



FOR RELEASE ON

07 March 2017

**("IP Group" or "the Group" or "the Company")  
IP Group plc Annual Results Release**

IP Group plc (LSE: IPO), the developer of intellectual property-based businesses, today announces its annual financial results for the year ended 31 December 2016.

**Portfolio highlights**

- Overall net increase in fair value of portfolio, excluding net investment, of £6.5m (2015: £86.2m)
- Strong second half portfolio fair value increase of £31.4m follows £24.9m reduction in first half
- Fair value of portfolio: £614.0m (2015: £552.2m)
- Capital provided to portfolio companies<sup>1</sup> and projects: £69.7m (2015: £115.9m)
- Portfolio cash realisations: £14.7m (2015: £0.6m)
- Group's portfolio companies raised approximately £230m of new capital during the year
- Oxford Nanopore completed £100m private financing
- Diurnal reports positive headline data from European Infacort® Phase III pivotal study

**Financial and operational highlights**

- Net assets £768.7m (2015: £781.9m)
- Hard NAV £706.5m (2015: £714.3m)
- Return on Hard NAV of negative £7.6m (2015: positive £84.0m)
- Loss for the year £14.8m (2015: profit £75.1m)
- Gross cash and deposits £112.3m (2015: £178.8m)
- Acquisition of Parkwalk Advisors Ltd, the UK's largest EIS growth fund manager focused on university spin-outs

**Alan Aubrey, Chief Executive of IP Group**, said: "2016 was another productive year for the Group that saw our portfolio companies record impressive commercial progress and raise a total of approximately £230m. The first half of the year saw major commercial developments in our key assets across all four of the sectors in which we operate; Healthcare, Technology, Cleantech, Biotech and we recorded successful exits from three companies. That strong operational performance continued in the second half of the year which also saw significant fundraisings from three of our largest portfolio companies as well as the acquisition of Parkwalk Advisors.

"We believe the fundamentals of the business remain strong; the Group is well-capitalised with a robust balance sheet and our portfolio is well diversified with a broad range of early to mature businesses across four sectors. Geographically, we also have a developing operation in the US, a healthy pipeline of new opportunities and our most valuable portfolio company holdings are making excellent commercial progress. All of these factors combine to ensure that the Group remains well positioned for the future and give us continued confidence for this year and beyond."

**For more information, please contact:**

<b>IP Group plc</b>	www.ipgroupplc.com
Alan Aubrey, Chief Executive Officer	+44 (0) 20 7444 0050
Greg Smith, Chief Financial Officer	
Liz Vaughan-Adams, Communications	+44 (0) 20 7444 0062/+44 (0) 7979 853802
<b>Charlotte Street Partners</b>	
Andrew Wilson	+44 (0) 7810 636995

Further information on IP Group is available on our website: [www.ipgroupplc.com](http://www.ipgroupplc.com)

**Notes**

(i) *Nature of announcement*

This Annual Results Release was approved by the directors on 6 March 2017.

The financial information set out in this Annual Results Release does not constitute the company's statutory accounts for 2016 or 2015. Statutory accounts for the years ended 31 December 2016 and 31 December 2015 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2016 and 2015 were unqualified, did not draw attention to any matters by way of emphasis,

<sup>1</sup> Including £10.9m total investment into Oxford Sciences Innovation plc and Cambridge Innovation Capital plc (2015: £40.0m investment into Oxford Sciences Innovation plc)

and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar following the Company's annual general meeting.

The 2016 Annual Report and Accounts will be published in April 2017 and a copy will be posted on the Group's website ([www.ipgroupplc.com](http://www.ipgroupplc.com)). In accordance with Listing Rule 9.6.1 a copy of the Annual Report and Accounts will also be submitted to the National Storage Mechanism on or around this date and will be available for inspection at: [www.Hemscott.com/nsm.do](http://www.Hemscott.com/nsm.do) from that time.

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

#### *(ii) Forward looking statements*

This Annual Report and Accounts may contain forward looking statements. These statements reflect the Board's current view, are subject to a number of material risks and uncertainties and could change in the future. Factors which could cause or contribute to such changes include, but are not limited to, the general economic climate and market conditions, as well as specific factors relating to the financial or commercial prospects or performance of individual companies within the Group's portfolio.

## **Strategic Report**

### **Chairman's summary**

IP Group enjoyed an extremely productive year in 2016. The first half of the year saw major commercial developments in our key assets across all four of the sectors in which we operate and we recorded successful exits from three companies. That strong operational performance continued in the second half of the year which also saw significant fundraisings from three of our largest portfolio companies as well as a corporate acquisition. These achievements took place against a backdrop of general uncertainty following the outcomes of both the UK's referendum on its membership of the EU and the US presidential election.

