ipgroup

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 DECEMBER 2018

Registration Number: 04204490
Stock Code: IPO

Evolving great ideas into world-changing businesses

IP Group's core purpose is to evolve great ideas into world-changing businesses that will have a positive impact on the world.

Sustainability has always been at the heart of IP Group. Through the businesses that we back and build, we aim to address some of the world's most pressing challenges in areas such as disease prevention and mitigation, the transition to a less carbon intense energy world and in productivity improvement. Our approach therefore considers environmental, social and governance ("ESG") factors and their impact.

Our team is passionate about this endeavour and has spent many years finessing its approach to identifying attractive intellectual property ("IP"), nurturing and building businesses around that IP and then providing capital and support along the journey from 'cradle to maturity'. Through collaborations and established partner relationships with leading research universities in the UK, the US and Australasia, the Group has access to over 15% of the world's Top Research.

Our portfolio, which is currently valued at £1.1bn, comprises holdings in 61 focus 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 exciting businesses that are making a real difference. We are pioneering in our approach, passionate about what we do, principled in how we work and committed to delivering results for all of our stakeholders.

INVESTMENT CASE

Established partner relationships 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.

Permanent capital structure, 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 operations in the UK, US and Australasia.

Critical mass allowing access to greater pool of capital.

HIGHLIGHTS

+350% cash realisations

+120% capital raised by portfolio companies

Portfolio highlights

- Fair value of portfolio: £1,128.2m (2017: £1,099.8m)
- Net portfolio loss[1] of £48.4m (2017: gain of £94.2m)
- Portfolio cash realisations: £29.5m (2017: £6.6m)
- Capital provided by IP Group to portfolio companies and projects: £100.9m (2017: £71.2m), with Parkwalk Advisors investing a further £20.3m (2017: £13.4m)
- Total funds raised by portfolio companies of £695m (2017: £315m)
- Oxford Nanopore completed £100m financing round plus £50m investment from NASDAQ-listed Amgen; significant commercial progress
- Ceres Power raised new capital of £74m from financial investors, and new strategic partners Bosch and Weichai Power
- Microbiotica signed microbiome collaboration with Genentech worth up to $534m
- Avacta Group plc signed development alliance with LG Chem Life Sciences worth up to $310m
- Artios Pharma completed £65m funding round
- Ultrahaptics completed £35m funding round
- IP Group Australasia completed its first two spin-out investments

Financial and operational highlights

- Hard NAV[1] £1,217.5m (2017: £1,295.8m)
- Net assets £1,218.2m (2017: £1,508.5m)
- Gross cash and deposits £219.0m (2017: £326.3m)
- Return on Hard NAV[1] of negative £75.6m (2017: positive £64.1m)
- Loss for the year of £90.6m before exceptional goodwill impairment[1] of £203.2m (2017: profit £53.4m; £nil)
- Annual synergies achieved from Touchstone integration of £8m by full year 2020
- US business attracted external funding from privately held US blue-chip family office
- Appointment of Sir Douglas Flint as Chairman and Heejae Chae as Non-executive Director

Post period end highlights

- Featurespace completed £25.0m funding round
- Technology Transfer Operations transferred back to Imperial College; resulting in annual cost savings of c.£3m

[1] Alternative performance measure, see Note 27 for definition and reconciliation to IFRS primary statements.

Disclaimer: This Annual Report and Accounts may contain forward-looking statements. These statements reflect the Board's current view, are subject to a number of material risks and uncertainties and could change in the future. Factors that could cause or contribute to such changes include, but are not limited to, the general economic climate and market conditions, as well as specific factors relating to the financial or commercial prospects or performance of individual companies within the Group's portfolio. Further details can be found in the Risk management section on pages 46 to 55.

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.

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Q&A WITH THE CEO

"2018 has been a year of consolidation following the Touchstone acquisition in late 2017. While market conditions for AIM-listed small-cap companies were challenging, there was significant commercial progress in many of our companies and as a result we retain a high level of confidence in the portfolio."

Alan Aubrey
Chief Executive Officer

Q Can you summarise 2018's underlying financial performance?

A At a headline level, the Group's Hard NAV (and Hard NAV per share) reduced by approximately 6% during 2018. A major contributor to this was the performance of our quoted portfolio, which was impacted by weaker stock markets, particularly AIM, as well as certain company-specific issues, the biggest of which was Diurnal. Shares in Diurnal fell after its drug Chronocort did not meet the primary endpoint in a Phase 3 study in congenital adrenal hyperplasia ("CAH"). We and the company are optimistic that the drug remains approvable, given some very positive outcomes using other measures in the Phase 3 study, and that premium pricing is still possible. Including Diurnal, the Group's quoted portfolio fell 43% in 2018, against a 19% decline in the performance of the FTSE AIM index. On the other hand, a number of our portfolio companies carried out significant private financings that resulted in a combined valuation uplift of £71.2m, resulting in a net portfolio fair value loss for the year of £48.4m. We feel that those headline numbers do not reflect the strength and quality of IP Group's portfolio or the commercial progress seen in the year from a number of our key assets that are emerging as the leaders in their respective fields. Finally, 2018 saw a four-fold increase in realisations, which contributed to the strong closing gross cash balance of £219.0m.

Q You mention commercial progress in the portfolio – what were some of the highlights?

A Oxford Nanopore Technologies, Ceres Power and WaveOptics all signed partnerships with blue chip companies further validating their respective technologies. In particular, Ceres Power signed agreements with China's Weichai Power and Germany's Robert Bosch. In the private portfolio, NASDAQ-listed Amgen invested £50m into Oxford Nanopore Technologies while WaveOptics agreed a partnership with, and investment from, Goertek, a global leader in the design and manufacturing of high-tech consumer electronics. In the quoted portfolio, there was excellent commercial progress from a number of companies. Tissue Regenix announced that its subsidiary 'CellRight Technologies' entered into an agreement to allow Arthrex, Inc. to distribute its proprietary 'BioRinse' bone portfolio throughout Europe, with the initial focus on the UK. Avacta Group signed a development alliance with LG Chem Life Sciences worth up to $310m including $180m across upfront, near-term payments and development milestones.

Q Can you explain the exceptional charge relating to goodwill?

A Our results for the period reflect an exceptional non-cash charge relating to the impairment of goodwill in respect of historic acquisitions of £203.2m. The majority of this goodwill came about as a result of the accounting impact of the nil-premium, all-share acquisition of Touchstone Innovations plc, as well as other historic acquisitions including Fusion IP plc. In the current macroeconomic climate and given the streamlining changes we have made to the business this year, coupled with recent portfolio performance, we have impaired the vast majority of goodwill on our balance sheet. This non-cash accounting charge does not impact the Group's headline performance measures of Hard NAV and Return on Hard NAV, which have always excluded goodwill and other intangible assets.

Q How confident are you feeling about IP Group's portfolio?

A We have never been more confident about the portfolio. There was significant progress in many of our companies during the year that, in our view, is yet to be reflected in carrying values. Oxford Nanopore has commented publicly on significant increases in its order book and the attractiveness of capital markets, while First Light Fusion has stated that it aims to demonstrate fusion using its 'Machine 3' by mid-2019. It should also be noted that a number of our therapeutic assets are approaching key inflection points. The Board therefore remains very supportive of management's actions to demonstrate that the portfolio can generate significant returns for stakeholders. This will allow the Group to sustainably fulfil its mission of supporting outstanding science from around the world from the eureka moment through to maturity.

Q 2018 looks to have been a good year for realisations – is this an area of continued focus?

A In 2018 the Group saw a four-fold increase in cash proceeds from the realisation of investments to £29.5m (2017: £6.6m). This came from 14 separate companies, spread evenly across the sectors and comprising a mix of quoted and private capital. The largest disposals were from interests in Veryan Medical Limited, Abzena plc, Getech Group plc and Concirrus Limited. As the Group's portfolio matures, this is something that will remain a key focus providing, of course, that valuations make sense.

Q Is the integration of Touchstone now complete?

A Yes, it is. Following the transfer of the Technology Transfer Office to Imperial College London which occurred on 28 February 2019 and the surrender of the lease on Touchstone Innovation plc's former head office in Central London (agreed on 22 March 2019), the integration is now substantially complete from an operational perspective. We anticipate annual cost synergies of more than £8m resulting from the combination of IP Group and Touchstone Innovations versus the pre-integration cost base of the two companies. The former Touchstone and IP Group portfolio companies are being managed in the UK by our Life Sciences and Technology partnerships that were formed in the year. While there has been a level of further reduction in the fair values of some of the former Touchstone companies to better reflect their stage of development, the combined portfolio is now well-balanced by sector and contains a number of opportunities for significant future value growth.

Q On the subject of the larger combined portfolio, how many companies are you now actively focusing on?

A We feel there is a good range of companies from early-stage to mature and good coverage across all sectors. The Technology and Life Sciences partnerships in the UK have reviewed the combined portfolio and are focusing the majority of their attention and resources on a smaller group of around 60 companies in total, representing 87% of the portfolio value. Nearly half of the value of the portfolio is in the top ten assets and the Group's holdings in these businesses are valued at a total of £561.2m (2017: £573.8m). The total value of the Group's portfolio companies (excluding multi-sector platforms, organic investments and de minimis holdings) is now in excess of £5bn, or almost £6bn including the two significant multi-sector platform companies in which the Group has a holding (Oxford Sciences Innovation plc and Cambridge Innovation Capital plc) (2017: £4bn, £5bn). Please see the 'Top 10 holdings' graph on pages 4 to 5 in the 'At a Glance' section.

Q The number of new companies formed in 2018 has fallen – are you concerned about your pipeline?

A The Group deployed capital into nine new companies or projects during the year (2017: 21), five of which were sourced from the UK, two from the US and two from Australasia (2017: 10, 11, nil). Our focus is always on finding the best science-based opportunities available, and we therefore expect to see some fluctuation in the number of new companies formed in any given year. Through our various collaborations and relationships with premier research universities and other research centres around the world, we access commercialisable IP from institutions that have published over 15% of the world's Top Research and so consider our pipeline of opportunities to be very strong.

Q How are your US and Australasian operations performing?

A We have made good progress in North America with portfolio companies attracting $30m of external investment and achieving several significant milestones during the year. The team also attracted a significant strategic investment into the US business that was led by a privately held blue-chip family office based in the US. We consider these co-investments to be a great endorsement of both our model and attractiveness of the portfolio and future opportunities to US investors.

In Australasia, the Group completed its first two investments from partner universities (The University of New South Wales and Monash University) in late 2018. On the capital side, the Group continued to work with Hostplus, one of Australia's largest superannuation funds with over AU$34bn in funds under management, and through the AU$100m IP Group Hostplus Innovation Fund which participated in financings for Oxford Nanopore Technologies and Ultrahaptics in 2018.

Q What are your plans in Greater China?

A We hosted our second 'Global Deep Tech Forum' conference in Hong Kong and Shanghai last year where 22 of our portfolio companies introduced their technology and business to hundreds of attendees from the Greater China area. As a result of those introductions, many of our portfolio companies have secured investment and business partnerships in Greater China, including Oxford Nanopore, Ceres Power, Mirriad Advertising and Creavo Medical Technologies. The Group considers Greater China to be strategically important and will continue to facilitate market entry, business partnership and investment discussions with relevant Chinese partners for our portfolio companies.

Q What impact could Brexit have on IP Group?

A At the time of writing, the outcome of the Brexit process remains a source of uncertainty. We have assessed the potential impact of Brexit on the Group in conjunction with our advisers and believe that the most significant short-term potential impact to the Group may be capital markets volatility and the resultant impact on valuations and the availability of capital to the Group's portfolio. At the portfolio level, the most commonly-cited potential impacts for our companies arise from potential changes to regulations (particularly for life sciences companies), supply chain, hiring/retaining talent and financing, all of which are likely to be more prevalent in a 'hard' Brexit scenario. We continue to closely monitor the situation for both short-term and longer-term impacts at the Group and portfolio company level.

Q Lots of companies are highlighting sustainability and ESG matters. Can you tell me about IP Group's plans here?

A Sustainability has always been at the heart of IP Group's business model. Through the businesses that we back and build, we aim to address some of the world's most pressing challenges in areas such as disease prevention and mitigation, the transition to a less carbon intense energy world and in productivity improvement. IP Group therefore has a wider impact than purely financial, providing benefit to society and the economy. This is a focus for the Group in 2019 and you can read more on our efforts here on pages 6 to 7 and on pages 56 to 65.

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 Australasia. In total, the Group accesses commercialisable intellectual property emanating from 29 universities or research institutions around the world comprising 14 in the UK, six in the US and nine in Australasia. Academic staff from these institutions have published over 15% of the world's Top Research. We believe the Group is the international market leader in the emerging university IP commercialisation sector.

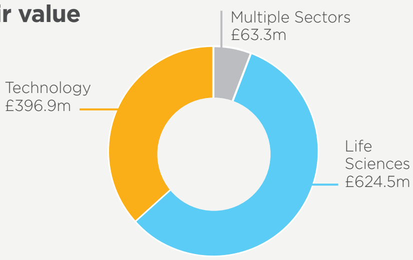
Unparalleled access to global research hubs

UK The Golden Triangle
US The Amtrak Corridor
Australasia Australia's Go8 Universities and Auckland

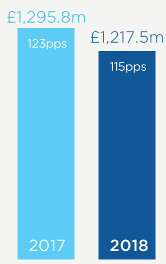
Read about our partners in our business model on pages 16 to 17

A balanced portfolio with a strong record of growth

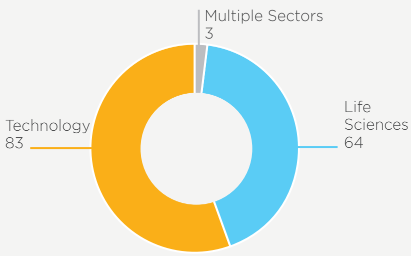
By fair value
(£m)



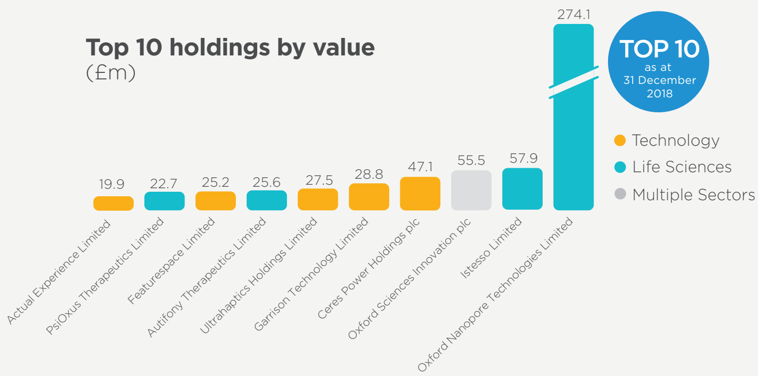
IP Group Hard NAV
(£m)



By number of companies*



Top 10 holdings by value
(£m)



Read about our performance on page 22

IP Group's vision is to create an international leader in IP commercialisation. Through our two divisions, Life Sciences and Technology, we evolve great ideas into world-changing businesses.

		Life Sciences	Technology	Multi-sector	TOTAL
	Value of companies in the portfolio	£624.5m	£396.9m	£63.2m	**£1,084.6m**
	2018 net portfolio gain/(loss)	(£71.0m)	£18.8m	£0.6m	**(£51.6m)**
	Number of portfolio companies	64	83	3	**150**
STAGE	Top 20	£455.1m	£221.9m	£55.5m	**£732.5m**
STAGE	Focus	£129.8m	£74.6m	–	**£204.4m**
STAGE	Other	£39.6m	£100.3m	£7.9m	**£147.8m**

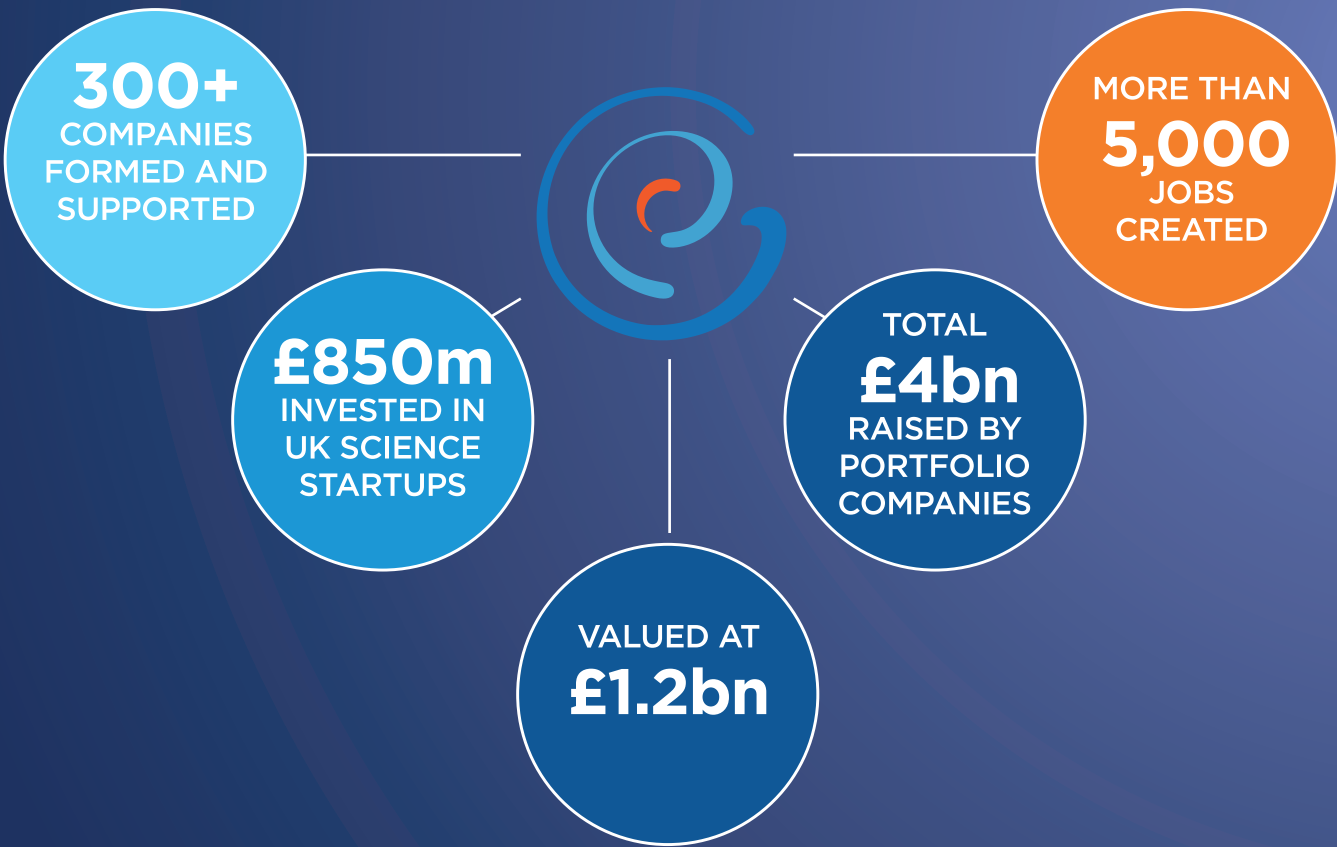
IMPACT AND SUSTAINABILITY

IP Group's core purpose is to evolve great ideas into world-changing businesses that will have a positive impact on the world. Through the businesses that we back and build, we aim to address some of the world's most pressing challenges in areas such as disease prevention and mitigation, the transition to a less carbon intense energy world and in productivity improvement. Our approach therefore considers environmental, social and governance ("ESG") factors and their impact.

IP Group therefore has a wider impact than purely financial, providing benefit to society and the economy. Since the Group was founded, we have formed and supported over 300 companies in total to date and have invested more than £850m into those businesses which, in turn, have raised more than £4bn of funding. We estimate that more than 5,000 jobs have been created through IP Group and its portfolio companies.

How we contribute to wider society

IP Group in numbers



Our sustainability framework

The Sustainable Development Goals ("SDGs"), created by the UN, are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, poor sanitation and diseases. The businesses that IP Group backs and builds seek to solve many of these issues.

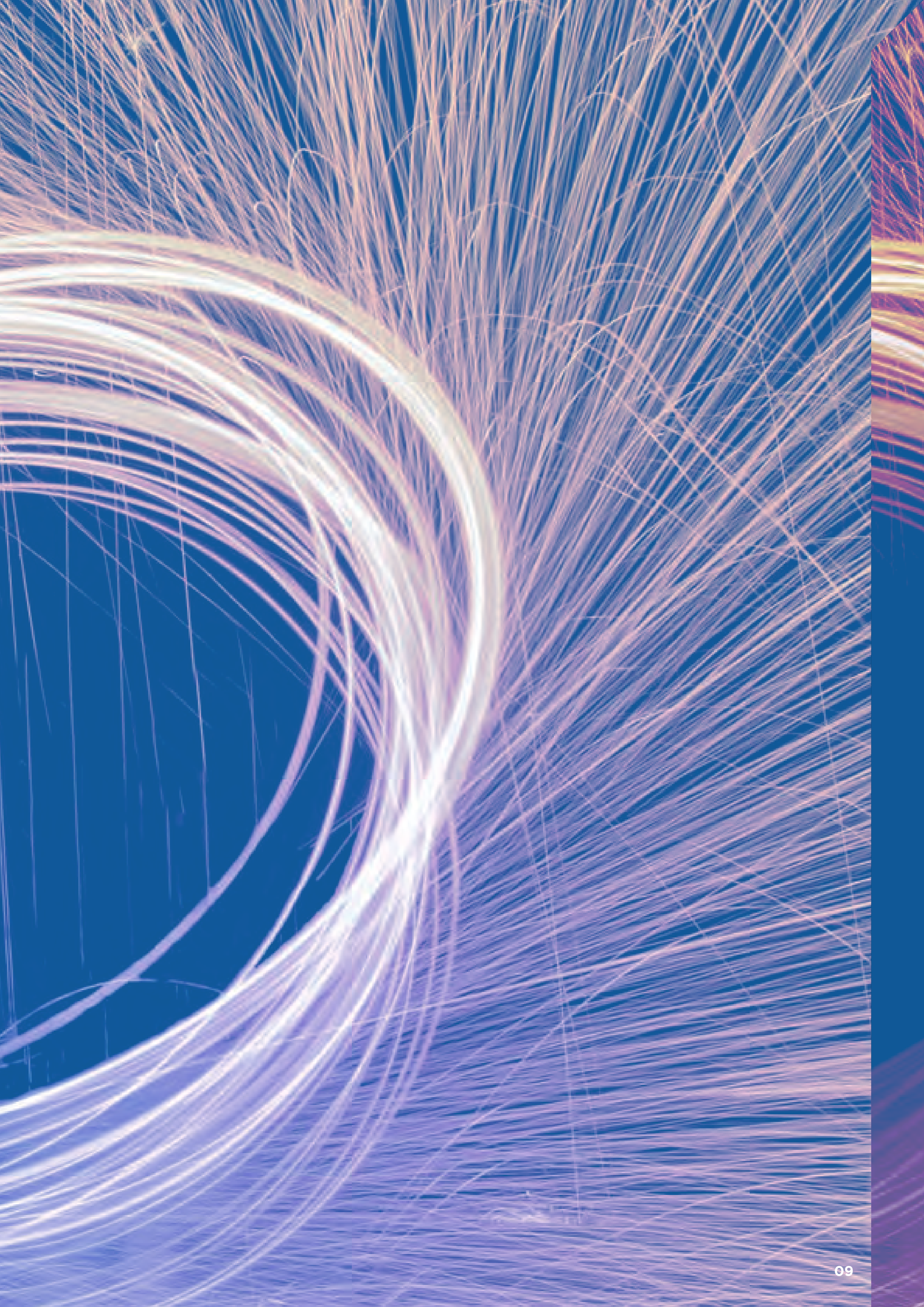
How does IP Group and its portfolio companies map against these SDGs?

IP Group and its portfolio companies have the potential to influence the major global challenges addressed by the UN's 17 Sustainable Development Goals, which are aimed at achieving a better and more sustainable future for all. We estimate that the Group and/or its portfolio companies are currently influencing all of the 17 SDGs. In particular, there is concentration around six of the SDGs, notably:

- 3 (Good Health and Well-Being)
- 7 (Affordable and Clean Energy)
- 9 (Industry, Innovation and Infrastructure)
- 11 (Sustainable Cities and Communities)
- 12 (Responsible Consumption and Production) and
- 13 (Climate Action).

Read more on sustainability on pages 56 to 65.

Strategic Report



CHAIRMAN'S SUMMARY

"2018 was a year of consolidation for the Group."

Sir Douglas Flint
Chairman

2018 was a year of consolidation for IP Group as it bedded down its acquisition of Touchstone Innovations plc ("Touchstone") and navigated public investment markets that were not particularly favourable towards smaller technology-focused companies, given broader market uncertainties. Therefore, realisation opportunities at valuations that made sense were limited, given the Group's assessment of long-term potential. Encouragingly, our longer-term valuation perspective was reinforced by a number of third-party investments into and partnership collaborations across a number of our most important portfolio companies during the year. Our portfolio companies as a whole raised £695m, the highest annual total so far. Alan Aubrey will cover these in more detail in his report.

This is my inaugural report as Chairman of IP Group, having taken over the role in November last year. I want to record on behalf of shareholders and the Board our gratitude to my predecessor, Mike Humphrey, for his commitment and wise counsel, initially as a non-executive director upon joining the Board in October 2011, before becoming Non-executive Chairman in March 2015.

Technology is reshaping the world at least as significantly as the geopolitics which attracts so much media attention. This is increasingly apparent in areas where technology leadership commands global market dominance or has strategic implications. But it is also the key to addressing some of the world's most pressing challenges in disease prevention and mitigation, in the transition to a less carbon intense energy world and in productivity improvement. These are all core areas of focus within IP Group with its focus on backing and building world-changing businesses, based on innovative science and technology. This focus is enabled through collaboration with the science and engineering departments of leading universities in the UK, the United States and Australasia.

By way of illustration of the impact of IP Group, with your support, the Group has invested more than £850m to date in the UK in science and technology and created more than 300 companies which, in aggregate, have raised approximately £4.7bn of funding. Through these endeavours, we calculate more than 5,000 jobs have been created across the UK.

In addition, the Group's portfolio companies are, from the outset, truly international in outlook, as technology has few national boundaries, so projecting the 'Global Britain' positioning that will be increasingly important to the UK's future trading success.

One simple illustration of this in 2018 was the £7m investment by portfolio company Ceres Power in a new, state-of-the-art manufacturing facility in Redhill in the UK, creating 60 new jobs as demand, largely from overseas, for its low-cost, next-generation fuel cell technology expanded. Alongside this, as part of a broader strategic collaboration with Weichai Power, one of the leading automobile and equipment manufacturing companies in China, Ceres Power announced a joint venture for a major new fuel cell manufacturing facility in Shandong, China, subject to completion of successful trials.

Alan's operational review, which follows, highlights the other key events during the year within the Group's portfolio.

Financial performance

The Group had a disappointing financial performance in 2018, the most significant driver of which was share price declines of a number of AIM-listed portfolio companies. 2018 was the first year for a long time that the world's major equity markets all declined, with the FTSE 100 down 12%, FTSE AIM down 19%, the S&P 500 down 10% and NASDAQ down 8%. China's 'A' share market fell by 12%.

Read about our performance on page 125

Given the long-term focus of the Group's business, management's key financial performance indicator remains Hard NAV and this is the core element of the incentive portion of directors' remuneration, as approved by shareholders. At the end of 2018, Hard NAV amounted to £1,217.5m, a reduction of 5.9% over the year, with the fair value of the portfolio broadly flat at £1,128.2m (2017: £1,099.8m). In terms of financial performance for the year, the Group's Return on Hard NAV was negative £75.6m (2017: positive £64.1m). It is important to recognise that, as the Group's business model is long-term in nature, fluctuations in portfolio company valuations and results are to be expected. The Group ended the year with a strong balance sheet with gross cash and deposits of £219.0m (2017: £326.3m).

The Board remains focused on actions that will bring the Group into a more sustainable position and has taken steps to streamline its operations following the Touchstone acquisition in late 2017. Following modest headcount reductions and other combination synergies, such as rationalising duplicated professional adviser and similar costs during 2018, on 28 February 2019 we agreed to transfer back to Imperial College their Technology Transfer Operations. In this way we have reduced both cost and complexity in the Group's business. We also began the process of slimming the portfolio, disposing of a number of smaller investments.

Given these operational changes, the current macroeconomic climate and the recent performance of the Group's portfolio, considerable Board focus was directed to the carrying value of goodwill on the Group's balance sheet, the significant majority of which arose from the nil-premium, all-paper acquisition of Touchstone and it was clear that this should be written off. Although the resulting non-cash charge does not impact the Group's key performance indicator of Hard NAV, which has always excluded goodwill, this action resulted in an overall reported IFRS loss for the year of £293.7m (2017: profit £53.4m). It is also worth reiterating at this point that the strategic rationale for the Touchstone acquisition, i.e. that of scale, liquidity and a more balanced portfolio by sector and stage of development, remains sound.

Governance and the Board

At Board level, there have been a number of changes this year in addition to the departure of the previous Chairman, Mike Humphrey, following his indication earlier in the year that he wished to retire.

Sadly, we also said goodbye to Professor Lynn Gladden during 2018 following her appointment as Executive Chairman of the Engineering and Physical Sciences Research Council ("EPSRC") in October. She left the Board at the end of September and I would like to express on behalf of shareholders and the Board our thanks to her for her dedicated service since joining the Board in 2014.

Heejae Chae, Chief Executive of AIM-listed Scapa Group plc, was appointed as Non-executive Director in May. He brings to the Board considerable experience both from the perspective as a CEO of growing businesses and in finance, having spent the early part of his career at The Blackstone Group and Credit Suisse First Boston. Mr Chae has degrees in Economics and Engineering from Columbia University and an MBA from Harvard University.

Our people

A key focus for the Board is recruitment and retention of the talent needed to drive long-term sustainable success for the Group. As we integrated Touchstone into the Group it reinforced the imperative to create an environment of collaboration, co-operation and collegiality, but also one that encourages challenge and questioning, given the high degree of ambiguity and uncertainty that surrounds the world of technology and life science investment.

The culture we aim for at IP Group is necessarily entrepreneurial while being collaborative, reflecting the Group's purpose of evolving great ideas into world-changing businesses. As we partner with academic institutions, it is critical that we have a highly-skilled workforce who can work constructively in partnership to help foster the commercialisation of novel science. IP Group's core values of being 'passionate, pioneering and principled' guide the behaviours the Group wishes to see not only in its general endeavours but also in its interactions with all stakeholders. We believe that these values and behaviours have contributed positively to the portfolio that we have built over many years and we will be exploring how we refine and build on them to deliver future success. I have been particularly impressed by the quality and enthusiasm of IP Group's team and their overwhelming ambition to make a difference to the world through building the companies of the future.

Outlook

IP Group's portfolio is both well diversified and maturing and we remain confident that it will deliver appropriate and meaningful returns for stakeholders over the medium to long term. I would like to thank our staff, academic partners and portfolio companies for their commitment and contribution during the year as well as our shareholders for their continued support.

Sir Douglas Flint
Chairman

Read about our governance on page 68

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, with many of which we have built a long-term partnership. 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 both 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 both 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 research and development ("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 that the Group's model, of helping commercialise cutting-edge science, is of real importance, having real impact.

Through the activities of both the Group and its portfolio companies, we have the potential to influence all of the major global challenges addressed by the UN's 17 Sustainable Development Goals, which are aimed at achieving a better and more sustainable future for all. In particular, there is concentration around six of the SDGs, notably, 3 (Good Health and Well-Being), 7 (Affordable and Clean Energy), 9 (Industry, Innovation and Infrastructure), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production) and 13 (Climate Action). Please see the table/graphic on pages 56 to 57. For example:

1. SDG 3 (Good Health and Well-Being) is addressed by companies in our life sciences portfolio.
2. SDG 7 (Affordable and Clean Energy) is addressed by portfolio companies such as Ceres Power and First Light Fusion.
3. SDG 13 (Climate Action) is addressed by many of our 'cleantech' portfolio companies such as Ceres Power, C-Capture, First Light Fusion, Dukosi and Spinetic.

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 Australasia. In total, the Group has access to R&D emanating from 29 universities or research institutions around the world comprising 14 in the UK, six in the US and nine in Australasia. IP Group accesses intellectual property from universities whose academic staff have published more than 15% of the world's Top Research* and 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 although 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 total, the Group has access to R&D emanating from 29 universities or research institutions around the world comprising 14 in the UK, six in the US and 9 in Australasia.

In this context, these remain extremely uncertain times both economically and politically, particularly in the UK, in the wake of the UK's vote to leave the European Union, as well as the economic policy changes made, and under consideration, in the US. Global growth for 2018–19 is projected to remain steady at its 2017 level, according to the International Monetary Fund. It is predicting global growth at 3.7% for 2018–19, noting that downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. As more fully described in the Risk Management section on pages 44 to 56, while the ongoing European Union exit negotiations may have an impact on the Group's business, management have taken mitigating actions in recent years, including diversification of access to both research and capital. The Group has operations, portfolio companies and co-investors in the US and 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 approximately $476.5bn of R&D expenditure in 2016 according to data from the UNESCO Institute for Statistics. This exceeded R&D performed in the People's Republic of China ($370.6bn) and Japan ($170.5bn), the second and third largest performers respectively. In the EU, Germany recorded the highest R&D expenditure at $109.8bn followed by France ($60.8bn) and the UK at $44.2bn.

* 'Top Research' classified as the top 10% of publications most frequently cited from the top 200 universities by volume of such publications, 2013–2016, based on data from the Leiden University Rankings 2018. Includes partner relationships with top 200 UK, US and Australasian universities including Oxford and Cambridge through Parkwalk managed alumni funds and strategic holdings in Oxford Sciences Innovation and Cambridge Innovation Capital and University College London through interest in UCL Technology Fund.

MARKET CONTINUED

UK landscape

In the UK, where IP Group is headquartered and where it has relationships giving it access to innovation from 15 leading UK universities including the universities of Oxford and Cambridge, expenditure on R&D reached a new record high in 2017. In 2017, the business sector spent £23.7bn on performing R&D, accounting for 68% of total UK expenditure. This grew 4.9% from £22.6bn in 2016.

Expenditure on research and development performed in the UK was £34.8bn in 2017, reaching its highest level on record. This was up from £33.2bn in 2016, an increase of 4.8%, above the long-term annual average growth since 1990 of 4.1%.

According to the Office for National Statistics, total R&D expenditure in the UK in 2017 represented 1.69% of gross domestic product ("GDP"), up from 1.67% in 2016, remaining below the European Union ("EU-28") provisional estimate of 2.07%.

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.

Our competitive position

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.

IP Group's key differentiators

- Operations in three core geographies: UK, US and Australasia
- Breadth of partner relationships with leading research institutions, giving access to over 15% of the world's Top Research
- Business-building expertise, including capital sourcing, IP strategy, executive search, administrative support and innovative portfolio board and CEO programmes
- Permanent capital structure, 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

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'.

Our key resources

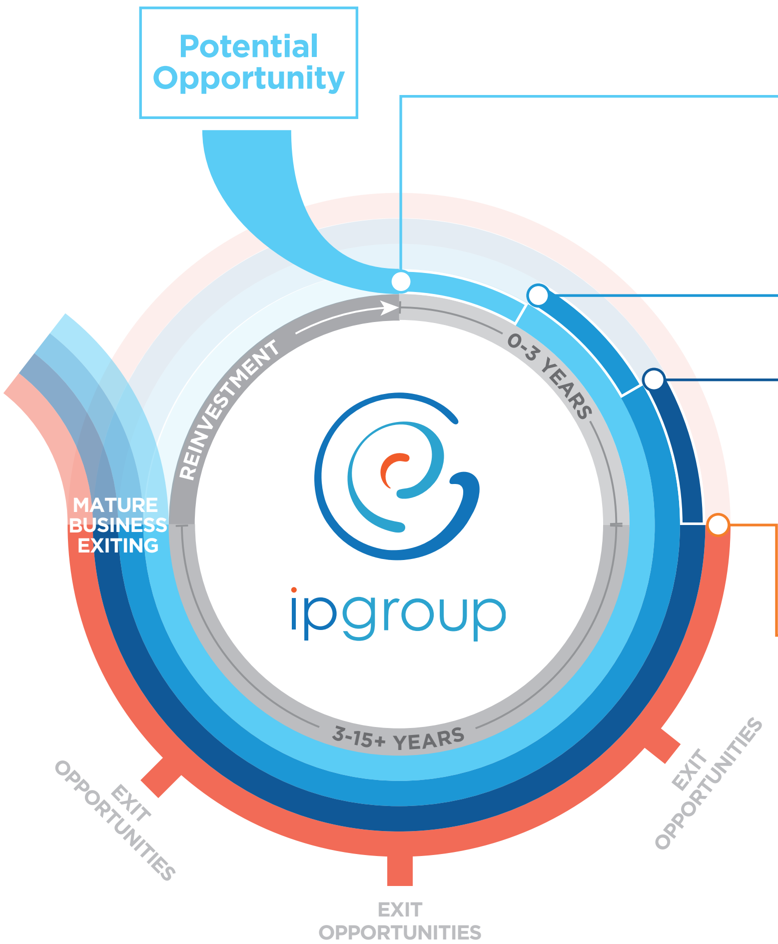
Intellectual
Our knowledge, expertise and experience provides us with a strong understanding of our industry and our portfolio

Capital
We help raise capital to back, build and develop our portfolio companies

Employees
Our employees enable us to identify, back, build and support businesses that have a positive impact on the world

Relationships
We work closely with university partners to identify promising research as well as with our capital partners to help finance our portfolio companies

Our key activities



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 and 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 very hands-on approach. Time and a limited level of capital are then deployed by IP Group, often alongside 'soft' grant funding, to develop the ideas to early commercial and technical validation using stringent milestones.

SEED
As incubation opportunities show signs of traction, an investment case is made for seed funding to accelerate technical and commercial developments. 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.

SCALE-UP AND ACTIVE MANAGEMENT
As companies mature, IP Group pro-actively sources co-investment, often through our IP Capital corporate finance function or alongside our EIS-specialist fund manager, Parkwalk Advisors. We continue to take an active role in company development, commonly through continued board presence, to help grow the value of the company over time. Resources and capital are focused on those opportunities that are considered to represent the most attractive opportunities from a risk/reward perspective. The Group continues to offer support and can help inform discussions around strategic direction, including licensing, industrial partnering and M&A, as well as exit strategies, whether trade sale or IPO.

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

The value created for stakeholders

For portfolio companies

- Working with a trusted partner with a strong track record
- Working with the global industry leader
- Business building and capital markets expertise

For society

- Solutions to global challenges such as a cleaner environment, a healthier population and more secure data
- New company creation and job creation
- Sustainable value

For employees

- Employee engagement
- Talent development
- Working for a business that helps create companies that can change the world (purpose-led employment opportunities)

For shareholders

- Investing in a business that has a meaningful impact on society
- A diverse portfolio of opportunities and exposure to high-growth businesses in growth markets
- Financial returns

Our supporting framework

Deep sector expertise

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. As the portfolio companies develop, the sector experts' interactions remain hands-on but become increasingly strategic and non-executive in nature as the company management team builds out.

IP Partners

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.

IP Exec

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.

IP Capital

Our specialist FCA-authorised 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.

IP Assist & Legal

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. Our in-house IP specialism assists companies with optimising their IP strategy.

Read about our sustainability on page 56

OUR STRATEGY

Systematically building businesses

OUR STRATEGIC AIMS	WHAT WE DID IN 2018 TO ADDRESS OUR OBJECTIVES
To **create** and maintain a pipeline of compelling intellectual property-based opportunities	• Provided capital for the first time to 9 companies or projects: 5 UK, 2 US, 2 Australasia (2017: 21 total: 10 UK, 11 US, nil Australasia) • Formation of the first new spin-out opportunities from our Australasian partner universities
To **develop** and support these opportunities into a diversified portfolio of robust businesses	• Maintained board representation on more than 90% of our 61 'focus' companies • IP Exec team placed 11 senior executives with portfolio companies, of which six were chair appointments and three were non-executive director appointments • IP Capital completed four successful portfolio company financing engagements • Continued to provide other support services including business support and legal advice to 53 spin-out companies • Portfolio fair value decreased to £1,128.2m after net portfolio losses of £48.4m • Total capital raised by portfolio companies of £695m during 2018
To **deliver** attractive financial returns on our assets and third-party funds	• Net portfolio losses of £48.4m, however generated proceeds from sale of investments of £29.5m • Provided £100.9m of capital to 77 distinct portfolio investments • Portfolio now stands at 147 companies and three multi-sector investments with a combined total value of approximately £6bn • EIS funds raised by Parkwalk during 2018 of £70m, with £64m invested into 58 companies • Total funds managed or advised by Group subsidiaries in excess of £300m

Read about our strategy in action on page 20

OBJECTIVES FOR 2019	LINK TO KPIs
• Maintain a similar level of new opportunity formation in the UK and US • Create additional opportunities from Australasian partner universities • Maintain exposure to similar level of world-class commercialisable IP through partner relationships with UK, US and Australasian academic institutions	• Number of new portfolio companies • Purchase of equity and debt investments Read more on pages 22 to 23
• 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 Assist and corporate finance advice	• Hard NAV • Return on Hard NAV • Purchase of equity and debt investments Read more on pages 22 to 23
• 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 • Realise remaining assets in IP Venture Fund	• Return on Hard NAV • Net portfolio gains/(losses) • Proceeds from sale of equity investments Read more on pages 22 to 23

OUR STRATEGY IN ACTION

Case study

History

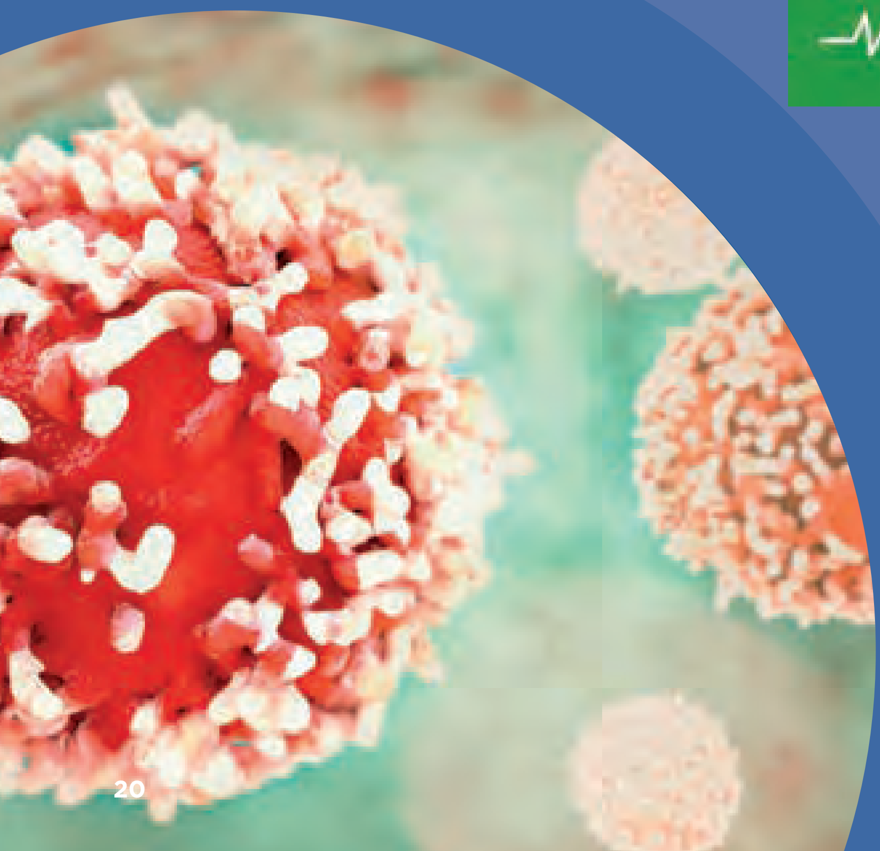
The underlying research on which Microbiotica was eventually formed came to IP Group's attention in 2015 through our connection with Mike Romanos, a seasoned biotech entrepreneur who had been exploring the possibility of spinning the work of Professor Trevor Lawley out of the Sanger Institute in Cambridge. When Mike first started talking about the idea to Sam Williams, Lisa Patel and Craig Richardson, then IP Group's Biotech team, they immediately recognised the potential to create a company focused on culturing, stratifying, and understanding the human microbiome. Over a series of meetings, IP Group grew confident that, as leading experts in this nascent microbiome field, Lawley's group was the best placed to build a leading business in the area, led by Romanos. In 2016, the Group participated in an £8m seed funding round together with Cambridge Innovation Capital. Through this investment, Dr Sam Williams joined the company's board of directors and he is currently the company's chairman. IP Group's original intent in founding Microbiotica had been to build an infrastructure and bioinformatics platform that uses human samples to understand the role of the microbiome in disease and drug response. The belief was that this capability would be of value to the pharmaceutical industry and this was borne out within 18 months of the company's formation through its deal with Genentech in Inflammatory Bowel Disease (IBD), valued at up to $534m. The company is now replicating its IBD efforts in oncology and other therapeutic areas.

