

# International Biotechnology Trust plc

---

## Investing in Biotechnology for a Healthier Future

---

ANNUAL REPORT | 31 AUGUST 2018



# WELCOME TO THE INTERNATIONAL BIOTECHNOLOGY TRUST PLC ANNUAL REPORT 2018

## WHO WE ARE

International Biotechnology Trust offers investors access to the fast growing biotechnology sector through an actively managed, diversified fund.

Our award winning fund managers at SV Health Managers LLP are scientifically, medically and financially trained with over 60 years of experience in this specialist sector between them. As well as investing in a wide ranging portfolio of global quoted biotechnology stocks, we include a small proportion of otherwise inaccessible carefully selected unquoted investments that have the potential to deliver additional returns over the long-term. Excellent management teams, unique innovative products and strong potential for outperformance are the key criteria for inclusion in our diversified portfolio of assets.

International  
Biotechnology  
Trust plc

**5** KEY REASONS  
TO INVEST

### Exposure to both growth and yield

Dividend payment of 4% of Net Asset Value (NAV) per annum, paid bi-annually | Paid from capital without affecting investment strategy

### Outperformance of benchmark since Lead Investment Manager joined in September 2013

Outperformed NBI by 21.1% over five-year period

### Biotechnology sector has strong fundamentals but is currently undervalued

Ageing populations increasing demand | Supply improving | M&A continuing | Pro-industry US government

### Unrivalled access to both quoted and unquoted biotechnology sectors

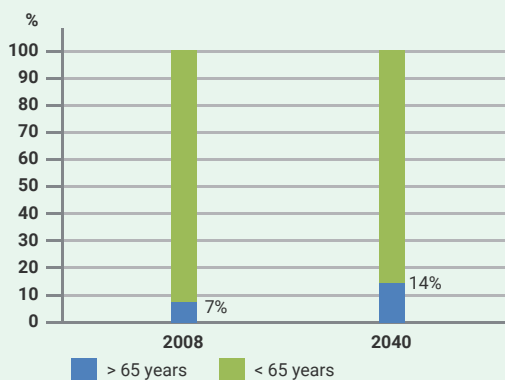
Focus on high growth areas of oncology, rare diseases and CNS

### Medical and scientific expertise of Investment Managers

Ability to accurately interpret clinical trial data

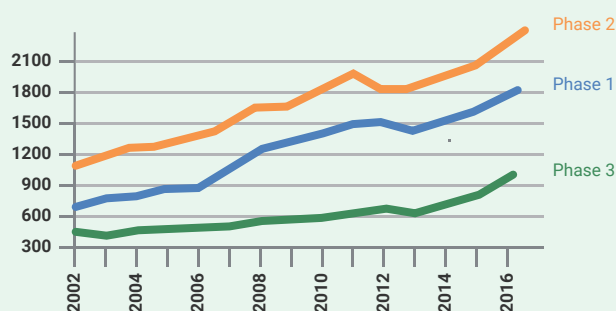
# OUR MARKET DEMOGRAPHICS

Fig 1. Increasingly elderly population



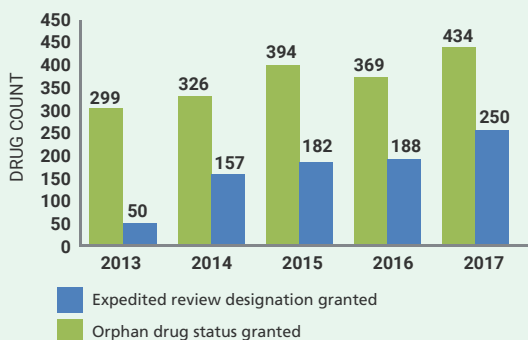
Source: US Census Bureau 2017 – Worldwide population

Fig 2. More drugs in development (no. of drugs vs time)



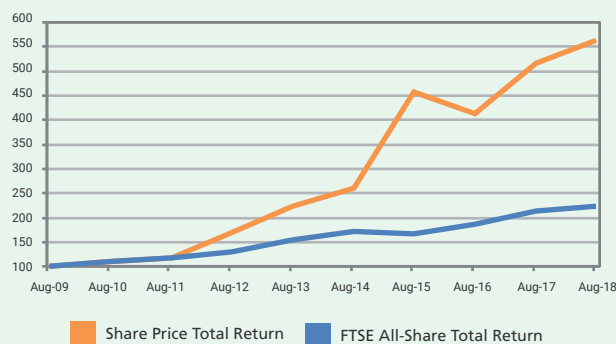
Disclosed Worldwide Active R&D Projects in Development by Stage  
Source: Pharmaceutical Research and Manufacturers of America (PhRMA), Pharmaprojects, Bank of America Merrill Lynch Global Research 2017

Fig 3. Rise in numbers of US drugs receiving orphan drug status or an expedited review designation 2013 -2017



Source: Pharmaprojects®, January 2018

Fig 4. Share price/FTSE All-Share Index performance (%)



Source: Share Price Total Return from Morningstar. FTSE All-Share Total Return from Thomson Datastream. (data rebased to 100 at 31 August 2009)

## OUR AWARDS



## FUND FACTS

Year ended 31 August 2018

### PERFORMANCE

NAV	+8.6%
Quoted portfolio (NAV)	+5.5%
Share price	+13.7%
NASDAQ Biotechnology Index (NBI)	+10.1%
FTSE All-Share Index	+4.7%

All sterling-adjusted and on a total return basis (with all dividends reinvested).

### FINANCIAL HIGHLIGHTS

	31 August 2018	31 August 2017
Total equity (£'000)	262,473	252,651
NAV per share	699.0p	672.9p
Share price	680.0p	624.0p
Share price discount	2.7%	7.3%
Ongoing charges *	1.4% **	1.3% **
Ongoing charges including performance fee	1.4% **	1.9% **

\* Calculated in accordance with the Association of Investment Companies (AIC) guidance. Based on total expenses excluding finance costs and performance fee and expressed as a percentage of average daily net assets. The ratio including performance fee has also been provided, in line with the AIC recommendations. From 3 January 2018, the research costs under MiFID II borne by International Biotechnology Trust (IBT or the Company) are included in the ongoing charges calculation.

\*\* Includes Management fees paid to SV Health Investors LLC directly from investment in SV Fund VI of £503,000 (2017: £985,000).

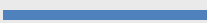

Our KPIs are further explained within the Directors' Report

## FUND FACTS



### TOP 30 INVESTMENTS BY NAV

SV Fund VI Investment	7.9%	Halozyme	2.3%
Celgene	7.0%	Neurocrine	2.2%
Illumina	5.4%	Gilead	2.0%
Vertex	4.5%	Spectrum	1.9%
Incyte	4.3%	Kalvista	1.6%
Exelixis	3.9%	Abiomed	1.6%
Array	3.9%	Transenterix	1.5%
Genmab	3.8%	Zogenix	1.3%
Regeneron	3.7%	Alnylam	1.3%
Stemline	2.9%	Shire	1.3%
Alexion	2.9%	G1 Therapeutics	1.3%
Morphosys	2.9%	Sarepta	1.1%
Biomarin	2.9%	Jazz	1.1%
Ligand	2.7%	Intersect	1.0%
Adamas	2.5%	Seattle Genetics	1.0%

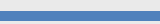
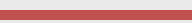
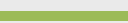
### NAV % BY GEOGRAPHY

US / Canada  86%  
Europe  14%

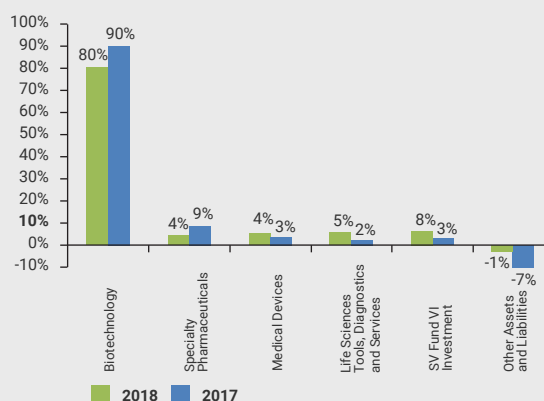
### NAV % BY QUOTED / UNQUOTED

Quoted  89%  
Unquoted  11%

### NAV % BY MARKET CAP

Large Cap > USD 10BN  35%  
Mid Cap = USD 1 - 10BN  41%  
Small Cap < USD 1BN  24%

### CLASSIFICATION OF INVESTMENTS BY SECTOR AS AT 31 AUGUST 2018



## LONG-TERM RECORD

### FIVE YEAR PERFORMANCE 31 AUGUST 2018

Cumulative Return to 31 August 2018	12m (%)	3yr (%)	5yr (%)
International Biotechnology Trust Share Price Total Return (GBP)	13.7	33.9	174.5
International Biotechnology Trust NAV (GBP)	8.6	24.3	142.0
NASDAQ Biotechnology Index (GBP)	10.1	25.2	131.1
S&P 500 (GBP)	19.1	84.3	135.2
FTSE All-Share (GBP)	4.6	33.7	44.1
FTSE 100 (GBP)	4.1	34.1	40.2

All figures on a total return basis (with all dividends reinvested)

As at 31 August	Total NAV £'000	Number (i) of shares in issue	NAV per share pence	NAV Annual return %	Share price pence	Share price Annual return %	(Discount) premium %	FTSE All-Share Index total return %
2018	262,473	37,547,663	699.0	8.6 *	680.0	13.7	(2.7)	4.7
2017	252,651	37,547,663	672.9	20.9 *	624.0	30.5 *	(7.3)	14.4
2016	216,651	37,672,663	575.1	(1.7)	497.5	(9.8)	(13.5)	11.7
2015	236,001	40,247,663	586.4	48.2	551.5	75.4	(6.0)	(2.3)
2014	214,970	54,332,663	395.7	26.4	314.5	16.9	(20.5)	10.3
2013	172,672	55,157,663	313.1	34.7	269.0	31.5	(14.1)	18.9
2012	128,922	55,457,663	232.5	41.9	204.5	43.0	(12.0)	10.2
2011	91,764	56,007,663	163.8	5.6	143.0	6.9	(12.7)	7.3
2010	93,658	60,357,664	155.2	2.4	133.8	10.8	(13.8)	10.6
2009	98,255	64,832,664	151.6	(5.8)	120.8	(12.7)	(20.3)	(8.2)

i Excludes treasury shares

\* Includes dividends paid in year

# CONTENTS

Brief History Of Biotechnology	01
Outlook	03
Investment Managers	04
Chairman's Statement	06
Fund Manager's Review	08
Unquoted Investments and Earnouts	12
Strategic Review	14
Directors' Biographies	20
Directors' Report (Incorporating the Corporate Governance Statement)	21
Report on Directors' Remuneration	31
Audit Committee Report	35
Management Report and Directors' Responsibilities Statement	37
Independent Auditors' Report	38
Statement of Comprehensive Income	46
Statement of Changes in Equity	47
Balance Sheet	48
Cash Flow Statement	49
Notes to the Financial Statements	50
Company Summary, Shareholder Information, Directors and Advisers	75
Alternative Investment Fund Manager's Disclosure	76
Statement of the Depositary's Responsibilities	81
Notice of Meeting	82

Further information on the Company may be found on the internet at [www.ibtplc.com](http://www.ibtplc.com)

## BRIEF HISTORY OF BIOTECHNOLOGY

Biotechnology has transformed the way we treat or cure patients. In the last 70 years, the plethora of advancements in this field have pushed biotechnology to the forefront of medical innovation. Here we look back at the array of advancements made in the last 70 years, which have provided the building blocks for the biotechnology sector's reputation as an exciting and attractive sector. Exciting not just for investors seeking a better return, but also for the entire global population, many of whom could see their lives transformed by biotechnological advancements in healthcare.

**1953**

Watson and Crick publish the double helical structure of DNA.

**1955**

Publication of the amino acid sequence of a protein, the insulin B chain.

**1957**

Test tube manufacturing of DNA occurs for the first time while the cause of sickle cell disease is pinpointed to a change in one amino acid.

**1969-1971**

Restriction enzymes are discovered, paving the way for gene cloning. A year later, the first complete gene synthesis occurs.

**1982**

Human insulin produced in genetically modified bacteria is the first biotech drug approved by the FDA.

**1981**

Successful cross-species transfer of genes into mice. A patent is granted for bacteria that can break down crude oil, the first for a biological organism.

**1980**

Genentech IPO sees the first public offering of a biotechnology company on a capital market. Shortly followed by Cetus in 1981.

**1975**

Scientists fuse myeloma cell lines with B cells to produce large quantities of monoclonal antibodies "to order".

**1983**

The polymerase chain reaction techniques for copying genetic material is published for the first time.

**1986**

Hepatitis B recombinant vaccine is approved in the first of its kind. Interferon is the first approved biotechnology oncology drug.

**1991**

IPO/listings increased to a peak of 35 biotechnology IPOs per year.

**1993**

The NASDAQ Biotechnology Index launches on 1 November 1993 at a base value of 200.00.

**1999-2000**

The speed of scientific advancements ensures the biotechnology market booms alongside the wider technology market.

**1998**

Human embryonic stem cell lines are established, offering hope of replacing diseased or dysfunctional cells.

**1997**

Dolly the Sheep is born, the first animal cloned from an adult cell.

**1994**

International Biotechnology Trust plc launches on 6 May 1994.

**2002-2003**

The human genome is published.

**2003**

China grants the world's first regulatory approval of a gene therapy product, Gendicine.

**2004**

Avastin, a recombinant monoclonal antibody, is the first targeted biological therapy of its kind to receive FDA approval.

**2006**

Recombinant DNA technology vaccine against cervical cancer is approved. The first laboratory-grown organ is transplanted into a human patient, after a bladder is grown using a patient's own cells, reducing the risk of organ rejection.



31 AUGUST 2018

## BRIEF HISTORY OF BIOTECHNOLOGY

**2007**

Human skin cells are used to create embryonic stem cells.

**2008**

Gene therapy takes a giant step forward as scientists create the first DNA molecule made almost entirely of artificial parts.

**2008-2009**

Biotechnology market weathers global financial crisis better than the wider global equity market, with the NBI holding its value significantly better than the MSCI World Index.

**2010**

First fully synthetic, self-replicating bacterial cell is produced.

**2012**

The FDA issues draft guidelines for biosimilar drugs (follow-on biologics) as a growing percentage of biopharmaceuticals reach the end of patent protection.

Novartis receives FDA approval for Flucelvax, the first cell-culture derived vaccine in the US.

**2011**

Advances in 3D printing technology lead to "skin printing".

Sanofi acquires Genzyme for \$20bn, symbolic of the pharma 'shift' into Biotech set to come.

**2013**

FDA approves Gilead's Sovaldi, a safe and effective cure for Hepatitis C.

Two research teams announce a fast and precise new method for editing snippets of the genetic code, named CRISPR. The system takes advantage of a defence strategy used by bacteria.

**2014**

AbbVie's Humira becomes the first biologic to become the world's biggest selling drug.

Keytruda and Opdivo, which harness the immune system to target certain cancers, are approved by the FDA.

**2016**

Spinraza becomes the first treatment approved for the treatment of spinal muscular atrophy.

Chinese scientists use CRISPR to treat a human patient for the very first time.

**2015**

Researchers in China controversially report modifying the DNA of a nonviable human embryo. Researchers report using CRISPR to modify pig organs for potential human transplant and the modification of mosquitoes to eradicate malaria.

Stanford University scientists reveal a method that may be able to force malicious leukemia cells to change into harmless immune cells.

Darzalex, a first-in-class immunotherapy treatment for multiple myeloma, is approved by the FDA.

**2017**

FDA approves record number of new drugs. Cartilage tissue generated by printing stem cells using a 3D-bioprinter, the first success of its kind.

Kymriah, Novartis' CAR-T cell therapy treatment, is approved by the FDA.

**2018**

Aillison and Honjo win the nobel prize for discovering how to take the brakes off the immune system to treat cancer, a mechanism of action used by IBT's portfolio companies.

Record number of biotechnology IPOs and capital invested in biotechnology start-ups.



## OUTLOOK

### Q&A WITH INVESTMENT MANAGERS CARL HARALD JANSON AND AILSA CRAIG

International Biotechnology Trust’s Investment Managers, Carl Harald Janson and Ailsa Craig, highlight that innovation holds the key to new drugs and explain how they’re positioning the Company to take advantage of the changing biotechnology landscape.

#### How will the sector change over the next decade?

The sector is shaped by demographic trends. Populations are ageing: there will be a doubling of those aged over 65 by 2040. This will drive demand, as older people tend to be sicker. And biotechnology firms will be able to meet this requirement as they have become more effective at innovation. Over the last 15 years, there has been a doubling of drugs in the last two phases of clinical trials and we expect that pace to be maintained over the next decade and a half.

#### How is the portfolio positioned to take advantage of this growth?

While the larger biotechnology firms have done well over the last decade, their growth is starting to stall as their drugs reach their peak sales potential. As a consequence, we have started to shift our allocations towards small and mid-cap companies. In August 2018, these stocks accounted for 65% of our portfolio compared with 48% in August 2017.

“

There has been an explosion in the number of new oncology compounds. The rapid rate of development shows no signs of slowing

#### How do you mitigate any potential drug pricing concerns?

Pricing pressure is the main concern for investors in the healthcare sector, particularly with respect to the US market. However, the latest Republican government is yet to implement any tough pricing regulations on innovative drugs, instead encouraging large pharmaceutical companies to self-regulate. This resulted in Pfizer and Merck, among others, stalling price increases of some drugs. Moreover, the regulatory approach so far has been to increase the introduction of generics and encourage more competition in ‘older’, more established drugs. At International Biotechnology Trust we look for investments that are truly innovative and unique, thereby removing the threat of competitive price erosion.

31 AUGUST 2018

### Where is the most exciting part of the market, in terms of drug development?

There has been an explosion in the number of new oncology compounds. For example, in 1996, there were only four drugs approved for the treatment of lung cancer. By 2016, however, there were 19 drugs approved spanning five different therapeutic categories. The rapid rate of development shows no signs of slowing. Gene therapy is another example. The head of the US drug regulator said recently there would be 40 new gene therapies on the market by 2022.

### Will M&A remain an important driver in the sector?

Now that growth has started to slow at the large biotechnology firms, there will be increased pressure for them to acquire innovative new products with significant sales potential. Investors in smaller firms will benefit from this impetus. In fact, 10 of the stocks in the Company's portfolio were acquired over the last 18 months. We expect this trend to continue.

### How can investors interested in responsible investing benefit from an allocation to biotech?

Over the last five years there has been a revolution in responsible investing, with a growing number of investors embedding this approach into their portfolios. While it's quite straightforward to select companies with a good environmental and governance record, selecting those with a strong social agenda is more difficult. Investing in biotechnology is an effective way to ensure your capital will benefit society. The healthcare sector has a unique contract with policy makers and consumers. Periods of patent exclusivity incentivise the industry to find new drugs which treat unmet needs. Once those patents expire, however, these new therapies are often available for cents in the dollar in perpetuity.

**CARL HARALD JANSON** | Lead Investment Manager  
30 October 2018

## INVESTMENT MANAGERS

The investment team has a breadth of experience across both public and private investments. The majority of investments made are in the public markets, though private or venture capital investments are also made through a relationship with SV Health Investors LLC (SV Health or the Fund Manager) ([www.svhealthinvestors.com](http://www.svhealthinvestors.com)) which provides unique deal flow for private company investment opportunities.



**CARL HARALD JANSON**  
Lead Investment Manager

Carl Harald joined SV Health in 2013 as the Lead Investment Manager for the Company. Carl Harald qualified as a Medical Doctor and completed a PhD at the Karolinska Institute and is a Certified Financial Analyst from the Stockholm School of Economics.



**AILSA CRAIG**  
Investment Manager

Ailsa joined SV Health in 2006 and is an Investment Manager for the Company. Ailsa has a BSc (Hons) in Biology from the University of Manchester. She was awarded the IMC in 2002 and the Securities Institute Diploma in 2007.



**MAREK POSZEP CZYNSKI**  
Portfolio Manager

Marek joined SV Health in 2014 and is a Portfolio Manager for the Company. Marek has an MSc in Biochemistry and an MSc in Business Management from the Royal Institute of Technology, Stockholm.



**KATE BINGHAM**  
Unquoted Investment Manager

Kate joined SV Health in 1991 and is an Investment Manager for the Company. Kate is one of the SV Health's Managing Partners, has a first class degree in Biochemistry from Oxford University, and graduated from Harvard Business School with an MBA.

# STRATEGIC REPORT

---

Chairman's Statement	06
Fund Manager's Review	08
Unquoted Investments and Earnouts	12
Strategic Review	14

---

## CHAIRMAN'S STATEMENT

### Summary

I am pleased to present my first Annual Report since taking over as Chairman of the Company in December 2017. It has been a highly successful year, with the Company reaching its lowest 12-month average discount since inception and even trading at a premium during December and January. Both the Company's NAV per share and share price traded at an all-time high on numerous occasions in the last three months of the year. Whilst the NAV underperformed the NASDAQ Biotechnology Index (NBI), returning 8.6% versus the NBI return of 10.1%, shareholders were rewarded with a share price total return of 13.7% during the year, including the dividend payment equal to 4% of NAV. By contrast, the FTSE All-share Index provided a total return of just 4.7%, demonstrating another strong year of growth and returns for biotechnology investors.

The end of this particular financial year also marks five years since Carl Harald Janson became lead investment Manager of the Company. During that time, the Company has significantly outperformed the NBI on both a NAV and share price basis, with outperformances of 10.9% and 43.4% respectively. Shareholders during that period have seen a total return of 174.5%, equating to an exceptional return of 22.4% per year over five years. Again, when compared with the broader UK equity market over this period, the Company's performance has been significantly better. Over the last five years, our NAV returned 142.0%, versus 44.1% across the wider UK market, as judged by the FTSE All-Share Index.

### Overall performance and quoted portfolio

In the year ended 31 August 2018, the NAV per Ordinary share of the Company rose from 672.9p to 699.0p, returning 8.6%. Over the same period, the Ordinary share price of the Company increased by 13.7%. This compares to returns of 10.1% and 4.7% from the NBI and FTSE All-Share Index respectively. All figures are on a total return basis and are sterling-adjusted.

The quoted portfolio returned 5.5% and has performed strongly when compared with the wider equity market and our closest competitors but was outperformed by the benchmark, the NBI. The US political environment and the threat of President Trump's drug pricing war contributed to the volatility throughout the year, but the market reacted positively to his proposals in July, resulting in a year of strong returns for the sector.



### Unquoted portfolio

Following the Board's decision to access the unquoted element of the sector through investment in a venture fund in September 2016, we now view the unquoted portfolio as two separate sub-portfolios; the first being the venture fund and the second being the directly-held legacy unquoted portfolio companies. Both have performed well during the financial year.

We are now 65.7% invested of our \$30.0m commitment to SV Life Sciences Fund VI (SV Fund VI). Following SV Fund VI's latest quarterly valuation report, we have achieved a 32% unrealised gain on the capital committed to-date. Investing directly into the venture fund allows us a broad, diversified access to a wider range of unquoted investments; SV Fund VI already has 21 investments. Our investment in SV Fund VI will increase slowly over the investment period and overlap with the exits of our existing unquoted companies.