Since the publication of our half-year report, it has been pleasing to see the UK Government, and other governments around the world, acknowledge the continued importance of supporting scientific innovation. IP Group was founded on the belief that modern economies need to not only support fundamental scientific research but also to commercially leverage this innovation through the creation of significant businesses that contribute to employment and economic growth. As such, in today's increasingly dynamic world, the fundamental driver of our business - the need for the commercialisation of science - remains as strong as ever.

As we begin 2017, it is worth noting that the Group remains well-capitalised with a strong balance sheet and that our portfolio is well diversified with a broad range of early to mature businesses across four sectors. Geographically, we also have a burgeoning operation in the US and a healthy pipeline of new opportunities. I would like to stress that our most valuable portfolio company holdings are making excellent commercial progress. We are fortunate to be able to call on an extremely experienced management team who have weathered a number of business cycles. All of these factors combine to ensure that the Group remains well positioned for the future.

### **Key events**

Of the many highlights in 2016, I would like to draw your attention to both exits and fundraisings. On the former, the Group recorded the second largest cash exit in its history with the sale of its entire holding in Tracsis plc in March 2016. The Group was a founder shareholder in Tracsis, which was spun out of the University of Leeds in 2004 and, following eight successful acquisitions, is now a profitable business with turnover in excess of £30m, employing more than 600 people. The sale resulted in net cash proceeds of £13.1m, bringing total proceeds from Tracsis to date to £14.3m and representing a multiple of approximately 38 times the Group's investment of £0.4m.

On the point of fundraisings, it is noteworthy that our portfolio companies raised over £230m of new capital this year with almost £200m of that falling into the second half of the year, a remarkable achievement given the prevailing economic climate. Our most valuable spin-out company, Oxford Nanopore, raised £100m. Other significant fund raisings including AIM-quoted Ceres Power's £20m placing.

### **Acquisition**

In December, the Group announced that it had agreed to acquire Parkwalk Advisors Ltd, the UK's leading university spin-out focused EIS fund manager, for an initial consideration of £10m (up to a maximum of £20m over three years, subject to the achievement of certain business performance targets). Parkwalk has been a long-term co-investment partner of IP Group, having co-invested over £17m in 14 investment rounds during 2015/2016 alone. The primary reason for the Group's acquisition of Parkwalk was to further secure access to this increasingly important source of financing for early-stage technology companies and we believe Parkwalk's strong links to leading institutional wealth managers and university partners will be beneficial to the Group. In addition, it is a profitable business and is immediately accretive to IP Group's operating results. The acquisition completed on 31 January 2017 and I'm delighted to welcome the Parkwalk team to the Group.

### **Financial performance**

In terms of financial performance, the Group's objective is to generate long-term value for its stakeholders and the Group's portfolio has delivered strong growth to date. Since inception in 2001, the Group has generated a gross realised and unrealised internal rate of return (IRR) on its portfolio of approximately 19% and an annualised return on Hard NAV per

share of approximately 14% since the end of 2003, the year in which the Group was admitted to AIM. However, it remains important to consider that portfolio company valuations and therefore results can fluctuate from year to year and this was the case in 2016. The Group's net assets excluding goodwill and intangibles ("Hard NAV"<sup>2</sup>) were broadly unchanged at £706.5m (2015: £714.3m) with the fair value of the portfolio increasing to £614.0m (2015: £552.2m) although the Group recorded an overall loss for the year of £14.8m (2015: profit of £75.1m). The Group ended the year with gross cash of £112.3m (2015: £178.8m).

## Summary

In summary, 2016 was another extremely productive year for the Group despite challenging circumstances of external uncertainty, particularly in the second half of the year. As ever, we are grateful for the continued hard work and commitment from our staff, academic partners and portfolio companies. I would also like to extend the Board's thanks to all of our stakeholders for their continued support. IP Group remains as excited as ever about evolving great ideas into world-changing businesses and we look forward to further developing the Group, its partnerships and its spin-out companies in 2017 and beyond.

**Mike Humphrey**  
Chairman

## Operational review

2016 was another productive year for the Group that saw our portfolio companies record impressive commercial progress but also raise a total of approximately £230m (2015: approximately £300m). In addition, Oxford Sciences Innovation plc ("OSI") and Cambridge Innovation Capital plc ("CIC"), the dedicated university commercialisation vehicles in which the Group has a strategic holding, completed significant capital raises of £230m and £75m respectively.