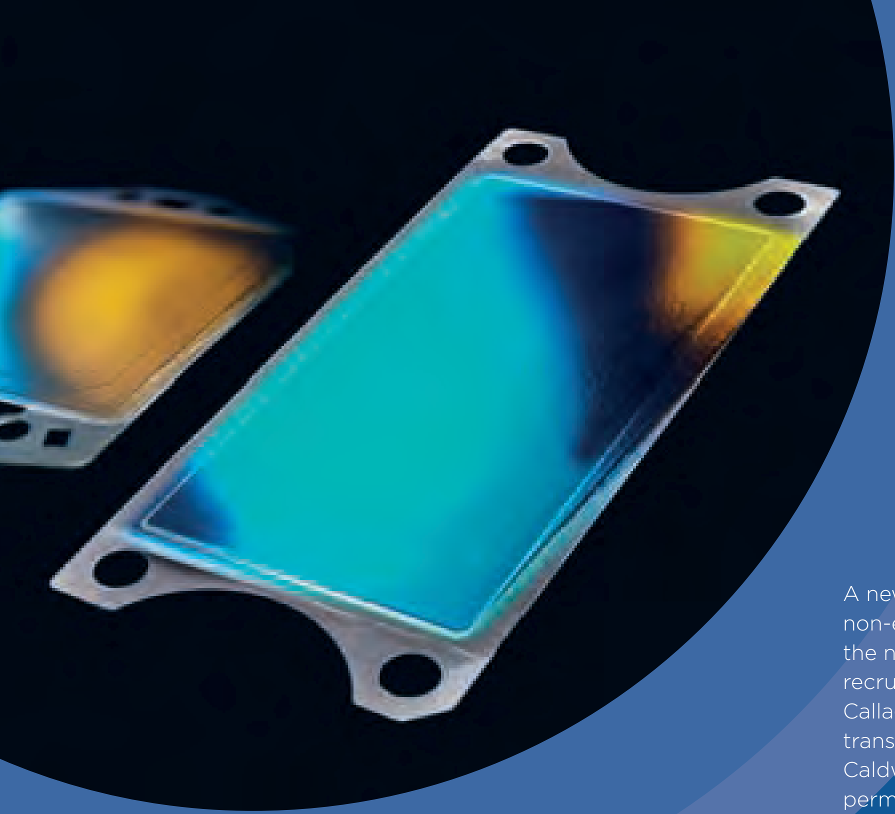
About the company

Microbiotica's aim is to develop and commercialise its understanding of the complex interactions between the human body and the myriad organisms it hosts - its microbiome. The microbiome is believed to play a crucial role in an individual's health, including in areas such as oncology, gut health, infectious diseases, and CNS disorders.

The company has built a cell culture collection and microbiotic genomic database that enables unprecedented levels of combined analysis and correlation between particular microbiotic strains, disease, and patient groups. Microbiotica collaborates with drug developers, most notably Genentech, to integrate microbiome analysis into their drug candidate evaluation. At the same time, the company is developing its own pipeline of potential therapies with a focus on IBD, immune-oncology, and Clostridium difficile.

Microbiotica has received multiple awards since its founding in 2016, including Biotech and Money's 'Life Science Spin-out of the Year 2017' and 'Life Sciences Company of the Year' at the Cambridge Independent Awards 2018. In 2018, the company received funding from Seventure Partners via the investor's Health for Life Capital™ fund, which focuses on improving health by harnessing knowledge on the microbiome.





Case study

History

Professor Brian Steele, one of the scientific pioneers behind the Li-ion battery, subsequently spent ten years researching materials and methods for a robust and affordable fuel cell for clean power generation. The result was the application of cerium oxide onto stainless steel. This ceria coating, previously dismissed as too fragile to be practical, provided the required conductivity while the steel made the fuel cell durable. The trick of printing ceria on steel is Ceres Power's core IP, and nearly 20 years later remains known only to Ceres. The core patents were filed by Imperial Innovations, and Nigel Brandon, Steele's colleague at Imperial College London, joined Ceres full time to lead an initial funding round in 2001. The company listed on the AIM market in 2004.

How IP Group helped

Following a failed field trial, Ceres suffered a significant fall in its share price, reflecting the market's low confidence in the company's future. IP Group's Head of Cleantech, Dr Robert Trezona, had previously worked at Ceres as a technical team leader and believed that the field trial result was not reflective of any fundamental issue with Ceres' technology. Based on this knowledge, IP Group put together a new strategy and a £3.3m rescue funding package for Ceres.

A new board was formed, with Robert Trezona joining as a non-executive director and Alan Aubrey, IP Group CEO, as the new chairman. IP Exec, the Group's dedicated executive recruitment team, brought in turnaround specialist Steve Callaghan as interim CEO to lead the company through its transition to the new strategy, and in 2013 recruited Phil Caldwell from fuel cell competitor Intelligent Energy to be its permanent CEO.

About the company

Ceres Power has become a world leader in low-cost, next-generation fuel cell technology. Working with partners, Ceres develops distributed power products that reduce operating costs, lower emissions, increase efficiency, and improve energy security. Fuel cell technology has become a core component of the energy strategies of nations such as Japan, Korea, China, and the USA, as well as of major industrial players like Bosch, Cummins, and Microsoft. With a wide range of applications, Ceres Power is positioned to take a significant share of several multi-billion-dollar markets.

Following the rescue led by IP Group, the company has raised a further £123m and seen its market capitalisation increase from £4m to more than £200m. IP Capital, IP Group's specialist fund management and corporate advisory unit, supported Ceres on the subsequent funding rounds, with IP Group leading several investments. In 2018, Ceres sealed major strategic collaborations with Bosch and Chinese engine and bus manufacturer Weichai Power, both of which also invested in the company. The company now employs over 200 staff and has announced its expansion to a second site that will create a further 60 jobs.

Company testimonial

"The growth we have achieved at Ceres was only possible due to the strong backing from IP Group, who believe in the long-term value of this business. IP Group has a philosophy of combining strong management teams with robust science and backing them with both funding and guidance on how to operate in the public markets. The Group's patient capital approach has enabled Ceres to pursue a more ambitious growth plan than would have otherwise been possible. Their ability to attract strong co-investors has helped us secure the funding we need to realise our ambition to build a world-leading UK technology company." Phil Caldwell, CEO of Ceres Power.

KEY PERFORMANCE INDICATORS

Measuring our performance: focusing on delivery against our strategy

FINANCIAL KPIs	FURTHER DESCRIPTION	2018 PERFORMANCE
Hard NAV[1]	The value of the Group's assets less the value of its liabilities, including minority interest, less intangible assets	**£1,217.5m** (2017: £1,295.8m)
Return on Hard NAV[1]	Total comprehensive income or loss for the year excluding 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 IFRS 3	**Negative £75.6m** (2017: positive £64.1m)
Purchase of equity and debt investments	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	**£100.9m** (2017: £71.2m)
Net portfolio gains/(losses)[1]	Movement in the fair value of holdings in portfolio companies due to share price movements, other increases/decreases in fair value and realisations	**(£48.4m)** (2017: £94.2m)
Net overheads[1]	The Group's core overheads less operating income	**£26.0m** (2017: £17.6m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	**£29.5m** (2017: £6.6m)
NON-FINANCIAL KPIs		
Number of new portfolio investments	The number of portfolio investments that received initial capital from the Group during the year	**9** (2017: 21)

[1] Alternative performance measure, see note 27 for definition and reconciliation to IFRS primary statements.

KEY

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

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 7	LTIP 2016 – 2018
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 7	2018 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	2 3 4 6 7	Indirectly impacts both Return on Hard NAV and Hard NAV
To develop IP-based businesses and grow their value	1 2 5 7	Indirectly impacts both Return on Hard NAV and Hard NAV
To control the Group's operating cost base	1 4 6 7	2018 annual incentive
Cash from proceeds can be used for redeployment into the portfolio or for new opportunities	1 2 5	2018 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	3 4 5 6 7	Indirectly impacts both Hard NAV and Return on Hard NAV (see above)

Read about our strategy on page 16

Read about our risks on page 44

Read about our remuneration on page 90

CHIEF EXECUTIVE'S OPERATIONAL REVIEW

"A number of our key assets are emerging as the leaders in their respective fields."

Alan Aubrey
Chief Executive Officer

UK business

The results for the period, which showed a negative Return on Hard NAV of £75.6m compared to a positive return of £64.1m for 2017, were impacted by the exposure of our quoted portfolio to the weaker performance of stock markets as well as certain company-specific issues, the biggest of which was Diurnal. This financial performance does not, we believe, reflect the underlying strength and quality of IP Group's portfolio and overshadows the commercial progress seen in the year from a number of our key assets which are emerging as the leaders in their respective fields.

Turning first to Diurnal, its shares fell 78% over the year, resulting in a £33.1m reduction in the value of our holding, after its drug Chronocort did not meet the primary endpoint in a Phase 3 study in congenital adrenal hyperplasia ("CAH"). IP Group has invested a total of £19.4m into Diurnal to date and the company is currently valued at £19.7m on AIM. Despite the headline results, the company is optimistic that the drug remains approvable, given some very positive outcomes using other measures in the Phase 3 study, and that premium pricing is still possible. You can read more in the Life Sciences report on pages 32 to 33.

Excluding Diurnal, the Group's quoted portfolio fell 35% in 2018, against a 19% decline in the performance of the AIM index which has suffered this year from a number of well-documented factors. Including Diurnal, the Group's quoted portfolio fell 43% during 2018. Among the bigger quoted share price falls were Xeros Technology Group (£21.1m loss), Circassia (£14m loss) and Mirriad Advertising (£12.3m loss), in addition to a £12.4m loss for private company Cell Medica Limited. These falls more than offset fair value gains, the largest of which came from Garrison Technology (£15.2m gain), Ceres Power (£11.1m gain), Uniformity Labs (£9.0m gain) and Featurespace (£9.6m gain).

I am also pleased to report that there was strong commercial progress in the year from a number of our portfolio companies. Oxford Nanopore Technologies, Ceres Power and WaveOptics have all signed partnerships with blue chip companies, further validating their respective technologies. In particular, Ceres Power signed agreements with China's Weichai Power and Germany's Robert Bosch. In the private portfolio, NASDAQ-listed Amgen invested £50m into Oxford Nanopore Technologies while WaveOptics agreed a partnership with and investment from Goertek, a global leader in the design and manufacturing of high-tech consumer electronics.

In the quoted portfolio, there was excellent commercial progress from a number of companies that, in our opinion, has not yet been reflected in their share prices. Tissue Regenix (£4.6m loss) announced that its subsidiary CellRight Technologies entered into an agreement to allow Arthrex, Inc. to distribute its proprietary 'BioRinse' bone portfolio throughout Europe, with the initial focus on the UK. Avacta Group (£5m loss) signed a development alliance with LG Chem Life Sciences worth up to $310m including $180m across upfront, near-term payments and development milestones. Medaphor, which has changed its name to Intelligent Ultrasound Group plc, is expecting turnover for 2018 to increase by approximately 27% to between £5.3m and £5.4m.

Touchstone integration

From an operational perspective, in 2018 one of the most significant areas of focus for the Group was finalising the integration of the Touchstone team and portfolio, which I am pleased to report is now substantially complete.

The former Touchstone and IP Group portfolio companies are being managed together in the UK by our Life Sciences and Technology partnerships that were formed in the year from a combination of professionals from both businesses. While there has been a level of further reduction in the fair values of some of the former Touchstone companies, the combined portfolio is now well-balanced by sector and stage of development and contains a number of opportunities for significant future value growth.

While the strategic rationale of the transaction was primarily one of scale and combined portfolio strength, it also presented the opportunity to realise synergies from an operational perspective. During the 18 months since the transaction completed, we have taken a number of steps to streamline the two businesses. Most recently, in the first quarter of 2019, we agreed to transfer back to Imperial College the technology transfer operation known previously as Imperial Innovations. This will not impact our plans to continue to work with Imperial and continue to invest in some of the most exciting opportunities from the university.

There has been some modest headcount reduction, outside of the transfer of the technology transfer team to Imperial College. We have taken the opportunity to rationalise professional fees and other administrative costs, particularly for services duplicated across the two businesses, including the costs of Touchstone being a listed entity. Finally, in March 2019, we surrendered the lease on Touchstone's former head office in Central London. As a result of these actions, we anticipate annual cost synergies by full-year 2020 of more than £8m from the combination versus the pre-integration cost base of the two companies.

North America

Turning to North America, IP Group, Inc. and its portfolio companies continued to make significant developments during the 12-month period. The portfolio attracted $30m of external investment from both financial and strategic investors and reached several significant milestones. These financing rounds resulted in net portfolio gains in the US portfolio of $14m during the year, representing an increase of approximately 50% on the opening position. The team also attracted a significant strategic investment into the US business that was led by a privately held blue chip family office based in the US. We consider these co-investments to be a great endorsement of both our model and attractiveness of the portfolio and future opportunities to US investors.

Of particular note in the portfolio, Exyn Technologies (University of Pennsylvania) completed a series of global commercial engagements, the most recent with Dundee Precious Metals (TMX:DPM), a Canadian-based international mining company, that we believe significantly endorse Exyn's ground breaking artificial intelligence technology and its commercial relevance. Carisma Therapeutics (University of Pennsylvania), a developer of technology that targets and kills solid tumours, closed a $53.0m Series A financing round led by AbbVie Ventures and Healthcap. Uniformity Labs (Princeton University) has made substantial progress establishing relationships with new customers, including multiple validation projects and a signed letter of intent for the supply of aluminium powder.

We added Yale University as a collaboration partner, bringing our total to six prominent universities and three U.S. Department of Energy Labs. We have an established team of 16 professionals with broad business development capabilities across life sciences and technology who continue to advance the existing portfolio of 21 exciting companies.

In North America the portfolio attracted $30m of external investment from both financial and strategic investors.

Read about our market on page 12

CHIEF EXECUTIVE'S OPERATIONAL REVIEW CONTINUED

Australasia

In Australasia, the Group completed its first two investments from partner universities in 2018: Canopus Networks (The University of New South Wales) and Inosi Therapeutics (Monash University). Canopus is using machine learning and software-defined networking to develop solutions for analysing and optimising data flows within telecommunication networks and large corporates. Inosi is developing small-molecule inhibitors of a novel target for fibrosis-related diseases and the Group invested alongside BioCurate, a joint venture of Monash and Melbourne universities for early stage commercialisation of pharmaceutical research.

On the capital side, the Group continued to work with Hostplus, one of Australia's largest superannuation funds with over AU$34bn in funds under management, through the AU$100m IP Group Hostplus Innovation Fund which participated in financings for Oxford Nanopore Technologies and Ultrahaptics in 2018.

Our team in Australasia now totals nine, based between Melbourne, Sydney and Brisbane, and represents a strong blend of expertise and experience in academia, industry and commercialisation. In addition, the Group has established a steering group in Australasia comprising experienced senior executives with a broad range of operational and investment experience. The team has identified an attractive pipeline of opportunities and anticipates progressing several of these to investment in 2019.

Greater China

Many of our portfolio companies have secured investment and business partnerships in China, including Oxford Nanopore, Ceres Power, Mirriad Advertising and Creavo Medical Technologies. The Group considers China to be strategically important and, in September, announced the launch of its office in Hong Kong in order to continue to facilitate market entry, business partnership and investment discussions with relevant Chinese partners for our portfolio companies. This also allows the Group to manage its growing pan-Asian investor base. Following last year's success in Beijing and Shenzhen, the Group hosted its second annual 'Global Deep Tech Forum' event in Hong Kong and Shanghai in September where 22 of our portfolio companies introduced their technology and business to hundreds of attendees from the Greater China area.

The Board is confident about the potential of the Group's portfolio.

Outlook

In summary, significant progress was achieved by many of our portfolio companies during 2018, which in our view is yet to be reflected in their valuations. As a result, the Board is confident about the potential of the Group's portfolio including Oxford Nanopore, which commented publicly on significant increases in its order book and has attracted investment from a world-leader in human genetics, First Light Fusion Limited, which aims to demonstrate fusion using its 'Machine 3' by mid-2019 and a number of our therapeutic assets which are approaching key inflexion points.

While IP Group is a long-term business where results can and do fluctuate from year to year, the Board is confident that the portfolio can generate significant returns for stakeholders and in the medium term will begin to position the business for transition to a more self-sustaining model. This will allow the Group to sustainably fulfil its mission of supporting outstanding science from around the world from the eureka moment through to maturity.

Alan Aubrey
Chief Executive Officer

PORTFOLIO REVIEW

Our portfolio: Significant increase in realisations as portfolio matures

Overview

At 31 December 2018, the value of the Group's portfolio had increased to £1,128.2m, from £1,099.8m at the end of 2017, as a result of the fair value movements set out below, and a net investment of £71.4m (2017 £64.6m). The portfolio now consists of interests in 147 companies (122 UK, 23 US and 2 Australasia, and 61 of which are of key focus), strategic holdings in three multi-sector platform businesses as well as a further 44 de minimis holdings and 47 organic holdings (2017: 155,3,42,39).

In a departure from previous years, we have categorised the portfolio to highlight those companies on which the life science and tech partnership teams focus a significant proportion of their resources and capital. These 61 companies comprise 84% of the portfolio by value. Outside these companies, the portfolio contains a broad selection of potentially exciting opportunities, many of which are at an early stage, but which typically receive a lower level of management resource and capital.

During the year to 31 December 2018, the Group provided pre-seed, seed and post-seed capital totalling £100.9m to its portfolio companies (2017: £71.2m). The Group deployed capital into nine new companies or projects during the year (2017: 21), five of which were sourced from the UK, two from the US and two from Australasia (2017: 10, 11, 0). The three geographies have provided consistent pipelines of opportunities, and the Group has backed the best innovations from all three, while sustainably managing portfolio size. The new investments in Australasia have helped to further diversify the portfolio geographically and are a reflection of the quality of new research the Group now has access to through the additional university partnerships it formed in 2017.

In 2018 we fully exited three investments (2017: two), and a further 15 companies, with a total historic cost of £8.5m, were closed or fully provided against (2017: two, £2.9m).

During 2018 the cash proceeds from the realisation of investments increased to £29.5m (2017: £6.6m), arising from 14 investments, spread roughly evenly across the sectors and comprising a mix of quoted and private capital. The largest disposals were from interests in Veryan Medical Limited, Abzena plc, Getech Group plc and Concirrus Limited. The largest realisations in the prior year arose from the cash received from the sales of Puridify Limited and Plaxica Limited.

Performance summary

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

	2018 £m	2017 £m
Unrealised gains on the revaluation of investments	**99.7**	99.3
Unrealised losses on the revaluation of investments	**(153.1)**	(49.2)
Effects of movement in exchange rates	**3.0**	(1.1)
Change in fair value of equity and debt investments	**(50.4)**	49.0
Gain on disposals of equity investments	**2.0**	0.1
Gain on deconsolidation of subsidiary	**–**	45.1
Net portfolio gains/(losses)	**(48.4)**	94.2

The most significant contributors to unrealised gains on the revaluation of investments were Garrison Technology Limited (£15.2m), Ceres Power Holdings plc (£11.1m), Featurespace Limited (£9.6m), Uniformity Labs Inc (£9.0m), Wave Optics Limited (£7.6m) and Ultrahaptics Holdings Limited* (£6.4m).

The major contributors to the unrealised losses on the revaluation of investments were Diurnal Group plc (£33.1m), Xeros Technology Group plc (£21.1m), Circassia Pharmaceuticals plc (£14.0m), Cell Medica Limited (£12.4m), Mirriad Advertising plc (£12.3m), Actual Experience plc (£8.4m), OxSyBio Limited* (£6.6m), Abzena plc (£5.2m) and Avacta Group plc (£5.0m).

The performance of the Group's holdings in companies quoted on AIM saw a net unrealised fair value decrease of £99.8m (2017: decrease of £1.0m) while the Group's holdings in unquoted companies experienced a net fair value increase of £46.4m (2017: increase of £49.9m, in addition to a £45.1m gain in respect of the deconsolidation of Istesso Limited and its recognition as a portfolio company).

* 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: gain of £1.8m (2017: £2.0m), OxSyBio Limited: loss of £1.3m (2017: gain of £0.7m).

PORTFOLIO REVIEW

Investments and realisations

The Group's overall rate of capital deployment increased during 2018, with a total of £100.9m being deployed across 77 new and existing projects (2017: £71.2m, 79 projects). The average level of capital deployed per company remained relatively consistent, at £1.3m, compared to £1.2m in 2017.

Cash invested by company focus was as follows:

	2018 £m	2017 £m
Top 20	**26.0**	20.7
Focus	**41.6**	23.7
Other (including companies exited by 31 December 2018)	**19.4**	20.7
Total United Kingdom	**87.0**	65.1
United States[1]	**13.2**	6.1
Australasia	**0.7**	—
Multi-sector platforms	**—**	—
Total purchase of equity and debt investments	**100.9**	71.2
Less cash proceeds from sales of equity investments	**(29.5)**	(6.6)
Net investment	**71.4**	64.6

1 United States investment total includes £1.1m invested in Uniformity Labs, Inc., which is one of the Top 20 holdings by value.

During the year, nine opportunities received initial incubation or seed funding (2017: 21).

Portfolio analysis by focus

At 31 December 2018, the Group's portfolio fair value of £1,128.2m was distributed across the portfolio as follows:

	As at 31 December 2018				As at 31 December 2017			
	Fair value		**Number**		Fair value[2]		Number	
Stage	**£m**	**%**		**%**	£m	%		%
Top 20 by value	**732.5**	**68%**	**20**	**13%**	663.0	62%	20	13%
Focus	**204.4**	**19%**	**41**	**27%**	216.8	20%	41	26%
Other	**147.7**	**13%**	**89**	**60%**	190.5	18%	97	61%
Total	**1,084.6**	**100%**	**150**	**100%**	1,070.3	100%	158	100%
De minimis and organic holdings	**8.3**				7.2			
Total Portfolio	**1,092.9**				1,077.5			
Attributable to third parties[1]	**35.3**				22.3			
Gross Portfolio	**1,128.2**				1,099.8			

1 The amount attributable to third parties consists of £18.7m attributable to minority interests represented by third party limited partners in the consolidated fund, IPVF II, £5.5m attributable to minority interests represented by third-party limited partners in the consolidated US portfolio, £8.1m attributable to Imperial College London and £3.0m to other third parties (2017: £16.3m IPVF II, n/a US, £5.7m Imperial College, £0.3m other).

2 Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26).

Top 20 investments consist of the 20 most valuable holdings in the Group's portfolio by year-end value. Focus investments are those investments that are not within the 20 most valuable but on which the life sciences and technology teams focus a significant proportion of their resources and capital. These investments typically, although not exclusively, fall within the 100 most valuable portfolio company holdings by year-end value. Other companies are those that are not within the Top 20 or focus category.

Companies which are at a very early stage or in which the Group's holding is of minimal value, 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 as a result of our technology transfer relationship with Imperial College London, but in which we have not actively invested.

The total value of the Group's 147 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 £5bn, or almost £6bn including the Group's holdings in multi-sector platform companies, most significantly Oxford Sciences Innovation plc (2017: £4bn, £5bn).

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. 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 as multi-sector platforms. An update on the two primary operating segments is included in the financial review on pages 32 to 35.

	As at 31 December 2018				As at 31 December 2017			
	Fair value		**Number**		Fair value[2]		Number	
Sector	**£m**	**%**		**%**	£m	%		%
Life Sciences	**624.5**	**57%**	**64**	**43%**	680.1	63%	73	46%
Technology	**396.9**	**37%**	**83**	**55%**	327.3	31%	82	52%
Multi-sector platforms	**63.2**	**6%**	**3**	**2%**	62.9	6%	3	2%
Total	**1,084.6**	**100%**	**150**	**100%**	1,070.3	100%	158	100%
De minimis and organic holdings	**8.3**				7.2			
Total Portfolio	**1,092.9**				1,077.5			
Attributable to third parties[1]	**35.3**				22.3			
Gross Portfolio	**1,128.2**				1,099.8			

1 The amount attributable to third parties consists of £18.7m attributable to minority interests represented by third-party limited partners in the consolidated fund, IPVF II, £5.5m attributable to minority interests represented by third-party limited partners in the consolidated US portfolio, £8.1m attributable to Imperial College London and £3.0m to other third parties (2017: £16.3m, £nil, £5.7m, £0.3m).

2 Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26).

PORTFOLIO REVIEW

The following table lists the value movements attributable to the largest 20 portfolio investments by value, which represent 62.8% of the total portfolio value (2017: 69.0%). 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
Istesso Limited	Design and development of novel therapeutic drugs
Oxford Sciences Innovation plc	University of Oxford preferred IP partner under 15-year framework agreement
Ceres Power Holdings plc	World-leading developer of next-generation fuel cell technology
Garrison Technology Limited	Anti-malware solutions for enterprise cyber defences
Ultrahaptics Holdings Limited	Contactless haptic technology – 'feeling without touching'
Autifony Therapeutics Limited	Developing high value, novel medicines to treat CNS diseases
Featurespace Limited	Leading predictive analytics company
PsiOxus Therapeutics Limited	Oncolytic viral therapeutics for cancer
Actual Experience plc	Optimising the human experience of networked applications
Inivata Limited	Clinical cancer genomics company utilising circulating DNA analysis to improve testing and treatment in oncology
First Light Fusion Limited	New methodology for achieving extreme intensity cavity collapse
Wave Optics Limited	Novel optical waveguide technology and modules for augmented reality displays
Creavo Medical Technologies Limited	Quantum cardiac imaging technology
Cell Medica Limited	T-cell therapeutics for oncology
Ieso Digital Health Limited	Online text-based psychotherapy software and service
Mission Therapeutics Limited	Cancer therapeutics based on new understandings of DNA damage response
Yoyo Wallet Limited	Mobile payments with integrated loyalty schemes
Econic Technologies Limited	Novel catalyst technologies to build carbon dioxide into polyurethanes and other polymers
Uniformity Labs Inc.	Equipment, materials and software for additive manufacturing
Top 20 total	
Other companies (130 companies)	
De-minimis and organic investments	
Value not attributable to equity holders	
Total	

1. Represents the Group's undiluted beneficial economic equity interest (excluding debt), including the Group's portion of IPVF II, and the Group's portion of the US portfolio. Voting interest is below 50%.
2. 31 December 2017 fair value restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26).
3. Includes £2.0m increase in revenue share to Imperial College London, with a corresponding increase in revenue share liability resulting in no net fair value movement.
4. The Group has not sold shares in Uniformity Labs Inc. during the year. The realisation noted above reflects the effect of minority ownership of the US portfolio, following the strategic investment made during the year.

Sector, Quoted (Q)/ Unquoted (U) %	Group stake at 31 Dec 2018[1] %	Fair value of Group holding at 31 Dec 2017[2] £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2018 £m
Life Sciences (U)	18.2%	274.1	—	—	**274.1**
Life Sciences (U)	59.1%	51.1	2.0	4.8	**57.9**
Multi-sector platforms (U)	7.6%	55.5	—	—	**55.5**
Technology (Q)	18.9%	31.5	4.4	11.2	**47.1**
Technology (U)	23.4%	9.8	3.8	15.2	**28.8**
Technology (U)	23.8%	21.8	0.5	5.2	**27.5**
Life Sciences (U)	28.2%	23.9	—	1.7	**25.6**
Technology (U)	25.4%	15.6	—	9.6	**25.2**
Life Sciences (U)	25.0%	22.7	—	—	**22.7**
Technology (Q)	22.1%	28.3	—	(8.4)	**19.9**
Life Sciences (U)	31.3%	12.8	6.0	—	**18.8**
Technology (U)	35.9%	13.9	3.8	0.2	**17.9**
Technology (U)	21.1%	5.6	2.0	7.6	**15.2**
Life Sciences (U)	39.3%	14.4	—	—	**14.4**
Life Sciences (U)	24.6%	26.3	—	(12.4)	**13.9**
Life Sciences (U)	45.5%	14.7	—	(0.8)	**13.9**
Life Sciences (U)	20.6%	12.4	—	1.3	**13.7**
Technology (U)	40.0%	13.3	0.3	—	**13.6**
Technology (U)	49.7%	10.6	3.0	—	**13.6**
Technology (U)	22.8%	4.7	(0.6)[4]	9.0	**13.1**
		663.0	**25.2**	**44.2**	**732.4**
		407.3	38.8	(93.9)	352.2
		7.2	2.5	(1.4)	8.3
		22.3	6.9	6.1	35.3[3]
		1,099.8	**73.4**	**(45.0)**	**1,128.2**

PORTFOLIO REVIEW: LIFE SCIENCES

"In 2018, Oxford Nanopore's technology was used in real time surveillance of outbreaks of rabies, Lassa fever, yellow fever, flu, dengue, malaria, E. coli and MRSA."

Dr Sam Williams
Managing Partner, Life Sciences

Review of the year

Oxford Nanopore

The Group's largest holding, Oxford Nanopore Technologies Ltd, continues to make excellent progress with tangible signs of it disrupting the ~$3.7bn DNA sequencing market. The company produces a range of novel, proprietary, real-time DNA sequencing devices, from small and portable formats such as MinION and Flongle to the high-throughput PromethION, which can deliver sub-$1,000 genomes. Oxford Nanopore's long-term goal is to enable the analysis of any living thing, by any person, in any environment. Where sequencing has traditionally been performed in the central lab environment, the company seeks to address that central market but also open up new, distributed markets. The company made significant progress in 2018, as set out in further detail below, and this has continued in 2019, including the announcement in March 2019 that its new 'R10' nanopore had been released into early access. Oxford Nanopore also described very promising internal results with R10, including consensus accuracy of Q50 (or 99.999%).

Oxford Nanopore successfully completed a £100m fundraising in March 2018, primarily from Asian investors, to support commercial expansion and continued investment in R&D. It subsequently announced a $50m investment from Amgen, whose subsidiary deCODE Genetics noted that they have now used nanopore technology to sequence several hundred genomes. While Oxford Nanopore has not yet disclosed 2018 orders, it noted at the start of the year that it was expecting strong growth across the world, with notable contribution from China. In the previous year, between 2016 and 2017, the Company approximately tripled its orders.

Key 2018 highlights for Oxford Nanopore included:

Technology

- **PromethION launch:** PromethION is Oxford Nanopore's largest device, designed to offer multi-Tb of sequence data, on demand. Dramatic performance improvements during the year showed that a PromethION could offer a 30X human genome for less than $600, and a rapid pathway to less than $300 with larger data yields. By the end of the year, researchers were routinely using PromethION to sequence human genomes at scale.
- **Upgrades in nanopore, algorithms for enhanced performance:** The Company announced that a new nanopore, R10, will come online in early 2019. Having delivered 'Q42' accuracy internally, and with a pathway to Q50 (99.999%), this is expected to expand the applications for which Oxford Nanopore can be used. The company is also focused on updating its analysis algorithms and other improvements that all contribute to ongoing performance enhancements.
- **'RevD', a flow cell upgrade for high yields of data:** This release enabled as much as 30Gb of sequence data to be generated from a single GridION/MinION Flow Cell, transforming these small devices into powerful devices that can address an even broader range of scientific questions.
- **Ultra-long reads:** Oxford Nanopore technology sequences the fragment of DNA/RNA that is presented to it, allowing very long contiguous fragments to be analysed. This confers huge benefits including easier assembly, characterisation of repeats and structural variations and phasing. In 2018, the longest read ever sequenced (2.3Mb) was revealed. This is symbolic of a broader desire to get consistently high 'N50'; large numbers of long reads, enabled by Oxford Nanopore's '109' kits also released in 2018.
- **Flongle:** The adapter for MinION that allows low-cost, rapid, smaller tests, was released into an early access community in late 2018. With hugely disruptive potential in a range of testing applications, 2019 will bring more examples of how it is being used by the scientific community.

Applications

- **Whole human genomes:** At the start of the year, Nature Genetics published the first complete human genome using Oxford Nanopore sequencing. Described as the most complete genome using a single technology to date, the consortium of researchers, from nine different institutions, added ultra-long reads to their assembly to double their contiguity, estimate telomere lengths, and resolve complex regions including the 4Mb major histocompatibility complex.
- **Direct RNA:** A landmark paper using nanopore sequencing for the direct analysis of RNA was published in Nature in 2018. RNA analysis accounts for about a third of the sequencing market; this information gives scientists an insight into how DNA information is really being expressed. Oxford Nanopore's technology can uniquely analyse RNA without using an intermediary (bisulfite sequencing), giving new biological insights including methylation profiling.
- **Towards diagnostics:** Oxford Nanopore's technology is currently for research use only, however scientists are exploring ways to use it in a regulated environment to provide diagnostic testing. During the year, researchers showed methods for rapid characterisation of lung infections in an acute setting, TB in remote populations, rapid characterisation of acute myeloid leukaemia, and rapid testing of Huntingdon's disease. These applications are expected to progress towards clinical use in 2019.
- **Public health:** Real-time, portable sequencing is uniquely positioned to be used in the field rather than in the lab, for rapid insights. In 2018, Oxford Nanopore's technology was used in real time surveillance of outbreaks of rabies, Lassa fever, yellow fever, influenza, dengue, malaria, E. coli and MRSA.
- **Plant genomes:** Understanding plant genomes is important for agriculture and food industries, however plant genomes are typically very large and complex; the abundant long read sequencing of Oxford Nanopore is uniquely positioned to address this. In 2018, researchers spoke about using nanopore to sequence many plant species, including '100 tomato genomes in 100 days'.
- **Targeted sequencing:** Oxford Nanopore has indicated that in 2019 it will expand the availability of its technology in targeted sequencing, which is used in a broad range of application areas.

For more information about the uses of nanopore technology, visit **https://nanoporetech.com/resource-centre**

Other significant portfolio company updates

The overall performance of the rest of the Life Sciences portfolio has been poor (-10.4%), largely as a result of negative share price movement in the listed companies. Most notably, Diurnal Group plc suffered a setback when its drug Chronocort did not meet the primary endpoint in a Phase 3 study in congenital adrenal hyperplasia ("CAH"). The stock closed the year down 85.5%, marking a £33.1m reduction in our fair value holding. However, despite this, we and the company are optimistic that the drug remains approvable, given some very positive outcomes using other measures in the Phase 3 study, and that premium pricing is still possible. Diurnal is due to receive advice from the EMA in the first half of 2019 which will provide an indication of the way forward. Assuming a positive outcome, the company anticipates filing a Marketing Authorisation Application ("MAA") for Chronocort® in Q4 2019.

Other poor performers in the portfolio were Circassia (£14.0m), Avacta (£5.0m), Cell Medica (£12.4m), OxSyBio (£6.6m) and Abzena which, despite being acquired for £34m by a private equity buyer, provided a -£5.2m return for the year.

In the private Life Sciences portfolio, there were some notable successes, including Microbiotica signing a $534m deal with Genentech, Mission Therapeutics signing a collaboration with Abbvie, and Avacta signing a $310m deal with LG Group. From a financing perspective, a number of our companies announced significant funding rounds including Series B financings for Crescendo Biologics (headline $70m raised), Artios Pharma (£65m raised) and Inivata ($51.4m raised).

IP Group's Life Sciences portfolio comprises 64 companies worth £624.5m as at 31 December 2018

PORTFOLIO REVIEW: TECHNOLOGY

"2018 saw strong revenue progress, major commercial deals, and several large transactions in the Technology Partnership's portfolio."

Mark Reilly
Managing Partner, Technology

Review of the year

Technology

2018 saw strong revenue progress, major commercial deals, and several large transactions in the Technology Partnership's portfolio.

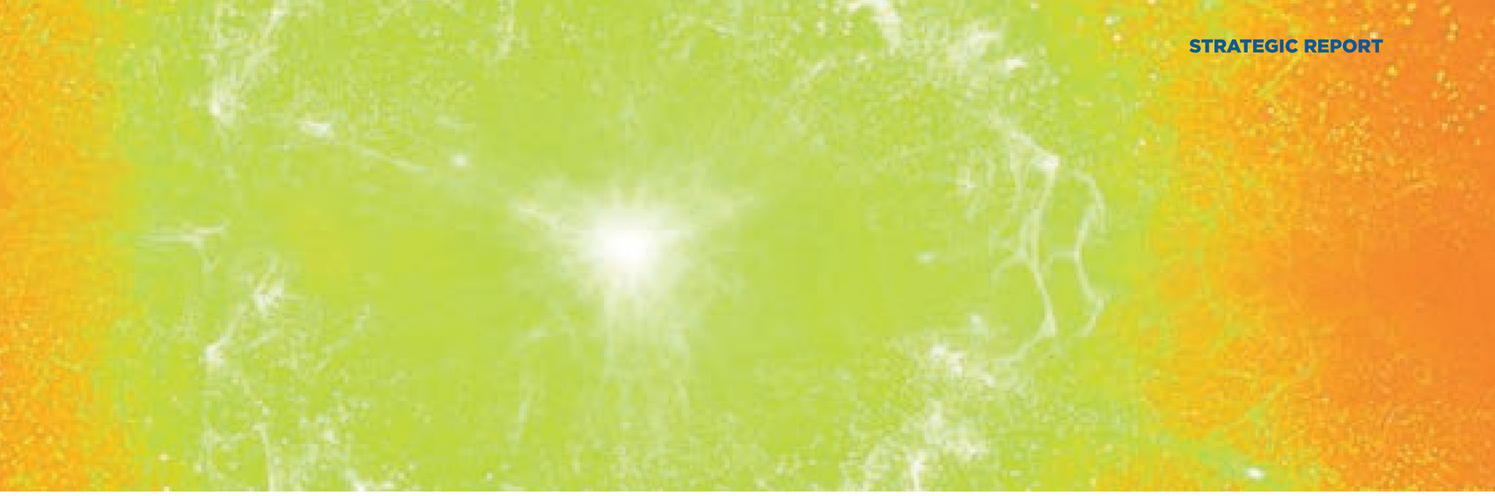
WaveOptics raised £20m from investors including Octopus, Bosch and Goertek to further commercialise its waveguide technology, which we believe will be one of the fundamental building blocks of a huge emerging opportunity in augmented reality. The involvement of Goertek in this transaction, whose customers include Samsung, Sony and Google, is a major endorsement for the WaveOptics technology and will enable the company to achieve mass market manufacturing scale.

Another of our portfolio companies targeting the virtual and augmented reality market, remote haptics pioneer Ultrahaptics, capped off a year of progress by securing the Queens Award for Enterprise and raising £35m from Mayfair Equity Partners, Hostplus and Dolby Family Ventures. Another recipient of the Queens Award, Featurespace continued its impressive revenue growth in 2018, securing a place in the Sunday Times Tech Track 100, Deloitte Technology Fast 50 and FT 1000 Fastest Growing Companies in Europe. Featurespace announced that it had secured a new round of £25.0m growth capital immediately after the year end. The round was led by Insight Venture Partners, a New York-based global private equity firm focused on high-growth investments in the technology sector, while MissionOG, a US-based venture capital fund with significant operational experience across the payments industry, also participated in the round as a new investor. The funding was also supported by existing investors including IP Group plc, Highland Europe, TTV Capital, Robert Sansom and Invoke Capital.

One particularly notable element of these transactions is the amount of money brought in from high-quality financial and strategic investors who have never before invested in an IP Group portfolio company. Between them, the Ceres Power, WaveOptics and Ultrahaptics transactions brought in more than £75m from high-quality first-time co-investors alongside circa £10m invested by IP Group. This demonstrates the growing appeal of our portfolio to a broader and deeper pool of capital.

We were also encouraged by the revenue progress at many of our top assets, several of which are showing signs of progressing maturity as revenue undergoes high double-digit or even triple-digit growth. Examples include Ceres Power and Azuri, both of which have a rapidly-growing revenue run rate that now exceeds £10m per annum, and others such as Featurespace, Perpertuum and Import.io which have all shown rapid recent revenue growth.

Unfortunately, the substantial fair value uplift delivered by the above-mentioned transactions was significantly offset in the year by negative movement in the price of some of our listed assets in very challenging stock market conditions for small cap technology companies. Xeros saw a large drop in price as the shares reacted to slower than hoped-for commercial progress, but we were also disappointed to see significant commercial progress at some other assets contradicted by the share price. Actual Experience, in particular, achieved major milestones in 2018 with its first full-scale deployment of a large customer from one of its channel partners, yet its share price reduced by 30% over the year. We hope that these will prove short-term anomalies that will be rectified as further progress occurs.



Cleantech

In our Cleantech portfolio we focus on building outstanding science-based businesses that mitigate the impacts of climate change and other environmental challenges.