The legacy unquoted portfolio also yielded returns of 10.8% in the year.

The Board expects the unquoted portfolio to remain within the guideline range of 5-15% of total investments.

## CHAIRMAN'S STATEMENT

### Dividends, buybacks and discount

I am pleased to report that the Company's third and fourth dividend payments were made during the financial year. We paid out a dividend equal to 4% of NAV as at 31 August 2017 in two equal tranches on 31 January 2018 and 31 August 2018. As anticipated, the underlying growth of our investments is more than sufficient to support the payment of the dividend out of capital growth.

In accordance with the Shareholder Circular dated 13 September 2016 and as a matter of best practice, the Board will be seeking Shareholder approval to continue the payment of dividends and a resolution will be put to Shareholders at the forthcoming Annual General Meeting (AGM). For the year ending 31 August 2019, we propose a dividend to be paid in two tranches on 31 January 2019 and 31 August 2019, equivalent to 4% of NAV at 31 August 2018. Since the announcement of our policy changes and the introduction of the dividend in September 2016, no buybacks have been required for discount management purposes. Indeed, the discount narrowed to 2.7% from 7.3% at the previous year end. The long-term outperformance of the benchmark, combined with the outperformance of our competitors in more recent times, have resulted in an increased demand for the Company's shares, reducing the need for share buybacks to protect Shareholder interests.

Additionally, the introduction of the dividend policy appears to have led to a pleasing shift in the Company's Shareholder base. Before the introduction of the dividend, retail and private wealth investors accounted for less than 35%. Today, that figure sits just below 50%, demonstrating the widening demand for our shares and further narrowing the discount.

It is the Board's long-term intention to continue to reduce the discount.

### Performance fee

The realisation of historical gains within the unquoted portfolio, driven primarily by the sale of Entellus to Stryker in March 2018, gave rise to a performance fee of £93,000 in the year ended 31 August 2018.

### Prospects

The factors which contributed to flat growth for much of the year, namely President Trump's drug pricing war, have abated, allowing strong growth in the final months of the financial year. While the looming mid-term elections in November may create some short-term uncertainty, the healthcare demographic argument for growth in the biotechnology sector remains strong, and I am

confident about the long-term prospects for the Company. The changing landscape may benefit some biotechnology companies more than others, a key advantage of an investment fund is that its investments are diversified across a wide range of companies within the industry. Therefore, in times of increased uncertainty, investors can gain access to the biotechnology sector but reduce the risk of volatility which would otherwise be present if one were to directly purchase a small portfolio of biotechnology companies. Our closed-end structure allows us to gear, which we do prudently to take advantage of changing market conditions and, because of greater stability of capital, allows a longer-term approach to investment.

Looking further afield, Brexit continues to cast a shadow over European investment markets and it is difficult to predict the paths the UK and the EU will follow in 2019, which could see volatility in these currencies. Investors should be aware that the Company does not engage in any currency hedging and the NAV is therefore partially dependent on currency fluctuations however, since almost 90% of our holdings are USD denominated, further weakening of sterling would increase the NAV.

The outlook for the sector is more thoroughly explored in the Q&A with the investment managers and the Fund Manager's Review.

### AGM

This year's AGM will be held at 3.00 pm on Wednesday, 12 December 2018 at BNP Paribas Securities Services S.C.A., 10 Harewood Avenue, London, NW1 6AA. In addition to the formal process of voting on various resolutions, the AGM is an opportunity for Shareholders to meet the Board and representatives of the Alternative Investment Fund Manager, SV Health Managers LLP, who will present to Shareholders.

If you have any detailed or technical questions, it would be helpful if you could raise these in advance of the meeting by emailing the Company Secretary at [secretarialservice@uk.bnpparibas.com](mailto:secretarialservice@uk.bnpparibas.com) or in writing to BNP Paribas Secretarial Services Limited, 10 Harewood Avenue, London, NW1 6AA. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes.

I look forward to welcoming as many of you as possible to the meeting.

**JOHN ASTON OBE | Chairman**

30 October 2018

31 AUGUST 2018

## FUND MANAGER'S REVIEW

### BEST PERFORMING INVESTMENTS

	Contribution to NAV
SV Fund VI Investment	£6.6m
Neurocrine	£6.2m
Nektar Therapeutics Com	£5.1m
Illumina	£4.4m
Ligand	£3.8m

### WORST PERFORMING INVESTMENTS

	(Reduction) in NAV
Celgene	£(5.7)m
Regeneron	£(3.8)m
Exelixis	£(3.8)m
Incyte	£(3.1)m
Tesaro	£(3.1)m

### Summary

In the year ended 31 August 2018, the Company's NAV per share returned 8.6% including the dividend. The Company's share price returned 13.7%. The NBI returned 10.1% and the FTSE All-Share Index returned 4.7%. All figures are on a total return basis and are sterling-adjusted.

By subsector, 80% of the portfolio was invested in therapeutics, 4% in specialty pharmaceuticals, 4% in medical devices, 5% in life science tools, diagnostics and services, and 8% in a venture capital fund, SV Fund VI. SV Fund VI makes investments into unquoted companies across three sectors; biotechnology (40%), healthcare services and IT (40%) and medical devices (20%). Cash and other net assets were -1% of NAV.

### OVERVIEW AND PERFORMANCE

	2018	2017
Total portfolio companies *	66	83
Quoted	51	69
Unquoted	15	14
NAV	£262.5m	£252.7m
Quoted **	£230.6m	£224.8m
Unquoted	£32.6m	£20.7m
Other assets/(liabilities)	£(0.5)m	£(16.7)m
Legal commitments to investments in unquoted	£8.9m	£14.9m
Reserved for further investment in unquoted	£1.3m	£2.7m

\* Excluding unquoted companies fully written off (2018: 7; 2017: 8)

\*\* Including TransEnterix, KalVista and ReShape which are quoted companies but excluded from the quoted portfolio for performance measurement purposes. Excluding these companies from the quoted portfolio values this portfolio at £222.4m

## FUND MANAGER'S REVIEW

At 31 August 2018, the quoted portfolio represented 87.6% of NAV (excluding cash and other net assets) at £230.6m. The unquoted portfolio represented 13.4% of NAV at £32.6m. Companies that were first invested in from the unquoted pool and have now become quoted but continue to be managed by the unquoted Investment Managers are included within the unquoted portfolio for the purposes of performance measurement. Based on the classification of the investments as adjusted for performance measurement, the quoted portfolio was 84.5% of the portfolio, whilst the unquoted portfolio represented 15.5%.

### QUOTED PORTFOLIO

The return on the quoted portfolio was 5.5%, which underperformed the benchmark index, the NBI, by 4.7% compared with the NBI total return of 10.1%.

Following a relatively flat six months to 28 February 2018, the second half of the fiscal year saw an initial decline for the broader equity market, with biotechnology being hit hard, fuelled by speculation that President Trump's Republican government would enforce strict drug pricing controls on drugs sold in the US, which is by far the largest biotechnology market. When the White House finally released its proposals on 11 May 2018, the market reacted with relief, with the NBI rising 4% on the day as a result of the announcement's lack of disruptive regulatory proposals on drug pricing. The industry friendly announcement was the main factor in biotechnology starting to swing back in favour with generalist investors. As is expected, when an industry increases in popularity the large-cap stocks are the first to benefit from the increased interest. Combining this with better than expected earnings growth amongst these companies saw their share prices increase significantly in the latter part of the financial year. Given eight of these large-caps make up 48% of the benchmark index, the Company's focus on the higher growth companies appears slightly less successful when viewed through the snapshot of the year end position. Despite the encouraging signs following the White House announcement, mid and

small-cap companies experienced profit-taking throughout July and August 2018. Historically low trading volumes in the summer months and the upcoming US mid-term elections in November has naturally resulted in the market focusing on larger companies but we remain very positive about the longer-term growth prospects for these mid and small-cap stocks.

### M&A deals

Six portfolio holdings were the subjects of successful bids during the year under review: Ignyta, Entellus, Juno, AveXis, Shire and Spinal Kinetics.

Ignyta was acquired by Roche at a 91% premium to the previous share price. Ignyta's lead asset was a tyrosine-kinase inhibitor that targets specific mutations in tumours and has the ability to cross the blood brain barrier.

Celgene acquired Juno in January 2018 at a 70% premium to the previous share price. Juno was a cell therapy company with a late-stage asset, also for oncology. Its technology harnesses the body's immune system to treat certain blood cancers.

Novartis agreed to acquire AveXis Inc. for \$8.7bn to expand its position as a gene therapy leader. AveXis' lead product candidate, AVXS-101, has potential to be the first-ever one-time gene replacement therapy for spinal muscular atrophy (SMA), a disease which results in early death or lifelong disability with considerable healthcare costs.

In April 2018, Shire was the subject of an ambitious \$62bn takeover bid by Japanese giant Takeda. The takeover now appears to have cleared most of the hurdles and should complete in the autumn. We identified that Shire's valuation was exceptionally low and initiated a 4.8% position.

Entellus was a listed company classified within the unquoted portfolio for performance purposes while Spinal Kinetics was unquoted. These two companies are discussed in greater detail in the Unquoted Portfolio review below.



## FUND MANAGER'S REVIEW

Whilst this activity is indicative that M&A is alive and well, the last of these offers was made in April 2018, suggesting that the upcoming mid-term elections and other factors may be building up a backlog of potential M&A deals. With many large and mega-cap companies searching for increased top-line growth, we expect M&A to continue to be a prominent feature of the sector in the year ahead and will continue to pick stocks which we think have strong M&A potential.

### ■ Positive contributors

Neurocrine's launch of Ingrezza to treat Tardive Dyskinesia was highly successful, continually beating expectations throughout the year, as we expected. Neurocrine was the biggest contributor to performance in the year.

Nektar announced exciting, albeit early, data for its CD122 biased agonist at a medical conference in the autumn of 2017. NKTR-214 is an investigational immune-stimulatory therapy that helps boost the cells that target cancer in the patient. In February 2018, the company announced a lucrative deal with Bristol Myers Squibb. The share price rose 300.7% in the year under review.

Life science tools company Illumina, one of the larger holdings in the Company, reported strong revenue and earnings growth based on an increased demand for its gene sequencing machines and consumables. Gene sequencing has come of age and its ever-increasing use will allow Illumina to profit from its dominant position in the market.

### ■ Negative contributors

Celgene experienced two setbacks in October 2017, announcing disappointing results from its pipeline asset, GED-301, in Crohn's disease and concerns about long-term revenue growth once its lead asset Revlimid goes off patent. The company is taking steps to diversify away from Revlimid by seeking M&A targets. In January 2018, it acquired Juno, shortly followed by the acquisition of Impact BioSciences, both of which are oncology companies.

Regeneron shares fell in value over the year due to slower than expected sales growth of its newly launched asthma drug Dupixent and disappointing clinical data from a mid-stage ophthalmology trial testing a new combination of drugs for wet Age-related Macular Degeneration. The company reported positive results for its lipid-lowering drug, Praluent, in March 2018, which Regeneron hopes will turn around its fortunes in 2018.

Following a positive start to 2017, Incyte shares declined in value during the year, as investors' excitement for its experimental "IDO" drug tempered. These fears were confirmed when data from the IDO clinical trial showed a lack of efficacy in April. However, with IDO now behind the company, the Fund Manager believes the company is undervalued and may even be an M&A target for larger pharmaceuticals companies.

Exelixis shares declined during the year under review. Its marketed drug Cabo, used to treat renal cell carcinoma, faced competition from newer immune-oncology drugs which investors feared may capture market share off their drug. We think these fears are over blown and the stock should recover over the next twelve months.

FX losses negatively impacted the quoted portfolio by £4.2m, or 11.3p per share.

## UNQUOTED PORTFOLIO

The return for the unquoted portfolio over the year ended 31 August 2018 was a gain of 25.5%. The combined effect of gains and losses on the unquoted investments crystallised a performance fee of £93,000.

As at 31 August 2018, the Company held investments in nine unquoted portfolio companies, one investment in a venture fund, SV Fund VI, and interests in five further companies that have been sold, but where there are further receipts dependent on reaching drug development or financial milestones set at the point when those companies were sold.

## FUND MANAGER'S REVIEW

	Number of investments as at 31 August 2018	Fair value at 31 August 2018 (£'m)	Percentage of NAV
Unquoted	9	6.6	1.9%
Exited with contingent milestones	5	5.1	2.5%
SV Fund VI	21*	20.7	7.9%
<b>Total unquoted</b>	<b>35</b>	<b>32.4</b>	<b>12.3%</b>
Previously unquoted, now listed	3	8.2	3.1%
<b>Total unquoted for performance measurement</b>	<b>38</b>	<b>40.6</b>	<b>15.5%</b>

\* The number of investments listed within SV Fund VI represents the number of investments into underlying individual portfolio companies. Fair value of unquoted investments for performance measurement as at 31 August 2017 was £27.6m.

The Company also holds investments in three previously unquoted companies that are now listed, but which, as described above, are still reported for performance purposes within the unquoted portfolio.

Following the approval of the change to the investment policy at the General Meeting on 29 September 2016, a new investment was made into SV Fund VI. The draw down on the commitment of \$30.0m to date is \$19.65m, with further amounts due to be drawn down over the fund investment period. Our current valuation of our \$19.65m investment is £20.7m, representing a 1.3x unrealised return when currency losses are taken into account. SV Fund VI's investee companies continue to be diversified between biotechnology, healthcare services & IT and medical devices similar to our existing unquoted investments, but with smaller allocations to each individual company, allowing for greater diversification.

The majority of the unquoted movements were caused by the listed stocks in the unquoted portfolio. During the year, Entellus was acquired by Stryker for \$24 per share, crystallising a gain of £2.0m.

Transenterix's Senhance system received FDA approval in October 2017 with the system making its first sales in November 2017, followed by further FDA approvals in 2018, leading to a valuation increase of £3.4m in the year under review.

Kalvista announced a collaboration deal with Merck worth \$715m in future milestones and a \$37m upfront payment. As part of the deal, Merck took a 9.9% stake in the company which resulted in the share price responding positively leading to a valuation uplift. The company initiated phase I and phase II trials for two separate candidates, with a goal to advance at least one additional candidate to clinic before the end of 2018. The positive outlook for these candidates has resulted in the share price continually increasing throughout the second half of the year, resulting in a £2.6m gain in the year.

FX also made a small negative contribution to performance in the year, with an FX loss of £0.5m, or 1.2p per share.

### ■ Outlook

The Q&A on pages 3 and 4 details the majority of our views on the outlook for the sector.

We continue to believe that scientific advancements and increasing innovation paint a very exciting picture for the sector as a whole. It is our firm belief that we've positioned the Company to be at the very forefront of this picture as we seek to generate the very best returns for our Shareholders.

**SV HEALTH MANAGERS LLP**  
30 October 2018

31 AUGUST 2018

## UNQUOTED INVESTMENTS as at 31 August 2018

The below are the unquoted investments held by the Company. The top 30 investments, which includes those companies which are quoted, can be found on the Fund Facts page.

Investment	Region	Sector classification	Fair value of asset £'000	% of total equity
1. SV Fund VI Investments	USA	SV Fund VI Investment	20,711	7.9
An investment in a venture capital fund, SV Fund VI, which invests in unquoted portfolio companies across three sectors; biotechnology (40%), healthcare & IT (40%) and medical devices (20%). The Company made a commitment of \$30m to the fund on 19 October 2016, equivalent to 7.5% of the total commitments, which will be drawn down over the investment period for the next few years. The amount invested to date is £15.3m (\$19.7m). As at 31 December 2017, the fund had a turnover of \$70k and the loss for the year was \$9.5m.				
2. NCP Holdings	USA	Medical Research Services	1,752	0.7
Trading as Nordic Consultancy Partners. A company focused on providing Epic-only consulting within the US - implementation support and optimisation. Epic makes software for mid-size and large medical groups, hospitals and integrated healthcare organisations - working with customers that include community hospitals, academic facilities, children's organisations, safety net providers and multi-hospital systems.				
3. Karus Therapeutics	Europe	Biotechnology	1,368	0.5
A drug discovery and development company focused on the delivery of novel compounds for the treatment of cancer.				
4. TopiVert	Europe	Biotechnology	1,168	0.4
A company developing small, novel molecules as topical treatments for inflammatory diseases of the gut and eye. Founded in 2011 as spin out of RespiVert, following its acquisition of Centocor Ortho Biotech (now Janssen Bioech).				
5. Sutro Biopharma	USA	Biotechnology	1,104	0.4
A company focused on developing next generation cancer therapeutics - antibody conjugates and bispecific antibodies. Its platform technology enables the company to iteratively discover and test molecules in a rapid cycle of weeks to identify optimal safety and potency. In August 2017, Sutro signed a revised collaboration deal with Celgene for the development of four candidates.				
6. Autifony Therapeutics	Europe	Biotechnology	773	0.3
An early-stage company focused on delivering drugs for hearing disorders by targeting specific ion channel modulators in the field of hearing and sensory disorders, including schizophrenia.				
7. Calchan	Europe	Biotechnology	183	0.1
A company developing novel ASK1 inhibitors for osteoarthritis pain and fibrosis.				
8. Cell Medica	Europe	Biotechnology	166	0.1
A company that applies innovative technologies with the aim of improving the treatment of cancer and immune reconstitution following hematopoietic stem cell transplant. The company is developing a pipeline of naturally occurring and gene-modified immune cell products. Cell Medica acquired Delenex AG, an International Biotechnology Trust investment, in July 2016 in a share-for-share exchange.				
9. Vantia	Europe	Biotechnology	113	0.1
An early-stage company whose pipeline includes clinical development programmes Biotechnology in the areas of urology and women's health. Its lead asset, Fedovapagon (formerly known as VA106483), has completed multiple phase 1 and 2 studies and is currently being investigated in a pivotal study for the treatment of nocturia.				

## UNQUOTED INVESTMENTS as at 31 August 2018

Investment	Region	Sector classification	Fair value of asset £'000	% of total equity
10. EBR Systems	USA	Medical Devices	109	0.0
An early-stage company developing the first wireless cardiac stimulation device. The existing market for CRT devices exceeds \$3bn in annual sales and is expected to experience significant growth over the next five years.				
<b>TOTAL</b>			<b>27,447</b>	<b>10.5</b>

## EARNOUTS as at 31 August 2018

Investments in unquoted companies that have previously been written down to nil net book value, but where ownership in the company is retained are not disclosed in this table, 2018: 7 companies (2017: 8 companies).

Exited unquoted companies for which the Company retains rights to receive future contingent performance-based payments are shown below.

Investment	Region	Sector classification	Fair value of asset £'000	% of total equity
1. Ikano Therapeutics	USA	Biotechnology	2,128	0.8
A company focused on nasally delivered pharmaceutical products that was sold to Upsher Smith Laboratories in 2010. The terms of the deal provide for an upfront payment and a series of milestones.				
2. Convergence Pharmaceuticals	Europe	Biotechnology	2,116	0.8
A company, spun out from GSK, focused on developing novel analgesic/pain relieving drugs that was sold to Biogen in 2015. The terms of the deal provide for an upfront payment and a series of milestones.				
3. Spinal Kinetics	USA	Medical Devices	404	0.2
A company pioneering a new generation of artificial discs for treating degenerative disc disease in the cervical and lumbar spine. The company's unique technology is designed to replicate a natural vertebral disc in its structure and physiologic range of motion in all planes, including axial compression and rotation. This "natural" artificial disc has been designed to enable patients to move freely while enjoying a sustained quality of life.				
4. Atopix Therapeutics	Europe	Medical Devices	237	0.1
An early-stage biotechnology company developing a pipeline of novel drugs to treat inflammatory diseases. The company's portfolio includes a lead drug programme with the potential to treat asthma and other respiratory and inflammatory conditions with a once daily pill.				
5. Archemix	USA	Biotechnology	104	0.0
Formerly a small biotechnology company discovering, developing, and commercialising aptamer therapeutics, which was sold to Chiesi in 2011.				
<b>TOTAL</b>			<b>4,989</b>	<b>1.9</b>

# STRATEGIC REVIEW

The Directors present their Strategic Review for the Company for the year ended 31 August 2018.

## ■ Business model

The Company is an investment company as defined in Section 833 of the Companies Act 2006 (the Act) and its Ordinary shares are listed and traded on the London Stock Exchange. The Company is incorporated in England and Wales as a public limited company and domiciled in the UK.

## ■ Life of the Company

The Company's Articles of Association provide for the Directors to put forward a proposal for the continuation of the Company at the AGM at two-yearly intervals. The last continuation vote was held at the AGM on 12 December 2017 and was passed on a show of hands. Proxy votes cast in respect of the last continuation vote were 15,863,872 (99.99%) in favour, 1,772 (0.01%) against and 10,294 withheld. The next continuation vote will be put to Shareholders at the AGM to be held in 2019.

## ■ Investment objective and policy

The Company's investment objective is to achieve long-term capital growth by investing in biotechnology and other life sciences companies.

The Company will seek to achieve its objective by investing in a diversified portfolio of companies which may be quoted or unquoted and whose shares are considered to have good growth prospects, with experienced management and strong potential upside through the development and/or commercialisation of a product, device or enabling technology. Investments may also be made in related sectors such as medical devices and healthcare services. While the Company's portfolio is held as one pool of assets, for operational purposes there is a quoted portfolio and an unquoted portfolio. The portfolio is diversified by geography, industry sub-sector and investment size with no single investment in a company normally accounting for more than 15% of the portfolio at the time of investment.

The portfolio is split between large, mid and small-capitalisation companies, primarily quoted on stock exchanges in North America, where the most established and commercial biotechnology and other life sciences companies and companies operating in related sectors are based, though investments will also be made in Europe, Asia and Australia. Investments may also be made into unquoted companies and into funds not quoted on a stock exchange, including venture capital funds. This may

include funds managed by the Fund Manager and/or members of its group. The primary purpose of investment in unquoted funds will be to gain exposure to unquoted companies.

The Company may invest through equities, index-linked securities and debt securities, cash deposits, money market instruments and foreign currency exchange transactions. Forward or derivative transactions are not used by the Company.

The Company may borrow from time to time to exploit specific investment opportunities, rather than to apply long-term structural gearing to the Company's portfolio of investments.

## ■ Investment restrictions

The Company observes the following investment restrictions:

- The Company will invest primarily in biotechnology and other life science companies that are either quoted or unquoted.
- The Company will not invest more than 15% in aggregate, of the value of its gross assets in any one individual company at the time of acquisition.
- The great majority of the Company's assets will be invested in the quoted biotechnology sector with a global mandate across the entire spectrum of quoted companies. The weighting of investment in unquoted companies will vary according to the attractiveness of the opportunities identified.
- Gearing is restricted to 30% of NAV.
- The Company will not invest more than 15% in aggregate, of the value of its gross assets in other closed-ended investment companies quoted on the London Stock Exchange or any other stock exchanges.

No material change will be made to the investment objective or policy without the approval of Shareholders by ordinary resolution.

