40.3%	Group
Amaethon Limited:	Heslington Hall, Heslington, York, North Yorkshire, YO10 5DD	27.6%	Group
A Ordinary shares		52.9%	Group
B Ordinary shares		27.6%	Group
Ordinary shares		0.0%	Group
Anacail Limited:	First Floor, South Suite, Telford Pavilion West Of Scotland Science Park, Maryhill Road, Glasgow, Scotland, G20 0XA	40.3%	Group
A shares		40.7%	Group
Ordinary shares		39.9%	Group
Anywhere HPLC Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	50.0%	Group
Aperio Pharma Limited	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	46.1%	Group
Apcintex Limited:	C/o Medicxi, 25 Great Pulteney Street, London, England, W1F 9LT	43.2%	Group
A Preference shares		43.2%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Aptatek Biosciences, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	40.0%	Group
Aqdot Limited:	Lab 1 Iconix 2 Iconix Park, London Road, Cambridge, CB22 3EG	73.9%	Group
EIS shares		0.0%	Group
Ordinary shares		0.0%	Group
Preferred shares		73.9%	Group
Arkivum Limited	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	39.3%	Group
Art of Xen Limited:	NHS Liaison Unit 4th Floor Mckenzie House 30-36 Newport Road, Cardiff, CF24 0DE	99.8%	Group
A Preference shares		100.0%	Group
B Preference shares		100.0%	Group
Ordinary shares		0.0%	Group

Notes to the company financial statements
CONTINUED

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ Group
Atazoa Limited	Helen Wadsworth, Skempton Building, Imperial College Room 205, Skempton Building, Imperial College, London, London, SW7 2AZ	49.9%	Group
Auspherix Limited:	Stevenage Bioscience Catalyst, Gunnels Wood Road, Stevenage, Hertfordshire, England, SG1 2FX	49.6%	Group
Ordinary shares		0.0%	Group
Series A1 Preferred shares		0.0%	Group
Series A 2 Preferred shares		49.6%	Group
Autifony Therapeutics Limited:	Stevenage Bioscience Catalyst, Gunnels Wood Road, Stevenage, Hertfordshire, England, SG1 2FX	26.4%	Group
Ordinary shares		1.7%	Group
A Ordinary shares		0.0%	Group
A2 Preference shares		28.9%	Group
A3 Preference shares		31.3%	Group
Avacta Group plc	Unit 20 Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA	22.9%	Group
Azellon Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	32.5%	Group
A Ordinary shares		0.0%	Group
Ordinary shares		32.5%	Group
Azuri Technologies Limited:	St. John's Innovation Centre, Cowley Road, Cambridge, CB4 0WS	42.6%	Group
A Preference shares		48.5%	Group
Ordinary shares		37.4%	Group
Boxarr Limited	65 London Road, St. Albans, Hertfordshire, AL1 1LJ	44.3%	Group
Calcico Therapeutics Limited:	Oxford Science Park, Magdalen Centre, Robert Robinson Avenue, Oxford, OX4 4GA	40.7%	Group
A shares		50.0%	Group
Ordinary shares		0.0%	Group
Seed Preference shares		33.3%	Group
Cagen Limited	52 Princes Gate, Exhibition Road, London, United Kingdom, SW7 2PG	45.0%	Group
Capsant Neurotechnologies Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	50.0%	Group
A shares		0.0%	Group
Ordinary shares		40.8%	Group
Cardian Limited:	30 Broad Street Broad Street, Great Cambourne, Cambridge, England, CB23 6HJ	39.2%	Group
A Preferred shares		100.0%	Group
Ordinary shares		16.4%	Group
Cardiovascular Imaging Solutions Limited	53 Cavendish Road, London, SW12 0BL	24.9%	Group
C-Capture Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	36.7%	Group
A shares		0.0%	Group
Ordinary shares		40.8%	Group