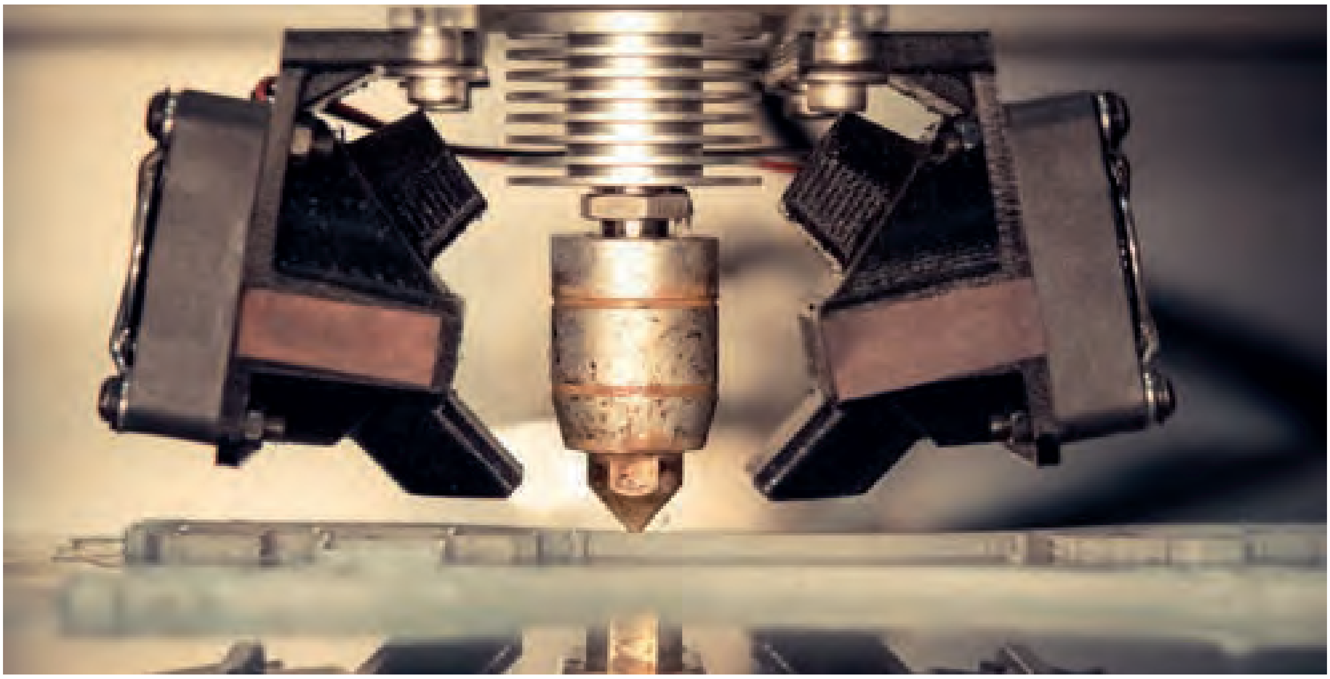
The IP Group Cleantech team continues to enhance its growing reputation in both venture and policymaking circles. Our Head of Cleantech, Dr Robert Trezona, is one of the handful of leaders from the energy sector chosen to be a commissioner of the Energy Transitions Commission (www.energy-transitions.org), which has been working for over a year to develop a roadmap for how to reduce carbon emissions from 'hard to abate' sectors that must be addressed by 2050 to avoid climate breakdown. The commission's report was launched by Lord Adair Turner in November and vindicates a number of technology themes we have been pursuing in the IP Group Cleantech portfolio, notably fuel cells, carbon capture and fusion.

The portfolio saw significant progress this year, most notably at Ceres Power, which received new equity investment totalling £74m from financial investors and Bosch and Weichai Power. The company announced in December that it had hit major milestones with both of those two strategic partners, meaning that revenue for their current 2017/18 financial year is expected to more than double to approximately £15m, from £7m in 2016/17.

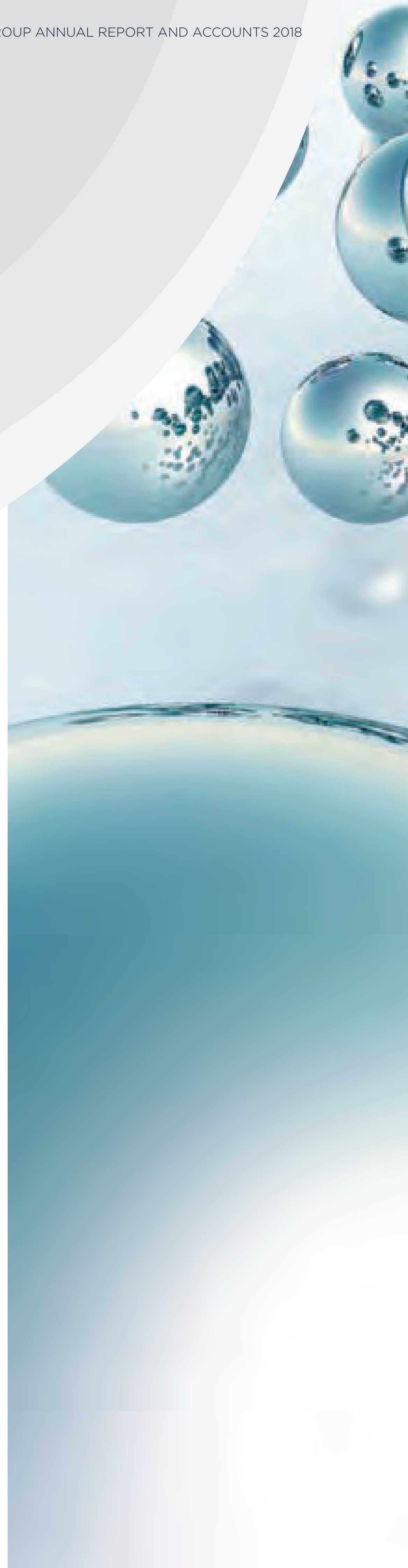
Elsewhere in the portfolio, carbon capture chemistry company C-Capture announced a major partnership with Drax, the UK's biggest power station, to deliver a Bioenergy Carbon Capture and Storage ("BECCS") pilot plant. If this project is successful, the C-Capture technology could enable Drax to become the world's first carbon-negative power station.

Finally, we were pleased to welcome a new company to the Cleantech portfolio, University of Oxford spin-out and autonomous vehicle software pioneer Oxbotica. Soon after our investment, the company was among the lead recipients of a £25m grant supporting the UK's first trials of self-driving vehicle services and has already secured a strategic alliance with Addison Lee Group, the global ground transportation business, to accelerate the implementation of autonomous vehicles on London's streets.

IP Group's Technology portfolio comprises 83 companies worth £396.9m as at 31 December 2018.



PORTFOLIO REVIEW: MULTI-SECTOR PLATFORMS

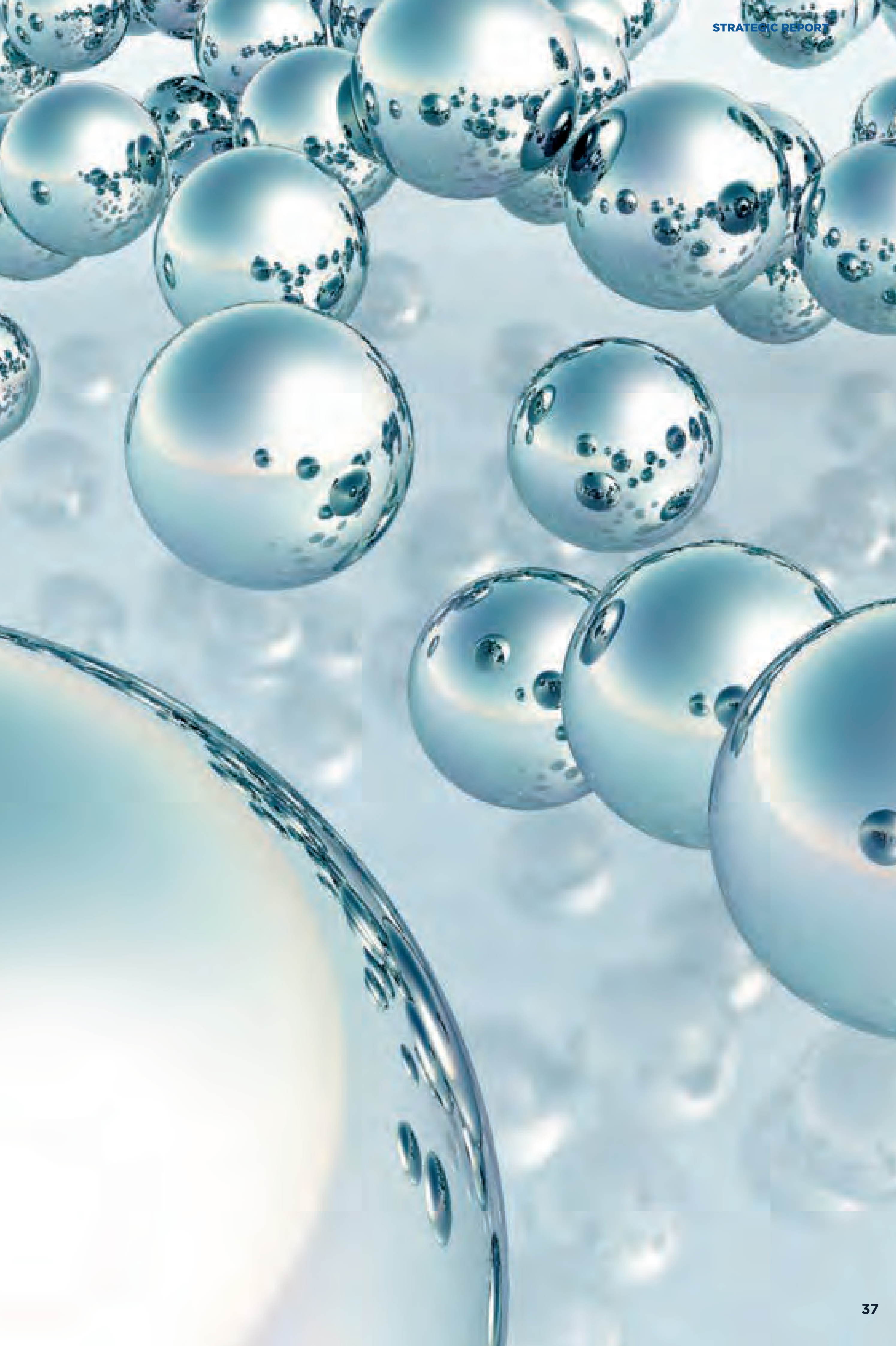


"2018 was another good year for Oxford Sciences Innovation as the portfolio continued to develop."

The Group has maintained its strategic stakes in its multi-sector platform companies, most significantly Oxford Sciences Innovation plc ("OSI") and Cambridge Innovation Capital plc ("CIC").

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% of the university's founder equity in spin-out companies. OSI has raised in excess of £580m to date, and 2018 was another good year for OSI as the portfolio continued to develop with a further 22 companies being added to the portfolio, and OSI leading on 33 investments. The number of investments now stands at 69 with a total portfolio value of £229m and cash and deposits of £455m. Net Asset Value per share has increased from 111.2p to 116.1p. In early 2019, OSI announced the appointment of Patrick Pichette, previously Google's Chief Financial Officer, as Chairman designate and Charles Conn, most recently Chief Executive of the Rhodes Trust, as Chief Executive.

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, and in September 2018 CIC announced that it had committed a total of £19.6m into two new and nine existing portfolio companies during the period ending September 2018. By the end of 2018, CIC had invested £111.0m since inception, in 24 companies.



FINANCIAL REVIEW

"A strong balance sheet position: £219.0m of gross cash and a diversified portfolio of investments worth £1,128.2m."

Greg Smith
Chief Financial Officer

The Group recorded a loss for the year of £293.8m (2017: profit of £53.4m) and a negative Return on Hard NAV, i.e. on the Group's net assets excluding goodwill and intangible assets, of £75.6m (2017: positive £64.1m). Net assets at 31 December 2018 were £1,218.2m (2017: £1,508.5m) and Hard NAV totalled £1,217.5m at 31 December 2018 (2017: £1,295.8m), representing 115.0p per share (2017: 122.5p).

Consolidated statement of comprehensive income

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

	2018 £m	2017 £m
Net portfolio gains/(losses) [1]	**(48.4)**	94.2
Change in fair value of limited and limited liability partnership interests	**2.3**	(0.2)
Net overheads [2]	**(26.0)**	(17.6)
Licensing income – Istesso group	**–**	3.4
Administrative expenses – Istesso group	**–**	(3.5)
Administrative expenses – other consolidated portfolio companies	**(2.6)**	(2.1)
Administrative expenses – share-based payments charge	**(1.9)**	(2.4)
IFRS 3 charge in respect of acquisition of subsidiary	**(3.3)**	(4.4)
Carried interest plan release/(charge)	**1.1**	(1.3)
Amortisation of intangible assets	**(9.9)**	(3.9)
Goodwill impairment	**(203.2)**	–
Acquisition and restructuring costs	**–**	(9.1)
Net finance (expense)/income	**(1.8)**	0.3
Taxation	**(0.1)**	–
(Loss)/profit for the year	**(293.8)**	53.4
Other comprehensive income	**(0.1)**	–
Total comprehensive income/(loss) for the year	**(293.9)**	53.4
Exclude:		
Amortisation of intangible assets	**9.9**	3.9
Goodwill impairment	**203.2**	–
Share-based payment charge	**1.9**	2.4
IFRS charge in respect of acquisition of subsidiary	**3.3**	4.4
Return on Hard NAV	**(75.6)**	64.1
Exclude:		
Acquisition and restructuring costs	**–**	9.1
Return on Hard NAV excluding acquisition and restructuring costs	**(75.6)**	73.2

1 Defined in note 27 Alternative Performance Measures.
2 See net overheads table below and definition in note 27 Alternative Performance Measures.

Net portfolio gains/(losses) consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses, which are analysed in detail in the Portfolio review on pages 27 to 31 .

Net overheads

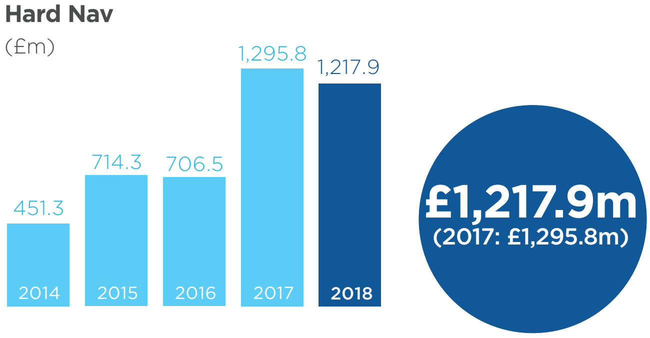
	2018 £m	2017 £m
Other income	9.9	6.1
Administrative expenses – all other expenses	(34.5)	(21.2)
Administrative expenses – Annual Incentive Scheme	(1.4)	(2.5)
Net overheads	**(26.0)**	(17.6)

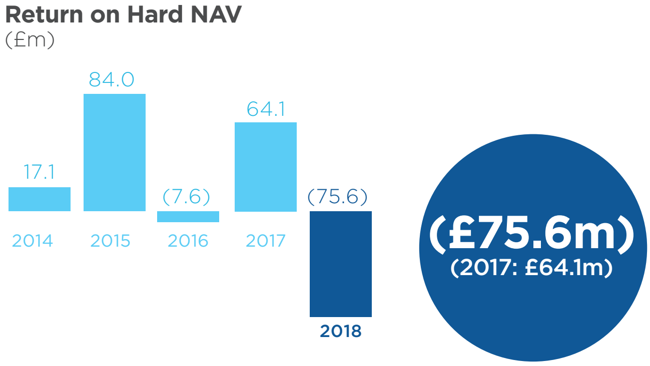
Other income totalled £9.9m, an increase on the year (2017: £6.1m) due to the acquisition of Touchstone Innovation plc on 17 October 2017; the 2018 results see the consolidation on this business for the full year. In addition, 2018 saw continued growth in revenues for Parkwalk Advisors Limited, which was acquired on 31 January 2017. Other income comprises fund management fees, licensing and patent income from Imperial Innovations, corporate finance fees as well as consulting and similar fees, typically chargeable to portfolio companies for services including executive search and selection as well as legal and administrative support.

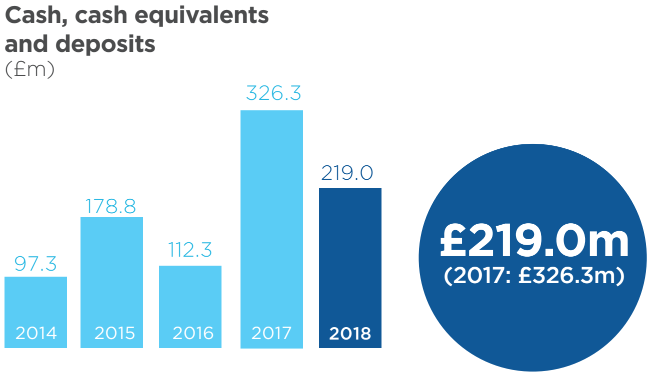
Other central administrative expenses, excluding performance-based staff incentives and share-based payments charges, have increased to £34.5m during the period (2017: £21.2m), primarily as a result of the annualised cost of Touchstone Innovations plc, as well as the growth in IP Group's Australasian operations. Of the £34.5m gross overheads, £5.8m relates to the cost of the Group's US and Australasian operations. The charge of £1.4m in respect of the Group's Annual Incentive Scheme (2017: £2.5m), reflects performance against 2018 AIS targets as described in the report on page 96.

£3.3m of the Group's 2018 net overheads relates to the Technology Transfer Office (2017: £0.7m). On 28 February 2019, the Group transferred back the future commercialisation operations of the TTO to Imperial, although it retained its rights to future earnings in respect of existing licences. The transfer of the TTO and the surrender of the lease on Touchstone Innovation's head office in Central London (agreed on 22 March 2019), represent the final steps in the conclusion of the Touchstone integration, that management estimates will result in annual cost synergies of £8m compared to IP Group and Touchstone's combined pre-acquisition net operating cost base. The full level of annual synergies will be realised following the completion of these last two integration steps, i.e. for the year ending 31 December 2020 onwards.

FINANCIAL REVIEW







Other income statement items

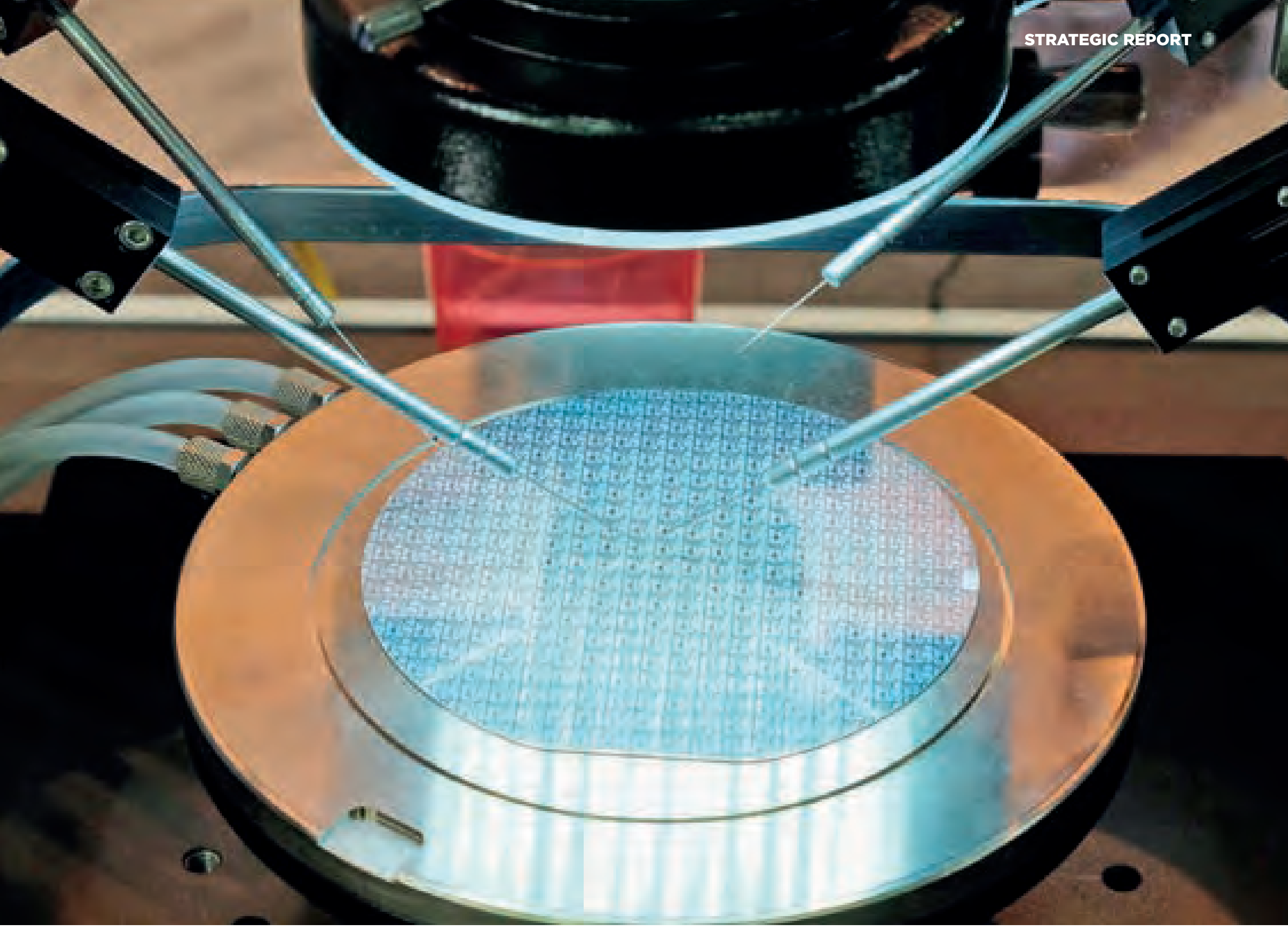
The share-based payments charge of £1.9m (2017: £2.4m) reflects the accounting charge for the Group's Long-Term Incentive Plan and Deferred Bonus Share Plan. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or net assets.

In late 2017, the Group's drug development subsidiary, Istesso Limited, was deconsolidated from the Group and recognised as a portfolio company; its licensing income and administrating costs are no longer consolidated into the Group's results.

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 takes a controlling stake and hence consolidates 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.

The carried interest plan release of £0.8m (2017: charge of £1.3m) relates to the recalculation of liabilities under the Group's carry schemes, which include a newly constituted scheme for the combined UK investment teams, as well as historic IP Group and Touchstone schemes. No cash payments are due to scheme members until sufficient asset realisations have occurred.

Costs of £3.3m (2017: £4.4m) were recognised in relation to deferred and contingent consideration payable to the sellers of Parkwalk Advisors Limited deemed under IFRS 3 to be a payment for post-acquisition services.



Included in the Group's results are non-cash charges in respect of the impairment of historic goodwill of £203.2m (2017: £nil) and amortisation of acquisition intangibles of £9.9m (2017: £3.9m). The Group conducts impairment testing of goodwill on at least an annual basis (or earlier if impairment triggers are identified), using a consistent model to estimate the value in use of the assets in each CGU versus the carrying value of goodwill. Key inputs to the model include an estimate of the Group's future portfolio return, the anticipated level of portfolio investment and the Group's cost of capital. The rate of return estimate has previously been based on the Group's long-term returns forecast, which was supported by the Group's cumulative IRR performance. As a result of current year portfolio performance, particularly the Group's AIM-quoted companies, as well as the broader macroeconomic and equity market environment, management has lowered its assumptions for future rate of return for these purposes, using historic cumulative IRR as a basis. This is the primary factor resulting in the impairment of goodwill.

Acquisition intangibles relates to separately identifiable assets recognised through the acquisition of Touchstone Innovations plc, Parkwalk Advisors Limited and Fusion IP plc; these assets are amortised over the period to which the contractual commitments relate.

Statement of financial position

A summary analysis of the Group's assets and liabilities is provided below:

	Year ended 31 December 2018 £m	Year ended 31 December 2017[1] £m
Goodwill and other intangible assets	**0.7**	212.7
Portfolio	**1,128.2**	1,099.8
Other non-current assets	**18.8**	12.6
Cash and deposits	**219.0**	326.3
EIB debt facility	**(97.8)**	(104.0)
Other net current liabilities	**(9.9)**	(11.4)
Other non-current liabilities	**(40.8)**	(27.5)
Total Equity or Net Assets	**1,218.2**	1,508.5
Exclude:		
Goodwill	**(0.4)**	(202.5)
Other intangible assets	**(0.3)**	(10.2)
Hard NAV	**1,217.5**	1,295.8
Hard NAV per share	**115.0p**	122.5p

Goodwill and other intangible assets relate to the Group's previous acquisitions including Touchstone Innovations plc, Parkwalk Advisors Limited, Fusion IP plc, Techtran Limited and Top Technology Venture Limited.

1 Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26).

FINANCIAL REVIEW

The composition of, and movements in, the Group's portfolio is described in the Portfolio review on pages 27 to 31.

The majority of non-current assets relate to holdings in LP and LLP funds; these include our co-investment fund IP Venture Fund, as well as investments in Apollo Therapeutics LLP, UCL Technology Fund LP and Technikos LLP. These funds give us both economic interest and direct investment opportunities in a portfolio of early-stage companies, as well as relationships with high-quality institutional co-investors.

The largest items within other non-current liabilities are loans from LPs of consolidated funds. The Group consolidates the assets of two managed funds in which it has both a significant economic interest, specifically co-investment fund IP Venture Fund II LP and IPG Cayman LP, which was created during the year to facilitate third-party investment into the Group's US portfolio. Loans from third parties of consolidated funds represent third-party loans into these partnerships. These loans are repayable only upon IPVF II generating sufficient returns to repay the Limited Partners.

At 31 December 2018, the Group held gross cash and deposits of £219.0m (2017: £326.3m). 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 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 2018, the Group had a total of £40.2m (2017: £1.2m) held in US Dollars and £0.1m (2017: £0.1m) held in AUS Dollars.

Both IP Group and Touchstone Innovation plc arranged debt facilities with the European Investment Bank ("the EIB"), total borrowings under which totalled £97.8m at the period end (2017: £104m). Of these facilities, £15.4m is due to be repaid within 12 months of the period end (2017: £6.3m). The facility provides IP Group with an additional source of long-term capital to support the development of the portfolio.

All-share acquisition of Touchstone Innovations plc

On 17 October 2017 the Group acquired control of 100% of the ordinary shares in Touchstone Innovations plc. The Group has recognised the assets and liabilities acquired in accordance with IFRS 3 'Business Combinations'. Certain assets, primarily holdings in unlisted portfolio companies that have been accounted for using valuation techniques, were provisionally determined and for a 12-month period post-acquisition, adjustments are made to these assets to the extent that new information is obtained about facts and circumstances that were in existence at the acquisition date. Post finalisation of the acquisition accounting, the prior year Touchstone net assets acquired have been restated by £30.4m (which comprises a £30.8m portfolio valuation decrease, a £0.4m decrease in fixed assets and a £0.8m decrease in non-current liabilities) with a corresponding increase in goodwill.

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

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

	2018 £m	2017 £m
Net Cash generated/(used) by operating activities	**(24.9)**	(22.4)
Net Cash generated/(used) in investing activities (excluding cash flows from deposits)	**(76.0)**	(67.6)
Cash acquired on acquisition of subsidiary undertakings (net of cash acquired)	**–**	107.8
Issue of share capital	**–**	181.0
Repayment/drawdown of debt facility	**(6.3)**	15.0
Effect of foreign exchange rate changes	**(0.1)**	0.2
Movement during period	**(107.3)**	214.0

At 31 December 2018, the Group's Cash totalled £219.0m, a decrease of £107.3m from a total of £326.3m at 31 December 2017 due to net cash used by operating activities of £24.9m, net cash used in investing activities of £76.0m and debt repayments of £6.3m.

Taxation

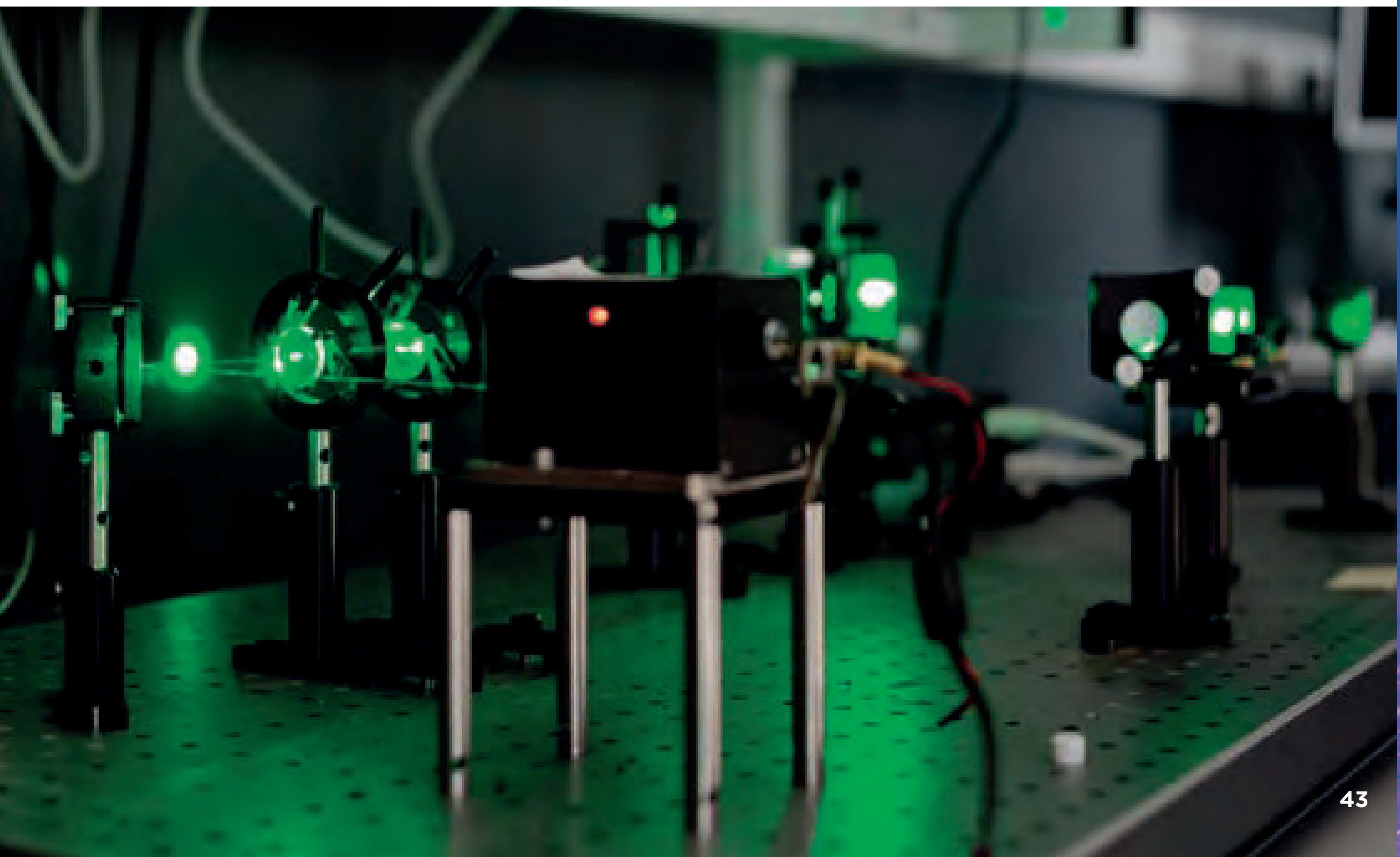
The Group's business model seeks to deliver long-term value to its stakeholders through the commercialisation of fundamental research carried out at its partner universities. To date, this has been largely achieved through the formation of, and provision of services and development capital to, spin-out 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 majority of investments acquired via the combination with Touchstone Innovations plc were previously held via Imperial Innovation Sárl, which exempted dividends and gains from tax under Luxembourg law provided the conditions for the relevant participation exemption were met. During the year, the Group unwound this structure and as a result the assets of Touchstone Innovations are now subject to the UK tax regime described above.

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

Alternative Performance Measures ("APMs")

The Group discloses alternative performance measures, such as Hard NAV and Return on Hard NAV, in this Annual Report. The directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. Further information on APMs utilised in the Group is set out in note 27.



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. The IP Group Risk Council operates to establish, recommend and maintain a fit-for-purpose risk management framework appropriate for the Group and oversees the effective application of the framework across the business. Risk identification is carried out through a 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, see page 116 for details.

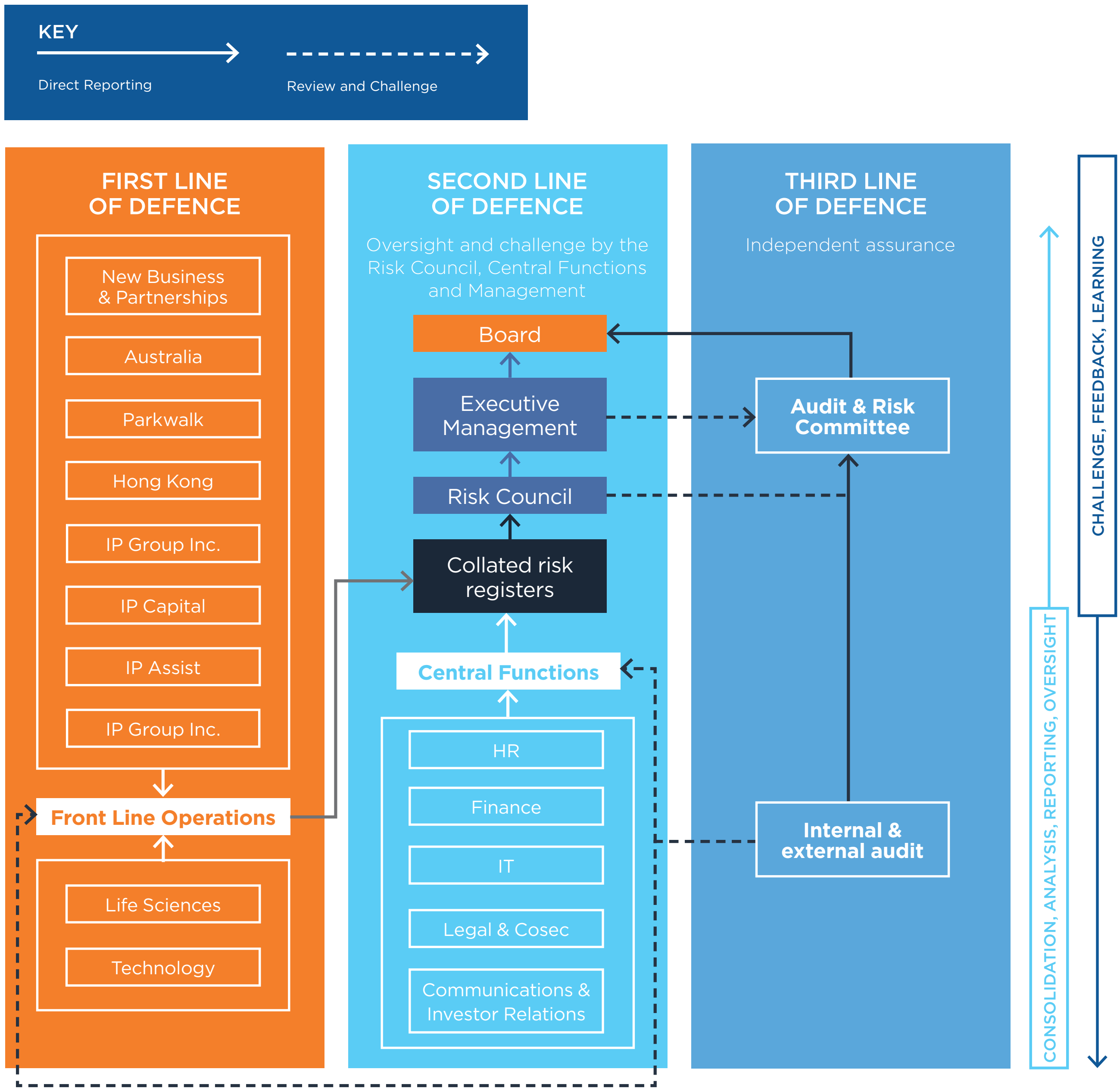
Risk management process

Ranking of the Group's risks is carried out by combining the financial, strategic, operational, reputational, regulatory and employee impact of risks and the likelihood that they may occur. Operational risks are collated into strategic risks which identifies key themes and emerging risks and ultimately informs our principal risks which are detailed in the Principal Risk and Uncertainty section of this report. 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 2018 we have continued to build on our existing risk management framework, enhancing risk management and internal control processes and established an outsourced internal audit function with PwC. This activity included the development of operational risk registers for new front line operations and a refresh of existing front line and operational risk registers, an assessment of the strategic risks and the appropriateness of our principal risks, testing of key controls over our principal risks, a review of protectionist policies across the globe that may impact our investments internationally including proposed CFIUS laws in the US and an updated Brexit risk review led by the Group's Risk Council. We have continued to support the Board in exercising their responsibility surrounding risk management through the Risk Council who meet on a regular basis. Priorities for 2019 include embedding the risk management culture further across the business, integrating internal audit in the business and empowering control owners to identify and react to risks as they happen through regular risk reporting.

IP Group risk management framework



RISK MANAGEMENT

Brexit

The Group continues to closely monitor political developments as the UK prepares to leave the EU in 2019. Management updated its assessment of the impacts of Brexit on the Group in response to the likelihood of a "no deal" scenario increasing in 2018. PwC's specialist trade team facilitated a Brexit workshop with key people within IP Group across capital markets, finance, compliance, operations, legal, talent management and human resources to i) identify the key risks of the likely impacts of Brexit and ii) discuss actions the Group could take to mitigate the risks identified. As a result of this work, management determined that Brexit did not constitute a principal risk for the Group; however, management produced guidance for portfolio company boards and the Group's representatives to assist with their preparations. The key risks impacting our strategic aims identified via the above-mentioned process are detailed further below:

Key risks	Actions taken
Macroeconomic environment could cause a short-term UK recession which would reduce investor confidence and impact access to capital for both IP Group and its portfolio companies. **Access to capital:** • A no deal Brexit would create uncertainty in the short term, likely translating to more restrictive financing conditions. Any reduction in UK credit worthiness due to a Brexit-induced increase in the current account deficit and higher exposure outside the EU could increase the cost of lending and decrease the availability of capital. • Significant parts of the Brexit outcome and political declarations are still vague, continuing to exacerbate the political and economic uncertainty. Subdued investor confidence across the investment sector is highly likely regardless of a deal/no deal scenario. This could impact access to capital for both IP Group and its portfolio companies. • In both a no deal and a deal scenario the UK will leave the EIB which results in loss of access to funding. While the Group has assumed no further funding, changes to repayment obligations of existing funding could be initiated.	• Reassurance provided to key stakeholders and investors that tangible and measurable preparations are being considered and made in order to mitigate any risks that Brexit poses as much as possible for IP Group. • Diversification of co-investors and funding has been undertaken over recent years to mitigate the reliance on UK co-funders of the Group and its portfolio companies. • Material contracts that the Group considered most likely impacted by the Brexit process were reviewed. It was concluded that there were no clauses contained within these contracts and no indications from the third parties received that would indicate contracts such as EIB loan facilities or fund management contracts would be terminated.

Key risks	Actions taken
The performance and management of portfolio companies is crucial to the success of the Group and, as a result, the preparation that portfolio company management teams have undertaken to address key Brexit risks will be central to the successful navigation of operational and other issues that may impact their performance. **Performance and management of portfolio companies:** • The macroeconomic impact of a no deal Brexit would lead to a significant GDP fall and the risk of a short-term recession is high. IP Group's portfolio companies have significant exposure to the UK economy. • The regulated nature of a number of the Group's portfolio companies across both sectors could mean that marketing pharmaceuticals and selling medical devices into the EU is no longer possible in the current way in the event of a no deal Brexit.	• A portfolio company risk exposure and consultation plan was developed. The Group surveyed the portfolio companies' representatives of a sample of the most mature companies to determine the common Brexit-related risks which had been discussed at their board meetings. This analysis determined that the key risks across this subsection of the portfolio fell into the following five categories: i. Hiring and retaining talent ii. Supply chain difficulties, including tariffs, delays and additional cost for storing extra stock iii. Macroeconomy and currency risk impacting profit iv. Access to funding from investors and EU grants v. Regulatory changes • The Group used this information to prepare an advice note for all portfolio company representatives at IP Group to enable those individuals to raise relevant issues at portfolio company board levels. • Additional advice was obtained from advisers regarding clinical trials sponsored in the UK, companies distributing medicine into the EU and selling medical devices into the EU.
The macroeconomic environment has an impact on long-term recruitment and planning for companies. Additional visa restrictions will also impact academics and student movement to the UK, thus affecting the pool for potential portfolio companies and the quality of university partnerships. **People:** • IP Group and its portfolio companies have current employees who do not hold a UK passport and are allowed to work in the UK based on their European citizenship. These employees are experiencing high levels of uncertainty and could be considering alternative options for working in the UK. • As a result of the Brexit vote and ongoing political, economic and academic uncertainty, the UK is considered a less attractive job market on a global scale. This will impact on the Group and its portfolio companies who depend on highly skilled and specialised employees who are difficult to attract and retain. Significant impact on long-term recruitment is likely to be impacted. • Individuals within the field of academia and students from overseas may face uncertainty.	• A employee engagement strategy was developed and communicated to relevant employees at IP Group containing the latest advice from Government and confirming the Group's support of those affected. • The Government's White Paper on immigration was reviewed and concluded that, while no short-term impacts are envisaged for current employees, over the medium term the Group will need to closely monitor the proposed new immigration rules, including salary thresholds for skilled migrants. The proposals are subject to change and the Group will continue to monitor the impact of the final changes.

RISK MANAGEMENT

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 87 of the Corporate Governance Report and pages 116 to 120 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 146 to 148.

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.

Link to Strategy

Access to sufficient levels of capital allows the Group to invest in its investment assets, develop early-stage investment opportunities and invest in its most exciting companies to ensure future financial returns.

Actions taken by management

- The Group has significant internal capital and managed funds capital to deploy in 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 regularly forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary limits, treasury policy guidelines and transaction authorisation controls
- While Parkwalk Advisors operates independently they have been and continue to be an important co-investor of the Group, supporting shared portfolio companies

KPI

- Change in fair value of equity and debt investments
- Total equity ("Net Assets")
- Profit/loss attributable to equity holders

Developments during the year

- Incorporated a subsidiary in Hong Kong to act as a fund-raising hub to introduce local investors in the China region to IP Group plc and portfolio companies
- Commenced management of an AUS$100m trust for an Australian Super Fund which has a mandate to co-invest with IP Group plc portfolio companies

Examples of risks

- 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 may not be able to provide the necessary capital to key strategic assets which may affect the portfolio companies' performance or dilute future returns of the Group

Change from 2017

↑

Read about our Strategy on page 18

Read about our KPIs on page 22

KEY

Increase Decrease No change New Create Develop Deliver

2 The returns and cash proceeds from the Group's early-stage companies can be very uncertain

Early-stage companies typically face a number or risks, including not being able to secure later rounds of funding at crucial development inflection points and not being able to source or retain appropriately skilled staff. Other risks arise where competing technologies enter the market, technology can be materially unproven and may ultimately fail, IP may be infringed, copied or stolen, may be more susceptible to cybercrime and other administrative taxation or compliance issues which may lead to company failure.