## ■ Investment strategy

The Company has delegated responsibility for day-to-day investment of its assets to the Alternative Investment Fund Manager (AIFM), SV Health Managers LLP. Consistent with the Company's investment policy SV Health Managers LLP makes the majority of its investments in biotechnology companies focused on drug discovery and development. Investments are also made in related sectors such as medical devices or healthcare services.

## STRATEGIC REVIEW

SV Health Managers LLP uses a bottom-up approach to selection focused on assessing the fundamentals of each investment. The universe of possible investments is assessed and reduced to take into account a number of key criteria such as disease area target and market, unmet medical need, management team, stock liquidity, market capitalisation, product portfolio and competition. The risk/reward of each investment is assessed on its own merits.

The Company has a £35.0m overdraft facility in place with HSBC Bank plc which provides the Company with funds to take advantage of investment opportunities that occur from time to time on occasions when the portfolio is otherwise fully invested.

### ■ Performance

An outline of performance, market background, investment activity and portfolio strategy during the year under review, as well as the outlook, is provided in the Chairman's Statement on pages 6 and 7 and the Fund Manager's Review on pages 8 to 11.

### ■ Measuring performance – key performance indicators (KPIs)

The Board meets regularly to review the performance of the Company and its shares. It uses the following KPIs to help assess progress and its success at meeting the Company's investment objective. Whilst these measures are the main indicators of performance, the Company uses a variety of other performance indicators to measure performance, as indicated on 29 and 30 of the Fund Facts page, along with further details of the KPIs.

#### Absolute investment returns

The Company's stated investment objective is to achieve long-term capital growth and therefore the Board considers the progress of the NAV per share to be the principal measure of the Company's success in meeting its objective.

#### Relative investment returns

The Board continues to compare its own returns against the NBI (sterling-adjusted) and the FTSE All-Share Index as well as other biotechnology funds over the longer-term.

#### Discount to the NAV

The Board routinely monitors the level of share price to NAV and acts to limit its volatility and extent.

#### Ongoing charges (OC)

The Company's OC are used as a further KPI to demonstrate the Company's ability to control costs to maximise Shareholder returns.

### ■ Principal risks and uncertainties

The Board uses a framework of key risks which affect its business, and related internal controls designed to enable the Directors to take steps to mitigate these risks as appropriate. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A full analysis of the Directors' review of internal control is set out in the Corporate Governance Statement on pages 29 and 30.

The Company's principal risks include:

#### Strategic/Performance risk

The Company's returns are affected by changes in economic, financial and corporate conditions, including fluctuations in exchange rates, which can cause market fluctuations; a significant fall in equity markets is likely to affect adversely the value of the Company's portfolio. SV Health Managers LLP provides the Board with information on the market at each Board meeting and the Board discusses appropriate strategies to manage the impact of any significant change in circumstances. The biotechnology sector has its own specific risks leading to higher volatility than broad equity market indices. While the Company seeks to maintain a diversified portfolio within the confines of the current investment policy, biotechnology sector-specific or equity market risks cannot be eliminated by a diversified exposure to global biotechnology.

The Financial Statements and performance of the Company are denominated in sterling because it is the currency of most relevance to the Company's investors. However, the majority of the Company's assets are denominated in US dollars. Accordingly, the total return and capital value of the Company's investments can be significantly affected by movements in foreign exchange rates. It is not the Board's policy to hedge against foreign currency movements.

## STRATEGIC REVIEW

Discount to NAV: Failure to meet investment objectives and/or poor sector-specific or general equity sentiment can affect the Company's share price, resulting in shares trading at a relatively large discount to the underlying NAV. The Board continually reviews the Company's investment performance, taking into account changes in the market, and regularly reviews the position of the NAV per share compared to the share price. Further information on the Company's discount is provided in the Chairman's Statement on page 7.

### Investment related risks

Alignment of the investment strategy with the Company's investment objective is essential and an inappropriate approach by SV Health Managers LLP towards stock selection and asset allocation may lead to loss and/or underperformance and failure to achieve the Company's objective of long-term capital growth, resulting in a widening of the discount. The Board manages these risks through its framework of investment restrictions and regular monitoring of SV Health Managers LLP's adherence to the agreed investment strategy.

SV Health Managers LLP provides regular reports to the Board on portfolio activity, strategy and performance, as well as risk monitoring. The reports are discussed in detail at Board meetings, which are all attended by the Fund Manager, to allow the Board to monitor the implementation of investment strategy and process.

### Operational risks

In common with most other investment trusts, the Company has no executive directors, no executive management and no employees. Its main functions are delegated to third party service providers which are specialists in their fields. Operational risk arises from insufficient processes of internal control which would include compliance with statutes and regulations governing the functions of the Company, however, the Board reviews the performance of these third party service providers and their risk control procedures on a regular basis as well as the terms on which they provide services to the Company.

### Tax, legal and regulatory risks

To qualify as an investment trust, the Company must comply with Section 1158 Corporation Tax Act 2010 (CTA). Further details of the Company's approval under Section 1158 CTA are set out in the Directors' Report in "Principal activities".

A breach of Section 1158 CTA could result in the Company being subject to Capital Gains Tax on the sale of investments. Consequently, pre-trade compliance checks are embedded into the investment procedures of SV Health Managers LLP. Reports confirming the Company's compliance with the provisions of Section 1158 CTA are submitted by SV Health Managers LLP to each Board meeting together with relevant portfolio and financial information.

The Company is also subject to other laws and regulations, including the Act, Financial Conduct Authority (FCA) Listing, Prospectus and Disclosure Guidance and Transparency Rules and the Alternative Investment Fund Manager's Directive (AIFMD). Breaches of these laws and regulations could lead to criminal action being taken against Directors or suspension of the Company's shares from trading. SV Health Managers LLP and the Company Secretary provide regular reports to the Board on compliance with relevant provisions and report breaches without delay. The Board also relies on the services of its other professional advisers to minimise these risks.

Such risks are assessed by the Audit Committee, which receives regular reports from its main service providers as to the internal control processes in place within those organisations.

### Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2016, the Audit Committee has assessed the prospects of the Company over a five year period. This is considered to be an appropriate period given the long-term nature of investment and the expected maturity period of the unquoted portfolio.

## STRATEGIC REVIEW

In its assessment of the viability of the Company, the Audit Committee has considered each of the Company's principal risks and uncertainties and how these are managed. These risks and uncertainties are detailed in the Strategic Review on pages 15 and 16 and the effectiveness of the Company's risk management and internal control systems are detailed on pages 29 and 30. The Audit Committee has also considered the following assumptions in relation to the longer-term viability of the Company:

- the Articles of Association require the Company to seek approval from Shareholders on the continuation of the Company at every second AGM. In December 2017, 99.99% of the votes cast were in favour of the continuation of the Company. The next continuation vote will be proposed at the AGM to be held in 2019;
- healthcare will continue to be an investable sector of the international stock markets and that investors will still wish to have an exposure to such investments;
- closed-ended investment trusts will continue to be desirable by investors;
- regulation will not increase to a level that makes the running of the Company uneconomical in comparison to other competitive products;
- the performance of the Company will continue to be satisfactory and should performance be less than the Board deems acceptable it has the appropriate powers to replace the Fund Manager; and
- there are no material or significant changes in the principal risks.

The Audit Committee has also considered the income and expenditure projections and the fact that the majority of the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary.

In light of the considerations and based upon the Company's processes for considering the composition of the investment portfolio, monitoring the ongoing costs of the Company,

the discount to the NAV, the level of gearing, and taking into account the Company's current position and principal risks and uncertainties, the Board, based on a recommendation by the Audit Committee, considers that there is a reasonable expectation that the Company will continue to operate and meet its liabilities, as they fall due, over the next five years.

### Social, community, environmental and human rights policy

The Board recognises the requirement under Section 414C(7) of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies.

As an investment company, the Company has no direct social, community, employee or environmental responsibilities and delegates all its functions to third party services providers. Details of the Investment Management Agreement and arrangements with other advisers are provided in the Directors' Report on pages 22 and 23.

SV Health Managers LLP takes into account these considerations when making investment decisions and determines its voting instructions at investee company meetings accordingly. Full details around the application of the UK Stewardship Code can be found in the Directors' Report on page 29.

Further, the Company has not adopted a policy on Human Rights.

### Modern Slavery Act 2015

The Company does not fall within the scope of the Modern Slavery Act 2015 and the Directors also consider the Company's supply chain to be low risk as its suppliers are typically professional advisers.



## STRATEGIC REVIEW

Accordingly, a slavery and human trafficking statement has not been included.

### ■ Global greenhouse gas emissions

All of the Company's activities are outsourced to third parties. As such, it does not have any greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

### ■ Gender representation on the Board

As at the date of this Report, there were two male and two female Directors on the Board.

### ■ Current and future developments

Details of the Company's developments during the year ended 31 August 2018, along with its prospects for the future are set out in the Chairman's Statement on pages 6 and 7 and the Fund Manager's Review on pages 8 to 11. These are not intended to be detailed forecasts.

By order of the Board

#### BNP PARIBAS SECRETARIAL SERVICES LIMITED

Company Secretary

30 October 2018

## DIRECTORS' REPORT

Directors' Biographies	20
Directors' Report (Incorporating the Corporate Governance Statement)	21
Report on Directors' Remuneration	31
Audit Committee Report	35
Management Report and Directors' Responsibilities Statement	37
Independent Auditors' Report	38
Statement of Comprehensive Income	46
Statement of Changes in Equity	47
Balance Sheet	48
Cash Flow Statement	49
Notes to the Financial Statements	50
Company Summary, Shareholder Information, Directors and Advisers	75
Alternative Investment Fund Manager's Disclosure	76
Statement of the Depositary's Responsibilities	81
Notice of Meeting	82

Further information on the Company may be found on the internet at [www.ibtplc.com](http://www.ibtplc.com)

## DIRECTORS' BIOGRAPHIES



**JOHN ASTON OBE**  
Chairman

John Aston was appointed as a non-executive Director of the Company on 23 February 2011 and served as Chairman of the Audit Committee from April 2011 to July 2016. He was subsequently appointed as Chairman of the Company on 12 December 2017. John was chief financial officer of Astex Therapeutics Limited between January 2007 and May 2010, and was chief financial officer of Cambridge Antibody Technology for ten years to 2006. Prior to this he was a director in investment banking with Schroders in London and previously worked for British Technology Group and Price Waterhouse. He is a Chartered Accountant and has a degree in Mathematics from Cambridge University. He has previously been a director of Polar Capital Global Healthcare Trust Plc and a number of private biotech companies.



**DR VÉRONIQUE BOUCHET**  
Senior Independent Director

Véronique Bouchet was appointed as a non-executive Director of the Company on 1 September 2009. She is the chief medical officer of RowAnalytics Ltd, an AI enabled precision medicine company. She is a non-executive director of Stevenage Bioscience Catalyst, a member of the Council and Finance and Investment Committee of Queen Mary, University of London and a member of the scientific committee of Breast Cancer Now. She has an MB BS from St Bartholomew's Hospital Medical School and holds a BSc in Psychology from University College London. She has an MBA from INSEAD, and has been awarded the Institute of Directors' Diploma in Company Direction (Distinction).



**CAROLINE GULLIVER**  
Chair of the Audit Committee

Caroline Gulliver was appointed as a non-executive Director of the Company on 1 April 2015 and as Chair of the Audit Committee on 13 July 2016. She spent a 25 year career with Ernst & Young LLP, from where she retired in 2012 to pursue other interests including non-executive directorship positions. She is a Chartered Accountant with a background in the provision of audit and advisory services to the asset management industry, with a particular focus on investment trusts. She is also a non-executive director of JPMorgan Global Emerging Markets Income Trust plc, Civitas Social Housing PLC and Aberdeen Standard European Logistics Income PLC.



**JIM HORSBURGH**

Jim Horsburgh was appointed as a non-executive Director of the Company on 1 February 2013. He commenced his career in 1977, joining Hill Samuel Investment Management as a graduate trainee. He moved to the ICI Pension Fund in 1979 and Abbey Life Assurance Company in 1982, where he managed the company's flagship life and pension equity funds. In 1984 he joined Schroder Investment Management as a UK pension fund manager becoming an account director, a director and in 1998 UK managing director. He left Schroders in 2001 and, following a career break, was chief executive of Witan Investment Trust plc from February 2004 to October 2008.

All Directors are independent. | All Directors are Members of the Audit, Management Engagement and Nomination Committees.  
John Aston is Chairman of the Management Engagement and Nomination Committees as well as the main Board.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 August 2018.

## Information disclosed in the Strategic Report

The following matters required to be disclosed in this Report under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are covered in the Strategic Report on pages 6 to 18: the Company's status, investment objective and policy, investment strategy, investment restrictions, financial risk management, the Company's exposure to risks, a statement regarding the Company's greenhouse gas emissions and the current and future developments as well as important events effecting the Company since the year end.

## Principal activities

The principal activity of the Company is the making of investments in accordance with the investment objective and policy set out on page 14. The Board delegates investment management of the Company's portfolio to SV Health Managers LLP. A description of the Company's activities and strategy during the year, as well as the outlook, is given in the Chairman's Statement on pages 6 and 7 and the Fund Manager's Review on pages 8 to 11.

The Company conducts itself as an approved investment trust for the purposes of Section 1158 CTA which allows exemption from Capital Gains Tax. Such approval has been granted from HM Revenue & Customs (HMRC) and the Directors expect the affairs of the Company to continue to satisfy the conditions for exemption.

The current portfolio of the Company is such that its shares are eligible for inclusion in an ISA, and the Directors expect this eligibility to be maintained.

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers in the UK to ordinary retail investors in accordance with the FCA rules in relation to non-mainstream investment products and intends to continue to do so. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an authorised investment trust.

## Results and dividends

The results for the year are shown in the Statement of Comprehensive Income on page 46. Shareholders approved at the AGM held on 12 December 2017, the Company's dividend policy to pay an annual dividend, equivalent to 4% of the Company's NAV as at the last day of the Company's preceding financial year,

being 31 August, to be paid through two equal distributions in January and August of each year, which is expected to be paid out of capital reserves.

Accordingly, the Board declared and paid two interim dividends during the year, each totalling 13.5 pence per Ordinary share (2017: 11.5 pence per Ordinary share). These were paid on 31 January 2018 and 31 August 2018. Further, the Directors intend to pay Interim Dividends for the year ending 31 August 2019 in two equal tranches in January and August 2019.

In accordance with the Board's decision to seek Shareholder approval of the Company's dividend policy at each AGM, a resolution to this effect has been included in the Notice of Meeting on page 82.

## Share capital

At the AGM on 12 December 2017, Shareholders gave approval for the Company to purchase up to 5,628,394 Ordinary shares of its own capital for cash, being 14.99% of the share capital in issue as at the date of the Notice of Meeting. During the year under review the Company did not conduct any share buybacks nor did it cancel or re-issue any Ordinary shares previously held in treasury. The issued share capital of the Company is detailed in note 15 to the Financial Statements. The total number of Ordinary shares at the date of this Report is 41,342,663, of which 3,795,000 Ordinary shares are held in treasury.

## Directors

The biographies of the Directors of the Company are set out on page 20, all of whom were in office during the year and up to the date of the signing of the Financial Statements. Alan Clifton resigned from the Board on 12 December 2017 after 16 years of service. Since 2009, the Board has been regularly refreshed with the appointment of a new Director replacing a resigning Director every two years. The Board will continue to refresh its membership, taking into consideration the Company's agreed strategic priorities, to ensure the right balance of skills and experience is achieved to enable them to discharge their respective duties and responsibilities effectively.

In accordance with best practice, each Director will be submitted for annual re-election at the Company's AGM. As indicated on page 20, all Directors are deemed by the Board to be independent in both character and judgement, and have performed their duties in an independent manner at all times.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

The Board has considered the position of each of the Directors as part of the performance evaluation process and concluded that they continue to demonstrate commitment to their roles and provide a valuable contribution to the deliberations of the Board. The Board therefore recommends that Shareholders vote in favour of their re-elections at the forthcoming AGM.

## Directors' and Officers' liability insurance and Directors' indemnities

Directors' and Officers' Liability Insurance cover was purchased by the Company and was in force during the year and up to the date of the signing of this Annual Report and will be due for renewal in April 2019.

The Company had a Deed Poll in place during the year under review to indemnify the Directors against any liability suffered or incurred in his or her capacity as a Director of the Company.

## Fund Manager's performance and contractual arrangements

The Fund Manager is SV Health Managers LLP. The performance of the Fund Manager is reviewed continuously by the Board with a formal evaluation being undertaken by the Management Engagement Committee at least annually. As part of this process, the Committee reviewed the key terms of the Company's agreement with SV Health Managers LLP, the terms of their remuneration as set out below and a comparison with their peers. The Committee reviewed the appropriateness of the appointment of the AIFM in February 2018 with a recommendation being made to the Board.

The Board believes the continued appointment of SV Health Managers LLP is in the interests of Shareholders as a whole. In coming to this decision, it also took into consideration the quality and depth of experience allocated to the management of the portfolio and the level of performance of the portfolio in absolute terms and also by reference to the benchmark Index.

SV Health Managers LLP is entitled to a management fee payable monthly at the rate of 0.9% per annum of the Company's NAV. In addition, SV Health Managers LLP is entitled to an annual performance fee which is calculated as follows:

- The portfolio consists of two pools: quoted and unquoted.
- The fee on the quoted pool is 10% of relative outperformance above the sterling-adjusted NBI plus a 0.5% hurdle.

- The fee on the unquoted pool is 20% of net realised gains, taking into account any unrealised losses but not unrealised gains.
- The payment of the performance fee is subject to the following limits:
  - The maximum performance fee in any one year is 2% of average net assets;
  - Any underperformance of the quoted portfolio against the benchmark is carried forward for the current financial period plus two succeeding periods; and
  - Performance fees in excess of the performance fee cap are carried forward for the current financial period plus two succeeding periods and being offset against any subsequent underperformance before being paid out.

Under normal circumstances the Investment Management Agreement is terminable by either party on 12 months' written notice.

A performance fee of £93,000 is payable in respect of the year ended 31 August 2018 (31 August 2017: £1,374,000).

The Board has made a commitment of \$30m into SV Fund VI, enabling the Company to achieve the benefits of diversification, access to a wider range of unquoted companies and increased liquidity as outlined above. There is no double charging of investment management fees in relation to this commitment.

## Administration, Depositary and Company Secretarial Services

Fund accounting, administration, depositary and custody services are provided to the Company by HSBC Bank plc. The Administration Agreement with HSBC Bank plc continues until terminated by either party on giving not less than 12 months' written notice. The Depositary Agreement with HSBC Bank plc continues until terminated by either party on giving not less than 90 days' written notice. The Depositary also retains the right to serve notice on the Company requiring it, at the expiry of a period of not less than 270 calendar days, to give notice to the FCA of a proposal to wind-up the affairs of the Company unless a replacement Depositary has been appointed before the end of that period.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

Company Secretarial services are provided by BNP Paribas Securities Services S.C.A. who delegate this activity to their wholly owned subsidiary, BNP Paribas Secretarial Services Limited. The Agreement with BNP Paribas Securities Services S.C.A. may be terminated by either party on giving not less than six months' written notice.

## Companies Act 2006 disclosures

In accordance with Section 992 of the Act the Directors disclose the following information:

- The Company's capital structure is summarised on page 61, voting rights are summarised on page 85 and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- There exist no securities carrying special rights with regard to the control of the Company;

- The Company does not have an employees' share scheme;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Act;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

## Substantial share interests

As at the year end and up to the date of this Report, the interests of 3% or more of the voting rights attaching to the Company's issued share capital, as notified to the Company in accordance with Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules or ascertained by the Company were as follows:

Shareholder	As at 31 August 2018		As at 30 October 2018	
	Number of Ordinary shares held	% of total voting rights	Number of Ordinary shares held	% of total voting rights
Hargreaves Lansdown Asset Management	3,422,376	9.11	3,879,546	10.33
Border to Coast Pensions Partnership Limited	3,725,000	9.92	3,266,468	8.70
Charles Stanley	3,104,548	8.27	3,120,214	8.31
Lazard Asset Management (US)	3,751,086	9.99	3,102,504	8.26
M&G Investment Management	1,870,779	4.98	1,851,433	4.93
South Yorkshire Pensions Authority	1,700,000	4.53	1,700,000	4.53
Alliance Trust Savings	1,533,307	4.08	1,606,874	4.28
Brown Shipley	1,141,305	3.04	1,564,545	4.17
Interactive Investor	1,398,654	3.73	1,538,371	4.10
West Yorkshire Pension Fund	1,245,599	3.32	1,245,599	3.32

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

## ■ Going concern

The Company has reviewed the guidance issued by the FRC in order to determine whether the going concern basis should be used in preparing the Financial Statements for the year ended 31 August 2018. In doing so, the Directors have considered the Company's borrowing requirements and covenants on existing borrowings; liquidity risk (see note 23 on page 69); the business environment and its impact on financial risk; the nature of the portfolio; and expenditure projections for the next twelve months. The Company's assets consist mainly of equity shares in companies listed on the NASDAQ stock exchange and in most circumstances are realisable within a short timescale. The Company's Articles of Association require the Board to put a proposal for the continuation of the Company to Shareholders at two-yearly intervals. Shareholders approved the continuation of the Company in 2017 and a further vote will take place in 2019.

As a result, the Directors believe that it is appropriate to adopt the going concern basis in the preparation of the Financial Statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

## ■ Independent Auditors

Further to a full external tender of audit services in 2016, as described in the Audit Committee Report on page 36, and as recommended by the Audit Committee to the Board, PricewaterhouseCoopers LLP will continue as the Company's Auditors having been initially appointed in 2007. PricewaterhouseCoopers LLP, have expressed their willingness to continue in office. Accordingly, resolutions to re-appoint them as Auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM. The Board considers that the Auditors remain independent. For information relating to the effectiveness of the external audit process, please see the Audit Committee Report on page 35.

## ■ Disclosure of information to Auditors

In accordance with Section 418 of the Act, the Directors at the date of approval of this Report, as listed on page 20, confirm that:

- (a) so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- (b) each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

## ■ AGM

The AGM will be held on Wednesday, 12 December 2018 at 3.00pm at the offices of BNP Paribas Securities Services S.C.A., 10 Harewood Avenue, London NW1 6AA. Details of the business of the Meeting are set out in the Notice of Meeting on pages 82 to 86, amongst which the Board is seeking Shareholders' approval of the following four resolutions.

### Authority to allot shares

In order to provide maximum flexibility, the Directors wish to seek the power to allot new Ordinary shares for cash at a premium to the NAV at the forthcoming AGM.

This resolution seeks authority for Directors to allot shares for cash up to a nominal amount of £938,691.50, equivalent to 3,754,766 Ordinary shares (which represents 10% of the current issued share capital of the Company (excluding treasury shares)). The Directors intend to use this authority to issue new shares only if they believe it is in the best interests of the Company and is advantageous both to new investors and to the Company's existing Shareholders to do so. New shares will only be issued at a price not less than the most recent published NAV per Ordinary share prior to such issue. This authority will expire at the conclusion of next year's AGM or 15 months from the date of passing of the resolution, whichever is earlier, unless revoked, varied or renewed prior to that date.