The total fair value of the Group's portfolio, which now comprises holdings in 90 companies, increased by 11.3% in 2016 to £614.0m (2015: £552.2m), representing a net fair value increase, excluding net investment, of £6.5m (2015: £86.2m). This increase was driven primarily by a number of larger private company transactions towards the end of 2016, which were partially offset by reductions in the share prices of a number of our quoted portfolio companies. The latter were impacted by a generally weaker appetite for listed small-cap and biotech assets despite generally reporting positive commercial and technical progress during the year.

The key positive contributors to the increase in fair value in 2016 were Oxford Nanopore Technologies Limited (£33.8m), OSI (£8.0m), Tissue Regenix Group plc (£5.2m) and Mirriad Advertising Limited (£4.9m).

The most significant fair value reductions were seen in the Group's AIM-quoted portfolio companies including Diurnal Group plc (£10.3m), Avacta Group plc (£9.9m), hVivo plc (£7.2m) and Xeros Technology Group plc (£3.2m). In addition, six private companies each saw fair value reductions of £1-2m as a result of financing rounds, anticipated financing rounds or progress towards milestones that was not in line with the Group's expectations, totalling £7.9m.

During 2016, the Group provided £58.8m of incubation, seed and development capital to 55 portfolio companies (2015: £75.9m capital; 53 companies) as well participating in significant financings for its strategic holdings OSI (£7.5m) and CIC (£3.4m).

Cash realisations from the portfolio increased significantly during 2016 to £14.7m (2015: £0.6m) largely as a result of the second largest exit in the Group's history with the sale of our entire holding in Tracsis plc.

## **Significant portfolio company transactions and developments**

Notable highlights in the portfolio in 2016 included:

In Healthcare, Oxford Nanopore Technologies Limited announced a £100m fundraising in December, led by new investor GT Healthcare, a pan-Asian fund with special reach in China. Nanopore, which has designed and sells the world's only portable DNA/RNA sequencer, plans to use the funds to expand its commercial operations across a range of territories, including in Asia. It also announced a number of key developments including announcing a new pipeline product, SmidgION, the smallest ever sequencing device that can be plugged into a smartphone and is expected in 2017.

In Technology, we exited Tracsis plc, as noted above, while the division's most valuable company holding, Actual Experience plc, announced a five-year framework agreement with Vodafone, adding to the contract wins announced during 2015 which included a major three-year partnership with Verizon.

In Cleantech, Ceres Power Holdings plc completed a £20m fundraising and secured development agreements with a number of leading OEMs including Honda, Nissan and Cummins.

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<sup>2</sup> See Financial Review section for reconciliation of Hard NAV to Net Assets.

In Biotech, there was excellent commercial progress from Diurnal Group plc which now has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency, respectively. Modern Biosciences plc, a drug discovery and development operation, continued to make good progress during 2016 and expects the outcome of ongoing Phase 1a studies for MBS2320, a novel agent for the treatment of rheumatoid arthritis, during 2017.

More detail on the performance of the assets in our four sectors, Healthcare, Technology, Cleantech and Biotech, is contained in the portfolio review.

### **The US**

In the US, the Group signed agreements with the University of Washington and The Johns Hopkins University. Both universities have consistently ranked in the top ten of all US universities with regards to the quantum of their annual R&D budgets (2016: \$1.1bn and \$2.1bn, respectively) and are known for the quality and breadth of their technical output. Having now moved beyond the initial pilot phase agreements with our existing university partners, Columbia University, University of Pennsylvania and Princeton University, the Group continues to focus on building on the progress achieved with them to date.

Our US team, which comprised eleven FTEs at the end of 2016, continues to develop an exciting portfolio of companies. IP Group's first two portfolio companies from US university partners, Exyn Technologies (University of Pennsylvania) and Uniformity Labs (Princeton University), raised a combined £5.4m<sup>3</sup> (\$6.8m) in new post seed financing rounds via private placement of ordinary shares. The Uniformity Labs transaction completed at the end of 2016 while the Exyn transaction closed in early 2017. Following completion of the financing rounds, IP Group's combined undiluted beneficial holdings in Exyn Technologies and Uniformity Labs were valued at £7.9m (\$9.9m). The Group committed a further £2.9m (\$3.7m) to Exyn Technologies and Uniformity Labs as part of these funding rounds which included both new and existing US and UK based investors.