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %(i)	Held by Parent/ Group
Cell Medica Limited:	1 Canal Side Studios, 8-14 St Pancras Way, London, NW1 0QG	24.6%	Group
A Preference shares		16.4%	Group
B Preference shares		30.0%	Group
C Preference shares		22.8%	Group
BCM Preference shares		0.0%	Group
Ordinary shares		30.2%	Group
Celltron Networks Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	30.0%	Group
Ceres Power Holdings plc	Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX	25.4%	Group
Charterdirect shipping Limited	Cs Lng Limited Cs Lng Limited, 3rd Floor, 207 Regent Street, London, United Kingdom, W1B 3HH	35.0%	Group
Chip Diagnostics, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808	38.9%	Group
Chrysalix Technologies Limited	52 Princes Gate, London, United Kingdom, SW7 2PG	40.0%	Group
City Orbit Limited	Level 2 Bessemer Building, Imperial Incubator, London, SW7 2AZ	50.0%	Group
Concirrus Limited:	The Leathermarket, Unit 17.2 Leathermarket Street, London, United Kingdom, SE1 3HN	64.1%	Group
Ordinary shares		0.0%	Group
Series A shares		100.0%	Group
Convincis Limited	52 Princes Gate, London, SW7 2PG	49.9%	Group
Cortexica Vision Systems Limited	3rd Floor, Wework Southbank Central, Stamford Street, London, England, SE1 9LQ	30.0%	Group
Creavo Medical Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	38.1%	Group
A shares		100.0%	Group
Ordinary shares		38.5%	Group
Z shares		0.0%	Group
Crescendo Biologics Limited:	Meditrina Building, Babraham Research Campus, Cambridge, CB22 3AT	22.1%	Group
A Preference shares		33.0%	Group
AI Preference shares		0.0%	Group
Ordinary shares		0.0%	Group
Seed shares		0.0%	Group
X shares		0.0%	Group
Cronin Group plc:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	27.7%	Group
OAS Ordinary shares		0.0%	Group
Ordinary shares		27.7%	Group
Cryptographiq Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	100.0%	Group
Crysalin Limited:	The Walbrook Buliding, 25 Walbrook, London, England, EC4N 8AF	25.3%	Group
A shares		0.0%	Group
B shares		0.0%	Group
C shares		0.0%	Group
D shares		0.0%	Group
Ordinary shares		27.0%	Group
Cynash, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808	55.6%	Group

Notes to the company financial statements
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10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ Group
Defenition Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	49.5%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		48.5%	Group
Digitalstitch Limted	10 John Street, London, WC1N 2EB	25.7%	Group
Ditto AI Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	38.5%	Group
A Ordinary shares		0.0%	Group
B Ordinary shares		76.6%	Group
B Redeemable non-voting shares		0.0%	Group
Ordinary shares		33.5%	Group
Preferred Ordinary shares		0.0%	Group
Redeemable Preference shares		100.0%	Group
Diurnal Group plc:	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	44.7%	Group
B shares		0.0%	Group
Ordinary shares		44.7%	Group
Preference shares		0.0%	Group
Dukosi Limited	Unit 4 Bush House Cottages, Edinburgh Technopole, Milton Bridge, Penicuik, Midlothian, EH26 0BA	47.3%	Group
Dynamic Vision Systems Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, England, LS2 9DF	21.5%	Group
Econic Technologies Limited:	Block 19s Alderley Park, Macclesfield, Cheshire, England, SK10 4TG	53.4%	Group
A Ordinary shares		86.3%	Group
A Preference shares		41.2%	Group
B Preference shares		50.0%	Group
Ordinary shares		14.6%	Group
Edgetic Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, United Kingdom, LS2 9DF	56.1%	Group
Ordinary shares		56.1%	Group
Research Cost shares		0.0%	Group
Eight19 Limited:	Unit 9a Cambridge Science Park, Milton Road, Cambridge, Cambridgeshire, CB4 0FE	50.0%	Group
A Preference shares		54.2%	Group
Ordinary shares		0.0%	Group
Embody Orthopaedic Limited	Imperial Innovations 52 Princes Gate, Exhibition Road, London, England, SW7 2PG	31.4%	Group
Emcision Limited	3rd Floor, 1 Ashley Road, Altrincham, Cheshire, WA14 2DT	20.3%	Group
Enachip, Inc.	PHS Corporate Services, Inc., 1313 N Market Street, STE, 5100, Wilmington, New Castle, DE, 19801	33.3%	Group
Enterprise Therapeutics Limited:	Sussex Innovation Centre Science Park Square, Falmer, Brighton, England, BN1 9SB	43.1%	Group
Ordinary shares		0.0%	Group
Series A shares		47.6%	Group
Entia Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	24.4%	Group