### Authority to disapply pre-emption rights

If new Ordinary shares are to be allotted for cash or treasury shares are to be sold for cash, the Act requires such new shares to be offered first to existing holders of Ordinary shares. This entitlement is known as a "pre-emption right". In certain circumstances it is beneficial for the Directors to allot shares for cash or treasury shares to be sold for cash otherwise than pro rata to existing Shareholders and the Act provides for Shareholders to give such power to the Directors by waiving their pre-emption rights.

Therefore, a resolution will be proposed at the AGM which, if passed, will give the Directors power to disapply the statutory pre-emption rights of existing Shareholders in relation to the issue of Ordinary shares for cash or the sale of Ordinary shares for cash out of treasury up to an aggregate nominal amount of £938,691.50, equivalent to 3,754,766 Ordinary shares (being 10% of the Company's existing issued Ordinary share capital (excluding treasury shares) as at the date of this Report) such Ordinary shares to be allotted or sold at a price not less than the most recent published NAV per Ordinary share prior to such allotment or sale.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

This authority will expire at the conclusion of next year's AGM or 15 months from the date of passing of the resolution, whichever is earlier, unless revoked, varied or renewed prior to that date.

## Share buybacks and treasury share authority

Shareholders approved authorities for the Company to repurchase up to 14.99% of its issued share capital (of which up to 10% of the issued share capital may be retained in treasury for potential re-issue at any time) at the AGM held on Tuesday, 12 December 2017.

During the year ended 31 August 2018, the Company did not conduct any share buybacks. The Directors continue to believe it is in the best interests of the Company and its Shareholders to have a general authority for the Company to buyback its shares in the market for cancellation or holding in treasury for potential subsequent re-issue. No shares held in treasury will be re-issued at a discount wider than the discount prevailing at the time of acquisition. The authority to hold shares in treasury is in addition to the power to buyback shares for immediate cancellation.

Accordingly, a special resolution to authorise the Company to purchase up to 14.99% of the share capital in issue at the date of this Report for cancellation or for holding in treasury (up to a maximum of 10% of the share capital in issue at the date of this Report) will be proposed at the forthcoming AGM. Purchases will only be made if the Directors consider them to be for the benefit of the Company and its Shareholders, taking into account relevant factors and circumstances at the time. The Company can confirm that purchases of Ordinary shares under the authority will only be made in the market for cash at prices below the prevailing NAV per share.

## Notice of General Meetings

At last year's AGM, a special resolution was passed allowing General Meetings of the Company to be called on a minimum notice period as provided for in the Act. For meetings other than AGMs this is a period of 14 clear days. The Board believes that it should have the flexibility to convene General Meetings of the Company (other than AGMs) on 14 clear days' notice. The Board is therefore proposing a special resolution to approve 14 clear days as the minimum period of notice for all General Meetings of the Company other than AGMs. The authority, if given, will be effective until the Company's next AGM or until the expiry of 15 months from the date of the passing of the special resolution (whichever is earlier) and will only be used where it is merited by the purpose of the meeting.

## Recommendation

The Directors consider that passing the resolutions proposed at the AGM will be in the best interests of Shareholders as a whole and unanimously recommend that Shareholders vote in favour of each of the resolutions as they intend to do so in respect of their own beneficial holdings. The Board encourages your attendance at the AGM.

## CORPORATE GOVERNANCE STATEMENT

### Corporate governance

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance appropriate for an investment trust. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance 2016 (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide), both of which can be found on the AIC website [www.theaic.co.uk](http://www.theaic.co.uk). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

As an investment company most of the day-to-day responsibilities are delegated to outside parties as the Company has no employees and all the Directors are non-executive. Many of the provisions of the UK Corporate Governance Code are not directly applicable to the Company. The Board has determined that reporting against the AIC Code provides the most appropriate information to Shareholders, therefore the report on corporate governance describes how the principles of the AIC Code have been applied.

### Statement of compliance

The Board considers that, for the year under review each Director, the Board and the Company have complied with the recommendations of the AIC Code in so far as they apply to the Company's business and with the relevant provisions of the UK Corporate Governance Code except as noted below:

- as all Directors are non-executive Directors and day-to-day management has been contracted to third parties the Company does not have a separate role for a Chief Executive from that of Chairman of the Board;



# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

- as there are no executive Directors the provisions of the UK Corporate Governance Code in respect of executive directors' remuneration are not relevant; and
- the Company does not have an internal audit function as it relies on the systems of control operated by third party suppliers, in particular those of SV Health Managers LLP. The Board monitors these systems of internal control to provide assurance that they operate as intended.

## Application of the AIC Code's principles

The Board considers that it has managed its affairs throughout the year ended 31 August 2018 in compliance with the recommendations of the AIC Code and observed the relevant requirements throughout the year under review. Where non compliance occurs, an explanation has been provided.

The Board will continue to observe the principles and recommendations set out in the AIC Code in the future.

This Corporate Governance Statement, together with the Management Report and Directors' Responsibilities Statement set out on page 37, indicate how the Company has complied with the principles of good governance and meets internal control requirements.

## Role of the Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role, and setting its agenda.

## Role of the Board

The Board determines and monitors the Company's investment objective and policy, and considers its future strategic direction; being collectively responsible for the long-term success of the Company. A schedule of matters specifically reserved for consideration and decision by the Board has been adopted. The Board is responsible for presenting a fair, balanced and understandable assessment of the Company's position and, where appropriate, future prospects in Annual and Half Yearly Financial Reports and other forms of public reporting. It monitors and reviews the Shareholder base of the Company, marketing and Shareholder communication strategies, and evaluates the performance of all service providers, with input from its Committees where appropriate. A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company, where appropriate. The Directors have access to the advice and

services of the corporate Company Secretary through its appointed representative, who is responsible to the Board for, *inter alia*, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board.

## Conflicts of interest

The Directors have declared any conflicts of interest to the Company Secretary, who maintains the Register of Directors' Conflicts of Interests. It is reviewed annually by the Board, and the Directors advise the Company Secretary as soon as they become aware of any new actual or potential conflicts of interests that would need to be considered and approved by the disinterested Directors.

## Board diversity, composition and independence

The Board currently consists of four non-executive Directors. The biographical details of each Director, including his/her length of service, are set out on page 20.

The Board recognises the objectives of the Davies Report to improve the performance of corporate boards by encouraging the appointment of the best people from a range of differing perspectives and backgrounds. However, it is not considered appropriate to have set targets in relation to diversity.

The Board has not set a limit on the length of time for which Directors are able to serve on the Board. The Board is of the opinion that long service does not necessarily compromise the independence or contribution of Directors of investment trusts where continuity and experience can significantly benefit a board, a view supported by the AIC. The independence of Directors will continue to be assessed on a case by case basis. In accordance with the Company's Articles of Association Directors are required to be submitted for election at the first AGM following their appointment and thereafter submitted for re-election every three years. The Board recognises corporate governance best practice is for all Directors to be submitted for annual re-election. Accordingly, all Directors will be standing for re-election at the forthcoming AGM.

The Board is satisfied that it is of sufficient size, with an appropriate balance of skills and experience, and that no individual or group of individuals is, or has been, in a position to dominate decision making.

## DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

### ■ Induction and training

When a Director is appointed, he or she receives a full, formal and tailored induction, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Board's policies, regulatory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise and the Chairman regularly reviews and agrees with each Director his or her training and development needs. Other advisers to the Company also prepare reports for the Board from time to time. In addition, Directors attend ad-hoc seminars, conferences and other forums covering issues and developments relevant to both the investment trust and biotechnology industries.

### ■ Board evaluation

The Board has adopted an annual evaluation of its own performance and that of its Committees and individual Directors using a questionnaire as the basis for this formal and rigorous annual evaluation. Each Director is requested to complete the questionnaire before the Chairman holds individual conversations with each Director. Evaluation takes place in two stages. First, the evaluation of individual

Directors is led by the Chairman and the evaluation of the Chairman's performance is led by the Senior Independent Director. Secondly, the Board evaluates its own performance and that of its Committees.

The Board evaluation considers attendance, the balance of skills, experience, independence and knowledge of the Board, its diversity (including gender), how the Board works together as a unit, and other factors relevant to its effectiveness including the Board's ability to challenge SV Health Managers LLP's recommendations.

Directors who have served for more than six years are subject to a more rigorous performance review. The Chairman uses the feedback from the discussion to make recommendations to improve performance where necessary. The Board considers annually, in the absence of the Chairman, matters pertaining to his performance. It was concluded that the performance of the Directors, including the Chairman, was satisfactory in all areas and they were confident in their ability to make effective contributions and to demonstrate commitment to their roles.

The number of meetings of the Board and its Committees held during the year and the attendance of individual Directors are shown below:

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
<b>Total</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>1</b>
John Aston	6	4	2	1
Véronique Bouchet	6	4	2	1
Caroline Gulliver	6	4	2	1
Jim Horsburgh	6	4	2	1

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

## Meetings and attendance

The Board meets at least five times each year. Additional meetings are arranged as required and regular contact between the Directors, SV Health Managers LLP and the Company Secretary is maintained throughout the year. Representatives of SV Health Managers LLP and the Company Secretary attend each meeting and other advisers also attend when requested to do so by the Board.

A schedule of Directors' attendance at Board and Committee Meetings is shown on the previous page. In addition, the Board met twice to discuss strategic matters separate from normal agenda matters. The matters covered included marketing initiatives and fund raising strategy and parts of the meetings were attended by external advisers.

The Board is satisfied that each of the Chairman and the non-executive Directors commit sufficient time to the affairs of the Company to fulfil his or her duties as Directors.

## Information flows

The Chairman ensures that all Directors receive, in a timely manner, relevant management, regulatory and financial information and are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from SV Health Managers LLP, the Company Secretary and other key advisers. Ad-hoc reports and information are supplied to the Board as required.

## Committees

The Board has delegated certain responsibilities and functions to three Board Committees, all of which operate under written terms of reference. Copies of the terms of reference for the Board Committees have been published on the Company's website. Committee Membership is detailed on page 20.

## Nomination Committee

The Chairman of the Board acts as Chairman to the Nomination Committee which met twice during the year ended 31 August 2018 and intends to meet at least annually in the future. The function of the Committee is to consider and make recommendations to the Board on its composition and balance, including identifying and nominating to the Board new Directors and proposing that existing Directors be re-elected.

Before considering new appointments the Nomination Committee evaluates the balance of skills, experience, independence, and knowledge of the Board, and, in light of this evaluation, prepares a description of the roles and capabilities required for particular appointments. Directors' independence and diversity of the Board (including gender) is also considered. Newly appointed Directors are then assessed using the aforementioned criteria.

On those occasions when the Committee is reviewing the Chairman, or considering his successor, the Nomination Committee is chaired by the Senior Independent Director or, in their absence, another Committee Member and the Chairman abstains from discussions in this regard.

## Management Engagement Committee

The Chairman of the Board acts as Chairman to the Management Engagement Committee which met once during the year ended 31 August 2018 and will meet annually thereafter to review matters relating to the performance of the Company's third party service providers, including SV Health Managers LLP, and to review the terms of their contractual arrangements with the Company, ensuring their continued competitiveness for Shareholders.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

## ■ Relations with Shareholders

The Board receives feedback on the views of Shareholders from its corporate broker and SV Health Managers LLP, both of whom are regularly in touch with the larger Shareholders. The Chairman, the Senior Independent Director and other Directors where appropriate, discuss governance and strategy with major Shareholders and the Chairman ensures the communication of Shareholders' views to the Board.

The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages Shareholder participation. The AGM is typically attended by the full Board of Directors and proceedings include a presentation by SV Health Managers LLP. There is an opportunity for individual Shareholders to question the Chairman of the Board and the Chairmen of each Board Committee at the AGM. Details of proxy votes received in respect of each resolution are made available to Shareholders at the meeting and are published on the Company's website following the meeting.

## ■ UK Stewardship Code

The UK Stewardship Code published in July 2012 aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to Shareholders and the efficient exercise of governance responsibilities.

The Company has delegated to SV Health Managers LLP the day-to-day operations of this, full details of which can be found on the website: [www.ibtplc.com](http://www.ibtplc.com)

## ■ Accountability and audit

The Management Report and Directors' Responsibilities Statement in respect of the Financial Statements are on page 37 and a statement of going concern is set out in the Directors' Report on page 24. The Independent Auditors' Report can be found on pages 38 to 45 and the Audit Committee report on pages 35 and 36.

## ■ Internal control

The AIC Code requires the Board to conduct at least annually a review of the adequacy of the Company's systems of internal control and report to Shareholders that it has done so. The Board has reviewed a detailed Risk Map identifying significant strategic, investment-related, operational and tax, legal and regulatory

risks. It has adopted a monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis, and fully reviewed at least annually. The Board is satisfied that these tools permit it to review the effectiveness of the Company's internal controls and on that basis confirms that it has reviewed the effectiveness of the Company's risk management and internal control systems for the year under review, taking into account all matters leading up to the date of the approval of the Financial Statements.

The Board believes that the key risks identified and the implementation of an ongoing system to identify, evaluate and manage these risks are relevant to the Company's business as an investment trust. The ongoing risk assessment, which has been in place throughout the financial year and up to the date of this Report, includes consideration of the scope and quality of the systems of internal control. This includes ensuring regular communication of the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. There were no significant control failings or weaknesses identified during the course of the year and up to the date of this Report.

Although the Board believes that it has robust systems of internal control in place this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. The Company does not have an internal audit function or a whistleblowing policy as it employs no staff and delegates to third parties most of its operations. By the procedures set out above, the Board will continue to monitor its system of internal control in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and will continue to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed. During the course of its review of the systems of internal control, the Board has not identified nor has it been advised of any findings or weakness which it has determined to be significant.

# DIRECTORS' REPORT

(Incorporating the Corporate Governance Statement)

## ■ Anti-bribery policy and Criminal Finances Act 2017

The Company is committed to the practice of responsible behaviour and to complying with all laws, regulations and other requirements which govern the conduct of its activity. The Company is fully committed to instilling a strong anti-corruption culture and complying with anti-bribery legislation including, but

not limited to, the Bribery Act 2014. Further, the Company has adopted a zero tolerance approach to tax evasion and is committed to compliance with anti-tax evasion legislation, including but not limited to, the Criminal Finances Act 2017.

On behalf of the Board

**JOHN ASTON OBE** | Chairman  
30 October 2018

# REPORT ON DIRECTORS' REMUNERATION

## Introduction

This Report is submitted in accordance with Sections 420 to 422 of the Act and it also meets the relevant Listing Rules of the FCA and describes how the Board has applied the principles relating to Directors' remuneration.

The Company's Auditors are required to report on certain information contained within this Report. Where information set out below has been audited, it is indicated as such. The Auditors' opinion is included within the Independent Auditors' Report on pages 38 to 45.

## Directors' remuneration policy

The determination of the Directors' fees is a matter dealt with by the Board. A separate remuneration committee has not been appointed.

The Company's Articles of Association limit the aggregate fees payable to Directors to £250,000 per annum. Subject to this limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry, the role that individual Directors fulfil in respect of Board and Committee responsibilities and time committed to the Company's affairs in order to promote the long-term success of the Company. Fees payable to Directors should be sufficient to motivate and retain candidates of a high calibre to deliver the Company's investment objectives. No element of the Directors' remuneration is performance-related.

The Board considers any comments received from Shareholders on the remuneration policy on an ongoing basis and if appropriate, takes these into consideration when reviewing remuneration.

All Directors have a Letter of Appointment with the Company. The Letters of Appointment are available for inspection at the Company's Registered Office during normal business hours and at the location of the AGM during the Meeting. Directors do not have service contracts with the Company and no compensation is payable to Directors on leaving office. It is the intention of the Board that this policy will continue to apply in the forthcoming and subsequent financial years.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first AGM, thereafter they are required to retire by rotation at least every three years in accordance with the Company's Articles of Association.

The Chairman meets with each Director before he or she is proposed for re-election and, subject to the performance evaluation carried out each year, the Board agrees whether it is appropriate for such Director to seek an re-election. When recommending whether an individual Director should seek re-election, the Board will take into account the ongoing recommendations of the AIC Code, including the need to refresh the Board and its Committees.

The component parts of the Directors' Remuneration are set out in the table below:

## Component parts of the Directors' remuneration

	Year ended 31 August 2018	Year ended 31 August 2017
Chairman's base fee	£42,500	£42,500
Non-executive Director base fee	£28,000	£28,000
Additional fee for the Chair of the Audit Committee	£4,500	£4,500
Additional fee for the Senior Independent Director	£2,000	—

- The Company's policy is for the Chairman of the Board, the Chair of the Audit Committee and the Senior Independent Director to be paid higher fees to reflect their more onerous roles.
- Directors' fees are paid up to the date of termination of their appointment, with no exit payments or compensation for loss of office payments applicable.
- As the Company has no employees, there are no comparisons to be made between this Directors' Remuneration Policy and a policy on the remuneration of employees.
- Directors' are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company.
- Fees are paid quarterly in arrears.
- Fees are reviewed on an annual basis.
- The Company retains the flexibility to pay additional one off fees to Directors should they be required to undertake additional work in order to deliver time consuming projects in the Shareholders' interests.

31 AUGUST 2018

## REPORT ON DIRECTORS' REMUNERATION

### Annual report on Directors' remuneration

This Report sets out how the Directors' Remuneration Policy was implemented during the year ended 31 August 2018.

Directors' fees are reviewed annually by the Board and, following the last review in July 2018, it was agreed that Directors' fees would remain unchanged.

Previous changes to Directors' remuneration were made in 2012 and 2016 and the additional fee for the Senior Independent Director was introduced with effect from 1 September 2017. Recent adjustments to Directors' fees have been at rates below general inflation levels.

The amounts, set out in the following table, were paid by the Company to the Directors for services as Directors in respect of the year ended 31 August 2018 and the previous financial year.

### Single total figure of remuneration for each Director (audited)

The Directors who served during the year under review received the following emoluments:

Remuneration for Qualifying Services	Total Fees (iii) Year ended 31 August 2018 £'000	Total Fees (iii) Year ended 31 August 2017 £'000
John Aston (Chairman) (i)	38,506	28,000
Véronique Bouchet	30,000	28,000
Alan Clifton (ii)	12,022	42,500
Jim Horsburgh	28,000	28,000
Caroline Gulliver	32,500	32,500
<b>Total</b>	<b>141,028</b>	<b>159,000</b>

(i) John Aston replaced Alan Clifton as Chairman of the Board on 12 December 2017. (ii) Retired from Board on 12 December 2017.

(iii) No aspect of the Directors' remuneration, past or present, is performance-related in light of the Director' non-executive status. As a result, no Director is entitled to any bonuses, benefit in kind, share options, long-term incentives, pension or other retirement benefit. The Directors are entitled to reimbursement of all reasonable and properly documented expenses incurred in performing their duties.

### Consideration of matters relating to Directors' remuneration

The Board as a whole reviewed the level of fees paid to Directors during the year and no Director was responsible for setting their own remuneration. No external advice was sought in considering the level of Directors' fees. However, the Company Secretary provided an analysis of fees payable to other investment trust companies with comparable investment objectives, of a similar size and also self-managed trusts which was taken into consideration.

### Expenditure by the Company on Directors' remuneration compared with distributions to Shareholders

The table below compares the remuneration paid to Directors and distributions to Shareholders by way of share buybacks and dividends for the year under review and the prior financial year.

Directors	2018 £'000	2017 £'000	% change compared to previous year
Aggregate spend on Directors' fees *	141	159	(11.3)
Distributions to Shareholders – share buybacks and dividends	10,138	9,252	9.6

\* As the Company has no employees the total spend on remuneration comprises solely Directors' fees.

# REPORT ON DIRECTORS' REMUNERATION

## Directors' beneficial and family interests (audited)

Directors	Ordinary shares of 25p each as at 31 August 2018	Ordinary shares of 25p each as at 31 August 2017
John Aston	10,000	10,000
Véronique Bouchet	7,500	7,500
Caroline Gulliver	5,000	5,000
Jim Horsburgh	15,000	15,000

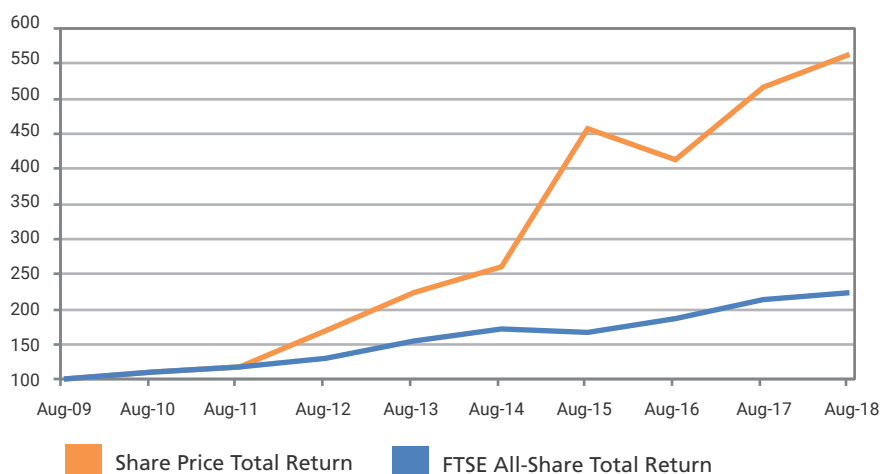
There have been no changes in the above holdings between the year end and the date of this Report. No Director has any material interest in any contract that is significant to the Company's business.

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require any Director to own shares in the Company.

## Performance graph

The performance graph below charts the cumulative share price total return to Shareholders since 31 August 2009 compared to that of a broad equity market index. The FTSE All-Share Index has been used for this purpose as the NBI has a lack of diversity within its constituents. A graph showing the Company's share price total return, compared with the FTSE All-Share Index Total Return, over the last nine years, is shown below. The data have been rebased to 100 at 31 August 2009 (the start of the period covered by the graph).

## Share Price/FTSE All-Share Index Performance (%)



Source: Share Price Total Return from Morningstar. FTSE All-Share Total Return from Thomson Datastream. (data rebased to 100 at 31 August 2009)



# REPORT ON DIRECTORS' REMUNERATION

## Statement of implementation of Directors' remuneration policy

The Board does not envisage that there will be any significant changes to the implementation of the Directors' Remuneration Policy during the current financial year compared to how it was implemented during the year ended 31 August 2018.

## Annual statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulation 2013, I, as Chairman of the Board, confirm that the above Directors' Remuneration Annual Report summarises, as applicable, for the year ended 31 August 2018:

- a) the major decisions on Directors' remuneration;
- b) any substantial changes relating to Directors' remuneration made during the year; and
- c) the context in which those changes occurred and decisions taken.

## Shareholder approval

Shareholders will be asked to approve the Annual Report on Directors' Remuneration annually by an advisory vote and an ordinary resolution to approve the Report will be put to Shareholders at the forthcoming AGM. In addition, Shareholders will be asked to approve the Directors' Remuneration Policy, which is subject to a binding Shareholder vote, on a three-yearly basis. Any changes to this policy would also require Shareholder approval.

The Directors' Remuneration Policy was last approved at the AGM held on 12 December 2017 and accordingly, an ordinary resolution will be put to Shareholders at the AGM to be held in 2020, unless the Directors choose to amend the policy, at which time it would be resubmitted to Shareholders for approval.