Link to Strategy

Uncertain cash returns could impact the Group's ability to deliver attractive returns to shareholders when our ability to react to portfolio company funding requirements is negatively impacted or where budgeted cash proceeds are delayed..

Actions taken by management

- The Group's employees 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 leadership 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

KPI

- Change in fair value of equity and debt investments
- Purchase of equity and debt investments
- Proceeds from the sale of equity investments

Developments during the year

- The Group's combination with Touchstone Innovations plc in 2017 has resulted in increased diversification of the Group's portfolio
- The Group's portfolio companies raised approximately £695m of capital in 2018
- The Group maintained board representation on more than 90% of its "focus" companies by number

Examples of risks

- Portfolio company failure directly impacts the Group's value and profitability
- At any time, a large proportion of the Group's portfolio may be accounted for by very few companies which could exacerbate the impact of any impairment or failure of one or more of these companies
- 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

Change from 2017

RISK MANAGEMENT

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 UCL Technology Fund. University partners may terminate their partnerships or may move to non-exclusive sourcing models.

Link to Strategy

The Group's strategic objective of building and maintaining a pipeline of compelling intellectual property-based opportunities, in part depends on the quality of the commercialisation partnerships the Group holds.

Actions taken by management

- Dedicated New Business & Partnerships team services existing partnerships and sources new opportunities for the investment partnerships
- 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 for competitors

KPI

- Number of new portfolio companies

Developments during the year

- Completed investments with two new university partnerships in Australasia

Examples of risks

- 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
- Competition in the market may reduce the opportunities available to us to create new spin-out companies

Change from 2017

Read about our Strategy on page 18

Read about our KPIs on page 22

KEY

Increase · Decrease · No change · New · Create · Develop · Deliver

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. Scaling the team, particularly in foreign jurisdictions such as Australasia and Hong Kong, presents an additional potential risk.

Link to Strategy

The Group's strategic objectives of developing and supporting a portfolio of compelling intellectual property-based opportunities into robust businesses capable of delivering attractive financial returns on our assets is dependent on the Group's employees who work with the portfolio companies and those who support them.

Actions taken by management

- Senior team succession plans have been developed and are 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 employee development and inclusion through coaching and mentoring and carries out annual objective setting and appraisals
- The Group promotes 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.

KPI

- Total equity
- "Net Assets"
- Number of new portfolio companies

Developments during the year

- The Group completed its first staff engagement survey and is reviewing actions to improve the employee experience while working for the Group
- The Group increased the level of benefits across a range of measures in 2018, including contributory pension and enhanced maternity benefit terms as part of a "best of both" integration post combination with Touchstone in early 2018
- The Group also continues to dedicate resources to remuneration and incentivisation.
- Staff attrition increased during the year to 12.9% due to integration-related leavers and temporary contractors who left during the year.
- Approximately 37.7% of employees have been with the Company for at least five years.

Examples of risks

- Loss of key executives and employees of the Group or an inability to attract, retain and integrate appropriately skilled and experienced employees could have an adverse effect of the Group's competitive advantage, business, financial condition, operational results and future prospects

Change from 2017

RISK MANAGEMENT

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 receive third party funding, 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 and its portfolio companies operate.

Link to Strategy

The Group's strategic objectives of developing a portfolio of commercially successful portfolio companies and delivering attractive financial returns on our assets and third-party funds can be materially impacted by the current macroeconomic environment

Actions taken by management

- Senior management receive 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
- The Group's Risk Council conducts horizon scanning for upcoming events which may impact the Group such as a hard Brexit

KPI

- Change in fair value of equity and debt investments
- Total equity
- "Net Assets"
- Profit or loss attributable to equity holders

Developments during the year

- Macroeconomic and geopolitical conditions remain uncertain in the UK, at the time of writing there was no agreement between the UK and the EU for the UK's withdrawal from the EU.
- Brexit process remains a source of uncertainty in the year. The Group undertook a refresh of the Brexit risks facing the Group via a workshop facilitated by PwC's Brexit specialist trade team and included key people in our business representing finance, legal, capital markets, people, recruitment and investment teams. The impact on our people and the economic effects of a hard Brexit were noted as the areas where the Group would be affected the most.

Examples of risks

- The UK's vote to leave the EU has had, and may continue to have, an adverse effect on trading conditions and availability of capital in the UK, particularly for small businesses given the uncertainty which remains ahead of the UK leaving the EU in March 2019
- 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

Change from 2017

Read about our Strategy on page 18 Read about our KPIs on page 22

KEY

Increase Decrease No change New Create Develop Deliver

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.

Link to Strategy

The Group's strategic objectives of creating and maintaining a portfolio of compelling opportunities to deliver attractive returns for shareholders could be materially impacted by failure to comply with or adequately plan for a change in legislation, government policy or regulation.

Actions taken by management

- 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 annual 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

KPI

- Total equity
- "Net Assets"

Developments during the year

- Ongoing focus on regulatory compliance, including third party reviews and utilisation of specialist advisers
- UK Government has committed to university funding and has emphasised the importance of science and innovation
- Specialist therapeutics advisory panel continually consulted
- GDPR came into effect in 2018

Examples of risks

- 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 subsidiaries, 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
- The UK's decision to leave the EU could have an adverse impact on the level of research funding made available to UK universities from which the Group an element of its investment portfolio

Change from 2017

RISK MANAGEMENT

Read about our Strategy on page 18

Read about our KPIs on page 22

KEY

Increase | Decrease | No change | New | Create | Develop | Deliver

7 The Group may be negatively impacted operationally as a result of its recent international expansion

The Group may fail to comply with local laws and regulations or integrate overseas operations with similar cultures and values as the central operations. The Group may also fail to establish effective control mechanisms in new territories. Expansion in new territories may take significant senior management time and distract them from UK operations.

Link to Strategy

The Group's strategy includes building a portfolio of compelling intellectual-property based companies across the UK, US and Australasia. The increasing scale of the Group's international operations represents increased importance of successful execution of this element of the Group's strategy.

Actions taken by management

- Local legal and regulatory advisers have been engaged in the establishment phase of overseas operations. US and Australasian teams have their own in-house legal teams who report to Global Head of Legal in the UK
- IP Exec and HR are involved in senior hires for new territories. Senior international personnel include current and former UK employees, encouraging a shared culture across territories
- There is regular travel between the UK and other territories to ensure the Group is aligned in its strategy and culture
- The risk management framework in place across each business unit has been established in each international territory and is integrated into the Group's regular risk management processes and reporting
- Third party suppliers are used for accounting and payroll services to reduce the risk of fraud

KPI

- Total equity
- "Net Assets"

Developments during the year

- Opening of Hong Kong office announced in the year

Examples of risks

- A legal or regulatory breach could ultimately lead to the withdrawal of regulatory permissions in Australia and Hong Kong, resulting in loss of trust management contracts, reputational damage and fines
- Divergent group cultures may lead to difficulties in achieving the Group's strategic aims
- A major control failure could lead to a successful fraudulent attack on the Group's IT infrastructure or access to bank accounts
- Senior management may spend a significant amount of time in setting up and establishing new territories which could detract from central Group strategy and operations

Change from 2017

N

Viability statement

The Directors have carried out a robust assessment of the viability of the Group over a three-year period to December 2021, 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. As a business which seeks to develop great ideas into world-changing businesses, our business model seeks to balance cash investments, the generation of portfolio returns and ultimately portfolio realisations. The three-year plan is built using a bottom-up model and makes 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 downside scenarios as part of the Board's review of the principal risks of the business. The severe downside scenarios model situations where, at the end of 2019, the Group has been unable to raise additional equity or debt finance or generate significant portfolio realisations. Under these scenarios, significant reductions to portfolio and fund investments and the Group's operating cost base are made in the following two years to preserve the Group's remaining cash.

Management has identified the most likely and significant potential adverse effects from Brexit over the three-year period under consideration as the availability of capital and the macroeconomic environment which directly impacts the Group's financial returns as having the ability to alter the financial plan. In all scenarios modelled the Group remains solvent at the end of the three-year period and no breach of EIB financial covenants occur. Given the severity of the assumptions used in the scenarios it is considered that Brexit-related risks are adequately incorporated into the sensitivity analysis.

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 2021.

SUSTAINABILITY

ipgroup

Our goal is to build a sustainable and viable business.

Sustainability has always been at the heart of IP Group. Through the businesses that we back and build, we aim to address some of the world's most pressing challenges in areas such as disease prevention and mitigation, the transition to a less carbon intense energy world and in productivity improvement. Our approach therefore considers environmental, social and governance (ESG) factors and their impact. An area of major focus has been "cleantech" where we focus on building outstanding, science-based businesses that mitigate the impacts of climate change and other environmental challenges.

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. By way of illustration of the impact of IP Group, the Group has invested more than £850 million to date in the UK in science and technology and created more than 300 companies which, in aggregate, have raised approximately £4.7 billion of funding. Through these endeavours, we calculate more than 5,000 jobs have been created across the UK.

In this way, IP Group and its portfolio companies have the potential to influence the major global challenges addressed by the UN's 17 Sustainable Development Goals, which are aimed at achieving a better and more sustainable future for all. We estimate that the Group and/or its portfolio companies are currently influencing all of the 17 SDGs. In particular, there is concentration around six of the SDGs, notably:

Please see the table/graphic on page 57.

ESG Working Group

The Group established an ESG Working Group in 2018 and has identified a range of initiatives it is committed to progressing in 2019, listed below.

ESG actions taken / proposed initiatives

1. We have committed to regular ESG working group meetings with CEO Alan Aubrey as the accountable executive.
2. We have mapped our "focus" portfolio to the UN's Sustainable Development Goals (SDGs) and will continue to review this.
3. We have committed to developing an ESG policy to illustrate responsible "asset management and investment".
4. We are considering creating an investment framework to guide investment decisions into new opportunities.
5. We will implement an environmental training/awareness programme for employees.
6. We have committed to reducing IP Group's carbon emissions through initiatives such as minimising travel, paper use and printing and have offset IP Group's 2018 carbon emissions (pages 60 and 64).
7. We are considering becoming a signatory of the UN Principles for Responsible Investment (UN PRI).

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals created by the UN are a blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. Through the activities of our Group companies, we address a number of these global challenges.

We invest in businesses that are developing medicines that can overcome antibiotic resistance, repair stem cells and reduce patients suffering from respiratory or hormone problems. These can help to change the world through a **healthier society**.

One key global challenge is affordable and clean energy. IP Group's portfolio includes alternative fuel technologies. These are beneficial as it will offer **cheaper and cleaner energy**.

Portfolio analysis of 'Top 20' and Focus investments.

We work with innovative companies to support the developments of industries and infrastructure. We can achieve this through systems to monitor and maintain equipment and **developing intelligent solutions**.

Further to this, there has been an increasing use of technology in society, supporting our industries and infrastructure. Therefore, it has become more important than ever to protect this data.

Many of our portfolio companies are working on solutions that will enable **sustainable cities and communities**, which provide opportunities for all.

Sustainable consumption and production is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and a better quality of life for all. This is central to many of our portfolio companies.

Within our portfolio, we have businesses that focus on the development of carbon capture technology in order to reduce CO_2 emissions and developing energy management systems for electric cars. This will aid climate action, enabling us to live in a **better and healthier world**.

CASE STUDY: AZURI

Azuri Technologies is a commercial provider of pay-as-you-go home solar solutions to off-grid homes in Africa

An estimated 600 million people in sub-Saharan Africa lack access to electricity. Azuri has used mobile technology to turn this development challenge into a business opportunity through its solar home systems, which allow users to pay for solar power on a pay-as-you-go basis, just like they do for their phones and kerosene.

An Azuri Quad system is typically paid off over 18 months, after which the system is unlocked and all the energy generated is free of charge to the customer.

Azuri is continually innovating and committed to helping off-grid families access modern devices and services that urban families often take for granted. In 2016, Azuri was the first to introduce home solar TV to Kenya to enable off-grid families access, for the first time in their homes, world information, news, entertainment and education programmes.

Azuri's life-changing technology delivers clean, safe renewable power to families at about half the cost of the kerosene it replaces. This helps to diminish poverty and provides sustainable energy for those who live in communities that are off the grid.

SUSTAINABILITY

Environment

As described above, we believe the indirect environmental impact of the Group to be positive when considering the potential of our portfolio companies to influence major global challenges addressed by the UN's 17 SDGs. However, we also consider the direct negative environmental impact of IP Group plc and its subsidiary companies, including through emissions caused by staff activity (e.g. travel) and premises and are committed to ensuring these remain as low as possible. We are therefore reviewing how we best ensure that the business operates in an environmentally responsible and sustainable manner. The single biggest contributor to our direct emissions remains business travel, particularly overseas flights. Employees are therefore encouraged to host meetings via videoconference where possible, thereby only engaging in business travel when necessary, and to use public transport. The Group also focuses on waste prevention, has recycling facilities within its offices and will train employees on their use. You can read more on the Group's greenhouse gas emissions on pages 64 to 65.

Carbon offset

Despite the relatively low direct negative environmental impact of the Group, we have offset 100% of the Group's direct 2018 CO_2 equivalent greenhouse gas emissions. We have done so through a new programme of supporting UK woodland creation certified under the Government's Woodland Carbon Code. In recognition of our carbon footprint, our commitment comprises four hectares and around 4,000 native trees in a new woodland near Dunbar, Scotland. Our support for woodland creation will not only mitigate our entire carbon footprint but also deliver additional benefits to society and the environment.

All Woodland Carbon Code certified projects offer public access as a core requirement, and woodlands also have a significant role to play in mitigating flooding, reducing air pollution, cleaning watercourses and creating habitat for biodiversity. An investment in woodland creation contributes to the UK's rural economy by helping to create jobs in the forestry and nursery sector, and also makes a contribution to the U.K.'s national carbon budget, enabling the country to meet its climate change obligations. The specific project that IP Group is supporting through its carbon offset activity is called Arnott's Loan and it consists of 75% oak with the remainder silver birch, alder, hazel, hawthorn and rowan. The woodland connects two existing mature oak woodlands and will improve water quality and biodiversity over one mile of streambank. The site will be sustainably managed on a continuous cover basis, meaning long-term and gradual thinning and replacement of trees creating a natural all-age forest.

The Woodland Carbon Code delivers independently certified woodland creation projects – audited by UKAS accredited bodies to ISO standards – that offer tangible social and environmental benefits; it is the only standard of its kind in the UK. Woodland Carbon Code credits are an accepted mitigation mechanism under government corporate environmental reporting guidelines.

The Code ensures that:

- The right trees have been planted, in the right place;
- Carbon capture estimates are site specific, scientifically sound and risk adjusted;
- The woodlands are managed to a high standard and protected in the long term;
- Projects will be subject to long-term monitoring and re-certification;
- The trees would not be there but for the intervention of carbon offset buyers.

Social

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. We recognise the importance of diversity and have instigated a number of initiatives on this detailed on page 61 under "employee diversity". A key community initiative for the Group has been its three-year strategic charity partnership with Generating Genius, a charity set up to support talented young people from disadvantaged backgrounds to help realise their potential in STEM (science, technology, engineering and maths) subjects. More information on this is set out under "community engagement" on page 63.

The Group also 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 also a signatory to the Prompt Payment Code. IP 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.

Governance

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 of 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 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. 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. You can read more in the section on Governance on pages 70 to 89.

Responsible stewardship

We also recognise the importance of ensuring that the businesses the Group helps create comply with all applicable environmental, ethical and social legislation. Furthermore, our direct involvement in many of these companies allows greater scope to engage with their management teams and offer guidance. In addition to the support they receive from the Group, our portfolio companies 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.

Employee diversity

Diversity is key to how we work and the Group is committed to equal opportunity for all people when it comes to recruitment, selection and career development. This year, we paid particular attention to gender diversity and considered a number of initiatives to support women in the workplace. In January, our CEO pledged his support to the "30% Leadership" campaign to improve gender diversity on corporate boards and in senior leadership teams.

As at 31 December 2018, the Group employed an average of 166 employees and had five non-executive directors. A breakdown of our people by gender can be seen in the table below. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and, insofar as it is able to, ensures that all transactions the Group enters into uphold these principles.

Gender split as at 31 December 2018

Total staff[1] 166	Male		Female	
Board[2]	8	80%	2	20%
Senior Leadership Team[3]	7	88%	1	12%
Senior managers/partners	22	69%	10	31%
All employees	87	52%	79	48%

(1) Excludes NEDs

(2) Includes Company Secretary

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

The above table illustrates that female representation of the Group's Board of Directors fell to 20% from 30% last year while female representation on the Group's Senior Leadership Team is now 12% compared with 18% last year. The Board figure was impacted after one of the Group's two female Non-executive Directors stepped down from the role to avoid any potential conflict of interest, having been appointed Executive Chairman of the Engineering and Physical Sciences Research Council (EPSRC).

While the Group continues to aspire to 30% female representation at both Board level and in the senior leadership team, the Group recognises the need for improvement at the most senior levels in the business and has committed to a number of initiatives, listed below, to help address this.

Of note, IP Group has a unique opportunity to help provide employees access to Board director roles across its portfolio companies. Of the total of 100 companies where the Group has an active board director position, 19 of those, or 19%, are female. The Group has committed to exploring ways of increasing access and exposure for employees, especially women, on those boards, including involvement with the organisation Women on Boards.

Actions taken / proposed initiatives to improve gender diversity

1. We have committed to a monthly working group with CEO Alan Aubrey as the accountable executive to explore how to achieve the stated "30% aim".
2. We will implement unconscious bias training throughout the entire organisation.
3. We are considering cross-company mentorship programmes.
4. We have collected data on our internal portfolio company board director roles and are exploring ways to increase access and exposure for employees, especially women.
5. We are considering the structure of our Senior Leadership Team in 2019, being mindful of gender diversity.
6. We will implement a quarterly speaker series on "high impact women" in our industry.
7. We will provide career development planning in conjunction with managers and professional development resources.
8. We will review our "family friendly and flexible working" policies to ensure that they are fit for purpose.

SUSTAINABILITY

Culture and People

A focus for the Group is recruitment and retention of the talent needed to drive long-term sustainable success. We aim to create an environment of collaboration and co-operation but also one that encourages challenge and questioning, given the high degree of ambiguity and uncertainty that surrounds the world of technology investment. We endeavour to recruit people with a unique combination of 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.

Culture

IP Group's core values of being "passionate, pioneering and principled" guide the behaviours the Group wishes to see not only in its general endeavours but also in its interactions with all stakeholders. We believe that these values and behaviours have contributed positively to the portfolio that we have built over many years and we will be exploring how we refine and build on them to deliver future success. We believe our culture is important in attracting and retaining the best talent. We give our people a high degree of freedom and authority and are supportive of "flexible working".

Training

While our people gain significant experience from working with a number of start-up enterprises and seeing first-hand what works and what doesn't, sharing knowledge and discussing these experiences (notably at our company "away days") as well as structured training is key to leveraging this learning across the Group. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses. In 2018, all staff undertook GDPR, IT security training and anti-harassment training.

Recruitment and development

We use our extensive networks to recruit for staff with candidates solicited from various backgrounds and expertise. All vacancies are, however, advertised internally to offer opportunities to current employees in the first instance. Staff turnover in 2018 was unusually high at 18% as a result of the integration of the Touchstone Innovations business. All staff have now undertaken annual performance reviews to summarise their achievements as well as to highlight development needs which are then converted into training and development plans.

Retention

We 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 relevant to the seniority of the person. We benchmark remuneration and benefits regularly against industry peers. Our remuneration and benefits package focuses 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.

Work experience and internships

Touchstone Innovations ran 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 2018, 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. Across the Group we took on 20 trainees in 2018.

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 2018 and 31 December 2017, no reportable accidents occurred under UK Health and Safety regulations.

Community engagement

"The second year of being supported by IP Group has been fantastic. For us, the highlight event of 2018 was the 'Host Day'. Our students were able to put into action in real time some of the methods applied by IP Group in their everyday work. The idea of solving problems posed by clients, really made our students think out of the box. Our programme is about stretching and challenging students and they all showed how they can add value to products and services."

Dr Tony Sewell, CBE, Founder and Director, Generating Genius

In 2018, the Group completed year 2 of a three-year strategic partnership with a charity closely aligned with 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). In addition to a donation of £33,333 (2017: £33,333), the Group established an informal charity liaison team to improve communication between the Group and the charity. This direct line of communication enabled the organisation of two events - a Host Day and work experience. In both cases, various members of staff were able to contribute to each event's successful delivery and the consequent enrichment of the partnership.

In the morning of the Host Day, students from Generating Genius got insight from the careers and professional history of speakers from IP Group and across the Group's portfolio companies. This was followed by a design challenge in the afternoon, where young people were put into groups and asked to solve a question sourced from the speakers' own work. Students were challenged to think of new ways to engage children in learning how to code, the potential role of virtual reality in education, and how product developers prepare their product for use by customers.

Three students were able to gain a deeper understanding of IP Group through a week of work experience, spent between the Group's Head Office and Imperial Innovations. By speaking to various teams across both offices, students gained an understanding of the numerous stages and stakeholders in the technology commercialisation process, from patenting, to investment, through market analysis. They also gained first-hand experience in establishing the patentability of new inventions and in researching a business proposal with the aim of making an investment recommendation.

In addition to the events organised by the Group, Generating Genius chose IP Group's Head Office as the site for two of the charity's networking events, including the launch of its new programme *Alumni Genius*, where previous Generating Genius students give back to the network by mentoring the new roster of *Junior* and *Uni Genius* participants.

Outside IP Group, the cohort of students supported by the Group's donation to Generating Genius (now in Year 11) has participated in a series of events and sessions to further develop their skills and inform their future education and career decisions. These include masterclasses on wearable tech and the future of biomedical science at Queen Mary University of London and Imperial College London, respectively, a GCSE masterclass and debate workshop at Latymer Upper School, and an insight into IP from Intellectual Property lawyers Kilburn & Strode.

A list of the other charities that IP Group has supported to date can be found on the Group's website: www.ipgroupplc.com.

SUSTAINABILITY

Policies

Copies of the Group's policies in relation to environmental, equal opportunities and diversity, prompt payments, whistleblowing, anti-corruption and bribery, anti-facilitation of tax evasion and data protection can be found on the Group's website: www.ipgroupplc.com.

Greenhouse gas emissions

This year the Group has 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. Next year we anticipate capturing our carbon footprint data in relation to the new Streamline Energy and Carbon Reporting regulations which come into force in April 2019. As described above, we have offset 100% of the Group's direct 2018 CO_2 equivalent greenhouse gas emissions.

An operational control approach has been used in order to define our organisational boundary. This approach requires us to report on all assets which are under our operational control. As a result, any investment subsidiaries and tenanted offices have not been included in the scope of this report. All carbon emissions classified under scopes 1, 2 and 3 have been included, including well to tank emissions where available.

Methodology

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

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

- Application of the principles laid out in the WRI GHG protocol
- Calculations done in line with ISO14064
- Emissions factors calculated based on an offices location and governing body (DEFRA, EPA AU, EPA US)
- Location based (grid emissions) and market based (supplier emissions) factors have been applied where relevant
- All carbon has been reported in CO_2e, carbon dioxide equivalents, making it directly comparable to other GHGs under the Kyoto protocol

Absolute emissions

The total greenhouse emissions from IP Group plc's operations in the financial year 2018 (year ending 31 December 2018) were: 941.4 tonnes of CO_2 equivalent (tCO_2e) which we completely offset through the woodland project set out on page 60.

	Note	**2018 Tonnes CO_2**	2017 restated[4] Tonnes CO_2e
GHG emissions			
Scope 1[(1)]	4	**14.8**	1.6
Scope 2 (location-based)[(2)]		**126.0**	145.9
Scope 2 (market-based)[(2)]		**106.0**	123.1
Subtotal (location-based)		**140.8**	147.5
Subtotal (market-based)		**120.8**	127.0
Scope 3[(3)]		**800.6**	781
Total GHG emissions (location-based Scope 2)		**941.4**	928.5
Total GHG emissions (market-based Scope 2)		**921.4**	910.1
Carbon offset via woodland projects		**(941.4)**	–
Total GHG emissions post carbon offset		**–**	928.5

(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 (167 employees and 4,706 m^2 office space).

(4) Restated to reflect consistent estimation basis with 2018 GHG emissions.

Intensity ratio

In order to provide context to IP Group's emissions year on year we've calculated the total carbon in relation to two relevant metrics, floor area and FTE, which give an indication to the size of the organisation and its potential impact on the resulting carbon emissions.

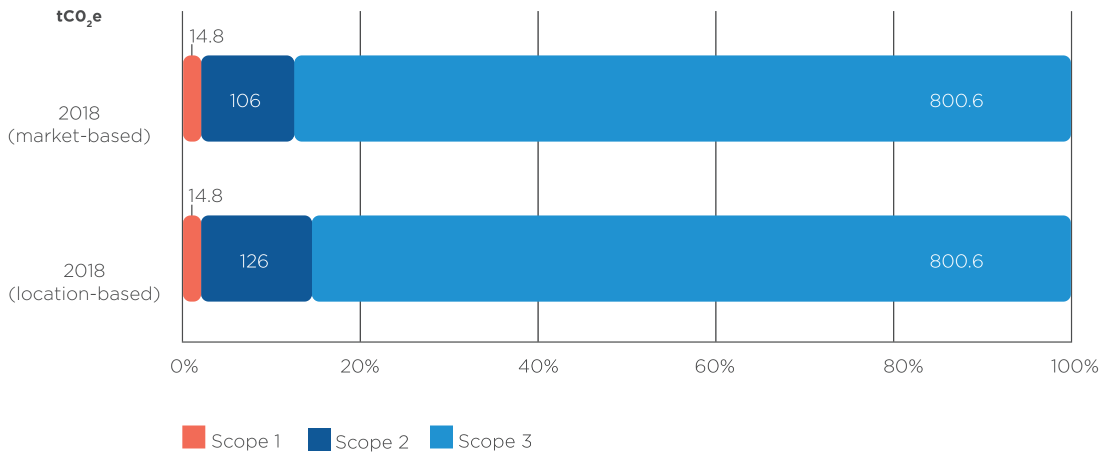
	Carbon tCO_2e	FTE	m^2	tCO_2e/ FTE	tCO_2e/ m^2
2018	**941.4**	**167**	**4,706**	**5.64**	**0.20**
2017 restated	928.5	114	4,706	8.14	0.20

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.

Key figures

For the reporting year 2018 IP Group has emitted 941.4 tCO_2e (carbon dioxide equivalents). The large majority of these emissions are attributable to scope 3, as this includes business travel by air and is also the result of the increase in staffing levels following the integration of Touchstone. Over the course of 2018 business travel has increased as a result of the opening of operations in Australia and scaling up of operations in Greater China.



Board approval

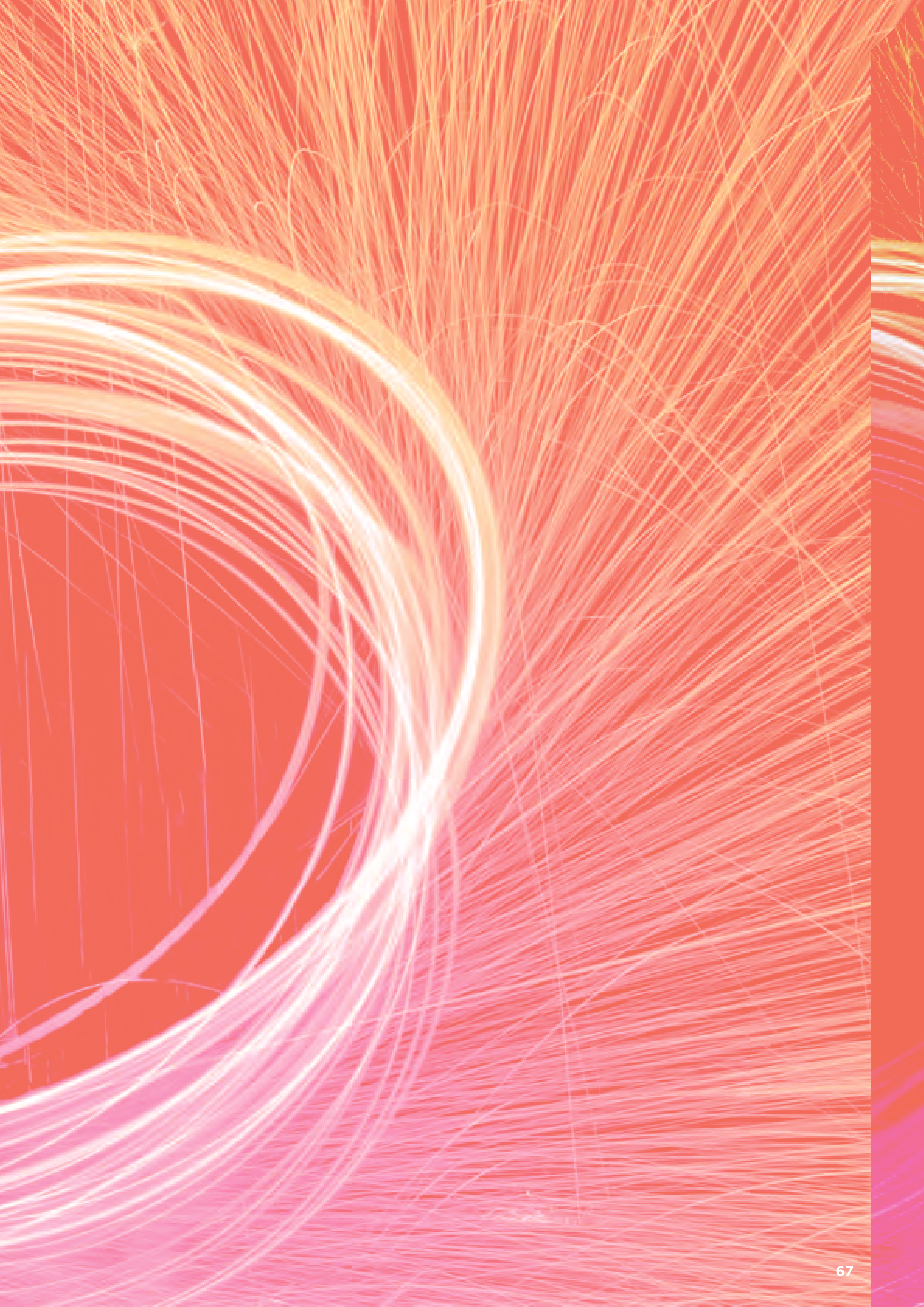
The Strategic Report as set out on pages 8 to 65 has been approved by the Board.

ON BEHALF OF THE BOARD

SIR DOUGLAS FLINT

25 March 2019

Our Governance



BOARD OF DIRECTORS

Sir Douglas Flint Non-executive Chairman

Effective date of current letter of appointment: Appointed as a Non-executive Director from 17 September 2018 and as Chairman from 1 November 2018
Age: 63
Independent: N/A[1]
Tenure: Less than 1 year
Term of office: 3 years, 3 months' notice
Re-election to Board: Annually at AGM
Experience: Formerly Group Chairman of HSBC for 7 years, HSBC's Group Finance Director for 15 years, Non-executive Director of BP plc for 6 years.
Current external appointments:[2] Chairman of Standard Life Aberdeen plc, Chairman of the Just Finance Foundation, Director of the Centre for Policy Studies, sits on the Global Advisory Council of Motive Partners, Chairman of the Corporate Board of Cancer Research UK, a Trustee of the Royal Marsden Cancer Charity and Special Envoy to China's Belt and Road Initiative.
Committee memberships: Nomination (chair) and Remuneration

Alan Aubrey Chief Executive Officer

Effective date of current service agreement: 20 January 2005
Age: 57
Independent: No
Tenure: 14 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 of Proactis Holdings plc
Committee memberships: None

Mike Townend Chief Investment Officer

Effective date of current service agreement: 5 March 2007
Age: 56
Independent: No
Tenure: 12 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: None

Greg Smith Chief Financial Officer

Effective date of current service agreement: 2 June 2011
Age: 40
Independent: No
Tenure: 7 years
Term of office: Permanent, 6 months' notice
Re-election to Board: Annually at AGM
Experience: KPMG background, ICAEW Fellow
Current external appointments:[2] None
Committee memberships: None

1 Sir Douglas Flint was considered by the Board to be independent on appointment.
2 Excludes appointments to Group portfolio company boards.

David Baynes Chief Operating Officer

Effective date of current service agreement: 20 March 2014
Age: 55
Independent: No
Tenure: 5 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:* None
Committee memberships: None

Professor David Begg Senior Independent Director

Effective date of current letter of appointment: 18 October 2017
Age: 68
Independent: Yes
Tenure: 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 adviser to the Bank of England.
Current external appointments: None
Committee memberships: Nomination, Audit and Remuneration

Jonathan Brooks Non-executive Director

Effective date of current letter of appointment: 31 August 2011
Age: 63
Independent: Yes
Tenure: 7 years
Term of office: 3 years, 3 months' notice
Re-election to Board: Annually at AGM
Experience: Formerly CFO of ARM Holdings plc, 20+ years' technology sector experience, FCMA
Current external appointments: NCC Group plc
Committee memberships: Nomination, Audit (chair) and Remuneration (chair)

Dr Elaine Sullivan Non-executive Director

Effective date of current letter of appointment: 30 July 2015
Age: 58
Independent: Yes
Tenure: 3 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

Mr Heejae Chae Non-executive Director

Effective date of current letter of appointment 3 May 2018
Age: 50
Independent: Yes
Tenure: Less than 1 year
Term of office: 3 years, 3 months' notice
Re-election to Board: Annually at AGM
Experience: Current CEO of Scapa Group plc, Former Group Chief Executive of Volex Group plc and Group General Manager for Amphenol Corporation.
Current external appointments: CEO of Scapa Group plc, Board of Overseers at Boston Children's Hospital and an Advisory Council Member at Columbia University
Committee memberships: Nomination, Audit and Remuneration

CORPORATE GOVERNANCE STATEMENT

"The Board continues to focus on achieving the highest standards of corporate governance and accountability alongside promoting a culture of risk identification, reporting and mitigation."

Sir Douglas Flint
Chairman

2018 has been a year of consolidation for the Group with the integration of the IP Group and Touchstone businesses following the combination of the two companies, along with a number of changes to the Board.

The Board continues to focus on achieving the highest standards of corporate governance and accountability alongside promoting a culture of risk identification, reporting and mitigation. The Board remains committed to the execution of the Group's strategy and working with its partner institutions and co-investors 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 May 2019 or indeed at any other point during the year.

Sir Douglas Flint
Chairman

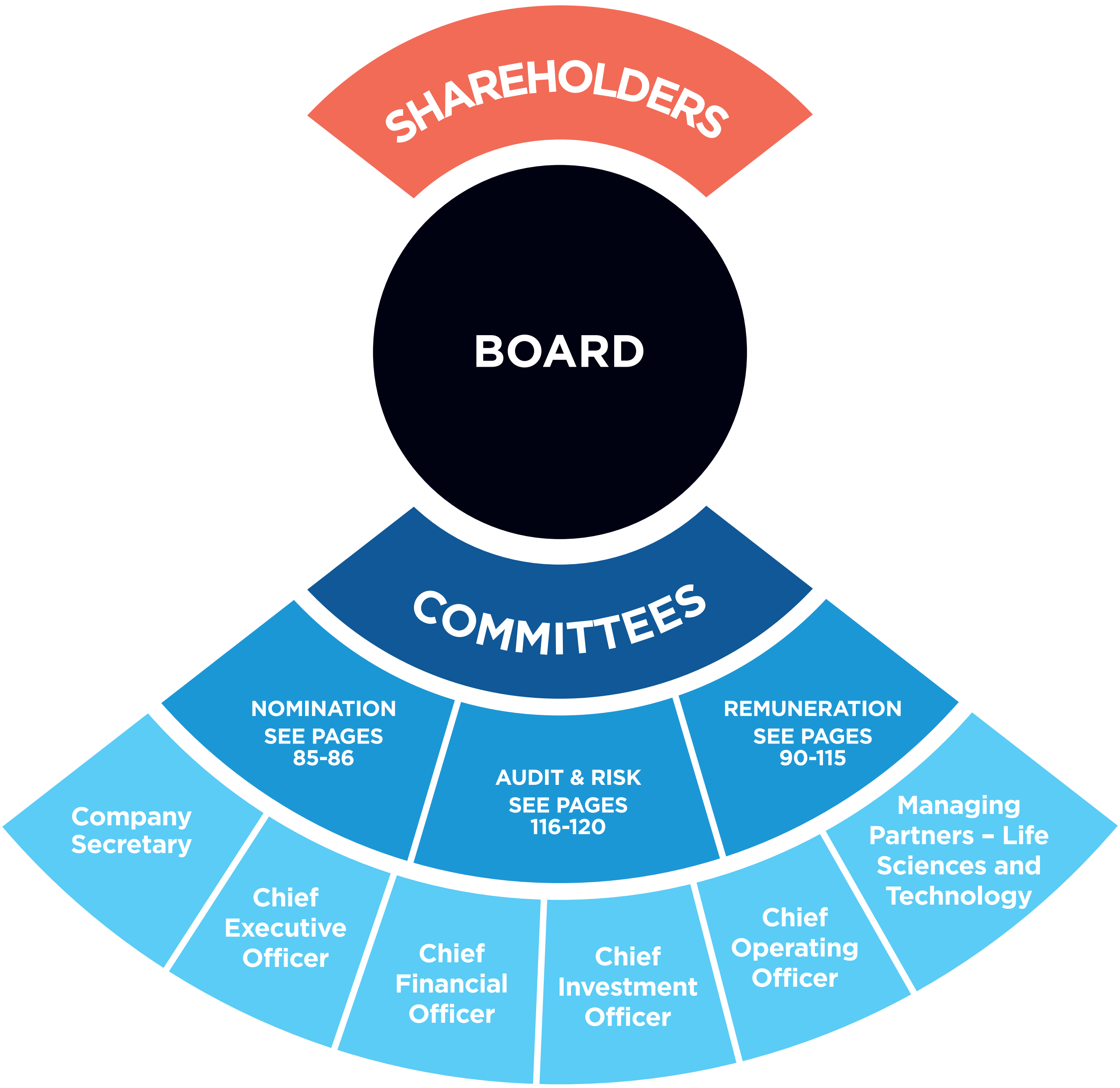
Compliance with the UK Corporate Governance Code

The Directors are committed to a high standard of corporate governance and to compliance with the best practice set out in the UK Corporate Governance Code (the "Code"). The 2016 version of the Code is applicable to the Group's 2018 reporting period. The Directors consider that the Group has been and continues to be in compliance with all of the provisions set out in that version of 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.

In July 2018, the Financial Reporting Council published the 2018 UK Corporate Governance Code (the "2018 Code") and the accompanying Guidance on Board Effectiveness. The 2018 Code emphasises the importance of demonstrating, through reporting, how the governance of a company contributes to its long-term sustainable success and focuses on building strong, transparent relationships with key stakeholders. The strength of the Group's existing corporate governance framework means it is well placed for the implementation of the new Code. The Board and its Committees have already reviewed their activities, spent time assessing the implications for the Group, identified a number of actions required to be taken in order to comply with the 2018 Code and commenced implementing such actions, all of which will be reported on in the Group's 2019 Annual Report.

Governance Framework



CORPORATE GOVERNANCE STATEMENT
CONTINUED

Governance Framework

CHAIRMAN
Key Responsibilities

Sir Douglas Flint 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 and its overall effectiveness in directing the Group, the conduct of the Group's affairs and strategy and for ensuring effective engagement 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 have a clear understanding of the views of shareholders, while fostering a constructive relationship between the Executive 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.

SENIOR INDEPENDENT DIRECTOR
Key Responsibilities

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 provides a sounding board for the Chairman and 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 consider the appointment of a new Chairman. Further, the Senior Independent Director will lead the Board in their deliberations on any matters on which the Chairman is conflicted.

AUDIT & RISK COMMITTEE
Key Responsibilities

- Oversees financial reporting
- Internal control systems
- Risk management systems
- Internal and external audit functions

NOMINATION COMMITTEE
Key Responsibilities

- Evaluates the Board of Directors
- Leads the process for appointments to the Board
- Succession planning for the Board and senior management
- Oversees the implementation of the Group's diversity and inclusion policy

REMUNERATION COMMITTEE
Key Responsibilities

- Determines the policy for Executive Director remuneration
- Designs and sets the remuneration for the Chairman, Executive Directors and senior management
- Reviews workforce remuneration and related policies to ensure they operate to attract and retain the best talent

EXECUTIVE DIRECTORS

Apart from those matters reserved for the Board (see page 76), day-to-day decisions are delegated to the Executive Directors who, in turn, have delegated responsibility relating to portfolio investment and realisation, to the Managing Partner, Life Sciences and Managing Partner, Technology (see below).

CHIEF EXECUTIVE OFFICER

Key Responsibilities

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 proposing, developing and implementing 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 investment partnerships and territories, monitoring business performance against key performance indicators (KPIs) and reporting on these to the Board. He also provides the appropriate environment to recruit, engage, retain and develop the high quality personnel needed to deliver the Group's strategy.

CHIEF FINANCIAL OFFICER

Key Responsibilities

The Chief Financial Officer is responsible for managing the Group's finances through financial planning, reporting, management of financial risks and the overall Group's risk framework and oversees the Group's investor relations, HR, legal, IT and communications functions.

CHIEF OPERATING OFFICER

Key Responsibilities

The Chief Operating Officer ensures the operational controls for the business are effective, thereby enabling the Group to grow and achieve its strategic objectives.

CHIEF INVESTMENT OFFICER

Key Responsibilities

The Chief Investment Officer leads both the capital markets function of the Group, which is primarily responsible for raising funds into the Group and its portfolio, and the Group's FCA-authorised businesses, IP Capital and Parkwalk Advisors.

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 subcommittees of the Life Sciences and Technology Partnerships, as well as to the US and Australasia teams.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Board

Role and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group. It seeks 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 defines, challenges and interrogates the Group's strategic aims and direction, as well as providing entrepreneurial leadership within a framework of controls for assessing and managing risk.

The Board recognises that, in discharging its responsibilities, 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; planning for Board and senior management succession; 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 purpose, values and culture. In all of this, the Board's role in setting and maintaining the Group's culture is of key importance, as further described on page 62.