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %(i)	Held by Parent/ Group
Epsilon-3 Bio Limited:	Moneta Building Babraham Research Campus, Babraham, Cambridge, Cambridgeshire, CB22 3AT	22.6%	Group
A Preferred shares		28.1%	Group
Ordinary shares		0.0%	Group
Escubed Limited	Unit 651 E-H Street 5, Thorp Arch Estate, Wetherby, England, LS23 7FZ	20.0%	Group
Exyn Technologies, Inc.	203 NE Front Street STE 101, Milford, Kent, DE, 19963	46.6%	Group
Fault Current Limited:	The Maltings East Tyndall Street, Cardiff Bay, Cardiff, CF24 5EZ	43.1%	Group
A shares		80.6%	Group
Ordinary shares		42.3%	Group
Featurespace Limited:	Broers Building 2nd Floor, 21 J J Thomson Avenue, Cambridge, CB3 0FA	27.9%	Group
A Preference shares		32.3%	Group
B Preference shares		64.4%	Group
C Preference shares		63.4%	Group
D Preference shares		39.6%	Group
E Preference shares		8.6%	Group
Ordinary shares		0.0%	Group
X Ordinary shares		0.0%	Group
First Light Fusion Limited:	Unit 10 Mead Road, Yarnton, Kidlington, Oxfordshire, OX5 1QU	34.9%	Group
A Ordinary shares		0.0%	Group
Ordinary shares		36.0%	Group
Fluid Pharma Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	40.3%	Group
B Ordinary shares		87.1%	Group
Ordinary shares		39.6%	Group
Garrison Technology Limited:	117 Waterloo Road, London, England, SE1 8UL	25.1%	Group
A Preference shares		94.9%	Group
A1 Preference shares		25.0%	Group
A2 Preference shares		32.9%	Group
Ordinary shares		0.0%	Group
Genomics plc	King Charles House, Park End Street, Oxford, United Kingdom, OX1 1JD	23.8%	Group
Glythera Limited:	Inex Herschel Annex, Kings Road, Newcastle Upon Tyne, NE1 7RU	32.2%	Group
A Ordinary shares		50.0%	Group
Ordinary shares		23.1%	Group
Gripable Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	37.3%	Group
Hexxcell Limited	52 Princes Gate, London, SW7 2PG	30.8%	Group
I2L Research Limited:	Capital Business Park, Wentloog, Cardiff, CF3 2PX	31.0%	Group
A Ordinary shares		84.0%	Group
B Ordinary shares		13.3%	Group
Ordinary shares		0.0%	Group