At the AGM held on 12 December 2017, votes cast (including the votes cast at the Chairman's discretion) in respect of the Directors' Remuneration Policy were 15,833,662 (99.86%) in favour, 21,645 (0.14%) against and 20,631 votes withheld.

At the AGM held on 12 December 2017, votes cast (including the votes cast at the Chairman's discretion) in respect of the Annual Report on Directors' Remuneration were 15,829,984 (99.84%) in favour, 25,919 (0.16%) against and 20,035 votes withheld.

## Recommendation

The Board considers the resolution to be proposed at the forthcoming AGM in the best interests of the Company and Shareholders as a whole. Accordingly, the Directors unanimously recommend to Shareholders that they vote in favour of the resolution, as they intend to do so in respect of their own beneficial holdings.

On behalf of the Board

**JOHN ASTON OBE | Chairman**  
30 October 2018

## AUDIT COMMITTEE REPORT

### Composition and meetings of the Audit Committee

The Audit Committee is chaired by Caroline Gulliver. The other Members comprise all the Directors, namely John Aston, Véronique Bouchet and Jim Horsburgh. All Members of the Committee are independent and have competence relevant to the sector as a result of their current or recent employment in the financial services and other industries. As the Chairman of the Committee, Caroline Gulliver has relevant and recent financial experience in financial services as a chartered accountant with a background in the provision of audit and advisory services to the asset management industry, with a particular focus on investment trusts. John Aston is also a chartered accountant. Jim Horsburgh has spent his career working for a number of leading financial institutions and Véronique Bouchet has extensive experience working in the healthcare sector across several therapeutic areas and functions. The biographies of each of the Committee Members are shown on page 20.

The Audit Committee met four times during the year ended 31 August 2018 and reported its findings to the Board on the matters described below after each meeting. The Company's Auditors are invited to attend meetings as necessary as well as representatives of the Fund Manager.

### The role of the Committee

The Audit Committee operates under written Terms of Reference which are reviewed annually and are available on the Company's website. The process in respect of the evaluation of the Audit Committee's performance is disclosed on page 27.

The Audit Committee provides a forum through which the Company's external Auditors report to the Board. The main responsibilities of the Audit Committee include:

- Monitoring the integrity of the Company's Annual and Half Yearly Reports and appropriateness of its accounting policies;

- Reviewing the internal control systems and the risks to which the Company is exposed;
- Making recommendations to the Board whether the Company's Annual Report, taken as a whole, is fair, balanced and understandable and provides Shareholders with the information they need to assess the Company's business model, strategy, position and performance;
- Making recommendations to the Board regarding the appointment of the external Auditors, their independence and the objectivity and effectiveness of the audit process; and
- Monitoring any non-audit services being provided to the Company by its external Auditors.

### Effectiveness of the external audit process

The Audit Committee annually reviews the performance of PricewaterhouseCoopers LLP, the Company's external Auditors and discusses their effectiveness with representatives of the Fund Manager, who work closely with the Auditors during the Annual Audit process. The Auditors attend the Audit Committee meeting at which the Annual Report is considered in order to present their report and have the opportunity to meet privately with the Audit Committee Members without representatives of the Fund Manager present. The Auditors are required to rotate the audit partner every five years and rotation has taken place this year with Mr Chris Meyrick being the assigned audit partner overseeing the audit for the first year.

Details of the amounts paid to the external Auditors during the financial year under review, for their audit services, are set out in note 5 to the Financial Statements on page 55. The Audit Committee annually monitors the non-audit services provided to the Company and has developed a formal policy to ensure that such services do not impair the independence or objectivity of the Auditors. No non-audit services were provided during the year under review. Following their review, the Audit Committee remains satisfied with the effectiveness of the audit provided and that the Auditors remain independent.

## AUDIT COMMITTEE REPORT

### Significant issues considered with respect to the Annual Report

ISSUE CONSIDERED	HOW THE ISSUE WAS ADDRESSED
Accuracy and integrity of the Financial Statements	Review of the Audit Plan. Consideration of draft Annual Report and Half Yearly Report, including a review of the appropriateness of the accounting policies and regulatory developments during the year.
Valuation and existence of investments and gains and losses from those investments	Consideration and review of valuation processes and methodology at SV Health Managers LLP and HSBC Bank plc to establish the existence of and the accuracy and completeness over the valuations being recommended for approval to the Board.
Review of internal control system and risks	Review of risk map, compliance against the AIC Code, compliance with Section 1158 CTA and all policies and procedures in place.
Performance Fee	Review of the accuracy of the calculation and completeness of disclosure.

### Conclusions with respect to the Annual Report

The production and the external audit of the Company's Annual Report is an intricate process, involving a number of parties. The Audit Committee has reviewed the internal controls in place at each of the third party service providers in order to gain comfort over the accuracy of the Company's financial records. Having received the Auditors report on the results of the Annual audit and having taken all available information into consideration and having discussed the content of the Annual Report with the AIFM, Fund Manager, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report for the year ended 31 August 2018, taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy and has reported these findings to the Board. The Board's conclusions in this respect are set out on page 37.

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the Financial Statements.

### Audit Tender and Re-appointment of the Auditors

The Audit Committee is aware of the requirements of the EU Audit Directive which requires the Company to tender audit services once every 10 years and change Auditors every 20 years. In light of the transitional arrangements, the Company conducted a tender of audit services in 2016 for the 2017 year end and, following recommendation by the Audit Committee, the Board decided to retain PricewaterhouseCoopers LLP as Auditors for the Company. Therefore, the Audit Committee recommends the re-appointment of the Auditors at the forthcoming AGM.

**CAROLINE GULLIVER** | Chairman of the Audit Committee  
30 October 2018

# MANAGEMENT REPORT AND DIRECTORS' RESPONSIBILITIES STATEMENT

## ■ Management report

Listed companies are required by the FCA's Disclosure Guidance and Transparency Rules (the Rules) to include a management report in their Financial Statements. The information required to be in the management report for the purposes of the Rules is included in the Strategic Report on pages 6 to 18 inclusive (together with the sections of the Annual Report incorporated by reference) and the Directors' Report on pages 21 to 30. Therefore, a separate management report has not been included.

## ■ Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare Financial Statements on the going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and the Report on Directors' Remuneration comply with the Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report is published on the following website: [www.ibtplc.com](http://www.ibtplc.com) which is a website maintained by SV Health Managers LLP. The maintenance and integrity of the website is, so far as it relates to the Company, the responsibility of SV Health Managers LLP. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditors accept no responsibility for any changes that have occurred to the Annual Report since it was initially presented on the website. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Annual Report may differ from legislation in their home jurisdiction.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

Pursuant to Rule 4.1.12 of the Rules, each of the Directors, whose names and functions are listed on page 20 of this Report, confirms that, to the best of his or her knowledge:

- The Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- As outlined on page 24 of this Report, the Directors have undertaken all necessary reviews to provide a going concern recommendation.

On behalf of the Board

**JOHN ASTON OBE | Chairman**

30 October 2018

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

## Report on the audit of the financial statements

### Opinion

In our opinion, International Biotechnology Trust plc's Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 August 2018; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity for the year then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

## Our audit approach

### OVERVIEW

#### Materiality

- Overall materiality: £2.6 million (2017: £2.5 million), based on 1% of net assets.

#### Audit scope

- The Company is a standalone Investment Trust Company and engages SV Health Managers LLP (the Fund Manager) to manage its assets.
- We conducted our audit of the Financial Statements using information from HSBC Bank plc (the Administrator) to whom the Fund Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

#### Key audit matters

- Valuation and existence of unquoted investments.
- Valuation and existence of quoted investments.
- Performance fees.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Financial Statements section of our Report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 September 2017 to 31 August 2018.

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

## ■ The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's Financial Statements, including, but not limited to, the Companies Act 2006 and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the Financial Statement disclosures to underlying supporting documentation, enquiries with those charged with governance and testing the Company's compliance with section 1158 in the current year. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and

regulations is from the events and transactions reflected in the Financial Statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

## ■ Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Valuation and existence of unquoted investments</b></p> <p>Refer to page 35 (Audit Committee Report), page 50 (Accounting Policies) and page 54 (notes).</p> <p>The investment portfolio at 31 August 2018 comprised unquoted investments, including the venture fund and the directly-held legacy unquoted portfolio.</p>	<p>We understood and evaluated the valuation methodology applied, by reference to industry practice, and tested the techniques used by the Fund Manager in determining the fair value of unquoted investments. The testing included:</p> <ul style="list-style-type: none"> <li>• Comparing valuations based on recent transactions;</li> <li>• Comparing recent investments made in investee companies where there was a significant new investor; and</li> <li>• Assessing, for a selection of investments including the venture fund, the appropriateness of the valuation models used and also testing the inputs either through validation to appropriate third party sources, or where relevant, assessing the reasonableness of assumptions and estimates used.</li> </ul>

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<b>Valuation and existence of unquoted investments</b>	
<p>We focused on the valuation and existence of the unquoted investments as these investments represented a material balance in the Financial Statements (£32.4m) and the valuation requires estimates and significant judgements to be applied by the Fund Manager such that changes to key inputs to the estimates and/or the judgements made can result in a material change to the valuation of unquoted investments.</p>	<p>The work outlined above and our knowledge of the investee entities, IFRS, the AIC SORP and the International Private Equity and Venture Capital Valuation guidelines, enabled us to discuss with and challenge the Fund Manager and Directors as to the appropriateness of the methodology and key inputs used, and the valuations themselves.</p> <p>We found that the Fund Manager's valuations of unquoted investments were consistent with the International Private Equity and Venture Capital Valuation guidelines and that the assumptions used to derive the valuations within the Financial Statements were reasonable based on the investee's circumstances or consistent with appropriate third party sources.</p> <p>We tested the existence of the unquoted investment portfolio by agreeing a sample of the holdings to an independent custodian confirmation from the Administrator.</p> <p>No material misstatements were identified from this testing.</p>
<b>Valuation and existence of unquoted investments</b>	
<p>Refer to page 35 (Audit Committee Report), page 50 (Accounting Policies) and page 54 (notes).</p> <p>The investment portfolio at the year-end comprised quoted equity investments valued at £230.6m.</p> <p>We focused on the valuation and existence of quoted investments because investments represent the principal element of the NAV as disclosed on the Balance Sheet.</p>	<p>We tested the valuation of the quoted equity investments by agreeing the prices used in the valuation to independent third party sources.</p> <p>We tested the existence of the investment portfolio by agreeing a sample of the holdings of investments to an independent custodian confirmation from the Administrator.</p> <p>No material misstatements were identified from this testing.</p>
<b>Performance fees</b>	
<p>Refer to page 35 (Audit Committee Report), page 50 (Accounting Policies) and page 54 (notes).</p> <p>We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Fund Manager. Based on the calculation performed by the Fund Manager, a performance fee is payable for the year of £93k.</p>	<p>We tested the performance fee to agree whether it is calculated in accordance with the methodology set out in the Investment Management Agreement and agreed the inputs to the calculation, including the benchmark data, to independent third party sources, where applicable.</p> <p>We tested the allocation of the performance fee between the revenue and capital return columns of the Income Statement with reference to the accounting policy as set out on page 50. We found that the allocation of the performance fee was consistent with the accounting policy.</p> <p>No material misstatements were identified from this testing.</p>

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "key audit matters" in the table above. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Overall materiality £2.6 million (2017: £2.5 million).

How we determined it 1% of net assets.

Rationale for benchmark applied We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £131,000 (2017: £126,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



31 AUGUST 2018

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

## ■ Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
<p>We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.</p>	<p>We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.</p>
<p>We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.</p>	<p>We have nothing to report.</p>

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the Financial Statements and our Auditors' Report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this Report, any form of assurance thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Financial Statements or a material

misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2018 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 15 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. The Directors' explanation on page 16 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company 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.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant

# INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

## Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 37, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

## Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the Financial Statements and the audit

### Responsibilities of the Directors for the Financial Statements

As explained more fully in the Management Report and Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the Financial Statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' Report.

## INDEPENDENT AUDITORS' REPORT

To the Members of International Biotechnology Trust plc

### ■ Use of this report

This Report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### ■ Other required reporting

#### Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or

- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### ■ Appointment

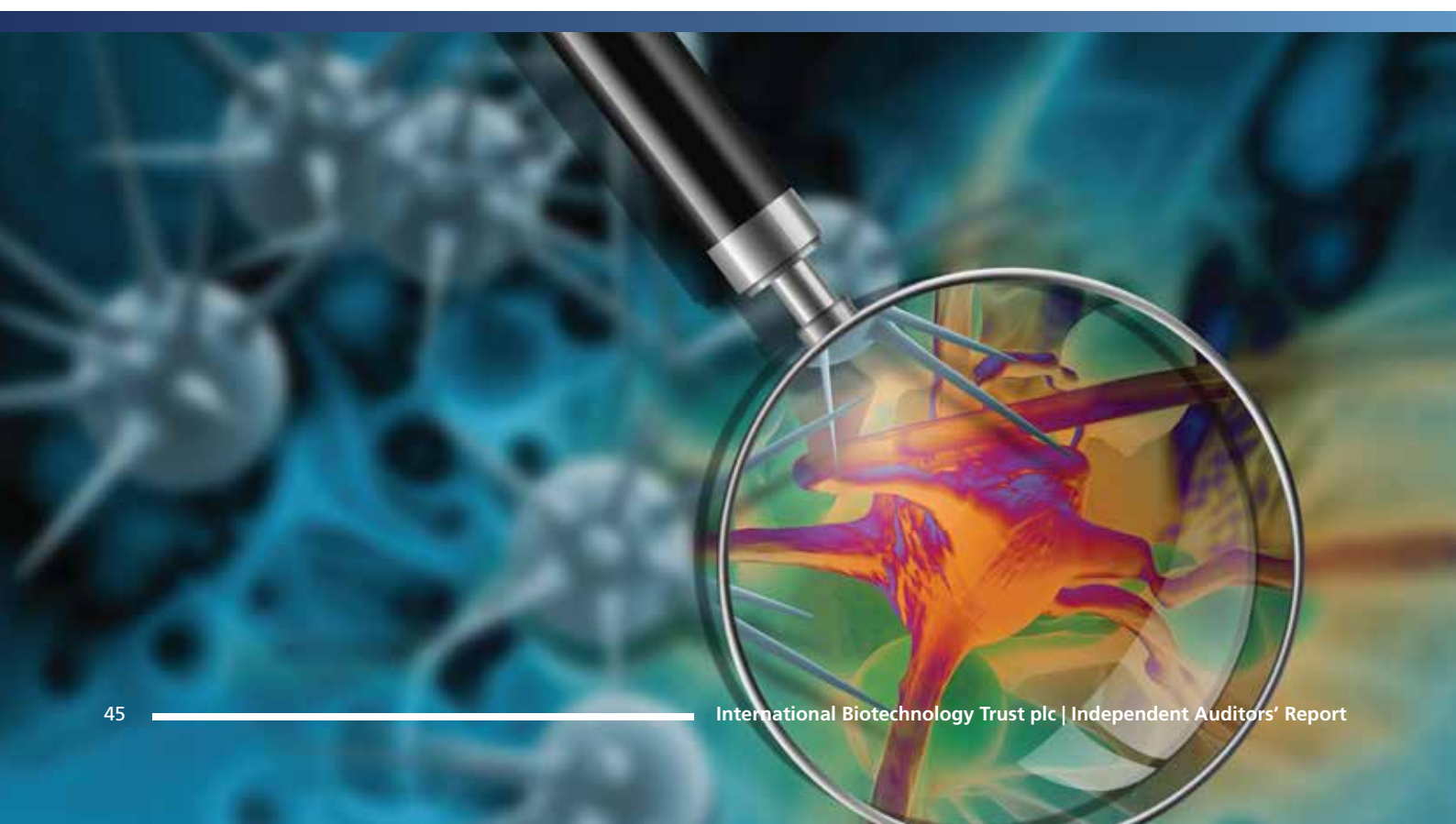
Following the recommendation of the Audit Committee, we were appointed by the Directors on 12 July 2007 to audit the Financial Statements for the year ended 31 August 2007 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 August 2007 to 31 August 2018.

#### Christopher Meyrick | Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors Edinburgh

30 October 2018



## STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 August 2018			For the year ended 31 August 2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value	2	—	21,591	21,591	—	48,532	48,532
Exchange gains/(losses) on currency balances	2	—	1,049	1,049	—	(4)	(4)
Income	3	380	—	380	505	—	505
<b>Expenses</b>							
Management fee	4	(1,605)	—	(1,605)	(1,105)	—	(1,105)
Performance fee	4	—	(93)	(93)	—	(1,374)	(1,374)
Administrative expenses	5	(1,096)	—	(1,096)	(1,029)	—	(1,029)
Profit/(loss) before finance costs		(2,321)	22,547	20,226	(1,629)	47,154	45,525
Finance costs							
Interest payable	6	(218)	—	(218)	(204)	—	(204)
Profit/(loss) on ordinary activities before tax		(2,539)	22,547	20,008	(1,833)	47,154	45,321
Taxation	7	(48)	—	(48)	(69)	—	(69)
Profit/(loss) for the year attributable to Shareholders		(2,587)	22,547	19,960	(1,902)	47,154	45,252
Basic and diluted earnings/(loss) per Ordinary share	8	(6.89)p	60.05p	53.16p	(5.07)p	125.58p	120.51p

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRSs as adopted by the EU.

The Company does not have any other comprehensive income and hence the net profit/(loss) for the year, as disclosed above, is the same as the Company's total comprehensive income.

The revenue and capital columns are supplementary and are prepared under guidance published by the AIC.

The notes on pages 50 to 74 form part of these Financial Statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2018	Notes	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
Balance at 1 September 2017		10,335	18,805	31,482	226,085	(34,056)	252,651
<b>Total Comprehensive Income:</b>							
Profit/(loss) for the year		—	—	—	22,547	(2,587)	19,960
Dividends paid in the year	9	—	—	—	(10,138)	—	(10,138)
<b>Balance at 31 August 2018</b>		<b>10,335</b>	<b>18,805</b>	<b>31,482</b>	<b>238,494</b>	<b>(36,643)</b>	<b>262,473</b>

For the year ended 31 August 2017	Notes	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
Balance at 1 September 2016		10,409	18,805	31,408	188,183	(32,154)	216,651
<b>Total Comprehensive Income:</b>							
Profit/(loss) for the year		—	—	—	47,154	(1,902)	45,252
Dividends paid in the year	9	—	—	—	(8,636)	—	(8,636)
<b>Transactions with owners, recorded directly to equity:</b>							
Shares bought back and held in treasury	18	—	—	—	(616)	—	(616)
Shares cancelled from treasury	17	(74)	—	74	—	—	—
<b>Balance at 31 August 2017</b>		<b>10,335</b>	<b>18,805</b>	<b>31,482</b>	<b>226,085</b>	<b>(34,056)</b>	<b>252,651</b>

The notes on pages 50 to 74 form part of these Financial Statements.

31 AUGUST 2018

## BALANCE SHEET

	Notes	At 31 August 2018 £'000	At 31 August 2017 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	10	263,025	269,373
		<b>263,025</b>	<b>269,373</b>
<b>Current assets</b>			
Receivables	11	50	2,836
Cash and cash equivalents	12	142	128
		<b>192</b>	<b>2,964</b>
<b>Total assets</b>		<b>263,217</b>	<b>272,337</b>
<b>Current liabilities</b>			
Borrowings	12	(374)	(6,392)
Payables	13	(370)	(13,294)
		<b>(744)</b>	<b>(19,686)</b>
<b>Net assets</b>		<b>262,473</b>	<b>252,651</b>
<b>Equity attributable to equity holders</b>			
Called up share capital	15	10,335	10,335
Share premium account	16	18,805	18,805
Capital redemption reserve	17	31,482	31,482
Capital reserves	18	238,494	226,085
Revenue reserve	19	(36,643)	(34,056)
<b>Total equity</b>		<b>262,473</b>	<b>252,651</b>
<b>NAV per Ordinary share</b>	20	<b>699.04p</b>	<b>672.88p</b>

The Financial Statements on pages 46 to 74 were approved by the Board on 30 October 2018 and signed on its behalf by:

■ JOHN ASTON OBE | Chairman

■ CAROLINE GULLIVER | Chair of the Audit Committee

The notes on pages 50 to 74 form part of these Financial Statements.  
International Biotechnology Trust plc Company Number 2892872

## CASH FLOW STATEMENT

	Notes	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		20,008	45,321
Adjustments for:			
Decrease/(increase) in investments		6,348	(47,585)
Decrease in receivables		2,786	6,406
(Decrease)/increase in payables		(12,924)	10,638
Taxation		(48)	(69)
<b>Net cash flows generated from operating activities</b>	<b>21</b>	<b>16,170</b>	<b>14,711</b>
<b>Cash flows used in financing activities</b>			
Share repurchase costs		—	(616)
Dividends paid		(10,138)	(8,636)
<b>Net cash used in financing activities</b>		<b>(10,138)</b>	<b>(9,252)</b>
<b>Net increase in cash and cash equivalents</b>		<b>6,032</b>	<b>5,459</b>
Cash and cash equivalents at 1 September		(6,264)	(11,723)
<b>Cash and cash equivalents at 31 August</b>	<b>12</b>	<b>(232)</b>	<b>(6,264)</b>

The notes on pages 50 to 74 form part of these Financial Statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

The nature of the Company's operations and its principal activities are set out in the Strategic Report and Director's Report.

The Company's Financial Statements have been prepared in accordance with IFRS and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC), as adopted by the EU.

For the purposes of the Financial Statements, the results and financial position of the Company is expressed in pounds sterling, which is the functional currency and the presentational currency of the Company. Sterling is the functional currency because it is the currency which is most relevant to the majority of the Company's Shareholders and creditors and the currency in which the majority of the Company's operating expenses are paid.

The principal accounting policies followed, which have been applied consistently for all years presented, are set out below:

### (a) Basis of preparation

The Company Financial Statements have been prepared on a going concern basis and under the historical cost convention, as modified by the inclusion of investments at fair value through profit or loss.

Where presentational guidance set out in the Statement of Recommended Practice (the SORP) for investment trusts issued by the AIC in November 2014 and updated in February 2018 is consistent with the requirements of IFRS, the Directors have sought to prepare the Financial Statements on a basis compliant with the recommendations of the SORP.

### (b) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

The net loss after taxation in the revenue column is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1158 CTA.

### (c) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Income from current asset investments is included in the revenue for the year on an accruals basis and is recognised on a time apportionment basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income in the revenue column of the Statement of Comprehensive Income. Any excess in the value of shares over the amount of cash dividend foregone is recognised as a gain in the capital column of the Statement of Comprehensive Income.

Interest from fixed income securities is recognised on a time-apportionment basis so as to reflect the effective yield on the fixed income securities.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

### (d) Expenses and interest payable

Administrative expenses including the management fee and interest payable are accounted for on an accruals basis and are recognised when they fall due.