During the year, notable incubation financings were also completed for two spin-out companies from the University of Pennsylvania, two spin-out companies from Princeton University and one spin-out company from Columbia University. The Group has also provided further incubation funding to pursue additional opportunities from our Federal Lab initiative through FedImpact LLC, including the spin-out of MobilION Systems, Inc. from the Pacific Northwest National Laboratory.

### **Outlook**

The Board continues to believe the fundamentals of the business remain strong although, as ever, it is important to consider the Group as a long-term business where results can fluctuate from year to year. The strength of IP Group's portfolio, however, combined with the opportunities we continue to see, give us continued confidence for the current year and beyond.

## **Portfolio review**

### **Overview**

At 31 December 2016, the value of the Group's portfolio had increased to £614.0m, from £552.2m in 2015, reflecting a net investment of £55.0m and the fair value movements set out below. The portfolio consists of interests in 90 companies (79 UK and 11 US), strategic holdings in three multi-sector platform businesses as well as a further 20 de minimis holdings (2015: 82, 3, 15). Of these 90 holdings, the ten most valuable portfolio companies account for 76% of the total value (2015: 75%).

During the year to 31 December 2016, the Group provided pre-seed, seed and post-seed capital totalling approximately £69.7m to its portfolio companies, including investments in two of its multi-sector platform holdings Oxford Sciences Innovation plc (£7.5m) as part of its recent £230m financing and Cambridge Innovations Capital plc (£3.4m) as part of its £75m financing round. Excluding multi-sector platform investments, this £58.8m represents a 23% decrease on the equivalent £75.9m provided to portfolio companies in 2015 and results from fewer of the Group's largest holdings seeking finance in 2016. The Directors continue to believe that the Group's ability to utilise its capital to maintain its equity interests in its most promising companies will contribute to significant potential fair value increases in the portfolio over the medium to long term.

In contrast to the decreased level of capital deployed into portfolio company opportunities, the Group increased the rate of new spin-out opportunity formation. The Group deployed capital for the first time into 20 companies or projects during the year (2015: 14). With 13 of the opportunities being sourced from the UK (2015: 10), and seven from the US (2015: four), both geographies demonstrated a consistent pipeline of opportunities. Three companies were sold during the period (2015: four), while a further four companies, with a total historic cost of £4.8m, were closed or fully provided against.

During the year, cash proceeds from the realisation of investments increased to £14.7m (2015: £0.6m). The proceeds were primarily driven by the disposal of interests in Tracsis plc, Gold Standard Simulations Limited and Summit Therapeutics plc,

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<sup>3</sup> Calculated using an exchange rate of £1 to \$1.26

as well as deferred consideration from the 2014 disposal of Rock Deformation Research Limited, whilst prior year realisations predominantly arose from the cash received on the wind-up of CH4e Limited.

### Performance summary

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

	2016 £m	2015 £m
Unrealised gains on the revaluation of investments	56.6	115.3
Unrealised losses on the revaluation of investments	(50.3)	(29.0)
Effects of movement in exchange rates	0.7	0.1
Change in fair value of equity and debt investments	7.0	86.4
Loss on disposals of equity investments	(0.5)	(0.2)
Net portfolio gains	6.5	86.2

The most significant contributors to unrealised gains on the revaluation of investments comprised Oxford Nanopore Technologies Limited (£33.8m), Oxford Sciences Innovation Plc (£8.0m), Tissue Regenix plc (£5.2m), and Mirriad Advertising Limited (£4.9m). The major contributors to the unrealised losses on the revaluation of investments were Diurnal Group plc (£10.3m), Avacta Group plc (£9.9m), and hVivo plc (£7.2m).

The performance of the Group's holdings in companies quoted on AIM saw a net unrealised fair value decrease of £36.1m while the Group's holdings in unquoted companies experienced a net fair value increase of £43.1m. Excluding the net amount invested during the year, the Group's listed portfolio decreased in fair value by 18.0%, versus an increase in the FTSE AIM All Share index of 14.3%.

Since the year end, i.e. between 31 December 2016 and 3 March 2017, the fair value of the Group's holdings in companies whose shares are listed on the AIM market experienced a net fair value increase of £9.9m.

### Investments and realisations

The Group's overall rate of capital deployment decreased during 2016, with a total of £58.8m being deployed across 55 new and existing projects (2015: £75.9m; 53 projects), excluding the £7.5m and £3.4m strategic investments into OSI and CIC (2015: £40.0m; £nil).