Notes to the company financial statements
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10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %(i)	Held by Parent/ Group
Ieso Digital Health Limited:	The Stable Block The Grange, 20 Market Street, Swavesey, Cambridge, CB24 4QG	49.5%	Group
A Ordinary shares		85.1%	Group
A Preference shares		45.2%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		23.7%	Group
Impression Technologies Limited:	Unit E, Lyons Park, 46 Sayer Drive, Coventry, United Kingdom, CV5 9PF	56.6%	Group
Ordinary shares		55.4%	Group
Series A shares		62.5%	Group
Series B shares		50.0%	Group
Inflowmatix Limited:	Penningtons Manches Llp Apex Plaza, Forbury Road, Reading, Berkshire, United Kingdom, RG1 1AX	63.4%	Group
A Ordinary shares		0.0%	Group
A Preferred shares		100.0%	Group
Deferred shares		0.0%	Group
Ordinary shares		34.4%	Group
Inivata Limited:	The Portway Granta Park, Great Abington, Cambridge, England, CB21 6GS	30.5%	Group
A Preference shares		37.5%	Group
Ordinary shares		0.0%	Group
Series A shares		31.8%	Group
Instrumems, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	43.4%	Group
Ionix Advanced Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	34.5%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		34.4%	Group
Ipalk SAS	112 rye des hautes variennes, 45200, Amilly France	23.5%	Group
IR Pharma Limited	1st Floor Sir Alexander Fleming Building, Imperial College London Exhibition Road, London, SW7 2AZ	28.0%	Group
Istesso Limited:	The Walbrook Building, 25 Walbroook, London, United Kingdom, EC4N 8AF	42.8%	Parent
A shares		100.0%	Parent
Ordinary shares		39.6%	Parent
Ixico plc	4th Floor, Griffin Court, 15 Long Lane, London, EC1A 9PN	21.0%	Group
Kesios Therapeutics Limited:	30 Broad Street, Great Cambourne, Cambridge, Cambridgeshire, CB23 6HJ	46.0%	Group
A Preferred shares		25.5%	Group
Ordinary shares		25.5%	Group
Preferred shares		100.0%	Group
Lomare Technologies Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	40.0%	Group
Lorem Pharmaceuticals, Inc.	Renaissance Centre, 405 North King Street, Suite 500, Wilmington, New Castle, DE, 19801	34.6%	Group
Lumiode, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	49.9%	Group

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ Group
Magnomatics Limited:	Park House, Bernard Road, Sheffield, S2 5BQ	45.7%	Group
A shares		52.1%	Group
B shares		100.0%	Group
C shares		100.0%	Group
Ordinary shares		27.3%	Group
Medaphor Group plc:	The Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	36.1%	Group
A shares		0.0%	Group
Ordinary shares		36.1%	Group
Metabometrix Limited	Mrs Judy Collingham, 10 Fern Hill, Dersingham, King's Lynn, Norfolk, England, PE31 6HT	23.0%	Group
Microbiotica Limited:	Biodata Innovation Centre Wellcome Genome Campus, Hinxton, Cambridge, Cambridgeshire, CB10 1DR	33.4%	Group
Ordinary shares		0.0%	Group
Seed shares		49.8%	Group
Mirriad Advertising plc:	6th Floor One London Wall, London, EC2Y 5EB	27.7%	Group
Ordinary shares		24.1%	Group
Preference shares		52.4%	Group
Mission Therapeutics Limited:	Babraham Hall, Babraham, Cambridge, CB22 3AT	21.5%	Group
A Preference shares		22.5%	Group
B Preference shares		22.5%	Group
C Preference shares		22.5%	Group
Ordinary shares		0.0%	Group
Mixergy Limited	30 Upper High Street, Thame, Oxfordshire, OX9 3EZ	20.4%	Group
MoA Technology Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, England, LS2 9DF	22.5%	Group
MDL 2016 Limited	1 West Regent Street, Glasgow, G1 2AP	41.4%	Group
Nascient Limited:	30 Broad Street, Great Cambourne, Cambridge, Cambridgeshire, CB23 6HJ	69.4%	Group
A shares		0.0%	Group
Ordinary shares		50.0%	Group
Preferred shares		94.4%	Group
Nexeon Limited	136 Eastern Avenue, Milton Park, Abingdon, Oxfordshire, OX14 4SB	33.7%	Group
NGenics Global Limited	The Catalyst Baird Lane, Heslington, York, North Yorkshire, YO10 5GA	22.5%	Group
Oxehealth Limited	Sadler Building Heatley Road, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GE	36.9%	Group
Oxford Drug Design Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	29.0%	Group
Deferred shares		0.0%	Group
Ordinary shares		29.0%	Group
OxSyBio Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	49.7%	Group
A shares		100.0%	Group
Ordinary shares		49.5%	Group
Oxular Limited:	Magdalen Centre, Robert Robinson Avenue, Oxford, England, OX4 4GA	23.1%	Group
A Preferred shares		44.0%	Group
Ordinary shares		0.0%	Group