All expenses and interest payable have been presented as revenue items except as follows:

- Any performance fee payable is allocated wholly to capital, as it is primarily attributable to the capital performance of the Company's assets; and
- Transaction costs incurred on the acquisition or disposal of investments are expensed and included in the costs of acquisition or deducted from the proceeds of sale as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

## (e) Taxation

Deferred tax is calculated in full, using the liability method, on all taxable and deductible temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

In line with recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented in the capital column of the Statement of Comprehensive Income is the marginal basis. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital column.

## (f) Non-current asset investments held at fair value

The Company holds three types of investments: investments in funds, direct investment in unquoted companies, and direct investment in quoted companies.

Investments are recognised or derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

On initial recognition all non-current asset investments are designated as held at fair value through profit or loss as defined by IFRS. They are further categorised into the following fair value hierarchy:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Having inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

**Level 3:** Having inputs for the asset or liability that are not based on observable market data.

All non-current investments (including those over which the Company has significant influence) are measured at fair value with gains and losses arising from changes in their fair value being included in net profit or loss for the year as a capital item.

Any gains and losses realised on disposal are recognised in the capital column of the Statement of Comprehensive Income.

### Quoted investments

The fair value for quoted investments is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

### Unquoted investments

In respect of unquoted investments, or where the market for a financial instrument is not active, fair value is established by using various valuation techniques, in accordance with the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines (December 2015). These may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to recent rounds of re-financing undertaken by investee companies involving knowledgeable parties, reference to the current fair value of another instrument that is substantially the same or an earnings multiple.

As many of the unquoted investments are early-stage investments, without revenue, valuation is also assessed up or down with reference to a range of factors among which are: ability of portfolio company management to keep cash and operating budgets, clinical developments towards management and/or investor milestone targets, clinical trial data, progress of competitor products, performance and quality of the management team, litigation brought by or against the portfolio company, patent approval or challenge, the market for the product being developed and the broad climate of the economies of the countries in which they will likely be sold by reference to public stock market performance.

### Investment in funds

The Company receives formal quarterly reports from each of the private equity funds in which SV Fund VI holds an investment. The value of SV Fund VI's investment in these funds is reported in these quarterly reports. The reports typically arrive within 60 days of the end of the quarter (90 days at year end). As soon as a quarterly report is received by the Company, the reported value of the SV Fund VI's investment in that fund is reflected in the NAV on the next NAV date.

# NOTES TO THE FINANCIAL STATEMENTS

During the period between quarterly reports, the Company may be advised of a sale of a portfolio company (or its securities) held within one of the funds at a different price from the last reported value in that quarterly report. As soon as the Company is informed of the completion of any such transaction establishing a new value for the investment, the new NAV of that investment to SV Fund VI is reflected in the NAV on the next NAV date. With respect to any investments within SV Fund VI for which there is a listed price, the Company revalues its investment in SV Fund VI to take account of market movements in the underlying security. The listed price of these underlying securities is monitored on a daily basis. Any price move in SV Fund VI's underlying investments that materially impacts the Company's holding in SV Fund VI is immediately reflected in the NAV on the next NAV date. If there are no material movements, these underlying securities are revalued on a monthly basis and immediately reflected in the NAV on the next NAV date.

The Company does not change the valuation of fund investments based on anticipated transactions that are not yet completed, changes in company performance or any other factors unless and until such changes are reflected in a quarterly report received from the manager of the fund.

The value of a fund investment used by the Company in determining the NAV is always based on the most current information known to the Company on the NAV date.

## (g) Foreign currencies

Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date.

At each Balance Sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Foreign currency exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Exchange gains and losses on investments held at fair value through profit or loss are included within "Gains on investments held at fair value".

## (h) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the

basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The critical estimates, assumptions and judgements relate, in particular, to the valuation of unquoted investments. The critical judgements are summarised in (f) above and the impact of estimates and assumptions are summarised in note 23 on page 72.

Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## (i) Cash and cash equivalents

In the Cash Flow Statement, cash and cash equivalents includes cash in hand, short-term deposits and bank overdrafts. These are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose and cash balances are held at their fair value (translated to sterling at the Balance Sheet date where appropriate.)

## (j) Receivables

Other receivables do not carry any right to interest and are short-term in nature. Accordingly they are stated at their nominal value (amortised cost) reduced by appropriate allowances for estimated irrecoverable amounts.

## (k) Other payables

Other payables are not interest-bearing and are stated at their nominal amount (amortised cost). Where there are any long-term borrowings, finance costs are calculated over the term of the debt on the effective interest basis.

## (l) Repurchase of Ordinary shares (including those held in treasury)

The costs of repurchasing Ordinary shares including related stamp duty and transaction costs are taken directly to equity and reported through the Statement of Changes in Equity as a charge on the capital reserves. Share purchase transactions are accounted for on a trade date basis. The nominal value of Ordinary share capital repurchased and cancelled is transferred out of called up share capital and into the capital redemption reserve. Where shares are repurchased and held in treasury, the transfer to capital redemption reserve is made if and when such shares are subsequently cancelled.

## NOTES TO THE FINANCIAL STATEMENTS

### (m) Reserves

#### (i) Capital redemption reserve

The capital redemption reserve, which is non-distributable, holds the amount by which the nominal value of the Company's issued share capital is diminished when shares redeemed or purchased out of the Company's distributable reserves are subsequently cancelled.

#### (ii) Share premium account

A non-distributable reserve, represents the amount by which the fair value of the consideration received exceeds the nominal value of shares issued.

#### (iii) Capital reserves

The following are accounted for in this reserve and are 'distributable, unless noted otherwise:

Gains and losses on the realisation of investments;

- Unrealised investment holding gains and losses;
- Foreign exchange gains and losses;
- Performance fee;
- Repurchase of shares in issue; and
- Dividends paid to shareholders.

**Note:** Unrealised unquoted holding gains are not distributable.

#### (iv) Revenue reserve

Comprises accumulated undistributed revenue profits and losses.

### (n) New and revised accounting Standards

There were no new IFRSs or amendments to IFRSs applicable to the current year which had any significant impact on the Company's Financial Statements.

At the date of authorisation of these Financial Statements, the following new and amended IFRSs are in issue but are not yet effective and have not been applied to these Financial Statements:

- IFRS 9 (2014) Financial Instruments, effective for periods beginning on or after 1 January 2018.

The requirement of IFRS 9 and its application to the investments held by the Company were considered ahead of its adoption on 1 January 2018. Investments held by the Company are currently recorded as fair value through profit and loss. The classification of investments remains unchanged under IFRS 9 and all figures will be directly comparable to the existing basis of valuation.

- IFRS 15, Revenue with Contracts with Customers, (effective on or after January 2018).

Given the nature of the Company's revenue streams from financial instruments, the provisions of this standard are not expected to have a material impact.

- IFRS 2 (amended) Classification and Measurement of Share-based payment transactions, (effective on or after January 2018).

- IFRIC 22 Foreign currency transactions and advance consideration, (effective on or after January 2018).

- Annual Improvement Cycles 2015-2017, (effective on or after January 2018).

- IFRS 16 Leases, (effective on or after January 2019).

- IFRIC 23 Uncertainty over Income Tax Treatments (effective on or after January 2019).

- IAS 19 (amended) Employee Benefits (effective on or after January 2019).

- IAS 28 (amended) Investments in Associates and Joint Ventures (effective on or after January 2019).

The Directors expect that the adoption of the standards listed above will have either no impact or that any impact will not be material to the Financial Statements of the Company in future years.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. GAINS/(LOSSES) ON INVESTMENTS HELD AT FAIR VALUE

Gains on investments held at fair value	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
Net gains on disposal of investments at historic cost	9,145	48,824
Less fair value adjustments in earlier years	(13,092)	(17,454)
(Losses)/gains based on carrying value at previous Balance Sheet date	(3,947)	31,370
Investment holding gains during the year	25,538	17,162
	<b>21,591</b>	<b>48,532</b>
<b>Attributable to:</b>		
Quoted investments	15,047	51,823
Unquoted investments	6,544	(3,291)
	<b>21,591</b>	<b>48,532</b>
Exchange gain/(losses) on currency balances	1,049	(4)

Exchange gains/(losses) on currency balances arise on the retranslation of foreign currency balances held by the Company.

### 3. INCOME

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
<b>Income from investments held at fair value through profit or loss:</b>		
Unfranked dividends	379	505
<b>Other income:</b>		
Bank interest	1	—
	<b>380</b>	<b>505</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 4. MANAGEMENT AND PERFORMANCE FEES

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
<b>Fees payable to the Investment Manager are as follows:</b>		
Management fees paid by Company (allocated to revenue)	1,605	1,105
	<b>1,605</b>	<b>1,105</b>
Performance fee (allocated to capital)	93	1,374
	<b>93</b>	<b>1,374</b>

Details of the management and performance fee arrangements are included in the Directors' Report on page 22.

Following the investment into the SV Fund VI venture capital fund on 19 October 2016, management fees are partially paid through the venture capital investment. Venture capital fees paid through the SV Fund VI investment in the year were £503,000 (2017: £985,000). Total Management fees were £2,108,000 (2017: £2,090,000).

Refer to note 22 Related Parties, for further details.

### 5. ADMINISTRATIVE EXPENSES

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
General expenses *	700	604
Directors' fees **	141	159
Company secretarial and administration fees	218	230
<b>Auditors' remuneration:</b>		
Fees payable to the Company's auditors for the audit of the annual financial statements	37	36
	<b>1,096</b>	<b>1,029</b>

\* Includes research costs under MiFID II related solely to specialist biotechnology research of £166,000 (annual cap of £250,000). These costs applied from 3 January 2018. These costs were previously partly wrapped up in trade commission. Under MiFID II, which applied from 3 January 2018, changes were made to how investment managers pay for their research. This new regime requires investment managers to budget separately for research and trading costs.

\*\* See the Directors' Remuneration Report on pages 31 to 34.

### 6. INTEREST PAYABLE

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
Bank overdraft interest payable	218	204
	<b>218</b>	<b>204</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 7. TAXATION

### (a) Analysis of charge in year

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
Overseas tax	48	69
<b>Total tax charge for the year</b>	<b>48</b>	<b>69</b>

Under the Finance Act 2014 the standard rate of Corporation Tax in the UK changed from 20% to 19% with effect from 1 April 2017.

### (b) Factors affecting tax charge for the year

Approved investment trust companies are exempt from tax on capital gains within the Company.

The tax assessed for the year is lower than that resulting from applying the standard rate of Corporation Tax in the UK for a medium or large company of 19% (2017: 19.7%). The differences are explained below:

	For the year ended 31 August 2018			For the year ended 31 August 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Factors affecting tax charge for the year:</b>						
(Loss)/profit on ordinary activities before taxation	(2,539)	22,547	20,008	(1,833)	47,154	45,321
<b>Tax at the UK Corporation Tax rate of</b>						
- 19% (2017: 20%)	—	—	—	(213)	5,478	5,265
- 19% (2018: 19%)	(482)	4,284	3,802	(146)	3,755	3,609
	<b>(482)</b>	<b>4,284</b>	<b>3,802</b>	<b>(359)</b>	<b>9,233</b>	<b>8,874</b>
<b>Tax effect of:</b>						
Non-taxable dividend income	(72)	—	(72)	(98)	—	(98)
Capital returns on investments	—	(4,103)	(4,103)	—	(9,503)	(9,503)
Exchange (losses)/gains	—	(199)	(199)	—	1	1
Expenses not utilised in the year	554	18	572	457	269	726
Overseas tax	48	—	48	69	—	69
	<b>48</b>	<b>—</b>	<b>48</b>	<b>69</b>	<b>—</b>	<b>69</b>

### (c) Provision for deferred taxation

No provision for deferred tax has been made in the current or prior year.

## NOTES TO THE FINANCIAL STATEMENTS

### (d) Factors that may affect future tax charges

At 31 August 2018, the Company had a potential deferred tax asset of £10,135,000 (2017: £9,606,000) on taxable losses, which is available to be carried forward and offset against future taxable profits. A deferred tax asset has not been recognised for these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on capital gains.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

It is unlikely that the Company will obtain relief in the future for the potential asset disclosed above, so no deferred tax asset has been recognised.

## 8. NET EARNING/(LOSS) PER ORDINARY SHARE

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
Net revenue loss	(2,587)	(1,902)
Net capital profit	22,547	47,154
	<b>19,960</b>	<b>45,252</b>
Weighted average number of Ordinary shares in issue during the year *	37,547,663	37,548,348
	<b>Pence</b>	<b>Pence</b>
Revenue loss per Ordinary share	(6.89)	(5.07)
Capital profit per Ordinary share	60.05	125.58
<b>Total earning per Ordinary share</b>	<b>53.16</b>	<b>120.51</b>

\* Excluding those held in treasury.

## 9. DIVIDENDS

Dividends paid	At 31 August 2018 £'000	At 31 August 2017 £'000
2018 First interim dividend paid of 13.50p (2017: 11.50p)	5,069	4,318
2018 Second interim dividend paid of 13.50p (2017: 11.50p)	5,069	4,318
<b>Total dividends paid in the year</b>	<b>10,138</b>	<b>8,636</b>

Dividends are included in the Financial Statements in the year in which they are paid.

The Company is not required to pay a dividend under the requirements of Section 1158 of the CTA due to the negative accumulated balance on its revenue reserve. The above dividends are paid out of the capital reserve.



## NOTES TO THE FINANCIAL STATEMENTS

### 10. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Analysis of investments	At 31 August 2018 £'000	At 31 August 2017 £'000
Quoted in the United Kingdom	—	18
Quoted overseas	230,589	248,587
	<b>230,589</b>	<b>248,605</b>
Unquoted in the United Kingdom	3,808	2,712
Unquoted overseas	28,628	18,056
<b>Closing valuation</b>	<b>263,025</b>	<b>269,373</b>

(b) Movements on investments	At 31 August 2018 £'000	At 31 August 2017 £'000
Opening book cost	249,929	202,052
Opening fair value adjustment	19,444	19,736
<b>Opening valuation</b>	<b>269,373</b>	<b>221,788</b>
Purchases at cost	226,208	440,456
Proceeds of disposals	(254,147)	(441,403)
Net (losses)/gains realised on disposals	(3,947)	31,370
Increase in fair value adjustment	25,538	17,162
<b>Closing valuation</b>	<b>263,025</b>	<b>269,373</b>
Closing book cost	231,135	249,929
Closing fair value adjustment	31,890	19,444
<b>Closing valuation</b>	<b>263,025</b>	<b>269,373</b>

The following transaction costs, including stamp duty and broker commissions were incurred during the year:

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
On acquisitions	130	300
Opening fair value adjustment	152	290
<b>Opening valuation</b>	<b>282</b>	<b>590</b>

## NOTES TO THE FINANCIAL STATEMENTS

**(c) Significant undertaking**

The Company has interests of 3% or more of any class of capital in the following investee companies.

	Class of shares held	% of class held	Country of incorporation
Archemix	Series B	3.80%	USA
EBR Systems	Series C	7.84%	USA
<b>Karus Therapeutics</b>	Series B Pref	4.34%	UK
Oxagen Stocks	Series B Pref	9.10%	UK
Oxagen Stocks	Series A Pref	4.63%	UK
Oxagen Stocks	Series C Pref	4.18%	UK
Topivert	Series A	3.02%	UK

**(d) Disposals of unquoted investments**

The significant unquoted investment disposals during the year were:

Investment	Carrying value at 31 August 2018 £'000	Proceeds £'000	Carrying value at 31 August 2017 £'000
Spinal Kinetics	404	(238)	584

The carrying value of this investment represents the value of contingent future payments and milestones.

**(e) Significant changes in fair values of unquoted investments**

During the year under review the following unquoted investments were written up/(down) by a significant extent (adjusted for currency movements):

	Write up/(down) £'000
Sutro Biopharma	(1,867)
Ikano Therapeutics	790
Karus Therapeutics	582
NCP Holdings	459

## NOTES TO THE FINANCIAL STATEMENTS

### 11. RECEIVABLES

Amounts due within one year:	At 31 August 2018 £'000	At 31 August 2017 £'000
Sales awaiting settlement	—	2,731
Accrued income	1	39
Prepaid expenses	22	23
Tax recoverable	8	9
VAT recoverable	19	34
	<b>50</b>	<b>2,836</b>

### 12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the Statement of Cash Flows	At 31 August 2018 £'000	At 31 August 2017 £'000
Cash at bank	142	128
Bank overdraft	(374)	(6,392)
	<b>(232)</b>	<b>(6,264)</b>

The Company has a £35.0m uncommitted multi-currency overdraft facility. On 31 August 2018, £374,000 (2017: £6,392,000) was drawn down. The principal covenants relating to this facility are that there must be at least twenty investments in the portfolio and that performance must not fall by more than 15% in a month, 25% in two months or 30% in any six month period. The Company has complied with the terms of the facility throughout the financial year.

### 13. PAYABLES

Amounts falling due within one year:	At 31 August 2018 £'000	At 31 August 2017 £'000
Purchases awaiting settlement	—	11,597
Accrued expenses	345	1,668
Other	25	29
	<b>370</b>	<b>13,294</b>

### 14. CAPITAL COMMITMENTS - CONTINGENT ASSETS AND LIABILITIES

The Company has a further drawdown commitment to SV Fund VI of £8.9m as at 31 August 2018 (2017 : £14.9m).

## NOTES TO THE FINANCIAL STATEMENTS

### 15. CALLED UP SHARE CAPITAL

Allotted, Called up and Fully paid:	Ordinary shares of 25p each		Nominal value	
	at 31 August 2018 £'000	at 31 August 2017 £'000	at 31 August 2018 £'000	at 31 August 2017 £'000
Ordinary shares in issue	37,547,663	37,547,663	9,387	9,387
Ordinary shares held in treasury	3,795,000	3,795,000	948	948
	<b>41,342,663</b>	<b>41,342,663</b>	<b>10,335</b>	<b>10,335</b>

During the year, there were no Ordinary shares repurchased to be held in treasury (2017: 125,000 shares at a cost of £616,000).

No Ordinary shares held in treasury were cancelled during the year (2017 : 295,000).

The Ordinary shares held in treasury have no voting rights and are not entitled to dividends.

This reserve is not distributable

### 16. SHARE PREMIUM ACCOUNT

	At 31 August 2018 £'000	At 31 August 2017 £'000
Balance brought forward	18,805	18,805
<b>Balance carried forward</b>	<b>18,805</b>	<b>18,805</b>

This reserve is not distributable

### 17. CAPITAL REDEMPTION RESERVE

	At 31 August 2018 £'000	At 31 August 2017 £'000
Balance brought forward	31,482	31,408
Nominal value of nil (2017: 295,000) Ordinary shares cancelled from treasury	—	74
<b>Balance carried forward</b>	<b>31,482</b>	<b>31,482</b>

This reserve is not distributable

## NOTES TO THE FINANCIAL STATEMENTS

### 18. CAPITAL RESERVES

	At 31 August 2018 £'000	At 31 August 2017 £'000
Balance brought forward	226,085	188,183
Gains on investments	21,591	48,532
Cost of shares bought back and held in treasury	—	(616)
Performance fee	(93)	(1,374)
Dividends paid out of capital	(10,138)	(8,636)
Realised exchange gains/(losses) on currency balances	1,049	(4)
<b>Balance carried forward</b>	<b>238,494</b>	<b>226,085</b>
<b>The capital reserves may be further analysed as follows:</b>		
Reserve on investments sold (i)	206,604	206,641
Reserve on investments held (ii)	31,890	19,444
	<b>238,494</b>	<b>226,085</b>

(i) These are realised distributable capital reserves which maybe used to repurchase the Company's shares or be distributed as dividends.

(ii) This reserve comprises holding gains on investments (which may be deemed to be realised) and other amounts which are unrealised. An analysis has not been made between amounts that are realised (and maybe distributed or used to repurchase the Company's shares) and those that are unrealised.

### 19. REVENUE RESERVE

	At 31 August 2018 £'000	At 31 August 2017 £'000
Balance brought forward	(34,056)	(32,154)
Net loss for the year	(2,587)	(1,902)
<b>Balance carried forward</b>	<b>(36,643)</b>	<b>(34,056)</b>

The revenue reserve maybe distributed or used to repurchase the Company's shares (subject to being a positive balance).

## NOTES TO THE FINANCIAL STATEMENTS

### 20. BASIC NAV PER ORDINARY SHARE

The calculation of the NAV per Ordinary share is based on the following:

	At 31 August 2018	At 31 August 2017
NAV (£'000)	262,473	252,651
Number of Ordinary shares in issue	37,547,663	37,547,663
Basic NAV per Ordinary share (pence)	699.04	672.88

The increase in the NAV per share from 672.88p (31 August 2017) to 699.04p (31 August 2018) includes the total earnings per share as disclosed above and the effect of the Company, of any repurchase of shares during the year, at a discount to the prevailing NAV per share.

### 21. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents comprise cash at bank, short-term deposits and bank overdrafts. Included within the cash flows from operating activities are the cash flows associated with the purchases and sales of investments, as these are not considered to be investing activities, given the purpose of the Company. Cash flow from operating activities can therefore be further analysed as follows:

	For the year ended 31 August 2018 £'000	For the year ended 31 August 2017 £'000
Proceeds on disposal of fair value through profit and loss investments	257,986	447,825
Purchases of fair value through profit and loss investments	(238,913)	(430,651)
Net cash inflow from investing activities	19,073	17,174
Cash flows from other operating activities	(2,903)	(2,463)
<b>Net cash flows generated from operating activities</b>	<b>16,170</b>	<b>14,711</b>

### 22. TRANSACTIONS WITH THE FUND MANAGER AND RELATED PARTY TRANSACTIONS

#### (a) Transactions with the Fund Manager

Details of the management fee arrangement are given in the Directors' Report on page 22. The total fee payable under this Agreement to SV Health Managers LLP for the year ended 31 August 2018 was £2,108,000 (2017: £2,090,000) of which £nil (2017: £nil) was outstanding at the year end. In addition to this, SV Health Managers LLP is also entitled to a performance fee of £93,000 (2017: £1,374,000), which was outstanding at the year end.

SV Health Managers LLP will often take seats on boards of companies in which the Company holds an investment. These positions help to monitor the investee companies and in many cases add to the strength and depth of management. They sometimes provide an economic benefit to the individual who takes the position - often in the form of a director's fee or share awards. The Fund Manager has agreed with the Board a set of guidelines on how any economic interest will be divided between the Company and the Fund Manager. The Board is informed of both the position held and any economic benefits as they arise and a summary of all the positions, benefits and allocations is presented for review at each Board Meeting. During the year ended 31 August 2018 £nil (2017: £nil) was received.

# NOTES TO THE FINANCIAL STATEMENTS

## (b) Related party transactions

The Directors of the Company are key management personnel. The total remuneration payable to Directors in respect of the year ended 31 August 2018 was £141,000 (2017: £159,000) of which £33,250 (2017: £79,500) was outstanding at the year end.

## 23. FINANCIAL INSTRUMENTS

### 1. Risk management policies and procedures

The Company's financial assets and liabilities, in addition to short-term debtors and creditors and cash, comprise financial instruments which include investments in equity.

The holding of securities, investment activities and associated financing undertaken pursuant to the investment policy involve certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of the total return.