The average level of capital deployed per company decreased from £2.1m to £1.2m in 2016. Excluding the Group's participation in Oxford Nanopore Technologies Limited's 2015 and 2016 financing rounds, as well as the Group's participation in the Oxford Sciences Innovation plc's 2015 and 2016 financing rounds, the average investment per company was £0.7m in 2016 (2015: £1.2m).

Cash investment analysis by company stage	2016 £m	2015 £m
Focus	39.0	60.0
Development	10.8	10.7
Early stage	9.0	5.2
<b>Total</b>	<b>58.8</b>	<b>75.9</b>
Multi-sector platforms	10.9	40.0
<b>Total purchase of equity and debt investments</b>	<b>69.7</b>	<b>115.9</b>
<b>Cash proceeds from sales of equity investments</b>	<b>14.7</b>	<b>0.6</b>
<b>Net investment</b>	<b>55.0</b>	<b>115.3</b>

Early-stage companies include both incubation and seed opportunities. Incubation opportunities comprise businesses or pre-incorporation projects that are generally at a very early stage of development, at most within three years since the Group's first financing, and have received at least one stage of funding. Opportunities at this stage usually involve capital of less than £0.2m from IP Group, predominantly allowing for proof of concept work to be carried out. Seed businesses are those that have typically received financing of up to £1m in total, primarily from the Group, in order to continue towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement.

Portfolio companies which are classed as being in the Focus stage are those portfolio companies (excluding multi-sector platform companies) in which the Group's holding has a fair value in excess of £4.0m.

The Development stage group includes other businesses to which the Group has provided in excess of £0.5m as principal investor, or in excess of £1.0m of funding in conjunction with other significant investors. Although each business can vary significantly in its rate and manner of development, such additional funding is generally used to progress towards key milestones and commercial validation, to build senior level capability in the business and to attract experienced non-executive directors to their boards.

The multi-sector platform companies in which the Group has taken a strategic stake operate a similar business model of sourcing and developing university spin-outs, typically from a single institution.

Those companies which either do not progress beyond the incubation stage within three years of the Group's initial funding and/or whose value has subsequently fallen to below £0.1m but remain as an operating business are classed as de minimis holdings.

The Group has continued to contribute to the development of its post-seed businesses with a number announcing further financings supported by the Group and/or IP Venture Fund ("IPVF"), the dedicated follow-on venture capital fund managed by the Group. With IPVF approaching the end of its term, the amount the fund invested into existing Group portfolio businesses during the year was £0.2m (2015: £nil).

Since its inception in May 2013, IP Venture Fund II ("IPVFII"), the £30m venture capital successor fund to IP Venture Fund, has invested alongside the Group in 27 companies spun-out from IP Group's university partnerships and other collaborations. At 31 December 2016, IPVFII had invested £10.6m into spin-out companies from incubation stage through seed and post-seed stage (2015: £8.2m), with an investment ratio of 30:70 (IP Venture Fund II: IP Group). Further, IP Group holds a 33% interest in IP Venture Fund II. In complying with IFRS 10, the Group consolidates the assets, liabilities and results of IPVFII. In order to reflect meaningful information to its shareholders, the detailed sectoral analysis tables included in this Portfolio review reflect the Group's economic interest in portfolio company holdings, including an estimate of its "look through" interest via IPVFII, which as noted above is calculated as one third of IPVFII's holdings in such companies. The minority interest ownership, i.e. that element of IPVFII's holdings that is attributable to external limited partners, is reflected in a separate section within those tables.

During the year, 19 opportunities received initial incubation or seed funding (2015: 13) and one company received initial post-seed funding (2015: one), while the Group received founder equity in one further new spin-out company under the terms of its university agreements. During the period six existing incubation projects progressed to seed or post-seed stage (2015: five).

The 20 new opportunities included the following, and some further discussion of new opportunities is included in portfolio analysis — by sector below:

- Microbiotica Limited is a newly formed spin-out company from the Wellcome Trust Sanger Institute ("the Sanger Institute") established to commercialise the Sanger Institute's ground-breaking research into the role of the human microbiome in disease.
- Heliochrome Limited (University of Cambridge) is developing perovskite-based light-emitting devices for next generation displays. They enhance the colour quality and enable flexible design of displays, bringing visual experience to the next level;
- Lumiod Inc (Columbia University) is a New York City-based semiconductor start-up building the next generation of microdisplay technologies for head-worn, high brightness, augmented reality systems.