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ Group
Perachem Holdings plc:	55 Drury Lane, London, WC2B 5RZ	46.6%	Group
Convertible Preference shares		0.0%	Group
Ordinary shares		46.6%	Group
Perlemax Limited	The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield, S3 7RD	34.5%	Group
Perpetuum Limited:	2 Venture, Southampton Science Park, Chilworth, Southampton, SO16 7NP	29.9%	Group
Series B shares		13.4%	Group
Series C shares		46.9%	Group
Series C1 shares		0.0%	Group
Ordinary shares		38.5%	Group
Preference shares		0.0%	Group
Phase Focus Limited:	40 Leavy Greave Road, Sheffield, S3 7RD	35.4%	Group
A shares		26.1%	Group
B shares		33.3%	Group
H shares		0.0%	Group
Ordinary shares		52.1%	Group
Plaxica Limited	The Wilton Centre, Wilton, Redcar, United Kingdom, TS10 4RF	45.7%	Group
Process Systems Enterprise Limited	5th Floor East, 26-28 Hammersmith Grove, London, W6 7HA	23.3%	Group
PsiOxus Therapeutics Limited:	4-10 The Quadrant, Abingdon Science Park, Abingdon, England, OX14 3YS	26.3%	Group
A Preference shares		52.7%	Group
B Preference shares		24.8%	Group
Ordinary shares		4.9%	Group
Pulmocide Limited:		21.0%	Group
A Ordinary shares		0.0%	Group
A Preference shares		4.3%	Group
B Preference shares		69.3%	Group
Quantima Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, United Kingdom, LS2 9DF	33.3%	Group
Quantum Motion Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	22.4%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		22.4%	Group
Relitect Limited	1 West Regent Street, Glasgow, Scotland, G1 2AP	33.4%	Group
Riotech Pharmaceuticals Limited	49 Arrivato Plaza, Hall Street, St Helens, United Kingdom, WA10 1GH	25.0%	Group
Riptron Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	33.3%	Group
Salunda Limited	6 Avonbury Business Park, Howes Lane, Bicester, Oxfordshire, United Kingdom, OX26 2UA	26.3%	Group

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %(i)	Held by Parent/ Group
Sam Labs Limited:	Joachim Horn, Limewharf 25a Gallery, Vyner Street, London, Hackney, England, E2 9DG	26.4%	Group
A Ordinary shares		52.4%	Group
B Ordinary shares		0.0%	Group
C Ordinary shares		38.5%	Group
Ordinary shares		0.0%	Group
Saw DX Limited	11 The Square University Avenue, Glasgow, G12 8QQ	35.0%	Group
Sensixa Limited	53 Cavendish Road, London, SW12 0BL	35.9%	Group
Seren Photonics Limited:	37b UK Technology Centre Pencoed Technology Park, Pencoed, Bridgend, Mid Glamorgan, CF35 5HZ	62.6%	Group
A shares		57.4%	Group
B shares		0.7%	Group
C shares		100.0%	Group
Ordinary shares		56.9%	Group
Deferred shares		0.0%	Group
Silicon Microgravity Limited:	Clarendon House, Clarendon Road, Cambridge, CB2 8FH	31.8%	Group
A Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Seed Preferred shares		71.9%	Group
Spinetic Energy Limited	The Old Post Office, 41-43 Market Place, Chippenham, Wiltshire, England, SN15 3HR	30.4%	Group
Structure Vision Limited	103 Clarendon Road, Leeds, LS2 9DF	42.5%	Group
Sub Salt Solutions Limited:	52 Princes Gate, London, SW7 2PG	38.0%	Group
A Ordinary shares		100.0%	Group
Ordinary shares		43.7%	Group
Surrey NanoSystems Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	21.6%	Group
A Ordinary shares		17.4%	Group
Ordinary shares		35.4%	Group
Therapeutic Frontiers Limited	Gowran House 56 Broad Street, Chipping Sodbury, Bristol, BS37 6AG	25.8%	Group
Thisway Global Limited:	2nd Floor, Platinum Building St John's Innovation Park, Cowley Road, Cambridge, England, CB4 0DS	21.5%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Series A shares		57.2%	Group
Topivert Limited:	265 Strand, London, WC2R 1BH	29.5%	Group
A Preference shares		34.0%	Group
Growth shares		0.0%	Group
Ordinary shares		50.0%	Group
Ubiquigent Limited	Dundee University Incubator Dundee Technopole, James Lindsay Place, Dundee, DD1 5JJ	54.5%	Group