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 Group's business and its portfolio 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 mentoring and development of portfolio company management teams and the facilitation of portfolio company board strategy days. The Directors believe that the Group's approach to supporting its portfolio companies 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 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, universities and other research institutions, co-investors, regulators, the European Investment Fund, the European Investment Bank, the community and the environment. In addition, the Directors are responsible for ensuring that obligations to shareholders and other stakeholders are understood and met; and that there is a satisfactory and regular dialogue with them. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-executive Directors. The Non-executive Directors are responsible for constructively challenging and contributing to proposals on strategy, scrutinising the performance of management and determining levels of remuneration. 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 44 to 47 and on pages 116 to 120.

The Board reviews the purpose and 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 and Managing Partners, 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 with delegation to the Managing Partners, as appropriate.

Read about our Strategy on page 18

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. 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. A summary of the schedule is set out in the box in the table on page 76 and the full schedule can be found within the Corporate Governance section of the Group's website at www.ipgroupplc.com. This schedule, which was adopted by the Board in August 2014, was reviewed in early 2018 as part of the integration of the Touchstone business. The review gave particular attention to the effect of the increased size of the combined Group on delegated investment authorities to the Life Sciences and Technology Partnerships, headed by their respective Managing Partners, as well as to the US and Australasia.

Committees and Oversight

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

The three principal Board Committees (Audit 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 2017, are fully compliant with the provisions of the current 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 in 2018.

A review of the terms of reference of the Remuneration Committee in 2018 concluded that, while compliant with the provisions of the current Code, certain amendments were desirable to reflect current best and market practice and to ensure compliance with the 2018 Code. The terms of reference for the Remuneration Committee were updated, recommended for approval and adopted by the Board in February 2019.

The terms of reference for the Nomination Committee were adopted by the Board in May 2016. No further updates were made during 2018. It is intended that the terms of reference for the Nomination Committee will be further reviewed in early 2019 in the light of the 2018 Code.

Each Committee will continue to review its own terms of reference at least annually and propose any updates where necessary and/or appropriate so as to reflect current best practice.

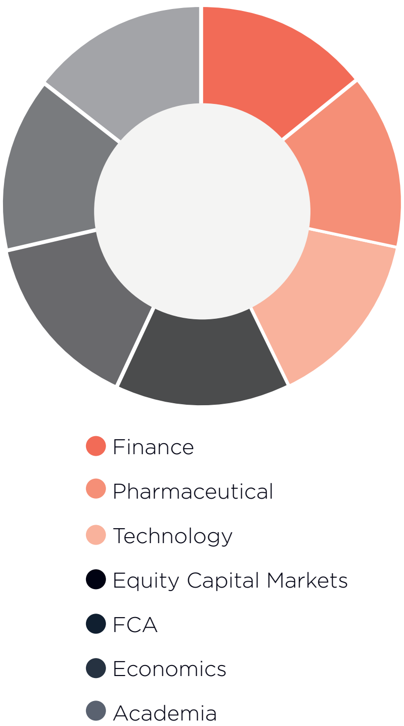
CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 over a three year period 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 subsequent changes. • Approval of terms of reference and membership of Board committees. • Approval, subject to shareholder consent, of the appointment and remuneration of the external auditor. • 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

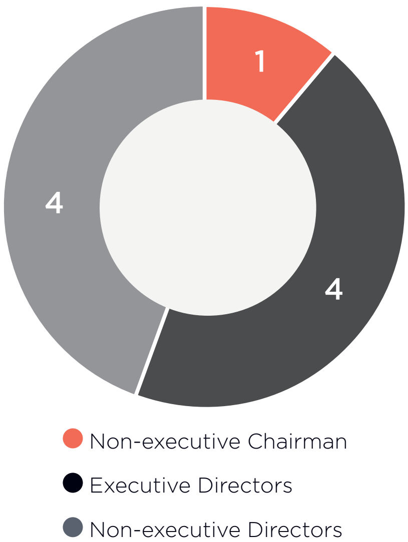
The Disclosure Committee continues to assist the Group to make timely and accurate disclosure of all information that is required to be disclosed to meet its legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange. It also enables the Group to meet its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

Board size and composition

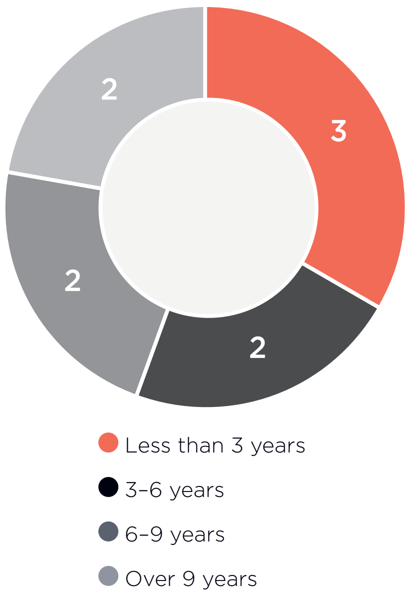
Board experience:



Executive/Non-executive split:



Board tenure:



Read our Board biographies on pages 68 and 69

As at 31 December 2018 and following the retirement of Mike Humphrey and Professor Lynn Gladden 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 68 and 69.

2018 saw four changes to the Board: Mike Humphrey retired from the Board with effect from close of business on 31 October 2018 after a lengthy period of distinguished service as Non-executive Director, Senior Independent Director and Chairman. Sir Douglas Flint was appointed as Non-executive Director of the Group on 17 September 2018 and subsequently as Non-executive Chairman on 1 November 2018.

Heejae Chae was appointed as a Non-executive Director of the Group on 4 May 2018.

Professor Lynn Gladden also stepped down from the Board with effect from 30 September 2018 after four years of service to the Group in order to avoid any potential conflict of interests following her appointment as Executive Chair of the Engineering and Physical Sciences Research Council (EPSRC).

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, Sir Douglas Flint and Heejae Chae will submit themselves for election by shareholders at the Group's Annual General Meeting to be held on 28 May 2019. In accordance with both the Code and the Group's policy, all of the other Directors will also submit themselves for re-election by shareholders at that Annual General Meeting.

The Board unanimously recommends to shareholders the appointment of Sir Douglas Flint and Heejae Chae as Directors of the Company: Sir Douglas Flint brings a wealth of highly relevant experience from his time at HSBC Holdings plc and his other Non-executive Director positions. Furthermore, Sir Douglas's experience and knowledge of doing business in China and his valuable contacts in the region are highly synergistic with the Group's future plans in relation to Hong Kong and China. Heejae Chae brings to the Board considerable experience both from the perspective of a CEO of a growing business and prior experience in finance, having spent the early part of his career at The Blackstone Group and Credit Suisse First Boston. The Board is satisfied that, having considered the other demands on their time, Sir Douglas and Mr Chae have sufficient time to devote to their respective roles and to be effective members of the Board and the various Board Committees on which they sit.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Board also unanimously recommends to shareholders the reappointment of all of the other Directors 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.

Board observers

Dr Sam Williams and Mark Reilly, the Group's Managing Partners of Life Sciences and Technology respectively, have been attending the Group's Board meetings as observers since February 2018. The Board extended the invite to these individuals as they are 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. The Board therefore considers it is 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 manage. The Board welcomes the additional diversity of viewpoints that is offered by such individuals, their contribution to the quality of the debate on key issues affecting the Group and its portfolio and the increased engagement with employees and portfolio company investors afforded by their attendance.

The attendance of observers is at all times at the Chairman's discretion and they are required to disclose and manage any conflicts of interest (which may require the relevant observer to be excluded from all or part of future Board meetings). The observers are able to speak and participate in the discussions of the Board, but not vote on any decisions required by the Board.

Company Secretary

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 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 and Non-executive Directors and in ensuring that 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 to enable them to comply with their duties and effectively carry out their roles.

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 based upon merit measured against objective criteria. In addition, the Board agrees that diversity (including gender, ethnic and cultural diversity) along with inclusion remain key aspects 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 most recent Hampton-Alexander Review issued in November 2018. While the Group endorses Lord Davies' recommendations and the target of 33% women in FTSE 350 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 new appointments. Notwithstanding this, following the resignation of Professor Lynn Gladden from the Board during the year, the Company currently has only one female Director on its Board. The Nomination Committee, while it will always consider a balanced list of the best candidates, will focus on increasing female representation on the Board through its next appointment, anticipated to occur through 2019. The terms of reference of the Nomination Committee include a requirement that it considers diversity including, but not limited to, gender, nationality and ethnicity 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 acknowledged the recommendation that each FTSE 250 board should have a director of colour by 2024. The Company currently complies with such recommendation. 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.

The Group's commitment to diversity and inclusion 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, while, 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 former Chairman signed up to the 30% Club in January 2018. As a result, they committed to setting an aspirational target of 30% female representation in the Group's leadership team by 2020. In order to make meaningful progress towards this aspirational target through 2018, the Group set up a working group whose mandate is to examine ways in which it may be achieved and to thereafter lead action on those initiatives decided upon.

The working group meets once a month with CEO Alan Aubrey as the accountable Executive Director. It has already taken a number of actions and has additional proposed initiatives in the pipeline for 2019 as further detailed on page 61.

A breakdown of the Group's people by gender as at 31 December 2018 can be found on page 61.

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 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 in 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 2019 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 Board considered and approved Sir Douglas Flint's role as Non-Executive Director and Chairman Designate of Standard Life Aberdeen plc which took effect from 1 November 2018.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 six scheduled Board meetings in 2018 with seven Board meetings scheduled for 2019 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 Managing Partners for Life Sciences and Technology attend the Board meetings as observers and present to the Board on their respective portfolios to enable the Board to review the progress, performance and objectives (for the next twelve to 18 months) of each sector. Through 2018, the Board also received presentations on the Group's strategy in China, an update from the Parkwalk team on the performance and strategy of Parkwalk (the Group's EIS fund management subsidiary that operates on an autonomous basis from the rest of the Group) and an update from the US team.

The majority of Board meetings are held at the Group's offices in London. To encourage further interaction with the Group's stakeholders, the Board also aims to have at least one of its scheduled meetings, or its annual strategy day(s), at either one of the Group's partner universities or at a location where there is one of the Group's significant portfolio companies or a concentration of its portfolio companies. 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 six scheduled Board meetings in 2018, the Board held a one-day strategy meeting in December 2018, following Sir Douglas Flint's appointment as Chairman. The strategy day provided an opportunity for all Directors, and particularly the Non-executive Directors to reflect on the operation of the combined Group following the combination with Touchstone; to discuss in detail the current strategy of the combined Group and whether it is on course or whether action or changes are required in the short to medium term to bring the Group to a more sustainable position; 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 these risks.

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 are expected to attend each meeting. Board and Committee 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 from those in attendance. Such scheduling also seeks to enable more in-depth engagement between the Non-executive Directors and the Executive Directors and Managing Partners and other staff of the Group outside of the formally scheduled meetings, primarily through the medium of Board and Observer dinners and social drinks with staff around the Board meetings. Accordingly, through 2018, the Board (including both Executive and Non-executive Directors and the Managing Partners) met for two dinners and the Non-executive Directors also met with the Group's employees in July 2018 and again in December 2018 following Sir Douglas Flint's appointment. In addition, 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.

The Chairman, Chief Executive Officer, Chief Financial Officer, Company Secretary and Managing Partners of the Life Sciences and Technology Partnerships 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, the Managing Partners of the Life Sciences and Technology sectors and, by invitation, other members of senior management. 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]	● ● ● ● ●	● ● ● ●	● ● ● ●	–
Sir Douglas Flint[2, 7]	● ●	●	●	●
Alan Aubrey[3]	● ● ● ● ● ●	–	–	–
Mike Townend[3]	● ● ● ● ● ●	–	–	–
Greg Smith	● ● ● ● ● ●	–	–	–
David Baynes	● ● ● ● ● ●	–	–	–
Jonathan Brooks	● ● ● ● ● ●	● ● ● ● ●	● ● ● ● ●	● ● ●
Prof. Lynn Gladden[4]	● ● ● ●	● ● ● ●	● ● ● ●	● ●
Dr Elaine Sullivan	● ● ● ● ● ●	● ● ● ● ●	● ● ● ● ●	● ● ●
Prof. David Begg[5]	● ● ● ● ● ●	● ● ● ● ○	● ● ● ● ●	● ● ●
Heejae Chae[6]	● ● ● ●	● ● ●	● ●	● ●

1 Mike Humphrey did not attend the December 2018 Board meeting as this occurred following his retirement. Mike Humphrey attended the Audit and Risk Committee as an observer.

2 Appointed to the Board on 17 September 2018.

3 Including one Board meeting attendance by telephone.

4 Resigned from the Board on 30 September 2018.

5 David Begg was unable to attend the Audit and Risk Committee on 16 March 2018 as he had a prior binding commitment which had been booked in advance of his appointment to the Board in October 2017.

6 Appointed to the Board on 3 May 2018.

7 Attended the Audit and Risk Committee as on observer only.

● Attended

○ Did not attend

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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.

The Board's policy permits personal investments by the Executive Directors in the Group's portfolio companies but this is strictly controlled by the Group's internal policy 'Holdings in IP Group portfolio companies by directors and staff'. Amongst other restrictions, the policy includes maximum levels of investment by directors and staff in portfolio company financing rounds. Furthermore, the Board's conflict of interest policies detailed above ensure all interests of Executive Directors in portfolio companies are fully disclosed and regulate any potential conflicts that could arise.

Board support

There is 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 CA 2006. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

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 in advance and monitored throughout the process to ensure 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, strategic aims, risk management framework and remuneration policies; training on key legal matters relevant to the Group and its policies; site visits to 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 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, 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.

Induction programmes were completed in 2018 for both Heejae Chae and Sir Douglas Flint following their respective appointments to the Board. The induction programme covered:

- meetings with the Chief Financial Officer and Company Secretary to discuss the Group's corporate structure, risk management framework, an overview on the Group's remuneration schemes, policy and approach, the Group's share dealing code and the Group's compliance with the Market Abuse Regulation;
- meetings with the Group's sponsor, Numis Securities Limited, regarding the various obligations of the Listing Rules and Market Abuse Regulation;
- meetings with each of Numis Securities Limited and Berenberg in their capacity as the Group's joint brokers;
- meetings with KMPG, the Group's auditors to discuss the Group's accounts and audit process;
- meetings with the Managing Partners of the Life Sciences and Technology divisions to discuss their respective portfolios in detail;
- an update on the current developments in the corporate governance environment and the new Corporate Governance Code 2018 delivered by Pinsent Masons, the Group's external lawyers; and
- site visits to several key portfolio companies.

As Chairman, Sir Douglas had an extended induction programme which covered, in addition to the above:

- meetings with major institutional shareholders;
- one-to-one meetings with the Senior Independent Director and Jonathan Brooks as chair of the Audit and Remuneration Committees; and
- in addition to the managing partners, meetings with additional Group employees.

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 twelve months and to signpost expected developments going forwards. In addition, the Board is kept updated on key legislative changes affecting the Group and how the Group is ensuring its compliance.

The Chairman and Non-executive Directors are encouraged to continue to visit a number of the Group's portfolio companies and its partner universities, as well as to attend portfolio company events both at the Group's head office and off-site. Throughout 2019, it is anticipated that at least one of the Group's Board meetings or its strategy day(s) will be held off-site and that this will include an opportunity for the Non-executive Directors to meet with and hear presentations from management teams of local Group portfolio companies. 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 2019, it is intended that further presentations will be provided on a rolling basis by members of the Life Sciences and Technology Partnerships, the US team, the Australasian team and the China team, as well as on the Group's sourcing strategy in order to continue to update the Board on progress and to enhance the awareness of the Board as to how the Group operates on a day-to-day basis.

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 Board undertook an externally facilitated review in January/February 2016 for the year ended 31 December 2015. Three years later, during January 2019, the Company Secretary worked with PwC to conduct a limited scope, externally facilitated, evaluation of the Board and its Committees in respect of the year to 31 December 2018. PwC has no connection to the Group other than the provision of ad hoc advice to the Audit and Risk Committee and the undertaking of the Group's outsourced internal risk audit and review

The previous two externally facilitated Board effectiveness reviews, which have been undertaken by Deloitte LLP involved an in-depth questionnaire completed by all Directors and one to one interviews between the external facilitator and each of the Directors and the Company Secretary. Given the significant changes to the Board which took place during 2018, including, in particular, the appointment of Sir Douglas Flint, it was concluded that the external evaluation in January 2019 should be more limited in scope, with a more detailed in-depth external review to be scheduled later in 2019 or early 2020 when both Sir Douglas and Heejae Chae would be able to contribute more fully, based on their longer experience of the Board's meetings and processes.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The January 2019 review comprised the distribution by PwC of a tailored questionnaire to each of the Directors for them to complete, but without on this occasion the accompanying one-to-one meetings between the external facilitator and the Directors. 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 PwC and shared with the Board at its meeting in February 2019. Following a robust discussion, and in addition to the second, in-depth, review planned for later in 2019 or early 2020, certain actions were identified to be taken forward as follows:

- the Board, led by the Chair, is to fully consider and agree upon its objectives for the next twelve months as a Board which is newly operating together;
- the Nomination Committee is to undertake a review of the current Board composition and identify whether (i) any changes should be made to its size and balance in order to provide greater effectiveness; (ii) the extent to which it would benefit from greater diversity including, but not limited to, gender and with a focus on increasing female representation on the Board in the first instance given the current status; and (iii) any priorities from a Board succession planning perspective; and to thereafter work to put together a plan with input from the Head of HR, the Company Secretary and the Executive Directors and Managing Partners (as appropriate) to achieve any desired changes which should be linked to the succession plan for the Board and senior management;
- in addition to the above, further work is to be undertaken by the Nomination Committee and the Board as a whole to review the Group's succession plan for senior management to ensure that programmes are in place to enable individuals from diverse backgrounds and across both genders to move through to senior management positions in the future; and
- the Company Secretary is to work with the Chairman to identify any specific training needs of the Board and its individual members over the next twelve months and to facilitate sessions around Board meetings and/or facilitate access to external training sessions, as appropriate.

Finally, the Board considered the implementation of some of the findings of the 2017/2018 review and noted the following:

- the improved quality and detail of the reporting on the Life Sciences and Technology portfolio companies within each of the separate Life Sciences and Technology Partnership reports provided as part of the Board papers;
- the enhancement in the holding to account of the Managing Partners of each of the Life Sciences and Technology Partnership, enabled by the attendance of both Managing Partners at Board meetings and the presentation by each at such Board meetings on the material developments within each their respective portfolios, performance against budget and their respective Partnership strategy; and
- the enhanced exposure to the heads of the other significant business units within the Group through interactive presentations throughout the year at Board meetings.

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

The performance of each of the Non-executive Directors 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 those reviews, the performance of the Executive Directors is reviewed by the Board on an ongoing basis.

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 revisit this in light of the implementation of the 2018 Code.

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 81.

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 90 to 115 and pages 116 to 120 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 Sir Douglas Flint. Its other members, as at 31 December 2018, were Jonathan Brooks, Professor David Begg, Heejae Chae 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, Mike Humphrey did not chair any meetings of the Committee dealing with the appointment of Sir Douglas Flint as his successor.

The Nomination Committee meets as and when required, or as requested by the Board, and had three scheduled meetings and three ad hoc meetings or calls during 2018. During the year, the Nomination Committee recommended to the Board the appointment of Sir Douglas Flint as a Non-executive Director and Non-executive Chairman and the appointment of Heejae Chae as a Non-executive Director. The attendance by each member of the Committee at the meetings during 2018 is set out on page 81.

The search process for an additional Non-executive Director was first commenced in 2016 but was put on hold during 2017 pending the completion of the combination with Touchstone Innovations. The search recommenced in early 2018 and following a shortlist of candidates and one-on-one interviews with the Chairman and Directors, Heejae Chae was duly appointed in May 2018.

Following Mike Humphrey's indication in May 2018 that he wished to retire from the Board for personal reasons, the Nomination Committee initiated a search process to find a replacement Chair. Ahead of commencing the search and in order to enable the job specification to be framed accurately, Stuart Thompson, Director of IP Exec, the Group's in-house executive search function, conducted a skills analysis on the Board's composition in order to identify what skills, experience and attributes would be required for a new Chair. This analysis considered in detail the current balance, skills, knowledge, diversity and experience of the Board, as well as the future challenges facing the business. Mr Thompson also conducted one-to-one interviews with each of the Directors (both Executive and Non-executive) in order to determine their views on the composition of the Board.

The conclusions of Mr Thompson's analysis were reviewed by the Nomination Committee, following which a detailed job specification was prepared. Mr Thompson worked with Professor David Begg, the Senior Independent Director, to identify an independent search firm to conduct a thorough review of candidates in the market. External search firm Spencer Stuart was appointed and it produced a shortlist of candidates. Spencer Stuart is an international executive search consultancy firm and has no other connection with the Group. Interviews were then conducted by the Non-executive Directors and, following meetings with the Chief Executive Officer and other Executive Directors, the Nomination Committee recommended the appointment of Sir Douglas Flint to the Board. The Board approved such appointment, with Sir Douglas being appointed as Non-executive Director and chairman elect on 17 September 2018 before taking on the role of Non-executive Chair on 1 November 2018 upon Mike Humphrey's retirement.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

Following Sir Douglas's appointment, and under his guidance, the previously conducted Board analysis was updated with Sir Douglas's knowledge and experience so that it could be used to define the profile of a new Non-executive Director to replace Professor Lynn Gladden. Following the approach adopted by the Board in appointing previous Non-executive Directors, Mr Thompson was appointed to run the search and recruitment process on behalf of the Nomination Committee so as to capitalise on the in-depth skill, knowledge and experience of IP Exec in recruiting Non-executive Directors with expertise relevant to the Group's business. The analysis performed by the Nomination Committee enabled Mr Thompson to draft a specification and to thereafter compile a diverse list of candidates from his extensive executive search network. This list is currently being considered by the Nomination Committee.

In addition to an additional Non-executive Director to replace Professor Gladden on the Board, it is anticipated that the Board composition will be reviewed once more during 2019 and that an additional Non-executive Director role will be identified with the necessary qualifications and experience to be a future candidate for the chair of the Audit Committee.

In making future appointments to the Board, the Committee will continue to adopt a formal, rigorous and transparent procedure. It will give full consideration to the balance, skills, knowledge, independence and diversity (including gender, ethnicity and personal attributes) on the Board, as well as the future challenges facing the business. In addition, the Committee will always assess whether identified candidates have enough time available to devote to the role and meet what is expected of them effectively.

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. At the same time, developing internal talent at all levels within the Group remains a continuous process. The Nomination Committee is responsible for ensuring 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 2018, the Group's Head of HR continued to work with the Nomination Committee to further advance the Group's approach to succession planning and update the formalised plan to reflect the Board and senior management structure of the combined Group following the Touchstone Innovations combination.

In addition, the Nomination Committee, together with the Group's Head of HR, is responsible for developing and monitoring the Group's own internal talent pipeline. While it is the opinion of the Nomination Committee that adequate 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 such talent management systems and procedures for employees during 2019, with support from the Group's Head of HR and her team, along with the members of the 30% Club working group.

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 2018, were reviewed by the Board and were considered to be effective throughout the year ended 31 December 2018.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group. However, it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date of approval of these financial statements, 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 Audit and Risk Committee. The Board considers that the controls have been effective for the year ended 31 December 2018.

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 each year a formal presentation and update from the Group's Managing Director, New Business and Partnerships Team, alongside regular reporting within 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 Managing Partners attend Board meetings as observers and present updates on their respective portfolios during each Board meeting.

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 44 to 55. If more than one of the risks occurred together, the overall impact on the Group may be compounded.

Information and financial reporting systems

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

Relations with stakeholders

Successful relationships with stakeholders are key to the long-term success of the Group. Stakeholder engagement enables the Board to be aware of key issues that matter most to stakeholders which in turn allows the Board to understand and consider these issues in its decision-making process. The Group considers that the following are its key stakeholders:

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, Chief Operating Officer and the Chief Executive Officer. In addition, 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 particular, major institutional shareholders were consulted in advance of the appointment of Sir Douglas Flint as Chairman and were invited to express their views prior to such appointment. The decision to appoint Sir Douglas was finalised following the support received from the Company's major shareholders. Furthermore, the Executive Directors have a number of more general update meetings with the Group's major institutional shareholders throughout the year, to discuss both the Group and also any significant co-invest portfolio companies. As part of his induction process, Sir Douglas Flint met certain of the Group's major institutional shareholders. These meetings gave the opportunity for the new Chairman to understand such shareholders' views and interests.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Company uses the Annual General Meeting ("AGM") as an opportunity to communicate more generally with its shareholders. Notice of the AGM, which will be held at 11.30am on 28 May 2019 at IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF is included with this report, containing details of the resolutions to be proposed at the meeting and explanatory notes on those resolutions. 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 relationships and other strategic collaborations; and details of all recent Group and portfolio announcements.

Employees

The Group recognises that attracting and maintaining the best people is fundamental to its success and aims to create a collaborative environment for its employees to work. As part of this, it is critical that the Group's workforce is fully engaged with the business.

Employees are kept informed of the Group's performance and strategy through various forums. The Group holds regular All-Staff Meetings throughout the year: at least two of these are face-to-face meetings at which staff from all of the Group's offices in the UK are encouraged to attend in person; a further four meetings are held in the Group's offices in London with staff either attending in person or dialling in via video conference. The All-Staff Meetings are also available to the Group's colleagues in its overseas offices via video conference. Each meeting is recorded and uploaded onto the Group's intranet.

One of the Group's All-Staff Meetings each year forms part of the Group's annual Off-site, a two day event which all colleagues across the Group, both in the UK and overseas, are encouraged to attend. The Group's 2018 Off-site focused on connection knowledge. During the Off-site, employees presented to their colleagues; sharing stories, experiences and knowledge in a series of TED-style talks on a range of topics. Alongside the talks, employees received presentations from the Board on the Group's strategic, financial and operational updates. Employees also had the opportunity to submit questions on an anonymous basis to the Group's Executive Directors and Managing Partners, which were answered in a Q&A panel format.

Following the integration process with Touchstone Innovations, the Group considered that it was particularly important to actively engage with, and seek feedback from, the employees of the newly integrated Group. An anonymous staff survey was distributed to employees in November 2018 to enable them to share thoughts on their experience of working within the Group and to provide ideas for how the Group can improve its employees' experiences at work. The results of the survey were presented during the All-Staff Meeting in December and the Group's Head of HR is currently analysing the results with a view to proposing a plan of follow-up actions for implementation during 2019 and beyond in order to enhance the working life of employees within the Group and more effectively engage and communicate with employees.

Given that the Group has international operations, as well as a number of its employees working remotely through the UK, a regular internal newsletter was introduced in 2018 to formalise how the Group distributes key information. The newsletter contains a message from the CEO, along with an operational update, highlights from the Group's portfolio and details of upcoming events, HR and other key updates. Furthermore, the Group's employees are able to raise any matters of concern under the Group's Speaking Up Policy, a copy of which is available on the Group's intranet.

Universities and other research institutions

The Group has relationships with 14 universities in the UK, six universities in the US, three Department of Energy laboratories in the US and nine Universities in Australasia. IP Group's specialist investment teams in each of its territories work closely with these universities and laboratories to identify promising research and to create and build businesses around this research. In addition, in the UK, the Group has a "New Business & Partnerships" team which focuses specifically on building, developing and maintaining university relationships in the UK and working alongside technology transfer teams and academics to help develop and shape ideas into businesses. This team conducts regular relationship review meetings with the Group's university partners in the UK. In Australasia, the Chairman and executive management team have recently conducted an annual relationship review with each of its partner universities. In the US, the Managing Director, alongside senior investment team members and other senior employees conduct regular review and relationship meetings with each of the universities and DOE laboratories with which they have a relationship.

Co-investors

The Group regularly invests in portfolio companies alongside co-investors. By building and maintaining close relationships with its co-investors, this facilitates the Group's portfolio companies' access to capital, particularly at the earlier stages of its investment life cycle, which, in turn, provides them with an improved chance of success. Mike Townend, the Group's Chief Investment Officer, is committed to maintaining good relationships with co-investors. Mr Townend leads the IP Capital team, which undertakes fundraising mandates on behalf of the portfolio companies and has regular dialogue with a wide range of co-investors to achieve its objectives. In addition, members of the Group's executive management and investment teams sit alongside representatives from co-investors on portfolio company boards which enables regular and active engagement. Furthermore, the Group holds a number of investor events throughout the year at its head office to facilitate direct exposure of its co-investors to the portfolio companies and their management. Certain of the Group's co-investors are also major shareholders in the Company and so the Group engages directly with them in both capacities.

Portfolio Companies

The Group brings more than just investment to its portfolio companies; it helps to build businesses. The Group currently has board seats on 95% of its focus portfolio companies. Alongside being actively involved in portfolio companies via its directorships, the Group also offers business building expertise to its portfolio companies that can be tailored to suit individual requirements and is designed to support management teams. For example, IP Capital, the Group's specialist fund management and corporate advisory business, manages relationships with a diverse network of investors to support portfolio companies' access to capital; and IP Assist, the Group's in-house business support providers, helps companies to manage fundamental administrative tasks, particularly in the start-up phase of a company's life. The Group also helps to shape the development of a portfolio company's leadership capability by offering portfolio companies access to IP Exec, its in-house executive search function. The Group's high level of engagement with portfolio companies and approach to business building is one of the ways in which it differentiates itself from more traditional venture funds.

Other stakeholders

The Group keeps an open dialogue with regulators including the Financial Conduct Authority (in relation to its regulated subsidiaries Top Technology Ventures Limited and Parkwalk Advisors Ltd) and the Takeover Panel in relation to its quoted portfolio company holdings. The Group also ensures it is in regular dialogue with the European Investment Bank, with whom the Group has a £98.1m debt facility and the European Investment Fund, which is a partner in the Group's venture capital funds IP Venture Fund L.P. and IP Venture Fund II L.P.

Finally, the Group seeks to have a positive impact on the communities on which it operates. One of the ways in which the Group engages with the community is through its three-year partnership with Generating Genius, a charity set up to support talented young people from disadvantaged backgrounds to achieve their potential in science, technology, engineering and maths. Further details of this project can be found on page 63.

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 18 June 2018 and as at 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 18 June 2018 up to the conclusion of the 2019 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 2019 AGM, to be held on 28 May 2019, which the Group 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. A viability statement, as required by the Code, can be found on page 55.

ON BEHALF OF THE BOARD

Sir Douglas Flint
Chairman

25 March 2019

DIRECTORS' REMUNERATION REPORT

REMUNERATION STATEMENT

"Embedding our approach to remuneration to engage and motivate our people"

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 2018.

2018 Performance and incentive out-turns

The Group's Return on Hard NAV for 2018 was negative £75.6m, a significant reduction compared to the positive £64.1m return for 2017. The Group did however record its highest annual level of realisations to date, with £29.5m cash being realised from the portfolio. Given the significant weighting of the AIS outcomes to Return on Hard NAV, the quantitative targets indicated a bonus out-turn of 16.8% of maximum target, primarily as a result of cash realisations. The Committee members discussed the output of the quantitative targets and considered that this out-turn appropriately reflected the overall performance of the business for the period in question. The resulting AIS out-turn for 2018 for the Executive Directors was therefore determined as 16.8% of maximum opportunity.

Consistent with the Group's annual performance in 2018, the cumulative three-year return on the Group's Hard NAV did not meet the 8% per annum threshold target for the Group's 2016 LTIP awards scheduled to vest in March 2019. Further, while the actual absolute Total Shareholder Return ("TSR") performance period for the 2016 LTIP awards runs until 31 March 2019, 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 2016 LTIP awards will vest.

The Committee considers that these outcomes appropriately reflect the Committee's 'pay for performance' principles and the very stretching, objective incentive targets that are aligned with our shareholders.

We provide transparent disclosure of our annual bonus performance targets on both a retrospective and, where appropriate, prospective basis. Full details of the annual bonus targets for 2018 and forward-looking targets for 2019 are contained in this report.

Updated Remuneration Policy

We will be seeking approval for our Remuneration Policy at our 2019 AGM. The changes to our policy are predominantly to take into account the new corporate governance code, with the two primary changes being a reduction in the pension maximum to align with the wider workforce and the introduction of a post-cessation of employment shareholding policy. Given the limited changes to the substance of the policy, no formal consultation with our shareholders has been undertaken.

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 • The pension level is in line with the wider workforce
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 • Formulaic outcomes may be adjusted at the discretion of the Committee to reflect overall business or individual performance • Half of any bonus above a minimum amount deferred into equity over two-year period • AIS arrangements cascade to all employees in the business, with components based on team and/or individual objectives for non-Director employees
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 discretionary relative TSR underpin) • Formulaic outcomes may be adjusted at the discretion of the Committee to reflect overall business or individual performance • Includes a two-year post-vesting holding period • LTIP arrangements reserved for senior 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) • Post-employment shareholding policy introduced
Malus and clawback	• Comprehensive malus and clawback provisions on all variable elements

Executive Directors' base salaries for 2019

As described in the 2017 Directors' Remuneration Report, the salaries of the Executive Directors were increased using a phased approach over a number of 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 2018, 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. The Committee still intends to review the salaries of the Executive Directors after all of the organisational changes associated with the Group's acquisition of Touchstone have been established and now expects to complete this review during 2019.

The average increase in base salaries for employees in 2019 is 2.8%. The Committee has determined that the base pay increases for the Executive Directors, to be implemented in April 2019, will be lower than the average for the wider employee population as follows:

- The CEO's base salary will be increased by 2% to £423,500;
- The other Executive Directors' salaries will be increased by 2% to £280,500.

DIRECTORS' REMUNERATION REPORT
REMUNERATION STATEMENT CONTINUED

Executive Directors' AIS and LTIP opportunities

There will be no change to the maximum AIS or LTIP opportunities for 2019. For 2019, the Committee will base the AIS outcome for directors on (i) the return on Hard NAV, (ii) cash realisations from the portfolio and (iii) the level of net operating expenses. The Committee will again assess performance under the LTIP against growth in Hard NAV and TSR.

Committee Chairmanship

In last year's report, I described that the Nomination Committee had determined that Professor Lynn Gladden would assume the role of Chair with effect from the Group's 2018 AGM. As announced during 2018, Professor Gladden had to leave the Board to avoid any potential conflicts with her new role as Executive Chairman of the EPSRC and therefore I continued in this role. The Nomination Committee still intends to appoint a new Committee Chairperson in the short term.

Approval of the 2017 Remuneration Report in 2018

The 2017 Directors' Remuneration Report received 98.7% of votes cast in favour at our AGM in May 2018, which indicates a strong level of shareholder support for the application of the Group's remuneration principles. As always, the Group and its Board remain committed 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.

Structure of this report

The following pages contain our proposed updated Remuneration Policy, a summary of how we intend to implement the policy during 2019, and the detailed disclosure of outcomes in respect of 2018.

ON BEHALF OF THE BOARD

Jonathan Brooks
Chairman of the Remuneration Committee

25 March 2019

DIRECTORS' REMUNERATION REPORT
REMUNERATION POLICY

This report sets out the Company's policy on the remuneration of its executive and non-executive directors (the "Policy") which will become effective, for a period of up to three years, subject to approval by shareholders at our AGM on 28 May 2019.

As described in the Remuneration Statement, our Policy has been updated by the Committee with input from Deloitte LLP, primarily to reflect the required changes as a result of the introduction of the new UK Corporate Governance Code and other recent developments in market practice. Given the limited changes to the substance of the Policy, no formal consultation with our shareholders was undertaken.

In updating the Policy, the Committee has continued to apply its principles supporting the overriding strategic objective of the Group to provide capital to and help to build world-changing businesses based on academic research. The success of the Group over time will primarily be a function of three key variables – the amount of capital provided to the portfolio, the return per annum achieved on that capital and the period over which it is invested. To achieve this objective, the Committee continues to believe that the Group requires a remuneration structure that has incentive levers covering both the short term (one to three years) and the longer term (three to five years) and, for all employees other than the Group's executive directors, incentives directly aligned with those specific assets potentially over an even longer term (five to ten-plus years). The first two levers remain the most relevant for the Group's executive directors and therefore continue to be used as the variable elements of the Policy.

Changes to the remuneration policy

The key changes to the previous policy are:

- Inclusion of a policy on post-employment shareholding
- Reduction in maximum level of pension for executive directors to 10% of salary, in line with that of the wider workforce. The maximum level of pension in the previous policy approved in 2016 was 15%
- Increased scope for operating discretion under the AIS and LTIP
- Inclusion of dividend equivalents in awards under the Deferred Bonus Share Plan and LTIP
- Reduction of LTIP vesting at threshold from 30% to 25%

Remuneration Policy table

The table overleaf sets out the key components of the Policy for Executive Directors' remuneration.

DIRECTORS' REMUNERATION REPORT
REMUNERATION POLICY CONTINUED

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Salary	To provide an appropriate level of fixed cash income to attract and retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy.	Generally reviewed annually with increases currently effective from 1 April. Base salaries will be set by the Committee taking into account a range of factors, including but not limited to: • scale, scope and responsibility of the role; • skills and experience of the individual; • retention risk; • pay and conditions across the Company; • base salary of individuals undertaking similar roles in companies of comparable size and complexity; • performance of the individual and IP Group; • impact of salary increases on total remuneration of the package; and • appropriate market benchmarks.	There is no prescribed maximum annual salary. Annual salary increases for executive directors will not normally exceed the average increase awarded to other UK-based employees. Increases may be above this level in circumstances where the Committee considers it appropriate, for example if there is an increase in the scale, scope or responsibility of the role or to allow the base salary of recently appointed executives who are appointed on initially lower levels of base salary to move towards market norms as their experience and contribution increase. Where a significant discrepancy exists between an executive director's current salary and market levels, the Committee will normally phase any increases over a number of years.	None, although performance of the individual is considered by the Committee when setting and reviewing salaries annually.
Pension	To 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 10% of base salary.	Not applicable.

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Benefits	To 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 or expatriation benefits, 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.

Read about our strategy on page 18

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY CONTINUED

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Annual Incentive Scheme ("AIS")	To provide a simple, competitive, performance-linked annual incentive mechanism that will: • attract, retain and motivate individuals with the required personal attributes, skills and experience; • provide a real incentive to achieve our strategic objectives; and • align the interests of management and shareholders.	The AIS is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year. Actual AIS amounts are determined via a two-stage process. Firstly, performance against the agreed metrics is assessed. Secondly, the Committee reviews these results in the context of underlying business performance and the Group's financial position and may adjust the stage one outcome at its discretion. Above a suitable minimum cash 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 percentage split between cash and shares based on the financial position of the Group. In certain circumstances, including, but not limited to: • serious misconduct by a participant; • material misstatement of financial results; • payments based on erroneous or misleading data; • serious reputational damage; or • material corporate failure 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. The AIS is a discretionary plan and the Committee retains the discretion to adjust any formulaic outcome to reflect overall business or individual performance or any other reason considered appropriate.

Component	Purpose and link to strategy	How this component of remuneration operates	Maximum opportunity	Performance metrics
Long-Term Incentive Plan ("LTIP")	To provide a competitive, performance-linked long-term incentive mechanism that will: • attract, retain and motivate individuals with the required personal attributes, skills and experience; • provide a real incentive to achieve our strategic objectives; and • align the interests of management and shareholders.	The LTIP is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year. Awards under the LTIP typically comprise conditional awards of shares in IP Group (although instruments with similar economic effect may be used if considered appropriate). Any share awards that vest, net of any tax and NICs liabilities, are subject to a further two-year holding period. In certain circumstances, including, but not limited to: • serious misconduct by a participant; • material misstatement of financial results; • payments based on erroneous or misleading data; • serious reputational damage; or • material corporate failure the Company will be entitled to reduce the number of shares in respect of an unvested award and/or claw back any shares within the two-year period post vesting. 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 2019 shall continue to be 300% of the 2019/20 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 normally be presented in a matrix format similar to that set out in the Annual Remuneration Report. The level of vesting for threshold performance is 25% of the maximum. Performance will ordinarily be measured based on a performance period of three years. The Committee retains the discretion to adjust any formulaic outcome to reflect overall business or individual performance or any other reason considered appropriate.

DIRECTORS' REMUNERATION REPORT
REMUNERATION POLICY CONTINUED

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 13 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect; (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Further, the Committee reserves the right to make minor amendments to the Policy, for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without seeking shareholder approval.

Share and incentive plan discretions

The Committee will operate the LTIP, Deferred Bonus Share Plan and AIS in accordance with the respective rules, the Policy set out above and the Listing Rules where relevant. Awards under the LTIP, deferred bonus plan and AIS may:

- have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;
- incorporate the right to receive an amount (in additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis; and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Differences between the Policy and that applied to employees generally

The components of remuneration set out on the previous pages for executive directors are also available to the Group's employees and, other than as set out below, differ only in values and award maxima. The benefits package is typically available to all UK members of staff following completion of a probationary period, with a broadly equivalent package being offered to overseas staff. All permanent UK staff with over three months service at 31 December are eligible for an award under the AIS in that year (with pro-rated awards to exclude the first three months of service), with similar arrangements for overseas staff.

The key differences between the Policy and that applied to employees generally are:

i. that salary levels for all employees other than executive directors are typically positioned at or around the median level of appropriate market benchmarks for similar roles, while that for executive directors is currently considered to be around lower quartile levels against companies of a similar size and complexity to the Group;
ii. awards under the LTIP are only made to a limited number of the Group's more senior employees; and
iii. that a Long-Term Incentive Carry Scheme currently operates, in common with many of our comparator companies, for employees, excluding executive directors, whose roles include a significant direct impact on the development of underlying portfolio companies. The objective of the LTICS is to give employees the equivalent of a 'founder's stake' in the portfolio companies that they help to find, create and build, by offering them the opportunity to participate in the eventual returns from the Group's portfolio that are in excess of the original capital invested by the Group and after taking account of an annualised hurdle return. We believe that this will align our employees directly with the long-term returns achieved on the specific assets.

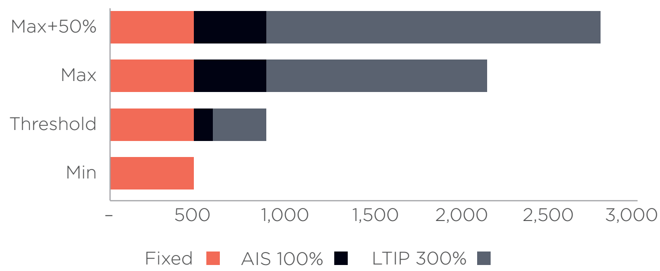
Schemes or arrangements under which allocations or awards are no longer being made

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

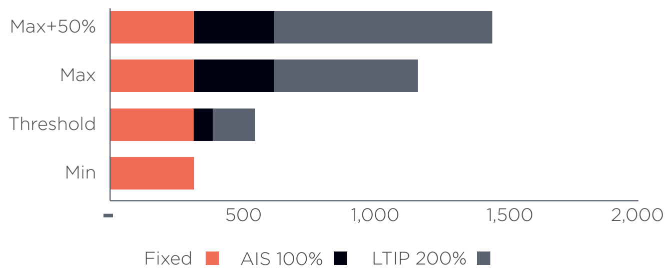
Illustration of the application of the Policy

The value and composition of the executive directors' remuneration packages for the year ending 31 December 2019 at below threshold, and maximum with 50% share price growth scenarios under the Policy are set out in the charts below.