The main risks arising from the Company's pursuit of its investment objective are those that affect stock market levels: market risk, credit risk and liquidity risk. In addition, there are specific risks inherent in investing in the biotechnology sector. The Board reviews and agrees policies for managing these risks, as summarised below. These policies have remained substantially unchanged throughout the current and preceding year.

#### a) Market Risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements - price risk, currency risk and interest rate risk. The Fund Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

#### i) Price Risk

The Company is an investment company and as such its performance is dependent on the valuation of its investments. A breakdown of the investment portfolio is given within Fund Facts and in the Fund Manager's Review on pages 8 to 11. Market price risk arises mainly from uncertainty about future prices of the financial instruments held.

### ■ Management of the risk

The Board regularly considers the asset allocation of the portfolio as part of the process of managing the risks associated with the biotechnology sector, described in greater detail in the section on specific risk, whilst continuing to follow the investment objective. It is not the Company's current policy to use derivative instruments to hedge the investment portfolio against market price risk.

### ■ Price risk exposure

At the year end, the Company's assets exposed to market price risk were as follows:

	At 31 August 2018 £'000	At 31 August 2017 £'000
Non-current asset investments at fair value through profit or loss	263,025	269,373
<b>Total</b>	<b>263,025</b>	<b>269,373</b>

The level of assets exposed to market price risk decreased by approximately 2.3% during the year, through a combination of acquisitions of investments and increases in fair values.

## NOTES TO THE FINANCIAL STATEMENTS

### ■ Concentration of exposure to price risk

The Company currently holds investments in 80 companies, in a mixture of quoted and unquoted investments in a variety of countries, which significantly spreads the risk of individual investments performing poorly and reduces the concentration of exposure. The classification of investments by sector is provided within Fund Facts.

### ■ Price risk sensitivity

The following table illustrates the sensitivity of the profit for the year and the equity to an increase or decrease of 10% in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of current market

Company:	31 August 2018		31 August 2017	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Effect on revenue return	(237)	237	(242)	242
Effect on capital return	26,303	(26,303)	26,937	(26,937)
<b>Effect on total return and net assets</b>	<b>26,066</b>	<b>(26,066)</b>	<b>26,695</b>	<b>(26,695)</b>

### b) Currency Risk

The Financial Statements and performance of the Company are denominated in pound sterling. However, the majority of the Company's assets and the total return are denominated in US dollars, accordingly the total return and capital value of the Company's investments can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge against foreign currency movement.

### ■ Management of the risk

The Fund Manager monitors the Company's exposure to foreign currencies on a daily basis, and reports to the Board on a regular basis.

### ■ Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 August 2018 are shown below.

Where the Company's equity investments (which are not monetary items) are priced in foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.



## NOTES TO THE FINANCIAL STATEMENTS

	At 31 August 2018 £'000	At 31 August 2017 £'000
<b>Monetary assets/(liabilities)</b>		
<b>Cash and cash equivalents:</b>		
US dollars	—	—
<b>Short-term receivables:</b>		
US dollars	1	2,776
Danish krone	8	—
<b>Short-term payables:</b>		
US dollars	(299)	(17,040)
Danish krone	—	(960)
<b>Foreign currency exposure on net monetary items</b>	<b>(290)</b>	<b>(15,224)</b>
<b>Non-current asset investments held at fair value</b>		
US dollars	237,764	242,945
Euros	11,541	13,909
Danish krone	9,912	7,483
Canadian dollars	—	2,306
<b>Total net foreign currency exposure</b>	<b>258,927</b>	<b>251,419</b>

At the year end, approximately 99% (2017: 99%) of the Company's net assets were denominated in currencies other than pound sterling. This level of exposure is broadly representative of the levels throughout the year.

### Foreign currency sensitivity

During the financial year pound sterling strengthened by 0.9% against the US dollar, 1.5% against the Swiss franc and by 3.1% against the euro. (2017: weakened 1.6%, 3.8% and 7.9% respectively). Given the movements over the last two years, a change of 10% or even more is clearly possible.

The following table illustrates the sensitivity of the profit after taxation for the year and the equity in regard to the Company's financial assets and financial liabilities, assuming a 10% change in exchange rates.

If pound sterling had weakened against the exposure currencies, with all other variables held constant, this would have affected Company net assets and net profit/(loss) for the year attributable to equity Shareholders as follows:

	At 31 August 2018 £'000	At 31 August 2017 £'000
US dollars	23,746	22,868
Euros	1,154	1,391
Danish krone	992	844
Canadian dollars	—	231
	<b>25,893</b>	<b>25,334</b>

## NOTES TO THE FINANCIAL STATEMENTS

If pound sterling had strengthened against the exposure currencies, with all other variables held constant, this would have affected Company net assets and net profit/(loss) for the year attributable to equity shareholders as follows:

	At 31 August 2018 £'000	At 31 August 2017 £'000
US dollars	(23,746)	(22,868)
Euros	(1,154)	(1,391)
Danish krone	(992)	(844)
Canadian dollars	—	(231)
	<b>(25,893)</b>	<b>(25,334)</b>

In the opinion of the Directors, the above sensitivity analyses are not necessarily representative of the year as a whole, since the level of exposure changes as part of the currency risk management process used to meet the Company's objectives.

### c) Interest rate risk

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities. Interest rate changes will also have an impact in the valuation of investments, although this forms part of price risk, which is considered separately above.

### Management of the risk

Interest rate risk is limited by the Company's financial structure with operations mainly financed through the share capital, share premium and retained reserves. The majority of the Company's financial assets are, under normal circumstances, equity shares and other investments which neither pay interest nor have a stated maturity date. Liquidity and overdraft facilities are managed with the aim of increasing returns for Shareholders.

In the normal course of business, the Company's policy is to be fully invested and, other than as arising from the timing of investment transactions, the cash holding is kept to a minimum.

At the year end £374,000 (2017: £6,392,000) was drawn down under the Company's committed overdraft facility.

It is not the Company's policy to use derivative instruments to mitigate interest rate risk, as the Board believes that the effectiveness of such instruments does not justify the costs involved.

### Interest rate exposure

The exposure, at 31 August 2018, of financial assets and liabilities to interest rate risk is shown by reference to:

- Floating interest rates (i.e. giving cash flow interest rate risk) - when the rate is due to be re-set; and
- Fixed interest rates (i.e. giving fair value interest rate risk) - when the financial instrument is due for repayment.

# NOTES TO THE FINANCIAL STATEMENTS

Company:	At 31 August 2018			At 31 August 2017		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
<b>Exposure to floating interest rates:</b>						
Cash and cash equivalents	(232)	—	(232)	(6,264)	—	(6,264)
<b>Exposure to fixed interest rates:</b>						
Non-current asset investments held at fair value through profit or loss	—	—	—	—	—	—
<b>Total exposure to interest rates</b>	<b>(232)</b>	<b>—</b>	<b>(232)</b>	<b>(6,264)</b>	<b>—</b>	<b>(6,264)</b>

The above amounts are not necessarily representative of the exposure to interest rates in the year ahead, as the level of cash or cash like assets such as money market funds and borrowings varies during the year according to the performance of the stock market, events within the wider economy and opportunities within the unquoted market and the Fund Manager's decisions on the best use of cash or borrowings over the year. During the year under review the level of financial assets and liabilities exposed to interest rates fluctuated between £2.6m and £11.6m.

## Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and equity to an increase or decrease of 50 (2017: 50) basis points in interest rates in regard to the Company's monetary financial assets, which are subject to interest rate risk. This level of change is considered to be reasonably possible based on observation of current market conditions.

The sensitivity analysis is based on the Company's monetary financial instruments held at each Balance Sheet date, with all other variables held constant.

Company:	At 31 August 2018		At 31 August 2017	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Effect on revenue return	(1)	1	(31)	31
Effect on capital return	—	—	—	—
<b>Effect on total return and on net assets</b>	<b>(1)</b>	<b>1</b>	<b>(31)</b>	<b>31</b>

In the opinion of the Directors, the above sensitivity analyses may not be representative of the year as a whole, since the level of exposure may change.

## 2. Credit risk

In undertaking purchases and sales of investments, there is a risk that the counterparty will not deliver the investment before or after the Company has fulfilled its responsibilities. Additionally, the Company has funds on deposit with banks or in money market funds. HSBC Bank plc is the Custodian of the Company's assets. The Company's investments are held in accounts which are segregated from the Custodian's own trading assets. If the Custodian were to become insolvent, the Company's right of ownership is clear and they are therefore protected. However cash balances deposited with the Custodian may be at risk in this instance, as the Company would rank alongside other creditors.

# NOTES TO THE FINANCIAL STATEMENTS

## ■ Management of the risk

During the year the Company bought and sold investments only through brokers which had been approved by the Fund Manager as acceptable counterparties. In addition, limits are set as to the maximum exposure to any individual broker that may exist at any time. These limits are reviewed regularly.

Cash balances will only be deposited with reputable banks with high quality credit ratings.

## ■ Credit risk exposure

The maximum exposure to credit risk at the year end comprised:

	At 31 August 2018 £'000	At 31 August 2017 £'000
Sales awaiting settlement	—	2,731
Accrued income	1	39
Cash at bank	142	128
	<b>143</b>	<b>2,898</b>

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low.

None of the Company's financial assets are past due or impaired.

## 3. Liquidity risk

Liquidity risk is the possibility of failure of the Company to realise sufficient assets to meet its financial liabilities.

## ■ Management of the risk

Liquidity and cash flow risk are minimised as the Fund Manager aims to hold sufficient Company assets in the form of readily realisable securities which can be sold to meet funding commitments as necessary. In addition, the Company has an overdraft facility with HSBC Bank of £35m.

It should be noted, however, that investments in unquoted securities will not be readily realisable. Furthermore, even where the Company holds an investment in quoted securities, the Company may be restricted in its ability to trade that investment either because the investment becomes subject to restrictions when the company concerned becomes publicly quoted or, at certain times, as a consequence of the Company being privy to confidential price sensitive information as a result of the Fund Manager's active involvement in that company.

## ■ Liquidity risk exposure

A summary of the Company's financial liabilities is provided below in sub-note 6.

## 4. Specific Risk

As well as the general risk factors outlined above, investing in the biotechnology sector carries some particular risks:

- (a) the stock prices of publicly quoted biotechnology companies have been characterised by periods of high volatility;
- (b) a significant proportion of the Company's investments will be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. In addition, there are inherent difficulties in valuing unquoted investments and the realisations from sales of investments could be less than their carrying value;

## NOTES TO THE FINANCIAL STATEMENTS

- (c) biotechnology companies typically have a limited product range and those products may be subject to extensive government regulation. Obtaining necessary approval for new products can be a lengthy process, which is expensive and uncertain as to outcome;
- (d) technological advances can render existing biotechnology products obsolete;
- (e) intense competition exists in certain product areas in relation to obtaining and sustaining proprietary technology protection and the complex nature of the technologies involved can lead to patent disputes;
- (f) certain biotechnology companies may be exposed to potential product liability risks, particularly in relation to the testing, manufacturing and sales of healthcare products;
- (g) biotechnology companies spend a considerable proportion of their resources on R&D, which may be commercially unproductive or require the injection of further funds to exploit the results of their work; and
- (h) the growing cost of providing healthcare has placed financial strains on governments, insurers, employers and individuals, all of whom are searching for ways to reduce costs. As a result, certain areas may be affected by price controls and reimbursement limitations.

### 5. Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the Balance Sheet at fair value or the Balance Sheet amount is a reasonable approximation of fair value. The fair value of Quoted shares and securities is based on the bid price or last traded price, depending on the convention of the exchange on which the investment is quoted.

Unquoted investments are valued in accordance with IPEVC Guidelines. The methods commonly used to value unquoted securities are stated in accounting policy 1(f).

### 6. Summary of financial assets and financial liabilities by category

The carrying amounts of the Company's financial assets and financial liabilities as recognised as the Balance Sheet date of the reporting periods under review are categorised as follows:

Financial assets	31 August 2018 £'000	31 August 2017 £'000
<b>Financial assets at fair value through profit or loss:</b>		
Non-current asset investments - designated as such on initial recognition	263,025	269,373
<b>Cash and receivables:</b>		
Current assets:		
Receivables	28	2,813
Cash and cash equivalents	142	128
<b>Total current assets</b>	<b>170</b>	<b>2,941</b>

## NOTES TO THE FINANCIAL STATEMENTS

Financial liabilities	31 August 2018 £'000	31 August 2017 £'000
<b>Measured at amortised cost</b>		
Creditors: amounts falling due within one month:		
Purchases awaiting settlement	—	11,597
Bank overdraft	374	6,392
Accruals	345	1,668
Payables	25	29
	<b>744</b>	<b>19,686</b>

Note: Amortised cost is the same as the carrying value shown above.

## 7. Classification under the fair value hierarchy

The table below sets out fair value measurements using the IFRS 7 fair value hierarchy:

### (i) Financial assets at fair value through profit or loss

At 31 August 2018	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	262,655	230,589	—	32,066
Fixed interest investments	370	—	—	370
<b>Total</b>	<b>263,025</b>	<b>230,589</b>	<b>—</b>	<b>32,436</b>
At 31 August 2017	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	268,220	248,605	—	19,615
Fixed interest investments	1,153	—	—	1,153
<b>Total</b>	<b>269,373</b>	<b>248,605</b>	<b>—</b>	<b>20,768</b>

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

**Level 1** - valued using quoted prices in active markets for identical assets.

**Level 2** - valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

**Level 3** - valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in the accounting policies noted on page 50.

31 AUGUST 2018

## NOTES TO THE FINANCIAL STATEMENTS

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out below.

### (ii) Level 3 investments at fair value through profit or loss

At 31 August 2018	31 August 2018 £'000	31 August 2017 £'000
Opening valuation	20,768	22,196
Transfers out of Level 3	—	(2,827)
Acquisitions	6,967	9,175
Disposal proceeds	(1,843)	(4,486)
<b>Total gains / (losses) included in the Statement of Comprehensive Income</b>		
- on assets sold	(3,328)	1,861
- on assets held at the year end	9,872	(5,151)
<b>Closing valuation</b>	<b>32,436</b>	<b>20,768</b>

The transfers out of Level 3 represent the value of investments that were quoted during the year, having previously been unquoted.

### (iii) Level 3 investments at fair value through profit or loss

Valuation Techniques	Assumption	At 31 August 2018 Effect of reasonably possible alternative assumptions			At 31 August 2017 Effect of reasonably possible alternative assumptions		
		Carrying value £'000	Favourable changes (10% increase) £'000	Unfavourable changes (10% decrease) £'000	Carrying value £'000	Favourable changes (10% increase) £'000	Unfavourable changes (10% decrease) £'000
Discounted cash flow	Discount rate	5,071	222	(131)	3,858	168	(97)
	Probability of milestone achievement	—	2,013	(1,119)	—	1,897	(1,312)
Market comparable/ multiple of EBITDA	EBITDA multiple	1,770	143	(226)	—	—	—
		<b>6,841</b>	<b>2,378</b>	<b>(1,476)</b>	<b>3,858</b>	<b>2,065</b>	<b>(1,409)</b>

The table above outlines the Level 3 investments where there are considered to be reasonable possible alternatives to the assumptions used within the valuations. The effects of using the alternatives within the valuations are shown. The table does not include £25.6m of Level 3 investments where there is not considered to be reasonable possible alternatives to the assumptions used within the valuations or where no assumptions are used in the valuations (e.g. investment is valued by reference to the initial cost).

The 2017 figures for the effect of reasonable alternatives for the discount rate assumption have been restated with an immaterial effect on the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Capital management policies and procedures

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting year.

	31 August 2018 £'000	31 August 2017 £'000
<b>Debt</b>		
Bank overdraft	374	6,392
<b>Equity</b>		
Called up share capital	10,335	10,335
Reserves	252,138	242,316
	<b>262,473</b>	<b>252,651</b>
<b>Total debt and equity</b>	<b>262,847</b>	<b>259,043</b>

The Company's capital is managed to ensure that it will continue as a going concern and to maximise the capital return to its equity Shareholders over the longer-term.

The Board, with the assistance of the Fund Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This includes consideration of:

- (i) the planned level of gearing; the buyback or issuance of equity shares;
- (ii) the need to buy back or issue equity shares; and the level of gearing, if any; and
- (iii) the determination of dividend payments if any.

The Company is subject to externally imposed capital requirements through the Act, with respect to its status as a public limited company.

In addition, with respect to the obligation and ability to pay dividends, the Company must comply with the provisions of Section 1158 CTA and the Act respectively.

Gearing for this purpose is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

	31 August 2018 £'000	31 August 2017 £'000
Borrowings used for investment purposes, less cash	232	6,264
Net assets	262,473	252,651
Gearing	0.1%	2.5%

Borrowings are made on a relatively short-term basis to exploit specific investment opportunities, rather than to apply long-term structural gearing to the Company's portfolio of investments.

### 24. Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.



## NOTES TO THE FINANCIAL STATEMENTS

The Board is of the opinion that the Company is engaged in a single segment of business, namely the investment in development staged biotechnology and other life sciences companies in accordance with the Company's investment objective, and consequently no segmental analysis is provided.

### 25. Exchange Rates

Foreign currency assets and liabilities have been translated into pound sterling on the Balance Sheet dates at the following rates of exchange:

	At 31 August 2018	At 31 August 2017
Australian dollars	1.79722	1.62460
Danish krone	8.32828	8.06110
Euros	1.11710	1.08382
Norwegian krone	10.86942	10.02473
Swiss francs	1.25699	1.23830
US dollars	1.29975	1.28855

# COMPANY SUMMARY, SHAREHOLDER INFORMATION, DIRECTORS AND ADVISERS

## Company Status

The Company was established in 1994 as an independent investment trust whose shares are listed on the London Stock Exchange (Ordinary shares: ISIN No: GB0004559349; EPIC Code: IBT). The Company is registered in England and Wales with a company number of 2892872.

## Life of the Company

The Company's Articles of Association provide for Directors to put forward a proposal for the continuation of the Company at the Company's AGM at two-yearly intervals. Accordingly, a proposal will be put forward at the AGM to be held in December 2019.

## Share Price and NAV Information

The Company's shares are listed on the London Stock Exchange. The Company's share price is quoted daily in The Financial Times.

The Company releases its NAV per share to the market on a daily basis.

## Association of Investment Companies

The Company is a member of the Association of Investment Companies (the AIC). Further information on the AIC can be found at its website, [www.theaic.co.uk](http://www.theaic.co.uk).

## Financial Calendar

January	Payment of first interim dividend
April	Half Yearly Results announced
August	Payment of second interim dividend
31 August	Year End
October	Annual Results announced
December	Annual General Meeting (AGM)

## Shares in Issue

As at 31 August 2018, the Company had 41,342,663 Ordinary shares of 25p each in issue which included 3,795,000 Ordinary shares of 25p each held in treasury.

## Website

The Company's website is located at [www.ibtplc.com](http://www.ibtplc.com). The site provides share price and NAV information as well as details of the Board of Directors and SV Health Managers LLP, information on

investee companies, monthly fact sheets, the latest published Annual and Half Yearly Financial Statements and access to recent market announcements.

## Directors

John Aston OBE (Chairman)  
Véronique Bouchet (Senior Independent Director)  
Caroline Gulliver (Chair of the Audit Committee)  
Jim Horsburgh

## Advisers Fund Manager and AIFM

**SV Health Managers LLP**  
71 Kingsway, London, WC2B 6ST  
Telephone: 020 7421 7070

## Company Secretary and Registered Office

**BNP Paribas Secretarial Services Limited**  
10 Harewood Avenue, London NW1 6AA  
Telephone: 020 7410 5971  
Email: [secretarialservice@uk.bnpparibas.com](mailto:secretarialservice@uk.bnpparibas.com)

## Administrator, Banker and Custodian

**HSBC Bank plc**  
8 Canada Square, London E14 5HQ

## Independent Auditors

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Atria One, 144 Morrison Street, Edinburgh EH3 8EX

## Stockbroker

**Centos Securities plc**  
6.7.8 Tokenhouse Yard, London EC2R 7AS

## Registrar

**Equiniti Limited**  
Aspect House, Spencer Road  
Lancing, West Sussex BN99 6DA  
Shareholder Helpline: 0371 384 2624\*  
Overseas Helpline: +44 121 415 7047  
Website: [www.shareview.co.uk](http://www.shareview.co.uk)

\* Lines are open from 8.30 am to 5.30 pm Monday to Friday (excluding public holidays in England and Wales).

# ALTERNATIVE INVESTMENT FUND MANAGER'S DISCLOSURE

SV Health Managers LLP is the Company's Alternative Investment Fund Manager (AIFM). Details of the Management Agreements dated 11 February 2017 are included in the Directors' Report on page 22.

The below disclosures include information required by the FCA FUND 3.2 and 3.3.

## ■ Investment management

The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines. Any material changes to the published investment policy are put to Shareholders for a vote. Any changes to the investment strategy are agreed by the Board of the Company.

Details of the Company's investment objective and policy, and investment strategy, including limits, are on pages 14 and 15 of the Annual Report 2018.

## ■ Contractual relationship with the Company

The Articles of Association between the Company's Shareholders and the Company is governed by English law and, by purchasing shares, investors agree that the Courts of England have exclusive jurisdiction to settle any disputes. All communications in connection with the purchase of the Company's shares will be in English. Certain judgements obtained in EU Member States (excluding Denmark at this time) in proceedings commenced on or after 10 January 2017, can be enforced in England and Wales under the Recast Brussels Regulation by obtaining a certificate from the court of origin certifying that the judgement is enforceable, serving the certificate and judgement on the judgement debtor and, when seeking enforcement, providing the Courts of England and Wales with an authenticated copy of the judgement and certificate and certifying compliance with the requirements as to service on the debtor. The judgement debtor can apply for the enforcement of the judgement to be refused on limited grounds. Further, certain judgements obtained in EU Member States (including Denmark) in proceedings commenced before 10 January 2017, or in Iceland, Norway and Switzerland can be enforced in England and Wales under the 2001 Brussels Regulation or the 2007 Lugano Convention and certain judgements obtained from a country to which any of the

Administration of Justice Act 1920, the Foreign Judgments (Reciprocal Enforcement) Act 1933 or the Civil Jurisdiction and Judgments Act 1982 applies can also be enforced in England and Wales by making an application to the High Court for an order for registration of the judgement for enforcement. The judgement debtor may appeal/challenge registration on limited grounds. It may also be possible to enforce a judgement obtained in a country to which none of the above regimes apply in England and Wales if such judgement is: (1) final and conclusive on the merits; (2) given by a Court regarded by English law as competent to do so; and (3) for a fixed sum of money.

## ■ Professional liability risk

The AIFM maintains both the capital requirements and the required professional indemnity insurance at the level required under AIFM Rules in order to cover potential liability risks arising from professional negligence.

## ■ Company management

The Board announced on 21 July 2016 that with effect from 21 July 2016 the Company had entered in to new Agreements with the relevant suppliers of services to the Company to comply with AIFMD. The Agreements with the Company's Investment Manager and AIFM – SV Health Managers LLP, the Company Secretary BNP Paribas Securities Services S.C.A. and Administrator, HSBC Security Services Ltd – differ only to the extent necessary to comply with the AIFMD.