Notes to the company financial statements
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10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ Group
Ultrahaptics Holdings Ltd:	The West Wing, Glass Wharf, Bristol, BS2 0EL	37.9%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		47.3%	Group
Preference shares		30.4%	Group
Ultramatis Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2	30.0%	Group
Uniformity Labs, Inc.	41400 Christy Street, Fremont, CA 94538, USA	25.1%	Group
Uniphy Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	39.1%	Group
Veryan Holdings Limited:	9400 Garsington Road Oxford Business Park, Oxford, Oxfordshire, OX4 2HN	46.8%	Group
A Ordinary shares		58.2%	Group
B Ordinary shares		49.4%	Group
C Ordinary shares		54.6%	Group
Deferred shares		12.5%	Group
M Ordinary shares		0.0%	Group
Ordinary shares		18.1%	Group
Wave Optics:	Wave Optics Ltd, Milton Park Innovation Cente 99 Park Drive, Milton Park, Milton, Abingdon, Oxfordshire, England, OX14 4RY	23.8%	Group
A Ordinary shares		0.0%	Group
B Ordinary shares		37.5%	Group
B1 Ordinary shares		25.9%	Group
Ordinary shares		0.0%	Group
Yoyo Wallet Limited:	78 2nd Floor, Whitfield Street, London, England, W1T 4EZ	44.1%	Group
Ordinary shares		13.1%	Group
Series 1 seed		31.9%	Group
Series 2 seed		79.6%	Group
Series A		83.8%	Group
Series B		33.3%	Group
Zeetta Networks Limited	The Walbrook Building, 25 Walbrook, London, United Kingdom, EC4N 8AF	26.6%	Group
Zoompast Limited:	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	31.3%	Group
Ordinary shares		12.3%	Group
Preference shares		33.9%	Group

i All holdings are via Ordinary Shares unless separate classes are specified in the table.

ii A fund in which the Group is a limited partner. Proportion of nominal value stated is equivalent to capital contributed to the partnership in question.

All companies above are incorporated in the United Kingdom with the exception of Aptatek Biosciences, Inc., Chip Diagnostics, Inc, Cynash, Inc., Enachip, Inc., Exyn Technologies, Inc., Instrumems, Inc., Lorem Pharmaceuticals, Inc., Lumiode, Inc and Uniformity Labs, Inc. which were incorporated in Delaware, USA. The significant influence noted above has been determined in line with IAS 28 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Company information

Company registration number	04204490
Registered office	The Walbrook Building 25 Walbrook London EC4N 8AF
Directors	**Mike Humphrey** (Non-executive Chairman) **Alan John Aubrey** (Chief Executive Officer) **Michael Charles Nettleton Townend** (Chief Investment Officer) **Gregory Simon Smith** (Chief Financial Officer) **David Baynes** (Chief Operating Officer) **Jonathan Brooks** (Non-executive Director) **Professor Lynn Gladden** CBE (Non-executive Director) **Dr Elaine Sullivan** (Non-executive Director) **Professor David Knox Houston Begg** (Senior Independent Director)
Company secretary	**Angela Leach**
Brokers	**Numis Securities Limited** The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
Registrars	**Link Asset Services** 6th Floor 65 Gresham Street London EC2V 7NQ
Bankers	**Royal Bank of Scotland** PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	**Pinsent Masons LLP** 30 Crown Place Earl Street London EC2A 4ES
Independent auditor	**KPMG LLP** 15 Canada Square London E14 5GL

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