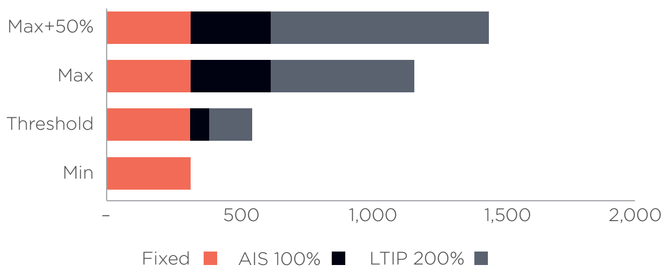
CEO Policy



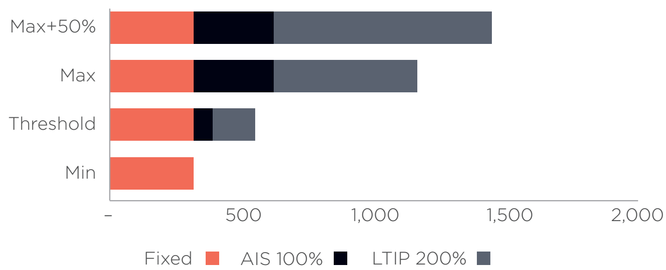
CIO Policy



CFO Policy



COO Policy



Notes:

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

	Minimum	Threshold	Maximum	Maximum with 50% share price growth
Fixed elements of remuneration	• Contracted base salary with effect from 1 April 2019 (before any deduction for fees received directly from portfolio companies) • Estimated cash cost to the Company of benefits and pension contributions received under the remuneration policy			
AIS (pay-out as percentage of maximum opportunity)	0%	25% (opportunity based on achievement of threshold target)	100%	100%
LTIP[1] (vesting as percentage of maximum opportunity)	0%	25% (opportunity based on achievement of threshold targets)	100%	100% plus 50% share price growth

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

DIRECTORS' REMUNERATION REPORT
REMUNERATION POLICY CONTINUED

Development of remuneration policy

Consideration of pay and conditions for the wider Group: The components of pay across the Group's UK staff are broadly similar although a significant component of long-term incentive for senior employees, particularly those in the investment teams, other than the executive directors, is in the form of the Group's LTICS. The Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market and economic conditions and to governance trends when assessing the level of salaries and remuneration packages of executive directors. From a practical perspective, the Group has 166 members of staff and, as a result, the Committee currently has the ability to review remuneration levels and changes thereto across the Group as a whole when considering base salary increases, bonus maxima and award pay-outs for the executive directors. The Committee has been involved in key decisions around remuneration concerning all employees.

Engagement with our shareholders: The Committee is committed to an ongoing dialogue with shareholders and seeks to consult with its significant shareholders and the various proxy advisory groups when considering any major changes to remuneration arrangements. Feedback as part of any consultation is used to guide the Committee in its finalisation of the remuneration arrangements and their implementation. Given the limited changes to the remuneration policy and its implementation, the Committee did not consult formally with shareholders; however we welcome an active dialogue with key shareholders on all governance matters, including remuneration.

Approach to recruitment remuneration

The Committee will apply the Policy for any new executive director recruited to the Board in respect of all elements of forward-looking remuneration. The maximum level of variable remuneration under the AIS and LTIP that may be awarded will be within the usual maxima as set out in the Policy (i.e. 100% of salary under the AIS and 300% of salary for CEO and a lower percentage for other executive directors under the LTIP). The Committee retains flexibility to provide benefits in kind, pensions and other allowances, such as relocation, education and tax equalisation, required in order to recruit the intended candidate.

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

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

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

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

The Committee will include details of the implementation of the Policy in respect of any such recruitment to the Board in its future annual remuneration reports.

Loss of office payments policy

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

In the event that a contract is to be terminated, and a payment in lieu of notice made, payments to the executive director may be staged over the notice period, with appropriate consideration of mitigation, to reflect payments received in respect of that alternative employment.

All awards under the Group's AIS are fully discretionary. Should an executive director leave (or be under notice) during the annual performance period, the AIS award would typically lapse and any unvested share-based elements of any AIS award, such as any prospective or unvested awards received under the DBSP, may also lapse. However, at the discretion of the Committee, in certain circumstances including but not limited to change of control, death, ill-health or disability, redundancy, transfer of the employing entity outside of the Group or any other reason at the Committee's discretion, the Committee may permit some or all of the cash or share-based element of an AIS award to be receivable, subject to time pro-rating for the proportion of the annual financial performance period served and, except in the case of death, with the performance test at the normal date.

Should an executive director leave following the end of the annual financial performance period but prior to the payment of any cash element, the AIS award would also typically lapse. However, at the discretion of the Committee, in certain circumstances, including but not limited to change of control, death, ill-health or disability, redundancy, transfer of the employing entity outside of the Group or any other reason at the Committee's discretion, the Committee may permit some or all of the cash or share-based element of an AIS award to be receivable with the performance test at the normal date.

Malus/clawback provisions would continue to apply as described in the Policy table above.

The treatment of leavers under the Group's LTIP is determined by the rules of the scheme. The Committee shall determine the extent to which outstanding conditional awards made to good leavers (including but not limited to those individuals leaving due to death, disability, redundancy, injury, ill health, disability, transfer of the employing entity outside of the Group or any other reason at the Committee's discretion) may vest, taking into account the extent to which performance conditions have been met and the length of the performance period completed. LTIP payments would normally be made according to the original timescale. Any unvested awards made to other leavers will typically lapse. Any vested awards that are being held by the executive director subject to any applicable holding period shall typically be retained by them. Malus and clawback provisions would continue to apply as described in the Policy table above, and post-cessation shareholding requirements would apply as described below.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his cessation of office or employment.

Non-executive directors have letters of appointment that are terminable on three months' notice by either party.

Change of control

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

Any bonuses under the AIS that have been deferred will vest in full upon a change of control.

Shareholding policy

The Group operates a formal shareholding requirement under which all executive directors are expected to build up and maintain a personal shareholding in the Group. From the 2019 AGM, the Group has also introduced a post-cessation shareholding policy. The levels required for each executive director, as well as the policy on post-cessation shareholding, are set out in the Annual Remuneration Report.

Chairman's and non-executive directors' remuneration

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

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION 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 the lower quartile of a peer group of companies of a similar size and complexity to the Group. We have continued to apply 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 2019, the base salaries of the executive directors will be:

	2019/20 base salary	2018/19 base salary	Increase %
Alan Aubrey (CEO)	£423,500	£415,000	2.0
Mike Townend (CIO)	£280,500	£275,000	2.0
Greg Smith (CFO)	£280,500	£275,000	2.0
David Baynes (COO)	£280,500	£275,000	2.0

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 at around the lower quartile of companies of a similar size and complexity.

While the Group has significantly increased in size and complexity during the past 12-18 months, the Committee has determined that, for this year, there is no compelling reason to not continue with its usual stated approach 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 4.0% in 2018 and is anticipated to be approximately 2.8% for 2019. The Committee intends to review the executive directors' base salaries later in 2019 to ensure they remain market-competitive.

Pension and benefits will continue to be in line with the levels stated in the policy table. Pension levels are in line with those for the wider workforce.

Incentives

The maximum AIS opportunity will remain at 100% of base salary for all executive directors. The 2019 AIS, similar to 2018, will be based on three performance measures:

- 60% on annual return achieved on the Group's Hard NAV
- 30% on cash realisations from the portfolio
- 10% on the level of net operating expenses

These measures are considered appropriate 'leading indicators' of underlying business performance.

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 2019, the Committee has determined that threshold vesting of 25% of this element of the award will be available provided a minimum return of 6% is achieved while the maximum amount of this element 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 £73m before any of the AIS component relating to return on Hard NAV may be awarded and a return in excess of £195m in order for this component to be awarded in full. The targets relating to the additional measures outlined above, as well as the performance against these targets, will be disclosed in the 2019 Directors' Remuneration Report. Overall, the targets are considered by the Committee to be appropriately stretching, especially in light of the current economic climate and 2018 performance outturns.

The AIS operates as a discretionary plan and therefore, in line with the new UK Corporate Governance Code, the Committee may adjust the outcome to take into account overall business or individual performance or any other factors it considers appropriate.

Consistent with the maximum opportunity for the 2018 LTIP awards, the 2019 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 as per the vesting table set out below. The key changes are that:

- Total threshold vesting is reduced from 30% to 25%.
- The Committee will now have discretion to adjust outturns to take into account overall business or individual performance or any other factors it considers appropriate.
- Consistent with the above, the operation of the existing performance underpin will be modified. Awards have previously been subject to an underpin based on the Group's TSR performance relative to that of the FTSE 250 (or other relevant) index, which could reduce the awards by up to 50%. This underpin concept will continue to apply but will form one of the factors that the Committee takes into consideration when determining whether to apply its discretion in a given period.

Any awards that vest will be subject to a further two-year holding period (net of any tax and NICs where holding is not on a gross basis).

Post-cessation shareholding policy

Departing executive directors will normally be required to retain shares following the date of cessation of their employment under the Group's new post-cessation shareholding guidelines. This policy will come into effect on 1 January 2019 and will apply to shares vesting from Company incentive plans following this date. The policy will operate as follows:

- The post-cessation shareholding will be 100% of the guideline that applied at the date of cessation, or, if lower, the actual holding excluding personal investment.
- The holding determined at the date of leaving will apply for a period of 24 months, on a tapered basis, reducing to nil over this period.
- Shares which are no longer subject to performance conditions, such as deferred shares or holding period shares, will count towards the guidelines (on a net of assumed tax basis).
- The Committee will have discretion to operate the policy flexibly and may waive part or all of the requirement, for example in compassionate circumstances.

During the course of the year the Committee will explore structures such as nominee accounts or use of the ESOT as a mechanism for enforcing the requirement.

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION STATEMENT CONTINUED

Chairman and non-executive directors

Sir Douglas Flint was appointed as Chairman in September 2018. His fee on appointment was set at £175,000 per annum, which shall be unchanged for 2019/20. The fees for the non-executive directors will be increased to £44,500, reflecting a 2.0% increase compared to 2018/19. Additional fees for chairmanship of a Board committee, or for being senior independent director, shall remain at £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 2018 and 2017.

	Base salary/ fees[1]		Benefits		Annual bonus (AIS)[2]		LTIP[3,4]		Pension[12]		Total	
All £000s	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive directors												
Alan Aubrey[5]	**301**	284	**7**	6	**70**	229	**—**	—	**35**	33	**413**	552
Mike Townend	**273**	263	**8**	8	**46**	152	**—**	—	**23**	23	**350**	446
Greg Smith	**273**	259	**6**	5	**46**	152	**—**	—	**27**	27	**352**	443
David Baynes[6]	**273**	263	**20**	10	**46**	152	**—**	—	**27**	27	**366**	452
Non-executive directors												
Douglas Flint[8]	**50**	—	**—**	—	**—**	—	**—**	—	**—**	—	**50**	—
Mike Humphrey[9]	**129**	150	**—**	4[7]	**—**	—	**—**	—	**—**	—	**129**	154
Jonathan Brooks	**62**	57	**—**	—	**—**	—	**—**	—	**—**	—	**62**	57
Lynn Gladden[10]	**32**	42	**1[7]**	—	**—**	—	**—**	—	**—**	—	**33**	42
Elaine Sullivan	**43**	42	**2[7]**	1[7]	**—**	—	**—**	—	**—**	—	**45**	43
David Begg	**51**	9	**—**	—	**—**	—	**—**	—	**—**	—	**51**	9
Heejae Chae[11]	**29**	—	**1[7]**	—	**—**	—	**—**	—	**—**	—	**30**	—

NOTES

1. Base salary/fees represent amounts earned and paid by the Group during the year in question.
2. The executives' bonus outturn was 16.8% of maximum for 2018. The first £25,000 will be paid in cash and thereafter 50% paid in cash and 50% deferred in shares over two years.
3. The LTIP values for 2018 are based on none of the 2016 LTIP awards vesting in March 2019 based on progress against the performance conditions at 22 March 2018. None of the 2015 LTIPs vested in 2018. Further information about the level of vesting for both of these awards is provided in the additional disclosures section on pages on 105 and 106.
4. None of the amounts included in the table above in relation to the LTIP is attributable to share price appreciation.
5. Alan Aubrey's contractual base salary was £415,000 from 1 April 2018. In addition, Alan Aubrey retained board fees in 2018 totalling £110,000 (2017: £102,499) from portfolio companies in which the Group is a shareholder and that were deducted from his base salary, as described further under 'External appointments for executive directors' on page 112.
6. David Baynes received reimbursement of certain travel costs considered commensurate with a car allowance, which were subject to PAYE/NI.
7. Commuting costs for non-executive directors are reimbursed and are subject to PAYE.
8. Sir Douglas Flint joined the Board on 17 September 2018.
9. Mike Humphrey stepped down from the Board on 31 October 2018.
10. Lynn Gladden stepped down from the Board on 30 September 2018.
11. Heejae Chae joined the Board on 3 May 2018.
12. Pension includes payments made to defined contribution schemes on behalf of the directors or the value of a cash equivalent, if applicable.

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

Annual Incentive Scheme

The targets for the 2018 AIS were predominantly based on the annual return on Hard NAV alongside three further '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. The targets for 2018 and the outturn against these were as follows:

Performance condition (% weighting)	Vesting criteria	Actual performance (% of component)
Return on Hard NAV (70%)	6% return (£79.6m): 25% of maximum opportunity ('threshold') 16% return (£212.2m): 100% of maximum opportunity	Negative 5.7% return (£75.6m): 0% of component
Cash realisations from the portfolio (20%)	£nil to £50m (sliding scale)	£29.5m realisations: 59% of component
Third-party capital raised by portfolio companies (5%)	Lower: 3:1 external capital to IPG capital (0%) Upper: 4:1 external capital to IPG capital (100%)	5.9:1 ratio (100%)
Level of net operating expenses (5%)	Net overheads (before AIS costs) lower than £22.6m (100%)	£24.6m (0%)
Total weighted outturn		**16.8% of maximum**

The Committee members discussed the output of the quantitative targets and considered that this outturn appropriately reflected the overall performance of the business for the period in question. The resulting AIS outturn for 2018 for the executive directors was therefore determined as 16.8% of maximum opportunity. In accordance with the Group's Remuneration Policy, all amounts to individuals above an initial minimum amount paid in cash, which for the 2018 AIS is £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

2016 LTIP awards due to vest in March 2019

The 2016 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 2018 and Total Shareholder Return ("TSR") from March 2015 to the ordinary vesting date, being 31 March 2019, 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 2016 LTIP outturn

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/forecast performance
Hard NAV[1] (at 31 Dec 2017)	8%: £1,493m 15%: £1,732m	£1,218m (-2% p.a. growth)
Annual TSR[2] (share price)	8%: 222p 15%: 268p	99p (-19.6% p.a. growth)
Comparative TSR	FTSE 250 +22.4%	IP Group -48%

1. Hard NAV target increased by Committee to reflect £353.6m Touchstone Hard net assets acquired in 2017 (as adjusted, see note 26) and net proceeds of £181.1m from the Group's 2017 placing.
2. TSR performance shown reflects the Group's one-month average share price to 22 March 2019. Actual performance period is the one-month average to 31 March 2019.

The actual performance of the Group in terms of Hard NAV growth was below threshold and based on the one-month average share price to 22 March 2019, was below the lower TSR target and that of the FTSE 250 TSR performance. On this basis, the 2016 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 2019.

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION STATEMENT CONTINUED

2015 LTIP awards that were due to vest in March 2018
As reported last year, the Hard NAV growth target was not met. TSR measured over the three-year period to 31 March 2018 was negative and therefore the TSR condition was not met. Consequently none of the 2015 LTIP awards vested.

2018 LTIP awards
The 2018 LTIP awards were made 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 2018/19 salary year. Any shares that vest 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 2020 (starting point: £1,295.8m at 31 December 2017). TSR shall be measured from 10 May 2018 to 31 March 2021 with a one-month average starting point of 134.5p (being the one-month average to 9 May 2018).

The underpin will be with reference to TSR performance against the FTSE 250 over this same period. Vesting will be scaled back by the degree to which the Company's TSR underperforms the TSR of the FTSE 250 index over the performance period (up to a maximum 50% reduction).

Executive director	Type of interest	Basis of award (% salary)	Face value[1] (000s)	Threshold vesting[2]	End of performance period
Alan Aubrey	2018 LTIP	300%	£1,245	30%	31 Dec 2020 (NAV) / 31 Mar 2021 (TSR)
Mike Townend	2018 LTIP	200%	£550	30%	31 Dec 2020 (NAV) / 31 Mar 2021 (TSR)
Greg Smith	2018 LTIP	200%	£550	30%	31 Dec 2020 (NAV) / 31 Mar 2021 (TSR)
David Baynes	2018 LTIP	200%	£550	30%	31 Dec 2020 (NAV) / 31 Mar 2021 (TSR)

1. The number of shares corresponding to the face value is calculated using the share price of 139.2p for all executive directors.
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.

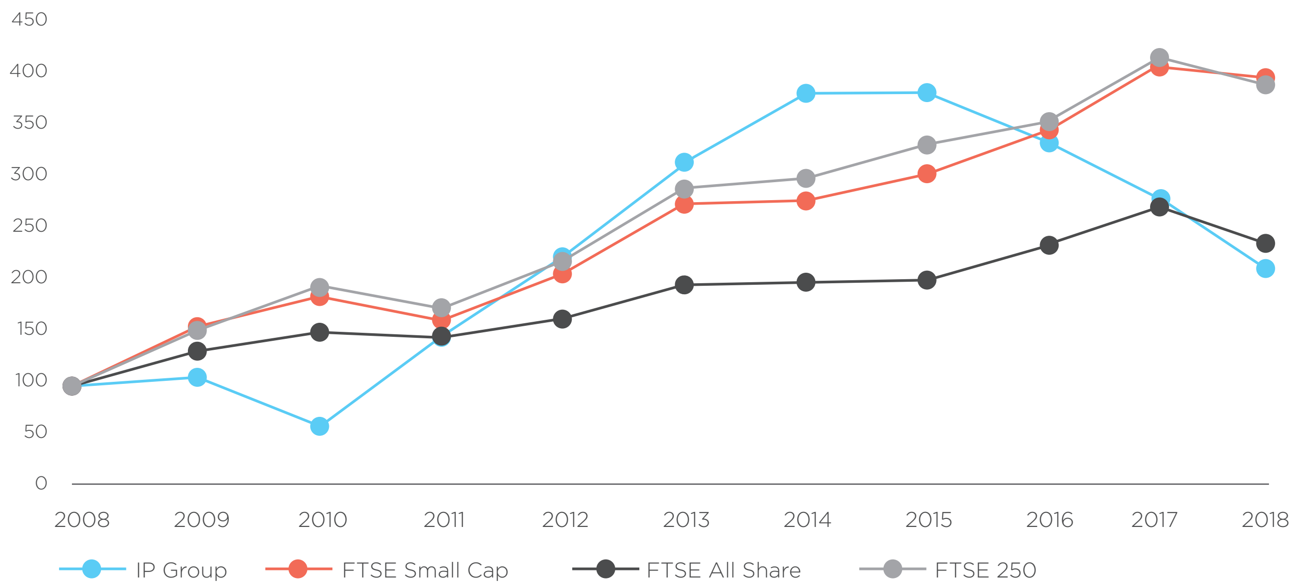
Change in remuneration of the Chief Executive Officer compared to Group employees
The table below sets out the increase in the remuneration of the CEO and that of our UK employees (excluding directors and new joiners/leavers):

	% change in base salary 2017 to 2018	% change in bonus 2017 to 2018	% change in benefits (excluding pensions) 2017 to 2018
CEO	3.8%	(69.4%)	16%
UK employees	4.0%	(25.7%)	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 ten years.

The chart below shows the Group's TSR performance against the performance of the FTSE All Share, FTSE Small Cap and FTSE 250 indices over the ten-year period to 31 December 2018. 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.



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 nine years.

Chief Executive Officer: Alan Aubrey	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**[1]
CEO single figure of remuneration (£000s)	223	193	209	3,257	2,231	902	669	265	552	**413**
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	n/a	100%	0%	100%	0%	57%	**17%**
LTIP vesting (% of maximum)	n/a	0%	n/a	81%	100%	100%	57%	0%	0%	**0%**

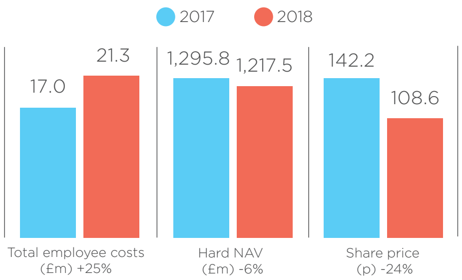
1. LTIP vesting is based on the current expectations of the performance against the 2016 LTIP targets as discussed on page 105.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Relative spend on pay

The chart below shows the total employee costs, change in Hard NAV and change in share price from 2017 to 2018.



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

Total employee pay: Total employee costs from note 9 on page 153 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 135.

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 2017 to 31 December 2018.

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. If the guideline is not met by any executive director within this timeframe, or the level of shareholding falls below this level for any other reason, including share price fluctuations, 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 and Mike Townend met this requirement. Both Greg Smith and David Baynes have previously met this requirement; however the reduction in share price during the year has resulted in this requirement being marginally off targeted levels at 25 March 2019. Both Mr Smith and, Mr Baynes, are mindful of Committee guidance on this matter and, indeed, bought shares on the open market during 2018. Both directors have agreed that they will, at a minimum, retain all post-tax shares received under the DBSP or LTIP to ensure that minimum levels are met and maintained.

Interests in shares

The Directors who held office during 2018 had the following beneficial interests in the ordinary shares of the Company:

As at 31 December 2018	Shares owned	Vested but unexercised options[1]	Total interest in shares	
Current directors	Number	Number (net of tax)	Number	% of share capital
Alan Aubrey	2,663,538	22,636	2,686,374	0.25%
Mike Townend	1,156,902	13,769	1,170,671	0.11%
Greg Smith	298,351	11,997	310,348	0.03%
David Baynes	262,975	13,769	276,744	0.03%
Jonathan Brooks	81,826	—	81,826	0.01%
Elaine Sullivan	—	—	—	—
David Begg	42,391	—	42,391	0.00%
Sir Douglas Flint	18,500	—	18,500	0.00%
Heejae Chae	16,073	—	16,073	0.00%

There have been no changes in the interests of the directors set out above between 31 December 2018 and 25 March 2019.

1. Reflects executive directors' interest in vested but unexercised DBSP share options relating to the deferral of the 2015 AIS award, net of estimated 47% income tax and employees' NICs liability.

Former directors (as at date of leaving)	Number of shares
Mike Humphrey (stepped down on 31 October 2018)	106,153
Lynn Gladden (stepped down on 30 September 2018)	8,281

Long-Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2018	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2018	Share price at date of conditional award (p)	Earliest vesting date(s)
Alan Aubrey							
2015 LTIP	124,751	—	—	124,751	—	214.50	31-Mar-19
2016 LTIP	664,313	—	—	—	664,313	155.80	31-Mar-19
2017 LTIP	857,142	—	—	—	857,142	112.5*	31-Mar-20
2018 LTIP	—	894,397	—	—	894,397	139.20	31-Mar-21
	1,646,206	**894,397**	**—**	**124,751**	**2,415,852**		
Mike Townend							
2015 LTIP	99,801	—	—	99,801	—	214..5	31-Mar-19
2016 LTIP	327,342		—	—	327,342	155.80	31-Mar-19
2017 LTIP	378,571	—	—		378,571	112.5*	31-Mar-20
2018 LTIP	—	395,115	—	—	395,115	139.20	31-Mar-21
	805,714	**395,115**	**—**	**99,801**	**1,101,028**		
Greg Smith							
2015 LTIP	89,409	—	—	89,409	—	214.50	31-Mar-19
2016 LTIP	306,803	—	—	—	306,803	155.80	31-Mar-19
2017 LTIP	378,571	—	—	—	378,571	112.5*	31-Mar-20
2018 LTIP	—	395,115	—	—	395,115	139.20	31-Mar-21
	774,783	**395,115**	**—**	**89,409**	**1,080,489**		
David Baynes							
2015 LTIP	99,801	—	—	99,801	—	214.50	31-Mar-19
2015 LTIP	327,342	—	—	—	327,342	155.80	31-Mar-19
2016 LTIP	378,571	—	—	—	378,571	112.5*	31-Mar-20
2017 LTIP	—	395,115	—	—	395,115	139.20	31-Mar-21
	805,714	**395,115**	**—**	**99,801**	**1,101,028**		

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

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION STATEMENT CONTINUED

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 2018	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2018	Share price at date of award (p)	Earliest vesting date(s)
Alan Aubrey							
Deferral from 2015 AIS	42,710	–	–	–	42,710	175.6	31-Mar-18
Deferral from 2017 AIS		39,820	–	–	39,820	128.2	31-Mar-19
Deferral from 2017 AIS		39,821	–	–	39,821	128.2	31-Mar-20
	42,710	**79,641**	**–**	**–**	**122,351**		
Mike Townend							
Deferral from 2015 AIS	25,981	–	–	–	25,981	175.6	31-Mar-18
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-19
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-20
	25,981	**49,472**	**–**	**–**	**75,453**		
Greg Smith							
Deferral from 2015 AIS	22,637	–	–	–	22,637	175.6	31-Mar-18
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-19
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-20
	22,637	**49,472**	**–**	**–**	**72,109**		
David Baynes							
Deferral from 2015 AIS	25,981	–	–	–	25,981	175.6	31-Mar-18
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-19
Deferral from 2017 AIS		24,736	–	–	24,736	128.2	31-Mar-20
	25,981	**49,472**	**–**	**–**	**75,453**		

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 2018	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2018	Option exercise price (p)	Share price at date of award (p)	Earliest vesting date(s)
Greg Smith								
2017 SAYE	12,631	—	—	—	12,631	114.0p	141.3p	31-Aug-20
	12,631	**—**	**—**	**—**	**12,631**			
David Baynes								
2017 SAYE	9,473	—	—	—	9,473	114.0p	141.3p	31-Aug-20
	9,473	**—**	**—**	**—**	**9,473**			

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 five to six 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 2018 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2018 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2018 £000
Executive directors							
Alan Aubrey	56	0.18%	55	—	55	16	50
Mike Townend	56	0.18%	55	—	55	16	50
Greg Smith	35	0.11%	35	—	35	9	30
Total	**147**	**0.47%**	**145**	**—**	**145**	**41**	**130**

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Carried interest arrangements

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

	Fund[i]	Carried interest[ii] at 1 January 2018	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme Interest at 31 December 2018[iii]	Accrued value[iv] of scheme interest at 31 December 2018 £000
Executive directors							
Alan Aubrey	IPVF	1.81%	–	–	–	1.81%	–
	NETF	1.55%	–	–	–	1.55%	–
Mike Townend	IPVF	1.81%	–	–	–	1.81%	–
	NETF	1.15%	–	–	–	1.15%	–
Greg Smith	IPVF	1.14%	–	–	–	1.14%	–
	NETF	0.85%	–	–	–	0.85%	–

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.

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.

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.

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.

External 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 external 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.

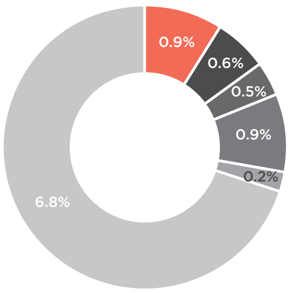
Any external appointments (i.e. excluding those companies in which the Group is a shareholder) held by executive directors are set out on page 68.

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.

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 2018.

As at 31 December 2018, the Company's headroom position, which remains within such guidelines, was as shown in the chart below.



- Vested LTIP awards in past 10 years – Executives
- Vested LTIP awards in past 10 years – Other staff
- Outstanding LTIP and awards – Executives
- Outstanding LTIP and Former Touchstone LTIP awards – Other staff
- Other Share schemes (Sharesave, DBSP, etc.)
- Additional headroom

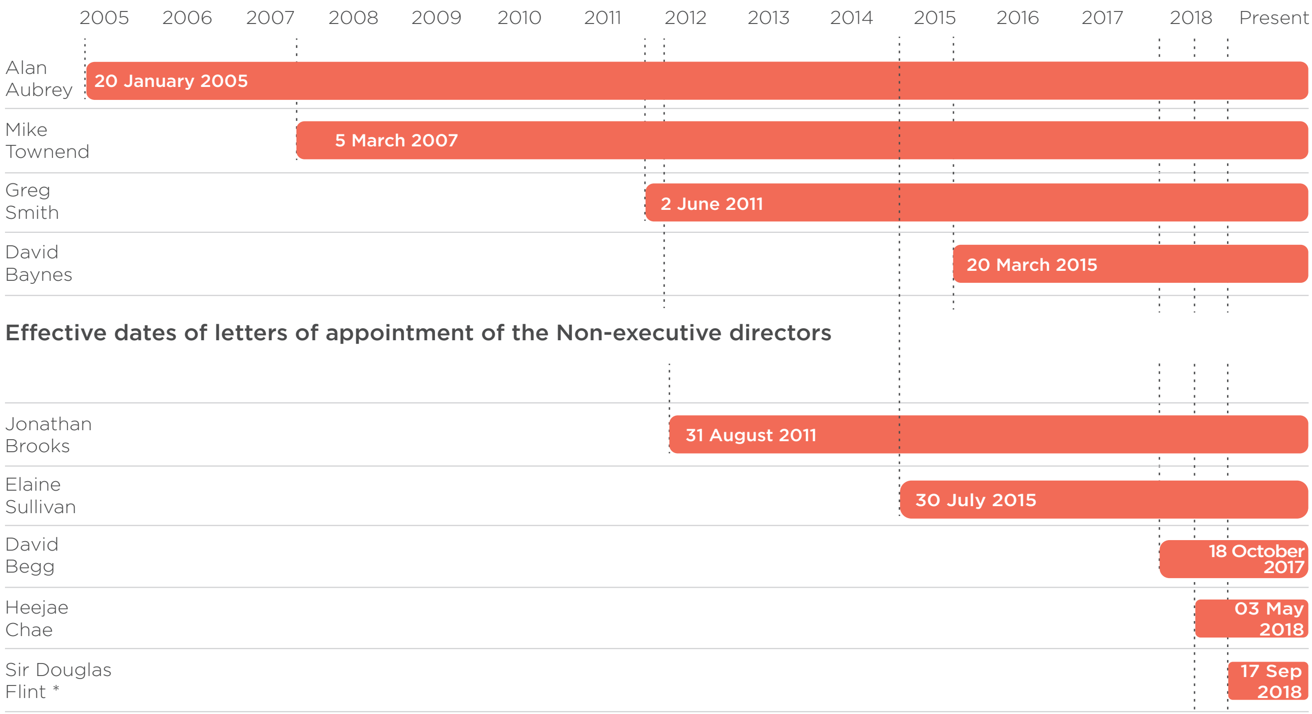
Service agreements

The executive directors have service contracts that commenced on the dates set out in the chart on page 114 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.

The letters of appointment and service contracts are available for inspection at the Company's registered office. In accordance with the Code, all directors submit themselves for annual re-election by shareholders at each AGM.

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION STATEMENT CONTINUED

Effective dates of service contracts of the executive directors



* Effective as chair from 1 November 2018

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 68 and 69:

Jonathan Brooks (Chair)
Douglas Flint
Elaine Sullivan
David Begg
Heejae Chae

Committee meetings are administered and minuted by the Company Secretary. In addition, the Committee received assistance from the CFO, CEO, COO and Head of HR 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 2018 to 31 March 2019 and giving further consideration to base salaries and total remuneration opportunity with effect from 1 April 2019.
- 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 2018 and 2019 awards and outturns for the 2015 and 2016 awards.
- Consideration of AIS awards and vesting targets for 2018 and 2019 as well as outturns for 2018.
- 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, including the updated Remuneration Policy.

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 2018 were £17,600. Deloitte LLP also provided advice to the Group in 2018 in connection with the restructuring of its long-term incentive carry scheme 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 2018 AGM.

	Votes for		Votes against			
	Number	% of votes cast	Number	% of votes cast	Total votes cast	Votes withheld
Remuneration Report	870,461,996	98.68	11,608,257	1.32	882,070,253	4,645,794

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 (July 2018) and the Listing Rules.

REPORT OF THE AUDIT & RISK COMMITTEE

"2018 represented another very busy year for the Audit and Risk Committee"

Jonathan Brooks
Chairman of the Audit and Risk Committee

Audit & 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 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, the Audit & Risk Committee as a whole has competence relevant to the sector in which the Company operates.

The Committee met five times during the year. All of the meetings with the exception of one* were attended by the four independent non-executive directors who were members of the Committee at the relevant time. The members of the Committee for the entire year were Dr Elaine Sullivan and Professor David Begg with myself as Chair. Heejae Chae joined the Board and the Committee on 3 May 2018 while Professor Lynn Gladden retired from the Board and the Committee on 30 September 2018.

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. Other members of the Group's management were invited to attend as required for specific subjects. In December, the Group's new outsourced internal auditor attended the Committee and will be invited to attend future meetings. At the end of each of the meetings, the Committee met with the auditor without any members of the executive management team being present.

Activities during the year

The main activities of the Committee during 2018 can be seen by referring to the summary agenda items in the table overleaf. During 2018 this was clearly divided between matters of financial oversight and those concerned with the management of risk. 2018 was another particularly active year for the Committee with the acquisition of the Touchstone Innovations' portfolio leading to a much increased workload both for management, the Board and the external auditors.

Valuation portfolio assets

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.

* Professor Begg was unable to attend one meeting during the year due to a family illness. He gave input on the matters being discussed at the meeting to the Chairman in advance.

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 the portfolio from Touchstone towards the end of 2017 made this task more difficult throughout the year as we came to terms with each of its major investments.

As we disclosed in last year's report, several of Touchstone's unquoted investments had not completed a funding round within the previous year and a number were only held by a small number of investors, and this limited our ability to validate the carrying values by reference to recent funding rounds or an extensive shareholder base. An additional complication has been that several of the higher value investments were in the Life Sciences sector, where investment returns can be more binary: if a medical trial fails, the valuation of the asset can be severely reduced. As a response, and post consultation with the external auditor, the Group has increased its use of external valuation specialists as part of its valuation procedures.

With the passage of time, more certainty has been established in the valuation of these assets and we now feel that the valuation of the former Touchstone portfolio meets what we consider to be our more exacting approach to portfolio valuation.

Impairment of goodwill

At year end, the fair value of the Group's intangible assets was £0.3m and goodwill was £0.4m, compared with £10.2m and £202.5m respectively at the end of 2017. The Group has historically recognised goodwill in respect of several acquisitions, most recently in the 2017 acquisition of Touchstone Innovations plc. Following a number of potential impairment triggers in the year, including 2018's poor portfolio returns which led to a significant divergence between forecast and actual portfolio returns performance, management has impaired the majority of the goodwill balance. See further discussion in the financial review on pages 38 to 43.

Summary agendas for the Audit & Risk Committee meetings in 2018

	Primarily audit-focused business	Primarily risk-focused business
February 2018	• Review of draft 2017 Annual Report and Accounts • Significant accounting and disclosure judgements • KPMG FY2017 audit update • Committee effectiveness review	• Repatriation of Touchstone LuxCo structure • Risk and Control Update • Approval of Long-Term Viability Statement and going concern review • Anti-facilitation of tax evasion legislation
March 2018	• Significant accounting and disclosure judgements • 2017 Annual Report and Accounts: review and recommendation for approval • KPMG FY2017 audit report	• Risk and Control Update
June 2018	• HY Report: planning for key judgement areas • KPMG HY Planning memorandum	• Regulated activities update • Anti-facilitation of tax evasion update • GDPR update • Cyber and IT update • Controls review update • Consideration of internal audit function • Treasury policy and board authorities • Touchstone Luxembourg repatriation project

REPORT OF THE AUDIT & RISK COMMITTEE CONTINUED

	Primarily audit-focused business	Primarily risk-focused business
July 2018	• Significant accounting judgements and estimates • KPMG HY2018 auditor review • HY Report: Review and recommendation for approval	• Overview of risk management framework • Review of controls over principal risks • 2018 internal audit control project planning • Group insurance policies
December 2018	• 2018 Annual Report and Accounts planning • KPMG FY Planning document • External auditor performance review	• FY19 internal audit work programme • Operational, strategic and principal risks and controls review • Anti-bribery and corruption policy update (including gifts and entertainment review) • Long-term viability statement – 2018 planning • Cyber and IT update • Regulated business update • Brexit readiness review • Annual review of policies and procedures: Whistleblowing, Anti-Bribery, Related party transactions

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, annual external evaluations are conducted by a specialist firms and local advisers are employed to advise on areas of regulation relevant to the Group's operations.

Review of Annual Report and Accounts and Half-yearly Report

The Committee carried out a thorough review of the Group's 2018 Annual Report and Accounts and its 2018 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, although a greater degree of realisations were made in 2018 compared to prior years. With a closing balance of gross cash and deposits totalling £219.0m at the end of 2018, the Group has sufficient cash reserves to continue to provide capital to its existing portfolio and to create and fund new businesses at a broadly similar rate to previous years for at least two years, assuming broadly similar levels of net operating expenditure and an increase in 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 inherent risks of investing in early-stage technology companies, changes in the ability to raise further capital, different outcomes following a range of Oxford Nanopore "exit" events, and macroeconomic conditions, particularly relating to quoted markets and the potential significant volatility that is being seen as the UK approaches Brexit. 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 44.

The principal risks the Group faces are set out on pages 46 to 55. During the year, the Audit Committee devoted part of each meeting to items concerning risk and its management. With a growing US platform and portfolio, the expansion in Australasia and Hong Kong, and the integration of Touchstone Innovations, the Committee felt that operational issues associated with scaling and integrating the businesses had maintained their relevance. In the context of Brexit and increased financial market volatility, risks associated with portfolio company returns and access to capital had again come into sharper focus.

One important element of the Group's risk management framework is the Risk Council whose permanent members are 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. The purpose of the Risk Council is to coordinate the review and oversight for the governance, risk and controls at IP Group prior to reporting to the ARC and Board. The Risk Council met six times during the year and reported to the Committee at 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

The Group has continued its focus on cyber security, with regular updates to the Committee on the steps being taken by the Group to seek to mitigate cyber risks. The Group completed the process for UK Cyber Essentials accreditation in early 2019. As in prior years, employee awareness and training on cyber security was rolled out group-wide in November 2018.

GDPR

The Group aims to ensure compliance with the General Data Protection Regulation that came into effect in May 2018. The Committee reviewed the impact assessment carried out by management in 2017 and has reviewed the implementation of new policies and procedures during 2018. In addition, the Committee received a level of assurance from Bristows LLP, which was instructed to provide advice to the Group in connection with GDPR, that we had taken significant steps and activities towards a good level of compliance with GDPR.

Internal audit

The Committee considers the need to have its own separate internal audit function annually and historically considered that it was not necessary principally due to the size of the Group where close control over operations was exercised by a small number of executives. During 2018, the Committee concluded that the Group was now of sufficient scale and complexity to warrant a separate internal audit function. The Committee determined that an outsourced internal audit function would be more efficient and cost-effective than staffing an internal team, will provide access to a greater depth of expertise covering a broad range of risks and will be scalable allowing the Group to increase resource as and when required. The Committee recommended to the Board that for 2019, it transitions to an outsourced internal audit function and an appointment for PwC to act as the internal audit service provider was made in October 2018. A separate PwC team continues to provide risk advisory services to the Group.

External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In December, the Committee discussed the auditor's plan for the 2018 year-end audit. 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 unquoted investments, particularly Oxford Nanopore Technologies Limited, given the proportion that this company represents of the Group's overall Hard NAV, and the carrying value of goodwill. In addition, the auditor considered the approach taken by the Group in identifying and planning for Brexit-related risks.

REPORT OF THE AUDIT & RISK COMMITTEE CONTINUED

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.

Mandatory audit firm rotation is required after 20 years and a re-tender must be conducted at least every ten years. The Code requires disclosure of the length of tenure of the current audit firm and when a tender was last conducted, as well as advance notice of any re-tendering plans. KPMG LLP have acted as the auditor to the Company since 2014 and the lead audit partner rotates every five years to assure independence. The Committee undertook a comprehensive tender process in 2014 for the audit in relation to the year ended 31 December 2014 and has no plans to re-tender the audit at the present time.

Non-audit work

The Audit Committee approves all fees paid to the auditor for non-audit work. In 2018 the Group's auditor, KPMG LLP once again carried out very limited non-audit engagement covering the review of the Group's historic gross investment track record and certain compliance reporting for the Group's debt facilities with the EIB. 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 2018 engaged the services of BDO (tax), PwC (risk and governance), Deloitte (valuations) and Duff & Phelps (Valuations). An analysis of audit and non-audit fees paid to KPMG is provided in note 6 to the financial statements on page 152.

Auditor independence

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

Auditor effectiveness

In order to assess the effectiveness of the external audit process, the Committee asked detailed questions of key members of management and each Committee member individually via a survey, the results of which were collated and reviewed by myself and the CFO. These results were reviewed in conjunction with KPMG's reports to the Committee. The Committee concurred with management's view that there had been appropriate focus and challenge of the primary areas of audit risk and the Committee concluded 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 unquoted investments. KPMG utilised specialist corporate finance staff to support its audit work on selected portfolio valuation and the impairment review of goodwill 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 Remuneration Committee

25 March 2019

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 2018.

Corporate governance statement

Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance Statement on pages 70 to 89 and is incorporated into this directors' report by reference.

Results and dividends

During the period, the Group made an overall loss after taxation for the year ended 31 December 2018 of £293.8m (2017: £53.4m profit). The directors do not recommend the payment of a dividend (2017: £nil).

Directors

The names of directors who currently hold office or did so during 2018 are as follows:

Executive directors

Alan Aubrey
David Baynes
Greg Smith
Mike Townend

Non-executive directors

Mike Humphrey (Chairman) (resigned on 31 October 2018)
Sir Douglas Flint (Chairman) (appointed as a non-executive director with effect from 17 September 2018 and as Chairman with effect from 1 November 2018)
Professor David Begg
Jonathan Brooks
Heejae Chae (appointed with effect from 3 May 2018)
Professor Lynn Gladden (resigned on 30 September 2018)
Dr Elaine Sullivan

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 108.

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 55 and in the Corporate Governance report on pages 86 and 87. 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 (page 146) 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 or collaborations with 15 UK universities, six US universities and nine universities in Australasia. In addition, various entities within the Group have 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 11 (page 155) 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 18 June 2018 (the "2018 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 14 May 2018 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2019. In addition, at the 2018 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 14 May 2018 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 28 May 2019. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2018 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 14 May 2018 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 14 May 2018, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 1 August 2019. The directors will seek to renew these authorities for a similar period at the next AGM to be held on 28 May 2019.

DIRECTORS' REPORT CONTINUED

Under Part 18, Chapter 5 of the Companies Act 2006, the Company has the power to purchase its own shares. At the 2018 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 14 May 2018 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 2019. 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 28 May 2019.