Also on 21 July 2016, the Company appointed HSBC Bank plc to the new AIFMD role of Depositary which amended the Custody Agreement and created a new Custody Agreement with HSBC Bank plc to reflect the different roles under the AIFMD legislation. Under the terms of the Depositary Agreement, the Company has agreed to pay the HSBC Bank plc a fee of 5bps on the net assets of the Company.

## ■ Management functions delegated by AIFM

A description of safe-keeping functions, administrative functions and secretarial functions delegated by the AIFM and the identity of such delegates can be found on page 22 under the heading "Administration, Depositary and Company Secretarial Services". The AIFM does not consider that any conflicts of interest arise from the delegation of these functions.

# ALTERNATIVE INVESTMENT FUND MANAGER'S DISCLOSURE

## ■ Valuation policy

The Company's portfolio of assets will be valued on each Dealing Day (a day on which the London Stock Exchange and banks in England and Wales are normally open for business). All instructions to issue or cancel Ordinary shares given for a prior Dealing Day shall be assumed to have been carried out (and any cash paid or received).

The valuation will be based on the following:

- (a) Cash and amounts held in current and deposit accounts and in other time-related deposits will be valued at their nominal value.
- (b) All transferable securities will be valued at fair value:
  - i. fair value for quoted investments is deemed to be bid market prices, or last traded price, depending on the convention of the exchange on which they are quoted; and
- (c) All other property contained within the Company's portfolio of assets will be priced at a value which, in the opinion of the AIFM, represents a fair and reasonable price.
- d) If there are any outstanding agreements to purchase or sell any of the Company's portfolio of assets which are incomplete, then the valuation will assume completion of the agreement.
- (e) Added to the valuation will be:
  - i. any accrued and anticipated tax repayments of the Company;
  - ii. any money due to the Company because of Ordinary shares issued prior to the relevant Dealing Day;
  - iii. income due and attributed to the Company but not received; and
  - iv. any other credit of the Company due to be received by the Company. Amounts which are de minimis may be omitted from the valuation.
- (e) Deducted from the valuation will be:
  - i. any anticipated tax liabilities of the Company;
  - ii. any money due to be paid out by the Company because of Ordinary shares bought back by the Company prior to the valuation;
  - iii. the principal amount and any accrued but unpaid interest on any borrowings; and

- iv. any other liabilities of the Company, with periodic items accruing on a daily basis. Amounts which are de minimis may be omitted from the valuation.

Valuations of NAV per Ordinary share will be suspended only in any circumstances in which the underlying data necessary to value the investments of the Company cannot readily or without undue expenditure be obtained. Any such suspension will be announced to the Regulatory Information Service.

The Company's unquoted portfolio of assets will be valued on each working day in accordance with IFRS and the PE and VC Valuation guidelines (IPEVC) [www.privateequityvaluation.com](http://www.privateequityvaluation.com). Further information regarding the valuation of unquoted assets and any sensitivities arising from unobservable inputs can be found in note 23 to the Financial Statements.

## ■ Liquidity risk management

The AIFM has a liquidity management policy which it uses to monitor the liquidity risk of the Company. Shareholders have no right to redeem their Ordinary shares from the Company but may trade their Ordinary shares on the secondary market. However, there is no guarantee that there is a liquid market in the Ordinary shares.

Further details regarding the risk management process and liquidity management are available from the AIFM, on request.

# ALTERNATIVE INVESTMENT FUND MANAGER'S DISCLOSURE

## ■ Fees

A description of certain of the fees, charges and expenses and of the maximum amounts thereof (to the extent that this can be assessed) which are borne by the Company and thus indirectly by investors are included in the paragraph above 'Company Management'. In addition to these Administration and Depositary fees, the Company will pay all other fees, charges and expenses incurred in the operation of its business including, without limitation:

- brokerage and other transaction charges and taxes;
- Directors' fees and expenses;
- fees and expenses for custodial, registrar, legal, auditing and other professional services;
- any borrowing costs;
- the ongoing costs of maintaining the listing of the Ordinary shares and their continued admission to trading on the London Stock Exchange;
- Directors' and Officers' insurance premiums;
- promotional expenses (including membership of any industry bodies, including the AIC, and marketing initiatives approved by the Board); and
- costs of printing the Company's financial reports and posting them to Shareholders.

Such fees and expenses are not subject to a maximum unit.

## ■ Remuneration of the AIFM staff

The AIFM operates under the terms of the Remuneration Policy Statement. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).

Following completion of an assessment of the application of the proportionality principle to the FCA's AIFM Remuneration Code, the AIFM has disappplied the pay-out process rules with respect to it and any of its delegates. This is because the AIFM considers that it is operating on a small scale, carries out non-complex activities and has a relatively low risk profile.

## ■ Fair treatment of investors

The AIFM has procedures, arrangements and policies in place to ensure compliance with the principles more particularly described in the AIFM Rules relating to the fair treatment of investors. The principles of treating investors fairly include, but are not limited to:

- acting in the best interests of the Company and of the Shareholders;
- ensuring that the investment decisions taken for the account of the Company are executed in accordance with the Company's investment policy and objective and risk profile;
- ensuring that the interests of any group of Shareholders are not placed above the interests of any other group of Shareholders;
- ensuring that fair, correct and transparent pricing models and valuation systems are used for the Company;
- preventing undue costs being charged to the Company and Shareholders;
- taking all reasonable steps to avoid conflicts of interests and, when they cannot be avoided, identifying, managing, monitoring and, where applicable, disclosing those conflicts of interest to prevent them from adversely affecting the interests of Shareholders; and
- recognising and dealing with complaints fairly.

The AIFM maintains and operates organisational, procedural and administrative arrangements and implements policies and procedures designed to manage actual and potential conflicts of interest. In addition, as its Ordinary shares are admitted to the Official List, the Company is required to comply with, among other things, the FCA's Listing Rules and Disclosure Guidance and Transparency Rules and the Takeover Code, all of which operate to ensure a fair treatment of investors. As at the date of this Annual Report, no investor has obtained preferential treatment or the right to obtain preferential treatment.



## ALTERNATIVE INVESTMENT FUND MANAGER'S DISCLOSURE

### Procedure and conditions for the issuance of Ordinary shares

The Company's Ordinary shares are admitted to the Official List of the UKLA and to trading on the main market of the London Stock Exchange. Accordingly, the Company's Ordinary shares may be purchased and sold on the main market of the London Stock Exchange.

While the Company will typically have Shareholder authority to buyback shares, Shareholders do not have the right to have their shares purchased by the Company.

### Net asset value

The NAV of the Company's Ordinary shares is published daily by the AIFM via a Regulatory Information Service announcement.

### Historical performance

Historical financial information demonstrating the Company's historical performance can be found on the Long-term record page. Copies of the Company's audited Financial Statements for the financial year ended 31 August 2017 are available for inspection at the Registered Office address of BNP Paribas Secretarial Services Limited and can be viewed on the Company's website at [www.ibtplc.com](http://www.ibtplc.com).

### Transfer and reuse of the Company's assets

The Depositary may not use or re-use the Company's securities or other investments without the prior consent of the Company.

### Periodic disclosures

During the year ended 31 August 2018, the overdraft facility available to the Company was £35.0m.

### Risk management

In its capacity as AIFM, SV Health Managers LLP has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management.

The Company has risk management controls which are

agreed with the Board. The Investment Manager maintains adequate risk management systems in order to identify, measure and monitor principal risks at least annually under AIFMD. The Investment Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing.

The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.

The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of internal control and for reviewing its effectiveness. Further details can be found in the Strategic Review on pages 15 and 16 of the Annual Report 2018 and in note 23 to the Financial Statements 2018 on pages 64 to 73.

### Valuation of illiquid assets

The Directive requires the disclosure of the percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature. Further, any new arrangements for managing the liquidity of the Company must be disclosed.

The liquidity management policy requires the AIFM to identify and monitor its investment in asset classes which are considered to be relatively illiquid. The majority of the Company's investment portfolio is invested directly in liquid equities and this equity portfolio is monitored on an ongoing basis to ensure that it is adequately diversified.

The liquidity management policy is reviewed and updated, as required, on at least an annual basis.

### Leverage

The Company uses leverage to increase its exposure primarily for short-term investment opportunities. The AIFM in dialogue with the Board has set maximum levels of leverage that are reasonable. It has implemented systems to

## ALTERNATIVE INVESTMENT FUND MANAGER'S DISCLOSURE

calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times.

The maximum leverage limits are 30.0% for both the gross method and the commitment method of calculating leverage. There have been no changes to the maximum level of leverage that the Company may employ during the year.

At 31 August 2018, actual leverage was 0.5% for both the gross method and the commitment method.

At 31 August 2018, £2.1m was drawn down against the uncommitted overdraft facility. The Company has complied with the terms of the facility throughout the financial year. Further details can be found in note 12 on page 60 and note 23 on page 69.

Periodic disclosures will be made to investors through the Company's website, [www.ibtplc.com](http://www.ibtplc.com), regarding the following areas as required:

- The percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature;
- Any new arrangements for managing the liquidity of the AIF;
- The risk profile of the AIF and the risk management systems employed by the AIFM to manage these risks;
- Any changes to the maximum level of leverage and to any right to reuse collateral or any guarantee granted under the leverage arrangements; and
- The total amount of leverage used by the AIF.



# STATEMENT OF THE DEPOSITARY'S RESPONSIBILITIES

## Statement of the Depositary's Responsibilities in Respect of the Scheme and Report of the Depositary to the Shareholders of International Biotechnology Trust plc ("the Company") for the Period Ended 31 August 2018

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook, (the Sourcebook), the Alternative Investment Fund Managers Directive (AIFMD) (together the Regulations) and the Company's Articles of Association.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of the assets of the Company in accordance with the Regulations.

### The Depositary must ensure that:

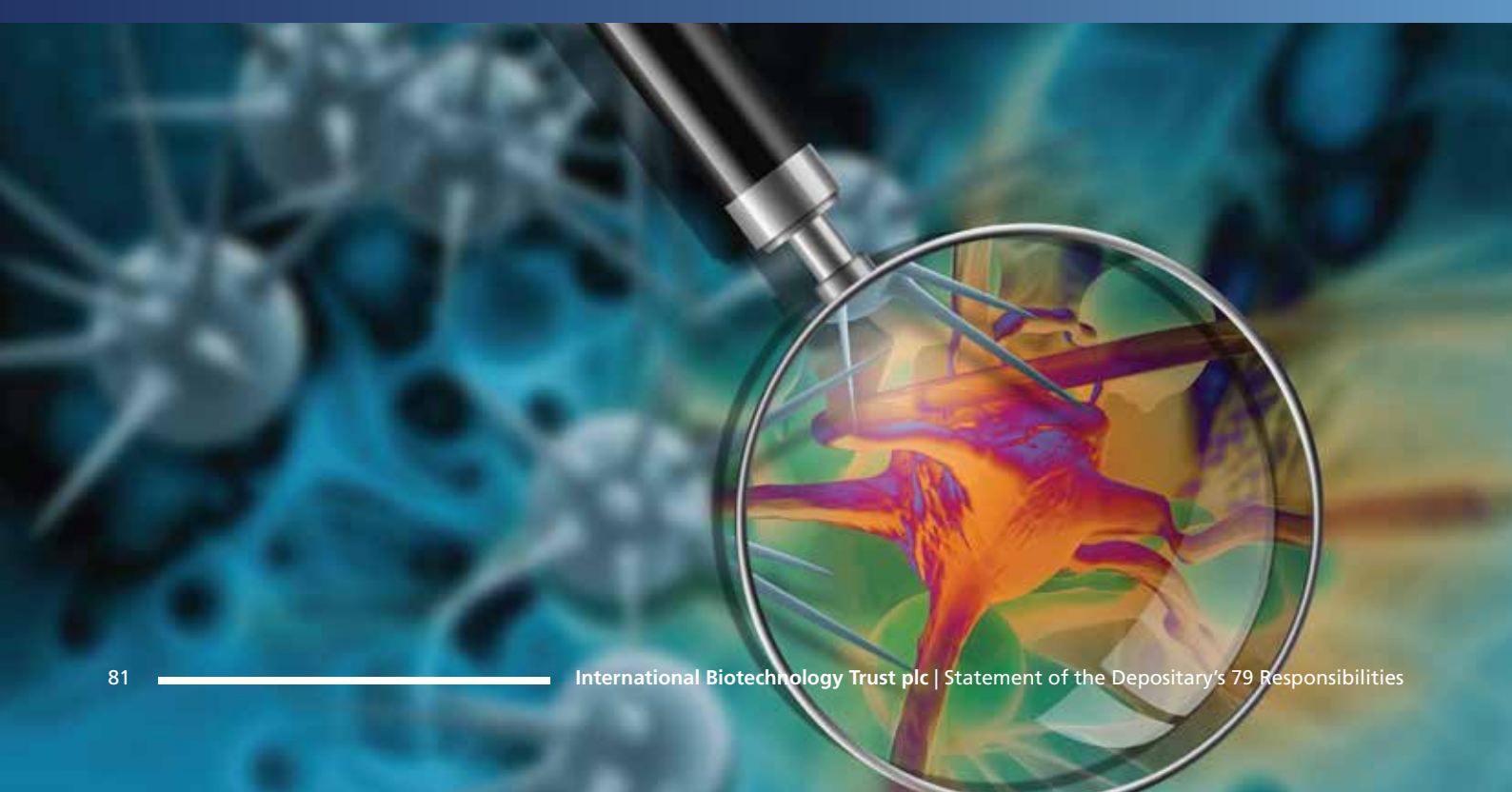
- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;

- the assets under management and the net asset value per share of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- that the Company's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager (the AIFM) are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Articles of Association in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AIFM has been managed in accordance with the rules in the Sourcebook, the Articles of Association of the Company and as required by the AIFMD.

**HSBC Bank plc**  
30 October 2018





# NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting (AGM) of International Biotechnology Trust plc will be held at 3.00 pm on Wednesday, 12 December 2018 at BNP Paribas Securities Services S.C.A, 10 Harewood Avenue, London NW1 6AA, to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 to 13 will be proposed as special resolutions:

## ■ Ordinary resolutions

1. To receive the Directors' Report and the audited Financial Statements for the year ended 31 August 2018.
2. To approve the Annual Report on Directors' Remuneration for the year ended 31 August 2018.
3. To approve the Company's dividend policy of making dividend payments, equivalent to 4% of the Company's NAV as at the last day of the Company's preceding financial year, through two equal semi-annual distributions.
4. To re-elect Mr John Aston as a Director of the Company.
5. To re-elect Dr Véronique Bouchet as a Director of the Company.
6. To re-elect Mrs Caroline Gulliver as a Director of the Company.
7. To re-elect Mr Jim Horsburgh as a Director of the Company.
8. To re-appoint PricewaterhouseCoopers LLP as the Independent Auditors of the Company from the conclusion of this Meeting until the Conclusion of the next AGM at which the Financial Statements are laid before Members.
9. To authorise the Directors to determine the Auditors' remuneration.
10. THAT, the Directors of the Company be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Act, to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to a nominal amount of £938,691.50, equivalent to 3,754,766 Ordinary shares (being 10% of the issued Ordinary share capital (excluding treasury shares) at the date of this Notice) such authority to apply until the end of the AGM to be held in 2019 (or 15 months from the date of passing this resolution, whichever is earlier, unless previously revoked, varied or

renewed, by the Company in General Meeting) save that the Company may make offers and enter into agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authorities had not ended.

## ■ Special resolutions

To consider and, if thought fit, pass the following three resolutions as special resolutions:

11. THAT, if resolution 10 is passed, the Directors be and are hereby authorised pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred on the Directors by resolution 10 above and/or to sell Ordinary shares from treasury for cash, as if Section 561 of the Act did not apply to any such allotment or sale up to a nominal amount of £938,691.50 equivalent to 3,754,766 Ordinary shares (being 10% of the issued Ordinary share capital (excluding treasury shares) at the date of this Notice), such authority to apply until the end of the AGM to be held in 2019 (or, 15 months from the date of passing this resolution, whichever is earlier, unless previously revoked, varied or renewed, by the Company in General Meeting) but in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.
12. THAT, the Company be generally and unconditionally authorised, for the purposes of Section 701 of the Act to make one or more market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 25p each in the capital of the Company, subject to the following restrictions and provisions:
  - (a) the maximum number of Ordinary shares hereby authorised to be purchased is 5,628,394 (being 14.99% of the issued Ordinary share capital at the date of this Notice);
  - (b) the maximum price, exclusive of expenses, which may be paid for any such Ordinary share shall be the higher of:

## NOTICE OF MEETING

(i) an amount equal to 105% of the average of the closing middle market quotations for an Ordinary share (as derived from the London Stock Exchange Daily Official List) for the five Business Days immediately preceding the day on which that Ordinary share is contracted to be purchased; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out;

(c) the minimum price which may be paid for such Ordinary share is 25p per share; and

(d) unless previously revoked or varied the authority conferred hereby shall expire at the end of the AGM of the Company to be held in 2019 or, if earlier, on the expiry of 15 months from the date of passing this resolution, (unless previously revoked, varied or extended by the Company in General Meeting), except that the Company may before such expiry enter into a new contract or contracts to purchase such Ordinary shares under the authority conferred hereby that will or may be executed wholly or partly after the expiry of such authority and the Company may make a purchase of Ordinary shares in pursuance of any such contract or contracts as if the authority had not expired.

13. THAT, a General Meeting (other than an AGM) may be called on not less than 14 clear days' notice, such authority to expire at the conclusion of the next AGM of the Company or on the expiry of 15 months from the date of the passing of this resolution (whichever is earlier).

By Order of the Board

### BNP Paribas Secretarial Services Limited

Company Secretary  
Registered Office:  
10 Harewood Avenue  
London NW1 6AA  
30 October 2018

### Notes

1. Ordinary Shareholders are entitled to attend and vote at the Meeting and to appoint one or more proxies or corporate representatives to exercise all or any of their rights to attend, speak and vote on their behalf at the Meeting but only if each proxy or corporate representative is appointed to vote on separate or separate blocks of shares registered to the Shareholder. A proxy need not be a Member of the Company. A proxy form is enclosed accordingly. To be valid, the proxy form should be completed, signed and returned in accordance with the instructions printed thereon.

2. Any person to whom this notice is sent, who is a person nominated under Section 146 of the Act to enjoy information rights (a Nominated Person) may, under an agreement between him or her and the Shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

The statement of the rights of Ordinary Shareholders in relation to the appointment of proxies in this note does not apply to Nominated Persons. The rights described in this note can only be exercised by Ordinary Shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered in the Register of Members of the Company at 6.30 pm on Monday, 10 December 2018, or 6.30 pm two working days prior to the date of an adjourned Meeting, shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 6.30 pm on Monday, 10 December 2018 shall be disregarded in determining the right of any person to attend and vote at the Meeting. The voting record date has been determined as Monday, 10 December 2018.

4. In the case of joint holders of a share the vote of the first named on the Register of Members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

## NOTICE OF MEETING

5. Members (and any proxies or corporate representatives appointed) agree, by attending the Meeting, that they are expressly requesting and are willing to receive any communications relating to the Company's securities made at the Meeting.

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on Wednesday, 12 December 2018 and any adjournment(s) thereof by using the procedures described in the CREST Manual on the Euroclear website ([www.euroclear.com](http://www.euroclear.com)). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 3.00pm on Monday, 10 December 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore

apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. You should not use any electronic address provided either in the Notice of Meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
8. Copies of the Appointment Letters of the non-executive Directors, the Company's Articles of Association and a statement of all transactions of each Director and of their family interests in the shares of the Company, will be available for inspection by any Shareholder of the Company at the Registered Office of the Company during normal business hours on any weekday (English public holidays excepted) and at the AGM by any attendee, for at least 15 minutes prior to, and during, the AGM. None of the Directors has a contract of service with the Company.
9. The biographies of the Directors offering themselves for re-election are set out on page 20 of the Company's Annual Report for the year ended 31 August 2018.

## NOTICE OF MEETING

10. As at 30 October 2018, 37,547,663 Ordinary shares of 25 pence were in issue and 3,795,000 Ordinary shares were held in treasury (equivalent to 9.18% of the issued share capital, including treasury shares). Accordingly, the total number of voting rights of the Company as at 30 October 2018 is 37,547,663.
11. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests of the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure Guidance and Transparency Rules, the Chairman will make the necessary notifications to the Company and the FCA. As a result, any Member holding 3 per cent. or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Guidance and Transparency Rules, need not make a separate notification to the Company and the FCA.
12. The Annual Report and this Notice of Meeting will be available on the Company's website, [www.ibtplc.com](http://www.ibtplc.com), from the date of the announcement of the Company's annual results to the market. The Annual Report contains details of the total number of shares in the Company in which Shareholders are entitled to exercise voting rights, along with the total number of votes that Shareholders are entitled to exercise at the Meeting in respect of each share class.
13. A personalised proxy form will be sent to each registered Shareholder with the Annual Report and this Notice of Meeting, and instructions on how to vote will be contained thereon.
14. Shareholders are advised that they have the right to have questions answered at the AGM. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if:
- (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information;
  - (b) the answer has already been given on the Company's website ([www.ibtplc.com](http://www.ibtplc.com)) in the form of an answer to a question; or
  - (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
- The Board encourages Shareholders to submit any questions they may wish to raise at the AGM in writing to the Company Secretary in advance of the Meeting. The Company Secretary can be contacted by writing to: BNP Paribas Secretarial Services Limited, 10 Harewood Avenue, London NW1 6AA or by email at [secretarialservice@uk.bnpparibas.com](mailto:secretarialservice@uk.bnpparibas.com).
15. As soon as practicable following the AGM, the results of the voting at the Meeting and the number of votes cast for and against and the number of votes withheld in respect of each resolution will be announced via a Regulatory Information Service and placed on the Company's website.
16. Under Section 527 of the Act, Shareholders meeting the threshold requirements set out in that Section have the right to require the Company to publish on a website a statement setting out any matter relating to:
- (i) the audit of the Company's Financial Statements (including the Independent Auditors' Report and the conduct of the audit) that are to be laid before the AGM; or
  - (ii) any circumstance connected with the Auditors of the Company ceasing to hold office since the previous meeting at which an Annual Report and Financial Statements were laid in accordance with Section 437 of the Act.

## NOTICE OF MEETING

---

The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's Auditors not later than the time when it makes the statement available on the website.

The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Act to publish on a website.

17. A copy of this Notice, and other information by Section 311A of the Act, can be viewed and/or downloaded at [www.ibtplc.com](http://www.ibtplc.com) and, if applicable, any Members' statements, resolutions or matters of business received by the Company after the date of this Notice will be available on the Company's website [www.ibtplc.com](http://www.ibtplc.com).

**ANNUAL  
REPORT**  
31 AUGUST 2018

**SV Health Managers LLP**

71 Kingsway  
London WC2B 6ST  
Telephone: +44 (0)20 7421 7070  
Fax: +44 (0)20 7421 7077

**BNP Paribas Secretarial Services Limited**

10 Harewood Avenue  
London NW1 6AA  
Telephone: +44 (0)20 7410 5971  
Fax: +44 (0)20 7410 4449

For further information: [www.ibtplc.com](http://www.ibtplc.com)