Articles of Association

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

Substantial shareholders

As at 22 March 2019, 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	26.82
Woodford Investment Management LLP	19.99
Lansdowne Partners	10.86
Imperial College of Science, Technology and Medicine	5.18
Baillie Gifford	4.03

Political donations

The Group did not make any political donations during 2018.

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 60 to 65.

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 and Parkwalk Advisors Ltd, both 100%-owned subsidiaries of the Group, are authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000. In Australia, the Group's wholly-owned subsidiary IP2IPO Australia Management Pty Ltd is authorised and regulated by the Australian Securities and Investments Commission.

Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the Strategic report and in note 28 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 28 May 2019.

On behalf of the Board

Angela Leach
Company Secretary

25 March 2019

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.

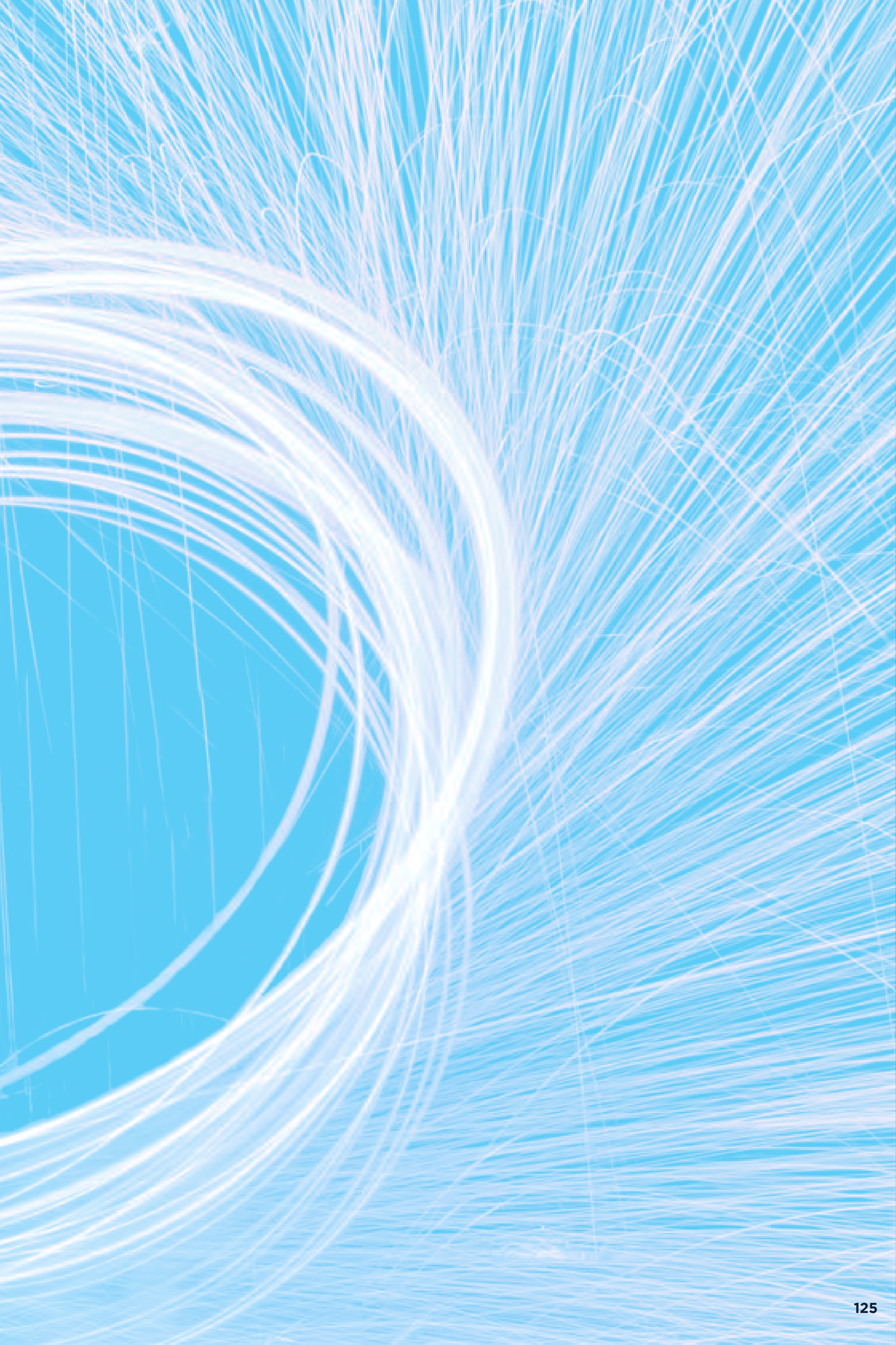
We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

ON BEHALF OF THE BOARD

Sir Douglas Flint
Chairman

25 March 2019

Our Financials



INDEPENDENT AUDITOR'S REPORT
to the Members of IP Group plc

1. Our opinion is unmodified

We have audited the financial statements of IP Group plc ("the Group") for the year ended 31 December 2018 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 2018 and of the Group's loss 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 (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 first appointed as auditor by the shareholders on 13 May 2014. The period of total uninterrupted engagement is for the five financial years ended 31 December 2018. 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.

Overview

Materiality: group financial statements as a whole	£13 .85m (2017: £16.8m) 1% (2017: 1%) of Total Assets	
Coverage	100% (2017:98.5%) of Total Assets	
Key audit matters	**vs 2017**	
Event driven	Brexit uncertainties	
Recurring risks (Group and Parent)	Valuation of unquoted investments	◀▶
(Group)	Recoverability of goodwill	▲
New risks (Parent)	Recoverability of investment in subsidiary undertakings	▲

2. Key audit matters: including 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 arriving at our audit opinion above together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings 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.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 46 (principal risks), page 55 (viability statement), page 116 (Audit Committee Report), page 142 to 145 (accounting policy) and page 155 to 159 (financial disclosures).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of unquoted investments and recoverability of goodwill below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardized firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks and consider the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing valuation of unquoted investments and recoverability of goodwill and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, consider adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on valuation of unquoted investments and recoverability of goodwill we considered Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. • **Our findings:** As reported under valuation of unquoted investments and recoverability of goodwill, we found the resulting estimates and related disclosures of valuation of unquoted investments and recoverability of goodwill and disclosures in relation to going concern to be balanced. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT CONTINUED
to the Members of IP Group plc

	The risk	Our response
Valuation of unquoted investments (£995.0 million; 2017: £874.8 million) *Refer to page 116 (Audit Committee Report), page 142 to 145 (accounting policy) and page 157 to 159 (financial disclosures).*	**Subjective valuation:** 72% (2017: 53%) of the Group's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value which is estimated by the directors based on methods established in accordance with International Private Equity and Venture Capital Valuations Guidelines by using measurements of value such as price of recent investment and discounted cash flows. Where the price of recent investment is used, due to the relatively low number of investors involved 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 fair value. Whether it remains appropriate to use the price of the recent funding rounds depends on the specific circumstances of the investment, the involvement of new investors, 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 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 Technologies (ONT), of which the Group's stake is valued at £274.1m (2017: £274.1m), comprising 28% of the unquoted portfolio (2017: 21%) and 24% of total investments (2017: 24%). This risk is also applicable to the parent company, which holds investments where no quoted market price is available. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group.	Our procedures included: **Our sector experience:** For a sample of investments, selected using a combination of specific item and statistical sampling, assessing and challenging the reasonableness of the valuation approach used, considering these against the latest IPEV guidelines; • For investments valued using the price of recent investment as an appropriate basis for the measurement of the fair value, including ONT, we evaluate the independence of the funding round on which this valuation is based (e.g. presence of new external investors) and corroborate the price to signed Share Subscription Agreements; • For those valued based on a funding round aged greater than 12 months, we corroborate 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, we corroborate the underlying information back to independent support, such as signed license agreements; • For those investments initially valued by directors and challenged and reviewed by external experts engaged by directors, we corroborate the observable inputs to the valuations to underlying information; • Challenging the internal investment manager on key judgements affecting investee companies valuations, such as events since the last funding round, probability of achieving milestone achievements and discount rate used where applicable. We compared key underlying financial data inputs to external sources such as signed legal documentation, the investee company audited accounts and management information. We challenged the assumptions included in the valuation based on the plans of investee companies. Our work included consideration of events which occurred subsequent to the year end up until the date of the audit report; • **Assessment of experts:** Assessing the expertise and experience of the group's external valuation experts used in the corroboration of management's valuation; • **Our valuation expertise:** We utilised internal valuation specialist to assist us in assessing and challenging the appropriateness of the valuation methodology. This included assessing the information used in the valuation model, in the context of our own industry knowledge and external data; • **Assessing transparency:** We consider the appropriateness, in accordance with relevant accounting standards, of the disclosures related to unquoted investments. • **Our findings:** We found the resulting valuations in relation to the unquoted financial investments to be balanced with proportionate disclosures of the related assumptions and sensitivities.

	The risk	Our response
Recoverability of goodwill (£0.4 million; 2017: £203.6 million) *Refer to page 116 (Audit Committee Report), page 142 (accounting policy) and page 155 to 156 (financial disclosures).*	**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 and related funds. In the current year goodwill in the group was impaired by £203.2m. 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 procedures included: • **Assessing methodology:** Assessing the principles and integrity of the value-in-use discounted cash flow; • **Our sector experience and benchmarking assumptions:** We challenged the inputs to the cash flow forecasts considered in the value in use model. We utilised our corporate finance specialists to assist us in challenging the key assumptions and methodologies applied by the Group in determination of discount rates, with reference to our own independent expectations, which were based on our industry knowledge and experience. • **Assessment of experts:** Assessing the expertise and experience of the group's external valuation experts used in the assessment of the value in-use model; • **Historical comparisons:** Comparing the assumptions to actual cash flows achieved in the year, such as the annual investment rate; • **Sensitivity analysis:** Considering the sensitivity of the value in use model to the key assumptions through sensitivity analysis that considered the impact of each assumption on the value-in-use; • **Assessing transparency:** Assessing the Group's disclosures of the impairment loss against IAS 36. • **Our findings:** We found the impairment of goodwill and the resulting estimate of the recoverable amount of goodwill was balanced with proportionate disclosures of the related assumptions and sensitivities.
Recoverability of investment in subsidiary undertakings (Parent) (£398.7million; 2017: £637.3milion) *Refer to page 177 (company accounting policy) and page 179 to 180 (company financial disclosures).*	**Forecast based valuation:** The carrying amount of the parent company's investment in subsidiary undertakings are at risk of irrecoverability due to the historical performance of the underlying subsidiaries. The carrying amount of the parent company's investments in subsidiaries represents 38% (2017:50%) of the company's total assets.	Our procedures included: • **Test of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making or whether they have a positive net asset value and therefore coverage of the debt owed. • For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the consolidated net assets and where necessary assessing the related impairment. • **Assessing transparency:** We consider the appropriateness, in accordance with relevant accounting standards, of the disclosures related to parent company's investment in subsidiaries. • **Our findings:** We found the recoverability of the parent company's investment in subsidiary undertakings to be balanced with proportionate disclosures.

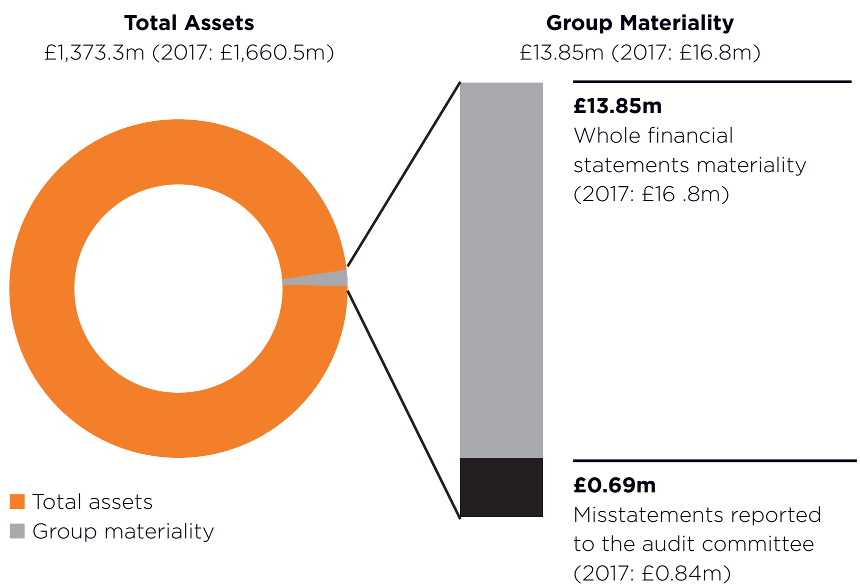
INDEPENDENT AUDITOR'S REPORT CONTINUED
to the Members of IP Group plc

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 £13.85m (2017: £16.8m), determined with reference to a benchmark of Group total assets, of which it represents 1% (2017: 1%).

Materiality for the parent company financial statements as a whole was set at £12.8m (2017: £12.9m), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).The scope of our work accounted for 100% of the Group revenue (2017:95.7%), 100% of group profit before tax (2017: 86.2%) and 100% of the Group's total assets (2017:98.5%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements relating to the statement of financial position exceeding £692,500 (2017: £840,000), in addition to other identified misstatements that warranted reporting on qualitative grounds. The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above.



4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures. Based on this work, 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 Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 89 is materially inconsistent with our audit knowledge.
- We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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:

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 55 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

INDEPENDENT AUDITOR'S REPORT CONTINUED
to the Members of IP Group plc

- 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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 this respect.

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 98, 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 general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the group is subject to many other laws and regulations, we did not identify any others where the consequences of noncompliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed noncompliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing noncompliance and cannot be expected to detect non-compliance with all laws and regulations.

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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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
25 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	**(50.4)**	49.0
Gain on disposal of equity investments		**2.0**	0.1
Gain on deconsolidation of subsidiary		**–**	45.1
Change in fair value of limited and limited liability partnership interests	22	**2.3**	(0.2)
Licensing income		**–**	3.4
Revenue from services and other income		**9.9**	6.1
		(36.2)	103.5
Administrative expenses			
Research and development costs		**–**	(2.9)
Carried interest plan release/(charge)		**1.1**	(1.3)
Share-based payment charge	21	**(1.9)**	(2.4)
Goodwill impairment	12	**(203.2)**	–
Amortisation of intangible assets	13	**(9.9)**	(3.9)
Acquisition and restructuring costs	8	**–**	(9.1)
Other administrative expenses		**(41.8)**	(30.8)
		(255.7)	(50.4)
Operating (loss)/profit	7	**(291.9)**	53.1
Finance income		**1.2**	1.0
Finance costs		**(3.0)**	(0.7)
(Loss)/profit before taxation		**(293.7)**	53.4
Taxation	10	**(0.1)**	–
(Loss)/profit for the year		**(293.8)**	53.4
Other comprehensive income			
Exchange differences on translating foreign operations		**(0.1)**	–
Total comprehensive (loss)/income for the year		**(293.9)**	53.4
Attributable to:			
Equity holders of the parent		**(293.8)**	49.7
Non-controlling interest		**(0.1)**	3.7
		(293.9)	53.4
(Loss)/earnings per share			
Basic (p)	11	**(27.71)**	7.05
Diluted (p)	11	**(27.71)**	7.04

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 £m	2017* £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	12	**0.4**	202.5
Acquired intangible assets	13	**0.3**	10.2
Property, plant and equipment		**1.5**	1.6
Portfolio:			
Equity investments	15	**1,095.1**	1,057.5
Debt investments	15	**33.1**	42.3
Limited and limited liability partnership interests	22	**17.3**	11.0
Total non-current assets		**1,147.7**	1,325.1
Current assets			
Trade and other receivables	16	**6.6**	8.3
Deposits		**90.0**	95.0
Cash and cash equivalents		**129.0**	231.3
Total current assets		**225.6**	334.6
Total assets		**1,373.3**	1,659.7
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Called up share capital	19	**21.2**	21.1
Share premium account		**684.7**	683.1
Merger reserve		**372.6**	508.6
Retained earnings		**135.8**	291.7
Total equity attributable to equity holders		**1,214.3**	1,504.5
Non-controlling interest		**3.9**	4.0
Total equity		**1,218.2**	1,508.5
Current liabilities			
Trade and other payables	17	**16.5**	19.7
EIB debt facility	18	**15.4**	6.3
Non-current liabilities			
EIB debt facility	18	**82.4**	97.7
Carried interest plan liability		**6.8**	8.0
Loans from limited partners of consolidated funds	18	**23.0**	13.1
Revenue share liability	15	**11.0**	6.4
Total equity and liabilities		**1,373.3**	1,659.7

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 134 to 137 were approved by the Board of Directors and authorised for issue on 25 March 2019 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 2018

	Note	2018 £m	2017 £m
Operating activities			
Operating (loss)/profit for the period		**(291.9)**	53.1
Adjusted for:			
Change in fair value of equity and debt investments	15	**50.4**	(49.0)
Change in fair value of limited and limited liability partnership interests		**(2.3)**	0.2
Gain on disposal of equity investments		**(2.0)**	(0.1)
Gain on deconsolidation of subsidiary		**—**	(45.1)
Depreciation of property, plant and equipment		**1.2**	0.9
Amortisation of intangible non-current assets	13	**9.9**	3.9
Goodwill impairment	12	**203.2**	—
Long-term incentive carry scheme (charge)/release		**(1.1)**	1.3
Fees settled in the form of equity		**(0.3)**	(0.5)
Share-based payment charge		**1.9**	2.4
Changes in working capital			
Decrease/(Increase) in trade and other receivables		**1.5**	(6.1)
(Decrease)/increase in trade and other payables		**(3.6)**	7.7
Increase in non-current liabilities		**9.9**	8.6
Other operating cash flows			
Net interest (paid)/received		**(1.7)**	0.3
Net cash outflow from operating activities		**(24.9)**	(22.4)
Investing activities			
Purchase of property, plant and equipment		**(0.6)**	(1.6)
Purchase of equity and debt investments	15	**(100.9)**	(71.2)
Investment in limited and limited liability partnerships		**(4.8)**	(1.4)
Distribution from limited partnership funds		**0.8**	—
Net cash flow from/(to) deposits		**5.0**	(95.0)
Acquisition of subsidiary undertaking		**—**	107.8
Proceeds from sale of equity investments		**29.5**	6.6
Net cash outflow from investing activities		**(71.0)**	(54.8)
Financing activities			
Proceeds from the issue of share capital		**—**	184.7
Transaction costs related to issue of share capital		**—**	(3.7)
Repayment of EIB facility		**(6.3)**	—
Proceeds from drawdown of EIB facility	18	**—**	15.0
Net cash inflow from financing activities		**(6.3)**	196.0
Net (decrease)/increase in cash and cash equivalents		**(102.2)**	118.8
Cash and cash equivalents at the beginning of the year		**231.3**	112.3
Effect of foreign exchange rate changes		**(0.1)**	0.2
Cash and cash equivalents at the end of the year		**129.0**	231.3

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 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 1 January 2018	**21.1**	**683.1**	**508.6**	**291.7**	**1,504.5**	**4.0**	**1,508.5**
Comprehensive income	**—**	**—**	**—**	**(293.8)**	**(293.8)**	**(0.1)**	**(293.9)**
IFRS 3 charge – equity settled	**0.1**	**1.6**	**—**	**—**	**1.7**	**—**	**1.7**
Transfer between reserves on impairment of subsidiaries	**—**	**—**	**(136.0)**	**136.0**	**—**	**—**	**—**
Equity-settled share-based payments	**—**	**—**	**—**	**1.9**	**1.9**	**—**	**1.9**
At 31 December 2018	**21.2**	**684.7**	**372.6**	**135.8**	**1,214.3**	**3.9**	**1,218.2**

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

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

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

(iv) Non-controlling interest — Share of 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.

The accompanying notes form an integral part of the financial statements.

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 2018. 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 2018

The following new standards have been applied in these 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.

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.

No new standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the Group's financial statements.

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

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

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.

1. Accounting Policies continued

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 at least 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.

(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 IFRS 9 Financial Instruments. 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 an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Accounting Policies continued

(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 IFRS 9 Financial Instruments and designated as at fair value through profit or loss on initial recognition.

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 an 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.

1. Accounting Policies continued

(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.

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 is recognised when the Group satisfies its performance obligations, in line with IFRS 15. 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 three to five years
Computer equipment	Over three to five years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Accounting Policies continued

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.

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

Under IFRS 9, held for trading and financial assets which were previously designated at fair value through profit or loss on initial recognition are now required to be recognised at fair value through profit and loss.

This category includes equity investments, debt investments 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.

1. Accounting Policies continued

As an additional disclosure, we present a further analysis of Level 3 in note 15, reflecting the following categories:

Level 3a equity — Equity investments where prices have been determined from recent investments in the last twelve months.

Level 3b — Equity investments using 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.

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 "IPEV Guidelines") endorsed by the British and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 IPEV 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.

(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 flows related to amounts held on deposit are presented within Investing activities in the Consolidated statement of cash flows.

Cash and cash equivalents

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

Financial liabilities

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.

1. Accounting Policies continued

The Group provides for liabilities in respect of revenue sharing with Imperial College London, arising under the Technology Pipeline Agreement ("TPA"), and other parties. The liability 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 comprise 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.

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 CONTINUED

2. Financial Risk Management

As set out in the Principal risks and uncertainties section on pages 48 to 54, 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 loss in 2018 of £48.4m represents a (4.3)% change against the opening balance (2017: net increase of £94.2m, 15.3% 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.

	2018			2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity and debt investments and investments in limited partnerships	**1.3**	**10.1**	**11.4**	2.3	8.7	11.0

(ii) Interest rate risk

The Group holds three EIB debt facilities with the overall balance as at 31 December 2018 amounting to £97.8m (2017: £104.0m) with £24.0m being subject to variable rate interest (2017: £39.0m) and £73.8m (2017: £65.0m) being subject to fixed rate interest of 3.22%

The variable rate consists of two elements. A facility of £30m which 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 average floating interest rate (including the fixed element) for 2018 was 2.69% (2017: 2.66%). The second facility of £9.6m is based on a floating interest rate including LIBOR and the average interest in the year was 3.42% (2017: 3.13%). There are no hedging instruments in place to cover against interest rate fluctuation as exposure is deemed insignificant.

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.

2. Financial Risk Management continued

(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 believes 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 below summarises the interest rate profile of the Group.

	2018				2017*			
	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	**—**	**—**	**1,095.1**	**1,095.1**	—	—	1,057.5	1,057.5
Debt investments	**—**	**—**	**33.1**	**33.1**	—	—	42.3	42.3
Limited and limited liability partnership interests	**—**	**—**	**17.3**	**17.3**	—	—	11.0	11.0
Deposits	**90.0**	**—**	**—**	**90.0**	95.0	—	—	95.0
Cash and cash equivalents	**—**	**129.0**	**—**	**129.0**	7.5	223.8	—	231.3
Trade receivables	**—**	**—**	**4.3**	**4.3**	—	—	1.9	1.9
Other receivables	**—**	**—**	**1.5**	**1.5**	—	—	6.4	6.4
	90.0	**129.0**	**1,151.3**	**1,370.3**	102.5	223.8	1,119.1	1,445.4
Financial liabilities								
Trade payables	**—**	**—**	**(1.7)**	**(1.7)**	—	—	(2.0)	(2.0)
Other accruals and deferred income	**—**	**—**	**(14.7)**	**(14.7)**	—	—	(17.7)	(17.7)
EIB debt facility	**(73.8)**	**(24.0)**	**—**	**(97.8)**	(65.0)	(39.0)	—	(104.0)
Carried interest plan liability	**—**	**—**	**(6.8)**	**(6.8)**	—	—	(8.0)	(8.0)
Provisions for liabilities and charges	**—**	**—**	**(11.0)**	**(11.0)**	—	—	(6.4)	(6.4)
Loans from limited partners of consolidated funds	**—**	**—**	**(23.0)**	**(23.0)**	—	—	(13.1)	(13.1)
	(73.8)	**(24.0)**	**(57.2)**	**(155.0)**	(65.0)	(39.0)	(47.2)	(151.2)

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

At 31 December 2018, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £1.0m (2017: £1.8m) higher/lower as a result of higher interest received on floating rate cash deposits.

(b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Financial Risk Management continued

(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	**2018 £m**	2017 £m
P1	**78.2**	117.9
P2	**134.7**	208.4
Other	**6.1**	—
Total deposits and cash and cash equivalents	**219.0**	326.3

In addition to the above the Group holds £6.1m with Arbuthnot Latham, a private bank with no debt in issue and, accordingly, on which a credit rating is not applicable.

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 2018 was the greater of 50% of total deposits or £50.0m (2017: £50.0m).

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 Group's accounting policy in respect of the valuation of unquoted equity investments is set out in note 1. In applying this policy, the key areas over which judgment are exercised include:

- Consideration of whether a funding round is sufficiently arm's length to be representative of fair value
- The length of time for which the price of recent investment remains the most appropriate measure of fair value
- In the case of companies with complex capital structures, the appropriate methodology for assigning value to different classes of equity based on their differential economic rights
- Where using alternative valuation methods such as discounted cash flows, inputs including the probability of achieving milestones and the discount rate used.

In all cases, valuations are based on the judgement of the directors after consideration of the above and upon available information believed to be reliable, which may be affected by conditions in the financial markets. Due to the inherent uncertainty of the investment valuations, the estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(ii) Goodwill impairment testing

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 and an estimation of the recoverable amount of the cash-generating unit ("CGU") to which goodwill is allocated.

The recoverable amount is based on value in use calculations which requires estimates of future cash flows expected from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for the University Partnerships CGU are the rate of return achieved, the annual investment rate, the long-term growth rate and the discount rate.

See note 12 for further details.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Operating Segments

For both the year ended 31 December 2018 and the year ended 31 December 2017, the Group's revenue and profit/loss before taxation were derived almost entirely from its principal activities within the UK.

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 capital funds focusing on early-stage UK technology companies;

iii. the in-licensing of drugable intellectual property from research-intensive institutions, which activity ceased in 2017.

Consideration has been given to whether the UK Life Sciences and Technology partnerships or the US and Australasian operations represent separate reporting segments. In light of the executive-level management of several strategic assets in the portfolio, the involvement of the Board in the investment approval process for larger investments, and following consideration of the criteria for aggregation of operating segments, we conclude that this is not the case.

These activities are described in further detail in the strategic report on pages 8 to 17.

Year ended 31 December 2018	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	(50.4)	–	–	(50.4)
Gain on disposal of equity investments	2.0	–	–	2.0
Gain on deconsolidation of subsidiary	–	–	–	–
Change in fair value of limited and limited liability partnership interests	2.3	–	–	2.3
Other portfolio income	–	–	–	–
Licensing income	–	–	–	–
Revenue from services and other income	3.4	1.6	–	5.0
Revenue from fund management services	–	4.9	–	4.9
Carried interest plan charge	1.1	–	–	1.1
Amortisation of intangible assets	(9.2)	(0.7)	–	(9.9)
Goodwill impairment	(201.1)	(2.1)	–	(203.2)
IFRS 3 charge in respect of acquisition of subsidiary	–	(3.3)	–	(3.3)
Acquisition and restructuring costs	–	–	–	–
Administrative expenses	(36.2)	(4.2)	–	(40.4)
Operating loss	(288.1)	(3.8)	–	(291.9)
Finance income	1.2	–	–	1.2
Finance costs	(3.0)	–	–	(3.0)
Loss before taxation	(289.9)	(3.8)	–	(293.7)
Taxation	(0.1)	–	–	(0.1)
Loss for the year	(290.0)	(3.8)	–	(293.8)
STATEMENT OF FINANCIAL POSITION				
Assets	1,351.0	20.5	1.8	1,373.3
Liabilities	(145.2)	(8.1)	(1.8)	(155.1)
Net assets	1,205.8	12.4	–	1,218.2
Other segment items				
Capital expenditure	0.6	–	–	0.6
Depreciation	(1.2)	–	–	(1.2)

5. Operating Segments continued

Year ended 31 December 2018	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME BY GEOGRAPHY			
Portfolio return and revenue	**(50.4)**	**14.2**	**(36.2)**
Administrative expenses	**(247.7)**	**(8.0)**	**(255.7)**
Operating (loss)/profit	**(298.1)**	**6.2**	**(291.9)**
Net interest	**(1.8)**	**—**	**(1.8)**
(Loss)/profit before taxation	**(299.9)**	**6.2**	**(293.7)**
Taxation	**(0.1)**	**—**	**(0.1)**
(Loss)/profit for the year	**(300.0)**	**6.2**	**(293.8)**

Year ended 31 December 2018	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF FINANCIAL POSITION BY GEOGRAPHY			
Current assets	**207.4**	**18.2**	**225.6**
Non-current assets	**1,099.8**	**47.9**	**1,147.7**
Current liabilities	**(24.4)**	**(7.5)**	**(31.9)**
Non-current liabilities	**(107.5)**	**(15.7)**	**(123.2)**
Total equity	**1,175.3**	**42.9**	**1,218.2**

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)
IFRS 3 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	—	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Operating Segments continued

Year ended 31 December 2017	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
Profit for the year	5.7	2.7	45.0	53.4
STATEMENT OF FINANCIAL POSITION				
Assets	1,642.6	17.1	—	1,659.7
Liabilities	(147.0)	(4.2)	—	(151.2)
Net assets	1,495.6	12.9	—	1,508.5
Other segment items				
Capital expenditure	1.6	—	—	1.6
Depreciation	(0.9)	—	—	(0.9)

Year ended 31 December 2017	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME BY GEOGRAPHY			
Portfolio return and revenue	98.3	5.2	103.5
Administrative expenses	(44.9)	(5.5)	(50.4)
Operating (loss)/profit	53.4	(0.3)	53.1
Net interest	0.3	—	0.3
(Loss)/profit before taxation	53.7	(0.3)	53.4
Taxation	—	—	—
(Loss)/profit for the year	53.7	(0.3)	53.4

Year ended 31 December 2017	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF FINANCIAL POSITION BY GEOGRAPHY			
Current assets	333.6	1.0	334.6
Non-current assets	1,305.5	20.4	1,325.9
Current liabilities	(24.3)	(1.7)	(26.0)
Non-current liabilities	(126.0)	—	(126.0)
Total equity	1,488.8	19.7	1,508.5

6. Auditor's Remuneration

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

	2018 £'000s	2017 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**129**	118
Fees payable to the Company's auditor for the audit of the Company's interim accounts	**32**	50
The audit of the Company's subsidiaries, pursuant to legislation	**115**	100
Total fees for audit services	**276**	268
Audit-related assurance services	**—**	—
Total assurance services	**276**	268
Tax compliance services	**—**	—
Taxation advisory services	**—**	—
All other services	**9**	23
Total non-assurance services	**9**	23

7. Operating Profit

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

	2018 £m	2017 £m
Amortisation of intangible assets	**(9.9)**	(3.9)
Goodwill impairment	**(203.2)**	—
Depreciation of tangible assets	**(1.2)**	(0.9)
Employee costs (see note 9)	**(21.3)**	(17.0)
Operating leases (see note 20)	**(1.1)**	(1.1)
Gain on deconsolidation of subsidiary	**—**	45.1

8. Acquisition and Restructuring Costs

Acquisition and restructuring costs in the year comprised:

	2018 £m	2017 £m
Financial and corporate broking advice	**—**	5.0
Legal advice	**—**	1.0
Other professional advice	**—**	0.2
Other costs	**—**	2.9
	—	9.1

Acquisition and restructuring costs incurred in 2017 related to professional fees incurred for the acquisition of Touchstone Innovations, provisions 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.

9. Employee Costs

Employee costs (including executive directors) comprise:

	2018 £m	2017 £m
Salaries	**14.9**	10.2
Defined contribution pension cost	**1.3**	0.5
Share-based payment charge (see note 21)	**1.9**	2.4
Other bonuses accrued in the year	**1.4**	2.5
Social security	**1.8**	1.4
	21.3	17.0

The average monthly number of persons (including executive directors) employed by the Group during the year was 167, all of whom were involved in management and administration activities (2017: 115). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 90 to 115.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. Taxation

	2018 £m	2017 £m
Current tax		
UK corporation tax on (losses)/profits for the year	**–**	–
Foreign tax	**0.1**	–
	0.1	–
Deferred tax	**–**	–
Total tax	**0.1**	–

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 majority of investments acquired via the combination with Touchstone Innovations plc were previously held via Imperial Innovation Sárl, which exempted dividends and gains from tax under Luxembourg law provided the conditions for the relevant participation exemption were met. During the year, the Group unwound this structure and, as a result, the assets of Touchstone Innovations are now subject to the UK tax regime described above.

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

	2018 £m	2017 £m
(Loss)/profit before tax	**(293.7)**	53.4
Tax at the UK corporation tax rate of 19.0% (2017: 19.25%)	**(55.8)**	10.3
Expenses not deductible for tax purposes	**0.2**	1.6
Amortisation on goodwill arising on consolidation	**40.5**	–
Non-taxable income on deconsolidation of Istesso group	**–**	(8.7)
Fair value movement on investments qualifying for SSE	**8.8**	(9.4)
Movement on share-based payments	**0.3**	0.3
Movement in tax losses arising not recognised	**6.1**	5.9
Total tax charge	**0.1**	–

At 31 December 2018, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £228.3m (2017: £246.9m). An analysis is shown below:

	2018		2017	
	Amount £m	**Deferred tax £m**	Amount £m	Deferred tax £m
Share-based payment costs and other temporary differences	**4.6**	**0.8**	15.1	2.6
Unused tax losses	**223.7**	**38.0**	231.8	39.4
	228.3	**38.8**	246.9	42.0

At 31 December 2018, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2017: £nil). An analysis is shown below:

	2018		2017	
	Amount £m	**Deferred tax £m**	Amount £m	Deferred tax £m
Temporary timing differences	**8.1**	**1.4**	7.1	1.2
Unused tax losses	**(8.1)**	**(1.4)**	(7.1)	(1.2)
	–	**–**	–	–

11. (Loss)/earnings per Share

(Loss)/earnings	2018 £m	2017 £m
(Loss)/earnings for the purposes of basic and dilutive earnings per share	**(293.8)**	49.7

Number of shares	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,058,678,987**	704,227,751
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	**1,058,678,987**	704,885,424

No adjustment has been made to the basic loss per share in the year ended 31 December 2018, as the exercise of share options would have the effect of reducing the loss per ordinary share, and therefore is not dilutive.

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

	2018 £m	2017* £m
Opening	**202.5**	57.1
Adjustment of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)	**—**	30.4
Recognised on acquisition of subsidiary undertakings	**—**	115.0
Recognised on buyout of minority interest in US platform	**1.1**	—
Impairment of goodwill	**(203.2)**	—
	0.4	202.5

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

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 is 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.

	2018 £m	2017* £m
University partnership CGU	**—**	200.0
Fund management CGU	**—**	2.1
Parkwalk Advisors CGU	**0.4**	0.4
	0.4	202.5

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. Goodwill continued

Impairment review of the university partnership CGU

The recoverability of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The key assumptions used in the estimation of 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 this CGU, there is a range of possible alternative values. The key variable ranges are set out below:

	2018	2017
Rate of return achieved	**12-14%**	15%–20%
Annual investment rate	**£80m-£90m**	£125m–£135m(i)
Long-term growth rate	**1.5%-1.7%**	1.5%–1.7%
Discount rate	**9%-10%**	10%-15%

(i) The 2017 values have been represented to include capital investment in the Touchstone Innovations portfolio

During the year, the Group has experienced negative portfolio returns as a result of a broad deterioration in equity market sentiment which has impacted the value of the Group's quoted portfolio, as well as the specific impact of the failure of Diurnal plc's Phase III clinical trial for Chronocort. Management views these factors as potential indicators of impairment and have considered their impact on the assumptions used in the Group's goodwill impairment model.

The rate of return estimate has previously been based on the Group's long-term returns forecast, which was supported by the Group's cumulative IRR performance. As a result of the factors noted above, in 2018 there was a significant divergence between forecast and actual portfolio returns performance, accompanied by a drop in the Group's cumulative IRR performance. As a result, management no longer deems it appropriate to base the rate of return assumption on forecast portfolio returns and have instead based it on the Group's historical cumulative IRR performance to date. The resulting reduction in the forecast IRR is the primary factor resulting in the full impairment of goodwill in this CGU.

The annual investment rate has been projected taking into account the Group's average anticipated portfolio investment level over the period covered by its financial forecasting period. The decline in the projected annual investment rate reflects the completion of the integration of the IP Group and Touchstone portfolios, with the combined investment teams focusing on the most promising opportunities in the combined portfolio.

The discount rate was a pre-tax measure estimated based on an industry average weighted cost of capital. The long-term growth rate was based on the International Monetary Fund's five year UK real GDP growth rate, which the directors believe appropriately reflects the long-term growth assumption that a market participant would make.

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:

	2018 £m	2017 £m
Discount rate	**9-10%**	9%–11%
Number of funds under management	**3**	3
Remaining average fund life (years)	**1.5**	2.5
Annual management fee	**2%-3.25%**	2%–3.25%
Cost inflation	**1.5%**	2.5%
Long-term growth rate	**1.7%**	1.9%

The recoverability of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The Group's value in use model includes an estimate of fund management fees earned during the lifetime of its fixed life funds, which currently include investments from a number of EU-funded bodies. As a result of uncertainty around the nature of future investments by EU-funded bodies, no extension in the life of these funds is now assumed. The resulting reduction in the anticipated level of management fees gives rise to a full impairment of goodwill in the Group's venture capital fund management CGU.

13. Intangible Assets

	£m
Cost	
At 1 January 2018	30.6
Additions acquired through business combinations	—
At 31 December 2018	**30.6**
Accumulated amortisation	
At 1 January 2018	20.4
Charge for the year	9.9
At 31 December 2018	**30.3**
Net book value	
At 31 December 2018	**0.3**
At 31 December 2017	10.2

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 up to 17 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

14. Categorisation of Financial Instruments

Financial assets	At fair value through profit or loss £m	Amortised cost £m	Total £m
At 31 December 2018			
Equity investments	**1,095.1**	**—**	**1,095.1**
Debt investments	**33.1**	**—**	**33.1**
Other financial assets	**—**	**—**	**—**
Limited and limited liability partnership interests	**17.3**	**—**	**17.3**
Trade and other receivables	**—**	**5.8**	**5.8**
Deposits	**—**	**90.0**	**90.0**
Cash and cash equivalents	**—**	**129.0**	**129.0**
Total	**1,145.5**	**224.8**	**1,370.3**
At 31 December 2017*			
Equity investments	1,057.5	—	1,057.5
Debt investments	42.3	—	42.3
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	1,110.8	334.6	1,445.4

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

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 (2017: £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 (2017: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Net Investment Portfolio

Note 1 includes a description of the fair value hierarchy used, including the subdivision of Level 3 into Level 3a and Level 3b.

	Level 1	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	Total £m
At 1 January 2018	225.0	308.2	42.3	524.3	1,099.8
Investments during the year	11.2	68.0	17.5	4.2	100.9
Transaction-based reclassifications during the year	4.7	11.9	(17.0)	0.4	—
Other transfers between hierarchy levels during the year	—	210.4	—	(210.4)	—
Disposals	(7.9)	(1.4)	(8.0)	(10.2)	(27.5)
Fees settled via equity	—	0.2	—	—	0.2
Change in revenue share	—	0.4	—	4.8	5.2
Change in fair value in the year(i)	(99.8)	59.6	(1.7)	(8.5)	(50.4)
At 31 December 2018	**133.2**	**657.3**	**33.1**	**304.6**	**1,128.2**
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	35.2	137.6	17.0	131.6	321.4
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	**225.0**	**308.2**	**42.3**	**524.3**	**1,099.8**

(i) The change in fair value in the year includes a gain of £3.1m (2017: loss of £1.1m) in exchange differences on translating foreign currency investments. The total unrealised change in fair value in respect of Level 3 investments was a gain of £49.4m (2017: gain of £50.1m).

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

The Group's policy is to classify equity investments in unquoted investments 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 31.6% (2017: 23.0%) of the equity investments in unquoted spin-out companies would be reclassified to Level 3b.

Investments in 119 (2017: 190) 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 £30.5m (2017: £52.4m), with a corresponding increase if the unobservable inputs were to increase by 10%.

The majority of the assets held within Level 3 are valued based on unobservable inputs related to the price of recent investments. Assets totalling £33.2m are valued on a discounted cash flow basis; these valuations are sensitive to the discount rate assumed in the valuation of each asset.

15. Net Investment Portfolio continued

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.

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 levels 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 level 3a, and those changes post are attributed to level 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 £nil (2017: £13.4m).

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 (2017: no such instances).

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 £471.9m (2017: £26.7m).

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 £164.6m (2017: £280.0m).

Within level 3a equity investments, the distribution by portfolio company holding value is as follows: investments >£10m: £505.5m (2017: £177.4m), investments £5m-£10m: £97.6m (£63.7m), investments £1.5m-£5m: £47.7m (2017: 54.5m), investments < £1.5m: £6.5m (2017: £6.6m).

Within level 3a debt investments, the distribution by portfolio company holding value is as follows: investments >£10m: £10.5m (2017: £29.1m), investments £5m-£10m: £7.5m (£5.2m), investments £1.5m-£5m: £10.7m (2017: 5.4m), investments < £1.5m: £4.4m (2017: £5.5m).

Within level 3b equity investments, the distribution by portfolio company holding value is as follows: investments >£10m: £197.0m (2017: £451.8m), investments £5m-£10m: £48.6m (£40.6m), investments £1.5m-£5m: £41.9m (2017: 38.2m), investments < £1.5m: £17.1m (2017: £27.5m).

Change in fair value in the year	2018 £m	2017 £m
Fair value gains	103.3	99.3
Fair value losses	(153.7)	(50.3)
	(50.4)	49.0

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

16. Trade and Other Receivables

	2018 £m	2017 £m
Trade debtors	4.3	1.9
Prepayments	0.8	1.4
Other receivables	1.5	5.0
	6.6	8.3

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. Trade and Other Payables

Current liabilities	2018 £m	2017 £m
Trade payables	**1.7**	2.0
Social security expenses	**0.7**	0.7
Deferred consideration payable	**2.8**	4.3
Redundancy and restructuring cost accrual	**—**	2.4
Bonus accrual	**2.1**	2.8
Current tax payable	**0.1**	—
Other accruals and deferred income	**9.1**	7.5
	16.5	19.7

18. Borrowings

Non-current liabilities	2018 £m	2017 £m
EIB debt facility	**82.4**	97.7
Loans drawn down from the Limited Partners of consolidated funds	**23.0**	13.1
	105.4	110.8

Current liabilities	2018 £m	2017 £m
EIB debt facility	**15.4**	6.3
	15.4	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. The classification of these loans as non-current reflects the forecast timing of returns and subsequent repayment of loans, which is not anticipated to occur within one year.

EIB debt facility

The Group has a number of debt facilities with the European Investment Bank which it has used to fund UK university spin-out companies as they develop and mature. The terms of the facilities are summarised below:

Description	Initial amount	Date drawn	Interest rate	Repayment terms	Repayment commencement date
IP Group Facility, tranche 1	£15m	Dec 2015	Floating, linked to LIBOR	5 years	Jan 2019
IP Group Facility, tranche 2	£15m	Dec 2017	Fixed 3.016%	5 years	Jan 2019
Touchstone Facility A	£30m	Jul 2013	Floating, linked to LIBOR	12 years	Jan 2015
Touchstone Facility B	£50m	Feb 2017	Fixed 3.026%	8 years	Jul 2018

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.

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 at 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.

The Group closely monitors that the covenants are adhered to on an ongoing basis and has complied with these covenants throughout the year. The Group will continue to monitor the covenants' position against forecasts and budgets to ensure that it operates within the prescribed limits.

18. Borrowings continued

The maturity profile of the borrowings was as follows:	2018 £m	2017 £m
Due within 6 months	**7.7**	1.6
Due 6 to 12 months	**7.7**	4.7
Due 1 to 5 years	**61.7**	61.7
Due after 5 years	**21.0**	36.4
At 31 December(i)	**98.1**	104.4

A reconciliation in the movement in debt is as follows:	2018 £m	2017 £m
Opening	**104.4**	14.9
Drawdown of debt	**—**	15.0
Repayment of debt	**(6.3)**	—
Acquisition of subsidiary	**—**	74.5
At 31 December(i)	**98.1**	104.4

There were no non-cash movements in debt.

(i) These are gross amounts repayable and exclude costs of £0.3m (2017: £0.4m) incurred on obtaining the loans and amortised over the life of the loans.

19. Share Capital

	2018		2017	
Issued and fully paid:	**Number**	**£m**	Number	£m
Ordinary shares of 2p each				
At 1 January	**1,057,383,601**	**21.1**	565,221,967	11.3
Issued under share placings	**—**	**—**	131,913,567	2.6
Issued as consideration in acquisitions	**—**	**—**	359,304,235	7.2
Issued in respect of post-acquisition services	**1,519,849**	**0.1**	—	—
Issued under employee share plans	**241,145**	**—**	943,832	—
At 31 December	**1,059,144,595**	**21.2**	1,057,383,601	21.1

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.

On 5 April 2018, the Group issued 1,519,849 new Ordinary Shares as consideration to the sellers of Parkwalk Advisors (see note 26). These amounts are deemed, under IFRS 3, to represent payment for post-acquisition services.

On 16 April 2018, the Group issued 241,145 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 21).

20. Operating Lease Arrangements

	2018 £m	2017 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	**1.1**	1.1

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

	2018 £m	2017 £m
Within one year	**1.8**	1.7
In the second to fifth years inclusive	**3.4**	4.6
	5.2	6.3

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. Share-Based Payments

In 2018, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 90 to 115.

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 the 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 2018	**Weighted -average exercise price 2018**	Number of options 2017	Weighted -average exercise price 2017
At 1 January	**394,494**	**–**	837,995	–
AIS deferral shares award during the year	**468,901**	**–**	–	–
Exercised during the year	**(241,145)**	**–**	(436,689)	–
Lapsed during the year	**(16,609)**	**–**	(6,812)	–
At 31 December	**605,641**	**–**	394,494	–
Exercisable at 31 December	**153,349**	**–**	–	–

The options outstanding at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted-average remaining contractual life of 0.6 years (2017: 0.3 years).

The weighted average share price at the date of exercise for share options exercised in 2018 was 127p (2017: 139.17p).

As the 2018 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 2018.

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 90 to 115.

The 2018 LTIP awards were made on 10 May 2018. The awards will ordinarily vest on 31 March 2021, 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 2018 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 2018 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 2018 to 31 December 2020, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2021, 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.

21. Share-Based Payments continued

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 did not meet the threshold performance target and lapsed on 31 March 2018.

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

	Number of options 2018	**Weighted-average exercise price 2018**	Number of options 2017	Weighted-average exercise price 2017
At 1 January	**9,066,117**	**—**	5,614,837	—
Lapsed during the year	**(1,262,697)**	**—**	(1,227,666)	—
Forfeited during the year	**(452,484)**	**—**	(3,766)	—
Vested during the year	**—**	**—**	—	—
Notionally awarded during the year	**5,025,302**	**—**	4,682,712	—
At 31 December	**12,376,238**	**—**	9,066,117	—
Exercisable at 31 December	**—**	**—**	—	—

The options outstanding at 31 December 2018 had an exercise price in the range of £nil (2017: £nil) and a weighted-average remaining contractual life of 1.3 years (2017: 1.6 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. Share-Based Payments continued

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

	2018	2017
Share price at date of award	**£1.355**	£1.151
Exercise price	**£nil**	£nil
Fair value at grant date	**£0.57**	£0.34
Expected volatility (median of historical 50-day moving average)	**36%**	36%
Expected life (years)	**3.0**	3.0
Expected dividend yield	**0%**	0%
Risk-free interest rate	**1.0%**	0.4%

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 2021 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.

	Number of options 2018	Weighted-average exercise price 2018	Number of options 2017	Weighted-average exercise price 2017
At 1 January	**2,875,606**	**–**	–	–
Replacement shares awarded on 17 October 2018	**–**	**–**	2,875,606	–
Forfeited during the year	**(1,728,796)**	**–**	–	–
Vested during the year	**–**	**–**	–	–
At 31 December	**1,146,810**	**–**	2,875,606	–
Exercisable at 31 December	**–**	**–**	–	–

The options outstanding at 31 December 2018 had an exercise price of £0.015 (2017: £0.015) and a weighted-average remaining contractual life of 1.7 years (2017: 2.7 years).

21. Share-Based Payments continued

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 2018	Weighted-average exercise price 2018	Number of options 2017	Weighted-average exercise price 2017
At 1 January	**1,808,001**	**–**	–	–
Forfeited during the year	**(529,167)**	**–**	–	–
Replacement shares awarded on 17 October 2018	**–**	**–**	1,808,001	–
At 31 December	**1,278,834**	**2.14**	1,808,001	£2.13
Exercisable at 31 December	**1,278,834**	**2.14**	1,808,001	£2.13

The options outstanding at 31 December 2018 had an exercise price of £2.14 (2017: £2.13) and a weighted-average remaining contractual life of 5.9 years (2017: 6.9 years).

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 of IP Group shares at the same conversion price per share as when 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 were 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:

	2018	2017
At 1 January	**–**	1,338,000
Expired during the year	**–**	(1,338,000)
At 31 December	**–**	–

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 £1.9m (2017: £2.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. Limited and Limited Liability Partnership Interests

	£m
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 1 January 2018	**11.0**
Additions during the year	**4.8**
Realisations in the year	**(0.8)**
Change in fair value during the year	**2.3**
At 31 December 2018	**17.3**

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.

23. Related Party Transactions

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

a) Limited Partnerships

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

Statement of comprehensive income	**2018 £m**	2017 £m
Revenue from services	**0.5**	0.7

Statement of financial position	**2018 £m**	2017 £m
Investment in limited partnerships	**5.8**	2.6
Amounts due from related parties	**1.2**	0.7

23. Related Party Transactions continued

b) Key management personnel

i) Key management personnel transactions

Key management had investments in the following spin-out companies as at 31 December 2018:

Director/PDMR	Company name	Shares held at 1 January 2018	Number of shares acquired/ (disposed) in the period	**Number of shares held at 31 December 2018**	%
Alan Aubrey	Accelercomm Limited	333	305	**638**	0.24%
	Alesi Surgical Limited	18	—	**18**	0.14%
	Amaethon Limited — A Shares	104	—	**104**	3.12%
	Amaethon Limited — B Shares	11,966	—	**11,966**	1.04%
	Amaethon Limited — Ordinary shares	21	—	**21**	0.32%
	Avacta Group plc	202,761	(11,427)	**191,334**	0.17%
	Boxarr Limited	1,732	—	**1,732**	0.24%
	Capsant Neurotechnologies Limited(i)	11,631	—	**11,631**	0.81%
	Crysalin Limited	1,447	—	**1,447**	0.13%
	Deep Matter Group plc(ii)	2,172,809	—	**2,172,809**	0.39%
	Ditto AI Limited	120,434,525	50,534,071	**170,968,596**	12.20%
	Diurnal Group plc	15,000	—	**15,000**	<0.1%
	EmDot Limited	15	—	**15**	0.87%
	Getech Group plc	15,000	—	**15,000**	<0.1%
	hVivo plc	37,160	—	**37,160**	<0.1%
	Ilika plc	69,290	(54,814)	**14,476**	<0.1%
	Istesso Limited	1,185,150	—	**1,185,150**	1.57%
	Itaconix plc	88,890	—	**88,890**	<0.1%
	Karus Therapeutics Limited	223	—	**223**	<0.1%
	Microbiotica Limited	10,000	—	**10,000**	<0.1%
	Mirriad Advertising plc	33,333	—	**33,333**	<0.1%
	MDL 2016 Limited — Ordinary shares(iii)	3,226	(3,226)	**0**	0.00%
	MDL 2016 Limited — A shares(iii)	229	(229)	**0**	0.00%
	Modern Water plc	519,269	—	**519,269**	0.54%
	Oxbotica Limited	0	16	**16**	<0.1%
	Oxford Advanced Surfaces Limited(iv)	8,402	(8,401)	**1**	<0.1%
	Oxford Nanopore Technologies Limited	101,208	—	**101,208**	0.35%
	Perachem Holdings plc	108,350	—	**108,350**	0.29%
	Salunda Limited	53,639	—	**53,639**	<0.1%
	Structure Vision Limited	212	—	**212**	1.00%
	Surrey Nanosystems Limited	453	—	**453**	0.22%
	Tissue Regenix Group plc	2,389,259	—	**2,389,259**	0.20%
	Xeros Technology Group plc	40,166	(17,319)	**22,847**	<0.1%
	Zeetta Networks Limited	424	—	**424**	<0.1%
Mike Townend	Amaethon Limited — A Shares	104	—	**104**	3.12%
	Amaethon Limited — B Shares	11,966	—	**11,966**	1.04%
	Amaethon Limited — Ordinary shares	21	—	**21**	0.32%
	Applied Graphene Materials plc	22,619	—	**22,619**	<0.1%
	Avacta Group plc	20,001	—	**20,001**	<0.1%
	Capsant Neurotechnologies Limited(i)	11,282	—	**11,282**	0.79%
	Creavo Technologies Limited	117	—	**117**	<0.1%
	Crysalin Limited	1,286	—	**1,286**	0.11%
	Deep Matter Group plc(ii)	932,944	—	**932,944**	0.17%
	Ditto AI Limited	613,048	—	**613,048**	<0.1%
	Diurnal Group plc	15,000	—	**15,000**	<0.1%
	EmDot Limited	14	—	**14**	0.81%
	Getech Group plc	20,000	—	**20,000**	<0.1%
	Istesso Limited	1,185,150	—	**1,185,150**	1.57%
	Ilika plc	10,000	—	**10,000**	<0.1%
	Itaconix plc	64,940	—	**64,940**	<0.1%
	Mirriad Advertising plc	25,000	—	**25,000**	<0.1%
	MDL 2016 Limited(iii)	1,756	(1,756)	**0**	0%
	Modern Water plc	575,000	—	**575,000**	0.60%
	Oxford Advanced Surfaces Limited(iv)	5,000	(4,999)	**1**	<0.1%
	Oxford Nanopore Technologies Limited	30,967	—	**30,967**	<0.1%
	Perachem Holdings plc	113,222	—	**113,222**	0.30%
	Structure Vision Limited	212	—	**212**	1.00%
	Surrey Nanosystems Limited	404	—	**404**	0.20%
	Tissue Regenix Group plc	1,950,862	—	**1,950,862**	0.17%
	Ultrahaptics Holdings Limited	1,224	—	**1,224**	<0.1%
	Xeros Technology Group plc	35,499	—	**35,499**	<0.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. Related Party Transactions continued

Director/PDMR	Company name	Shares held at 1 January 2018	Number of shares acquired/ (disposed) in the period	**Number of shares held at 31 December 2018**	%
Greg Smith	Alesi Surgical Limited	2	—	**2**	<0.1%
	Avacta Group plc	3,904	—	**3,904**	<0.1%
	Capsant Neurotechnologies Limited(i)	896	—	**896**	<0.1%
	Crysalin Limited	149	—	**149**	<0.1%
	Ditto AI Limited	144,248	—	**144,248**	<0.1%
	Diurnal Group plc	15,000	—	**15,000**	<0.1%
	EmDot Limited	4	—	**4**	0.23%
	Getech Group plc	8,000	—	**8,000**	<0.1%
	hVivo plc	61,340	—	**61,340**	<0.1%
	Istesso Limited	313,425	—	**313,425**	0.41%
	Itaconix plc	4,500	—	**4,500**	<0.1%
	Perachem Holdings plc	4,830	—	**4,830**	<0.1%
	Mirriad Advertising plc	16,667	—	**16,667**	<0.1%
	MDL 2016 Limited — Ordinary shares(iii)	361	(361)	**0**	0%
	MDL 2016 Limited — A shares(iii)	28	(28)	**0**	0%
	Modern Water plc	7,250	—	**7,250**	<0.1%
	Oxbotica Limited	0	8	**8**	<0.1%
	Oxford Nanopore Technologies Limited	1,581	—	**1,581**	<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**	0.12%
	Mirriad Advertising plc	16,667	—	**16,667**	<0.1%
	Oxford Nanopore Technologies Limited	174	—	**174**	<0.1%
	Ultrahaptics Holdings Limited	26	2,574	**2,600**	<0.1%
	Zeetta Networks Limited	424	—	**424**	0.13%
Mark Reilly	Actual Experience plc	65,500	—	**65,500**	0.15%
	Ceres Power Holdings plc	5,697	—	**5,697**	<0.1%
	Diurnal Group plc	7,500	—	**7,500**	<0.1%
	Mirriad Advertising plc	33,333	—	**33,333**	<0.1%
	Oxbotica Limited	0	8	**8**	<0.1%
	Ultrahaptics Holdings Limited	1,700	—	**1,700**	<0.1%
	Wave Optics Limited	0	308	**308**	<0.1%
Sam Williams	Accelercomm Limited	66	61	**127**	<0.1%
	Alesi Surgical Limited	1	—	**1**	<0.1%
	Creavo Medical Technologies Limited	23	—	**23**	<0.1%
	Diurnal Group plc	46,748	5,500	**52,248**	<0.1%
	Genomics plc	0	333	**333**	<0.1%
	Istesso Limited	7,048,368	—	**7,048,368**	9.32%
	Microbiotica Limited	7,000	—	**7,000**	<0.1%
	Mirriad Advertising plc	3,333	—	**3,333**	<0.1%
	Oxford Nanopore Technologies Limited	340	—	**340**	<0.1%
	Ultrahaptics Holdings Limited	558	—	**558**	<0.1%

(i) Capsant Neurotechnologies Limited commenced voluntary liquidation proceedings on 13 August 2018

(ii) Deep Matter Group plc was formerly known as Cronin Group plc

(iii) MDL 2016 Limited was dissolved on 6 March 2018

(iv) Oxford Advanced Surfaces Limited had a share consolidation of 5000:1 on 12 March 2018

23. Related Party Transactions continued

ii) Key management personnel compensation

Key management personnel compensation comprised the following:

	2018 £m	2017 £m
Short-term employee benefits(i)*	2,402	2,144
Post-employment benefits(ii)	114	116
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments(iii)	1,089	837
Total	**3,605**	3,097

(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 21 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 services 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	2018 £m	2017 £m
Revenue from services	4.3	1.9

Statement of financial position	2018 £m	2017 £m
Trade receivables	0.9	0.5

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	2018 £m	2017 £m
Net gains/(losses) on disposals	1.1	0.7
Change in fair value of equity and debt investments	(21.6)	49.0

Statement of financial position	2018 £m	2017 £m
Equity and debt investments	618.1	619.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. Related Party Transactions continued

d) Subsidiary companies

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

Statement of financial position	2018 £m	2017 £m
Intercompany balances with other Group companies	**3.6**	3.2

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

24. Capital Management

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

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

During 2018, the Group's strategy, which was unchanged from 2017, 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 18.

25. Capital Commitments

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 2018:

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 LP	2013	10.0	7.6	2.4
UCL Technology Fund LP	2016	24.8	10.2	14.6
Apollo Therapeutics LLP	2016	3.3	1.0	2.3
Total		**41.2**	**21.8**	**19.4**

26. Acquisition of subsidiaries

Touchstone Innovations plc:

On 17 October 2017 the Group acquired control of 100% of the ordinary shares in Touchstone Innovations plc. The Group has recognised the assets and liabilities acquired in accordance with IFRS 3 "Business Combinations". Certain assets, primarily holdings in unlisted portfolio companies that have been accounted for using non-market-based valuation techniques, were provisionally determined and for a twelve-month measurement period post-acquisition, adjustments are made to these assets to the extent that new information has been obtained about facts and circumstances that were in existence at the acquisition date. As at the reporting date, an adjustment of £30.4m (which comprises £30.8m portfolio valuation decrease, £0.4m decrease in other assets and £0.8m decrease in non-current liabilities) has been made to net assets acquired.

Net assets acquired	2018 £m	2017[i] £m
Acquired intangible assets	–	6.9
Investment portfolio	–	321.4
Other non-current assets	–	6.3
Trade and other receivables	–	2.9
Cash and cash equivalents	–	119.1
Current liabilities	–	(6.7)
Non-current liabilities	–	(88.3)
Net assets	–	361.6
Goodwill	–	138.9
Total consideration	–	500.5
Consideration satisfied by:		
Issue of share capital (357,518,520 IP Group ordinary shares at 140.0 pence per share[ii])		500.5

(i) Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition.

(ii) Being the closing price of IP Group plc shares on 17 October 2017, the date of acquisition

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.

Net assets acquired	2018 £m	2017 £m
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. 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 reader in understanding the Group's performance. Consequently, APMs are used by the directors and management for performance analysis, planning, reporting and incentive-setting purposes.

APM	Reference for reconciliation	Definition and purpose	Calculation	2018 £m	2017* £m
Hard NAV	Primary statements	Hard NAV is defined as the total equity of the Group less intangible assets. 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. 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.	Total equity	**1,218.2**	1,508.5
			Excluding:		
			Goodwill	**0.4**	202.5
			Other intangible assets	**0.3**	10.2
			Hard NAV	**1,217.5**	1,295.8
Hard NAV per share	Primary statements Note 20	Hard NAV per share is defined as Hard NAV, as defined above, divided by the number of shares in issue. 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	**£1,217.5m**	£1,295.8m
			Shares in issue	**1,059,144,595**	1,057,383,601
			Hard NAV per share	**115.0p**	122.5p

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

27. Alternative Performance Measures ("APM") continued

APM	Reference for reconciliation	Definition and purpose	Calculation	2018 £m	2017* £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 IFRS 3 which is anticipated to be a non-recurring item. 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 IFRS 3. The measure shows a summary of the income statement gains and losses which directly impact Hard NAV.	Total comprehensive income	**(293.9)**	53.4
			Excluding:		
			Amortisation of intangible assets	**9.9**	3.9
			Goodwill impairment	**203.2**	–
			Share-based payment charge	**1.9**	2.4
			IFRS 3 charge in respect of acquisition of subsidiary	**3.3**	4.4
			Return on Hard NAV	**(75.6)**	64.1
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	**(75.6)**	64.1
			Excluding:		
			Acquisition and restructuring costs	**–**	9.1
			Return on Hard NAV excluding acquisition and restructuring costs	**(75.6)**	73.2
Loss for the year before exceptional goodwill impairment	Primary statements	Loss for the year, excluding goodwill impairment which is anticipated to be a non-recurring charge in the current year.	(Loss)/profit for the year	**(293.8)**	53.4
			Excluding:		
			Goodwill impairment	**203.2**	–
			Loss for the year before exceptional goodwill impairment	**(90.6)**	53.4

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. Alternative Performance Measures ("APM") continued

APM	Reference for reconciliation	Definition and purpose	Calculation	2018 £m	2017* £m
Net portfolio gains/(losses)	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 a performance metric for directors' and employees' incentives.	Change in fair value of equity and debt investments	**(50.4)**	49.0
			Gain on disposal of equity investments	**2.0**	0.1
			Gain on disposal of subsidiary	**–**	45.1
			Net portfolio (losses)/gains	**(48.4)**	94.2
Net overheads	Financial Review	Net overheads are defined as the Group's core overheads less operating income. The measure reflects the Group's controllable net operating "cash-equivalent" central cost base and is used as a performance metric in the Group's annual incentive scheme. Core overheads exclude items such as share-based payments, amortisation of intangibles and consolidated portfolio company costs	Other income	**9.9**	6.1
			Other administrative expenses (see statement of comprehensive income)	**(41.8)**	(30.8)
			Excluding:		
			Administrative expenses – Istesso Limited	**–**	0.6
			Administrative expenses – consolidated portfolio companies	**2.6**	2.1
			IFRS 3 charge in respect of acquisition of subsidiary	**3.3**	4.4
			Net overheads	**(26.0)**	(17.6)

* Restated following finalisation of provisional acquisition accounting in respect of Touchstone acquisition (see note 26)

28. Post Balance Sheet Events

On 28 February 2019, the Group completed an agreement with Imperial College London in respect of the commercialisation activities undertaken by the Group's technology transfer office ("TTO") team Imperial Innovations on behalf of Imperial College. This agreement sees the transfer of future commercialisation operations of the TTO, including the majority of the TTO employees, to the College. The Group retains its existing licenses and patents developed prior to the transfer.

On 22 March 2019, the Group signed a lease surrender agreement in respect of the 7 Air Street, the former Touchstone head office. This surrender relieves the Group of all future obligations in respect of the office.

COMPANY BALANCE SHEET

As at 31 December 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	2	**398.7**	637.3
Equity and debt investments	3	**9.5**	52.3
Other investments	4	**2.0**	0.8
Current assets			
Loans to subsidiary undertakings	5	**637.5**	592.9
Trade and other receivables		**—**	—
Total assets		**1,047.7**	1,283.3
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	**21.2**	21.1
Share premium account	6	**684.7**	683.1
Merger reserve	6	**372.6**	508.6
Retained earnings	6	**(63.7)**	36.1
Total equity		**1,014.8**	1,248.9
Current liabilities			
Trade and other payables		**0.1**	1.1
EIB debt facility		**6.0**	—
Non-current liabilities			
EIB debt facility		**23.9**	29.9
Deferred and contingent consideration payable on acquisition		**2.9**	3.4
Total liabilities		**32.9**	34.4
Total equity and liabilities		**1,047.7**	1,283.3

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 175 to 176 were approved by the Board of Directors and authorised for issue on 25 March 2019 and were signed on its behalf by:

Greg Smith
Chief Financial Officer

Alan Aubrey
Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	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 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 1 January 2018	**21.1**	**683.1**	**508.6**	**36.1**	**1,248.9**
Comprehensive income	**—**	**—**	**—**	**(235.8)**	**(235.8)**
Transfer between reserves on impairment of subsidiaries	**—**	**—**	**(136.0)**	**136.0**	**—**
Issue of equity	**0.1**	**1.6**	**—**	**—**	**1.7**
At 31 December 2018	**21.2**	**684.7**	**372.6**	**(63.7)**	**1,014.8**

(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.

The accompanying notes form an integral part of the financial statements.

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.

Subsidiary investments

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

Equity and Debt 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 138 to 145.

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 2018	637.3
Impairment of subsidiary undertakings in the year	(238.6)
At 31 December 2018	**398.7**

Details of the Company's subsidiary undertakings as at 31 December 2018 are detailed in note 9 to the Company financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

3. Equity and debt investments

	£m
At 1 January 2018	52.3
Fair value gains in the year	(47.7)
De-recognition of subsidiary during the year	4.9
At 31 December 2018	**9.5**

Details of the Company's associated undertakings and significant holdings as at 31 December 2018 are detailed in note 10 to the Company financial statements.

4. Other Investments

	£m
At 1 January 2018	0.8
Fair value gain during the year	1.2
At 31 December 2018	**2.0**

5. Loans to Subsidiary Undertakings

	£m
At 1 January 2018	592.9
Net advancement of loans to subsidiary undertakings during the year	44.6
At 31 December 2018	**637.5**

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

6. Share Capital and Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m
At 1 January 2018	21.1	683.1	508.6	36.1
Loss for the year	—	—	—	(235.8)
Transfer between reserves on impairment of subsidiaries	—	—	(136.0)	136.0
Issue of equity	0.1	1.6	—	—
At 31 December 2018	**21.2**	**684.7**	**372.6**	**(63.7)**

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 19 to the consolidated financial statements. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity.

7. Profit and Loss Account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £235.8m (2017: Profit of £41.8m) mainly due to the impairment of subsidiary undertakings.

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 90 to 115.

Full details of the share-based payments charge and related disclosures can be found in note 21 to the consolidated financial statements.

The Company had no employees during 2018 or 2017.

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 Limited	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
IP2IPO Australia Pty Limited	100.0	100.0	100.0	Indirect
IP Group Greater China Limited	100.0	100.0	100.0	Indirect
IP2IPO Australia HP Pty Limited	100.0	100.0	100.0	Indirect
IP2IPO Australia Management Pty Limited	100.0	100.0	100.0	Indirect
IP Assist Services Limited	100.0	100.0	100.0	Direct
Parkwalk Advisors Limited	100.0	100.0	100.0	Direct
Touchstone Innovations plc	100.0	100.0	100.0	Indirect
Touchstone Innovations Investment Management Limited	100.0	100.0	100.0	Indirect
IP2IPO Innovations Limited	100.0	100.0	100.0	Indirect
Touchstone Innovations Investments Limited	100.0	100.0	100.0	Indirect
Innovations Limited Partner Limited	100.0	100.0	100.0	Indirect
Imperial College Company Maker Limited	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
IP2IPO Cayman Limited	100.0	100.0	100.0	Indirect
IPG USA (LP) Limited	100.0	100.0	100.0	Indirect
IP Group Holdco Inc	100.0	100.0	100.0	Indirect
IPG USA (GP) LLC	100.0	100.0	100.0	Indirect
IPG USA Plan LLC	100.0	100.0	100.0	Indirect
IPG Cayman LP	89.0	89.0	89.0	Indirect
IP University Holdings LLC	100.0	100.0	100.0	Indirect
Fed Impact LLC	100.0	100.0	100.0	Indirect
IPG USA SCO LP	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 to 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 IFRS 10 and the fund is thus consolidated.
(vi) Not consolidated due to immateriality.
(vii) Shares which have no economic or voting rights attributed to them.

All companies above have their registered offices at The Walbrook Building, 25 Walbrook, London, EC4N 8AF unless separately listed overleaf.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

9. Details of subsidiary undertakings continued

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 Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP.
Medella Therapeutics Limited: The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP.
PH Therapeutics Limited: The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP.
Extraject Technologies 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: University House, 11–13 Lower Grosvenor Place, London, SW1W 0EX
Touchstone Innovations Investments Limited: Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF
Imperial Innovations Sarl: 17 Boulevard Prince Henri, Luxembourg, L1724
IP2IPO Australia Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia
IP Group Greater China Limited: 6/F Alexandra House, 18 Chater Road, Central Hong Kong
IP2IPO Australia HP Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia
IP2IPO Australia Management Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia
IP2IPO Cayman Limited: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
IP Group Holdco Inc: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA
IPG USA (GP) LLC: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
IPG USA Plan LLC: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA
IPG Cayman LP: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
IP University Holdings LLC: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA
Fed Impact LLC: 251 Little Falls Drive, Wilmington, New Castle, DE 19808, USA
IPG USA SCO LP: 13 Queens Road, Aberdeen, AB15 4YL

All companies above are incorporated in England and Wales with the exception of IP Ventures (Scotland) Limited incorporated in Scotland, IP Group Inc, MobilION Inc, IP Group Holdco Inc, IPG USA Plan LLC, IP University Holdings LLC and Fed Impact LLC which were incorporated in Delaware, USA, IP2IPO Cayman Limited, IPG USA (GP) LLC and IPG Cayman LP which were incorporated in the Cayman Islands, IP2IPO Australia Pty Limited incorporated in Australia, Imperial Innovations Sarl incorporated in Luxembourg and IP Group Greater China Limited incorporated in Hong Kong.

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	32.4%	Group
Absynth Biologics Limited:	Biohub at Alderley Park, Macclesfield, Cheshire, SK10 4TG	47.1%	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	39.0%	Group
Actual Experience plc	Quay House, The Ambury, Bath, Somerset, BA1 1UA	22.1%	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
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	39.7%	Group
A shares		40.7%	Group
Ordinary shares		38.8%	Group
AnywhereHPLC Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	50.0%	Group
Apcintex Limited:	C/o Medicxi, 25 Great Pulteney Street, London, England, W1F 9LT	27.4%	Group
A Preference shares		46.2%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Aperio Pharma Limited	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	46.1%	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	45.6%	Group
EIS shares		0.0%	Group
Ordinary shares		0.0%	Group
Preferred shares		79.7%	Group
Arkivum Limited	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	33.7%	Group
Art of Xen Limited:	NHS Liaison Unit 4th Floor Mckenzie House 30-36 Newport Road, Cardiff, CF24 0DE	83.5%	Group
A Preference shares		100.0%	Group
B Preference shares		100.0%	Group
Asterion Limited	The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP	66.8%	Group
Atazoa Limited	Helen Wadsworth, Room 205, Skempton Building, Imperial College, London, SW7 2AZ	24.9%	Group
Autifony Therapeutics Limited:	Stevenage Bioscience Catalyst, Gunnels Wood Road, Stevenage, Hertfordshire, England, SG1 2FX	28.2%	Group
Ordinary shares		4.0%	Group
A Preference shares		38.4%	Group
A2 Preference shares		0.0%	Group
A3 Preference shares		35.5%	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

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
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	45.4%	Group
Bramble Energy Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	26.1%	Group
Cagen Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	45.0%	Group
Calcico Therapeutics Limited:	Oxford Science Park, Magdalen Centre, Robert Robinson Avenue, Oxford, OX4 4GA	39.4%	Group
A shares		50.0%	Group
Ordinary shares		0.0%	Group
Seed Preference shares		33.3%	Group
Capsant Neurotechnologies Limited	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	50.0%	Group
Cardian Limited:	30 Broad Street Broad Street, Great Cambourne, Cambridge, England, CB23 6HJ	53.7%	Group
A Preferred shares		100.0%	Group
Ordinary shares		36.4%	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	41.7%	Group
A Preference shares		44.2%	Group
A Preference (NV) shares		100.0%	Group
Ordinary shares		36.7%	Group
Cell Medica Limited:	1 Canal Side Studios, 8–14 St Pancras Way, London, NW1 0QG	24.6%	Group
A Pref (Rank 1) shares		15.0%	Group
A Pref (Rank 2) shares		100.0%	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
Chip Diagnostics, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808	47.0%	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
Clarity Vision Technologies, Inc.	1 Righter Parkway, Wilmington, Delaware, DE 19803	51.2%	Group
Concirrus Limited:	The Leathermarket, Unit 17.2 Leathermarket Street, London, United Kingdom, SE1 3HN	41.8%	Group
Ordinary shares		0.0%	Group
Series A shares		88.8%	Group
Convincis Limited	52 Princes Gate, London, SW7 2PG	49.9%	Group
Cortexica Vision Systems Limited	6th Floor, Wework Southbank Central, 30 Stamford Street, London, England, SE1 9LQ	29.9%	Group
Creavo Medical Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	37.8%	Group
A shares		100.0%	Group
Ordinary shares		38.2%	Group
Z 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
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	75.6%	Group
Deep Matter 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
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
Ditto AI Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	21.8%	Group
B Ordinary shares		83.3%	Group
Ordinary shares		17.1%	Group
Diurnal Group plc	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	43.6%	Group
Dukosi Limited	Unit 4 Bush House Cottages, Edinburgh Technopole, Milton Bridge, Penicuik, Midlothian, EH26 0BA	49.8%	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	50.4%	Group
A Ordinary shares		86.3%	Group
A Preference shares		41.2%	Group
B Preference shares		50.0%	Group
C Preference shares		42.9%	Group
Ordinary shares		13.7%	Group
Edgetic Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, United Kingdom, LS2 9DF	56.1%	Group
Ordinary Shares		56.1%	Group
B Ordinary Shares		100.0%	Group
Eight19 Limited:	Unit 9a Cambridge Science Park, Milton Road, Cambridge, Cambridgeshire, CB4 0FE	49.4%	Group
Ordinary Shares		0.0%	Group
A Preference shares		53.5%	Group
Embody Orthopaedic Limited	Imperial Innovations 52 Princes Gate, Exhibition Road, London, England, SW7 2PG	31.4%	Group
Enachip, Inc.	PHS Corporate Services, Inc., 1313 N Market Street, STE, 5100, Wilmington, New Castle, DE, 19801	46.7%	Group
Enterprise Therapeutics Limited:	Sussex Innovation Centre Science Park Square, Falmer, Brighton, England, BN1 9SB	28.2%	Group
Ordinary shares		0.0%	Group
Series A shares		47.6%	Group
Series B shares		16.4%	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
Epsilon-3 Bio Limited:	Moneta Building Babraham Research Campus, Babraham, Cambridge, Cambridgeshire, CB22 3AT	22.6%	Group
A Preferred shares			
Ordinary shares		28.1%	Group
Exyn Technologies, Inc.	203 NE Front Street STE 101, Milford, Kent, DE, 19963	46.6%	Group
FaultCurrent Limited:	The Maltings East Tyndall Street, Cardiff Bay, Cardiff, CF24 5EZ	37.5%	Group
A shares		64.1%	Group
Ordinary shares		36.9%	Group
Featurespace Limited:	Broers Building 2nd Floor, 21 J J Thomson Avenue, Cambridge, CB3 0FA	27.5%	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
F Preference shares		0.0%	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	35.9%	Group
Ordinary shares		37.5%	Group
A Ordinary shares		0.0%	Group
Fluid Pharma Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	40.3%	Group
Ordinary Shares		39.6%	Group
B Ordinary Shares		87.1%	Group
Garrison Technology Limited:	117 Waterloo Road, London, England, SE1 8UL	23.4%	Group
A Preference shares		94.9%	Group
A1 Preference shares		25.0%	Group
A2 Preference shares		32.9%	Group
B Preference shares		14.0%	Group
Ordinary shares		0.0%	Group
Gripable Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	37.3%	Group
Heliochrome Limited	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	21.3%	Group
Hexxcell Limited	The Charter Building, Charter Place, Uxbridge, London, UB8 1JG	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
Ibex Innovations Limited	Explorer 2 – Netpark Thomas Wright Way, Sedgefield, Stockton-on-Tees, United Kingdom, TS21 3FF	32.0%	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
Ieso Digital Health Limited:	The Stable Block The Grange, 20 Market Street, Swavesey, Cambridge, CB24 4QG	45.5%	Group
A Preference shares		45.2%	Group
A Ordinary shares		85.1%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		16.3%	Group
Iksuda Therapeutics Limited:	The Biosphere, Draymans Way, Newcastle Helix, Newcastle upon Tyne, NE4 5BX	32.2%	Group
A Ordinary shares		50.0%	Group
Ordinary shares		23.1%	Group
Import.IO Limited:	Suite #102 20 S. Santa Cruz Avenue Los Gatos, California, United States, 95030	30.0%	Group
Seed Preference shares		0.0%	Group
Series A Preference shares		70.8%	Group
Ordinary shares		0.0%	Group
Impression Technologies Limited:	Unit E, Lyons Park, 46 Sayer Drive, Coventry, United Kingdom, CV5 9PF	55.2%	Group
Ordinary shares		55.4%	Group
Series A shares		62.5%	Group
Series B shares		50.0%	Group
Inivata Limited:	The Portway Granta Park, Great Abington, Cambridge, England, CB21 6GS	31.3%	Group
A Preference shares		37.5%	Group
Ordinary shares		0.0%	Group
Series A shares		31.7%	Group
Series B shares		32.9%	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	34.4%	Group
B Ordinary shares		100.0%	Group
Ordinary shares		34.3%	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 Walbrook, London, United Kingdom, EC4N 8AF	29.4%	Parent
A shares		75.6%	Parent
Ordinary shares		46.3%	Parent
Ixico plc	4th Floor, Griffin Court, 15 Long Lane, London, EC1A 9PN	23.8%	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	32.4%	Group
Lumiode, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	43.1%	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
Magnomatics Limited:	Park House, Bernard Road, Sheffield, S2 5BQ	44.5%	Group
A shares		52.1%	Group
B shares		100.0%	Group
C shares		100.0%	Group
Ordinary shares		24.8%	Group
Medaphor Group plc	The Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	36.2%	Group
Medella Therapeutics Limited	The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP	60.0%	Group
Metabometrix Limited	Mrs Judy Collingham, 10 Fern Hill, Dersingham, King's Lynn, Norfolk, England, PE31 6HT	26.5%	Group
Microbiotica Limited:	Biodata Innovation Centre Wellcome Genome Campus, Hinxton, Cambridge, Cambridgeshire, CB10 1DR	27.8%	Group
Seed shares		39.8%	Group
Ordinary shares		0.0%	Group
Mission Therapeutics Limited:	Babraham Hall, Babraham, Cambridge, CB22 3AT	20.6%	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	27.9%	Group
MoA Technology Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, England, LS2 9DF	20.3%	Group
Monolith AI Limited	66 Prescot Street, CBW LLP, London, England, E1 8NN	33.3%	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	33.2%	Group
NGenics Global Limited	The Catalyst Baird Lane, Heslington, York, North Yorkshire, YO10 5GA	30.7%	Group
Optimeos Life Sciences, Inc	251 Little Falls Drive, Wilmington, Delaware, United States, 19808	34.7%	Group
Oxehealth Limited	Sadler Building Heatley Road, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GE	35.2%	Group
Oxford Biotrans Limited:	30 Upper High Street, Thame, Oxfordshire, OX9 3EZ	49.3%	Group
Ordinary shares		21.3%	Group
Seed Preferred shares		72.9%	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	43.9%	Group
A shares		100.0%	Group
Ordinary shares		45.8%	Group
Preference shares		40.0%	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
Oxular Limited:	Magdalen Centre, Robert Robinson Avenue, Oxford, England, OX4 4GA	24.1%	Group
A Preferred shares		44.0%	Group
Ordinary shares		0.0%	Group
Perachem Holdings plc:	55 Drury Lane, London, WC2B 5RZ	46.2%	Group
Convertible Preferred shares		0.0%	Group
Ordinary shares		46.2%	Group
Perlemax Limited	The Sheffield Bioincubator, 40 Leavy Greave Road, Sheffield, S3 7RD	34.5%	Group
Perpetuum Limited:	2 Venture, Southampton Science Park, Chilworth, Southampton, SO16 7NP	29.3%	Group
Ordinary shares		33.1%	Group
Series B shares		13.4%	Group
Series C shares		46.9%	Group
Series C1 shares		0.0%	Group
Preference shares		0.0%	Group
PH Therapeutics Limited	The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP	60.0%	Group
Phase Focus Limited:	40 Leavy Greave Road, Sheffield, S3 7RD	34.4%	Group
A shares		26.1%	Group
B shares		33.3%	Group
H shares		0.0%	Group
Ordinary shares		48.6%	Group
Polar OLED Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	35.0%	Group
A shares		55.9%	Group
Ordinary shares		32.7%	Group
Process Systems Enterprise Limited	5th Floor East, 26-28 Hammersmith Grove, London, W6 7HA	23.3%	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	20.3%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		21.2%	Group
Reinfer Limited:	Mindspace Whitechapel, 114 Whitechapel High Street, London, England, E1 7PT	23.1%	Group
Seed Preference Shares		73.3%	Group
Ordinary shares		0.0%	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

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
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	29.9%	Group
A Ordinary shares		64.9%	Group
B Ordinary shares		0.0%	Group
Silicon Microgravity Limited:	Clarendon House, Clarendon Road, Cambridge, CB2 8FH	27.7%	Group
A Ordinary shares		0.0%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
B Preference shares		47.2%	Group
Seed Preferred shares		71.9%	Group
Spinetic Energy Limited	The Old Post Office, 41-43 Market Place, Chippenham, Wiltshire, England, SN15 3HR	29.6%	Group
Stratium Limited	15th Floor Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB	57.1%	Group
Structure Vision Limited	103 Clarendon Road, Leeds, LS2 9DF	42.4%	Group
Sub Salt Solutions Limited:	52 Princes Gate, London, SW7 2PG	38.0%	Group
A Ordinary shares		0.0%	Group
Ordinary shares		46.6%	Group
Surrey NanoSystems Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	21.4%	Group
A Ordinary shares		17.4%	Group
A2 Ordinary shares		9.1%	Group
Ordinary shares		34.5%	Group
Sweetgen Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	50.0%	Group
Telectica Limited:	49 Burnham Road, St. Albans, Hertfordshire, AL1 4QN	26.4%	Group
Ordinary shares		0.0%	Group
A Ordinary shares		0.0%	Group
Seed Preferred shares		90.5%	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

10. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held %[i]	Held by Parent/ 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	39.3%	Group
Ultrahaptics Holdings Ltd:	The West Wing, Glass Wharf, Bristol, BS2 0EL	29.1%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		47.0%	Group
C Preference shares		1.8%	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	25.8%	Group
Uniphy Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	39.1%	Group
Wave Optics Limited:	Wave Optics Ltd, Milton Park Innovation Centre 99 Park Drive, Milton Park, Milton, Abingdon, Oxfordshire, England, OX14 4RY	21.3%	Group
A Ordinary shares		5.8%	Group
B Ordinary shares		39.3%	Group
B1 Ordinary shares		25.9%	Group
C1 Ordinary shares		9.0%	Group
C2 Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Yoyo Wallet Limited:	78 2nd Floor, Whitfield Street, London, England, W1T 4EZ	40.0%	Group
Ordinary shares		10.3%	Group
Series 1 Seed shares		31.9%	Group
Series 2 Seed shares		77.7%	Group
Series A Preferred shares		83.8%	Group
Series B Preferred shares		33.3%	Group
Series B2 Preferred shares		33.3%	Group
Zeetta Networks Limited	The Walbrook Building, 25 Walbrook, London, United Kingdom, EC4N 8AF	26.6%	Group
Ordinary shares		12.3%	Group
Preference shares		33.9%	Group
Zoompast Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	31.3%	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., Optimeos, Inc. and Uniformity Labs, Inc. which were incorporated in Delaware, USA, and Ipalk SAS which was incorporated in France. 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.

SHAREHOLDER NOTES

COMPANY INFORMATION

Company registration number	04204490
Registered office	The Walbrook Building 25 Walbrook London EC4N 8AF
Directors	**Sir Douglas Flint** (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) **Heejae Chae** (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 **Berenberg** 60 Threadneedle Street London EC2R 8HP
Registrars	**Link Asset Services** The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	**Royal Bank of Scotland** PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
Solicitors	**Pinsent Masons LLP** 30 Crown Place Earl Street London EC2A 4ES
Independent auditor	**KPMG LLP** 15 Canada Square London E14 5GL

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