### Portfolio analysis by stage of company maturity

At 31 December 2016, the Group's portfolio fair value of £614.0m was distributed across stages of company maturity as follows:

Stage	As at 31 December 2016				As at 31 December 2015			
	Fair value		Number		Fair Value		Number	
	£m	%		%	£m	%		%
Focus	473.3	86%	19	21%	435.8	86%	18	22%
Development	57.0	10%	32	36%	57.6	11%	34	41%
Early-stage	20.3	4%	39	43%	13.2	3%	30	37%
<b>Total</b>	<b>550.6<sup>1</sup></b>	<b>100%</b>	<b>90</b>	<b>100%</b>	<b>506.6<sup>1</sup></b>	<b>100%</b>	<b>82</b>	<b>100%</b>
Multi-sector platforms	62.5	—	3	—	45.2	—	3	—
<i>De minimis</i> holdings	0.9	—	20	—	0.4	—	15	—
	<b>614.0</b>	<b>—</b>	<b>113</b>	<b>—</b>	<b>552.2</b>	<b>—</b>	<b>100</b>	<b>—</b>

<sup>1</sup>. Total fair value includes £9.2m (2015: £8.5m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII.

Of the 90 companies in the Group's portfolio, 76% (2015: 75%) of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £418.2m (2015: £414.0m).

The total value of the Group's 90 portfolio companies (excluding multi-sector platforms and *de minimis* holdings), calculated by reference to the Group's holding in such companies and grossed up to reflect their total value, is now in excess of £2.7bn, or approximately £3.3bn including the Group's three holdings in multi-sector platform companies (Oxford Sciences Innovation plc, Cambridge Innovation Capital plc and Frontier IP Group plc).

### Portfolio analysis by sector

The Group funds spin-out companies based on a wide variety of scientific research emerging from leading research intensive institutions and does not limit itself to funding companies from particular areas of science. The Group splits its core opportunity evaluation and business building team into four specialist divisions, Biotech, Cleantech, Healthcare and Technology. Where the Group invests in businesses that cannot be classified within these divisions, primarily those portfolio companies which also invest in other opportunities, they are recorded in a separate sector as shown below. Together these five sectors make up the university partnership business segment. An update on the other two operating segments is included in the financial review below.

Sector	As at 31 December 2016				As at 31 December 2015			
	Fair value		Number		Fair Value		Number	
	£m	%		%	£m	%		%
Healthcare	328.0	60%	27	29%	277.6	55%	27	33%
Technology	93.6	17%	31	36%	91.6	18%	27	33%
Cleantech	76.9	14%	20	22%	69.0	14%	19	23%
Biotech	52.1	9%	12	13%	68.4	13%	9	11%
<b>Total</b>	<b>550.6<sup>1</sup></b>	<b>100%</b>	<b>90</b>	<b>100%</b>	<b>506.6<sup>1</sup></b>	<b>100%</b>	<b>82</b>	<b>100%</b>
Multi-sector platforms	62.5	—	3	—	45.2	—	3	—
<i>De minimis</i> holdings	0.9	—	20	—	0.4	—	15	—
	<b>614.0</b>	<b>—</b>	<b>113</b>	<b>—</b>	<b>552.2</b>	<b>—</b>	<b>100</b>	<b>—</b>

<sup>1</sup>. Total fair value includes £9.2m (2015: £8.5m) attributable to minority interests represented by third party limited partners in the consolidated fund, IPVFII.

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

A more detailed analysis of each sector follows.

## Portfolio review Healthcare

### Purpose

IP Healthcare finds and supports innovations to improve health outcomes and that are sustainable in a world where the funding of healthcare is subject to fundamental change.

### Review of the year

#### *Oxford Nanopore*

As in 2015, the largest amount of capital, £19.5m, was contributed to Oxford Nanopore, the Group's most valuable portfolio company holding. Oxford Nanopore has developed the world's first and only nanopore DNA/RNA sequencer and has a goal to enable the analysis of any living thing, by any person, in any environment. The company's first product is a portable, real time device, the MinION. With 512 nanopores available for sequencing in each consumable Flow Cell, the MinION is complemented by the larger PromethION (144,000 pores presented as 48 Flow Cells for modular, on-demand sequencing). PromethION is currently being released into early access. In a market whose traditional technologies are notable for being expensive, large instruments where read lengths may be very short or data only available after some days, nanopore sequencing stands to disrupt the market with its unique combination of long read lengths, portability/scalability, real-time data, low-cost and ease of use.

To date, more than 110 publications describing various applications of nanopore sequencing have been released. The rate of publication increasing in late 2016 as newly released versions of the technology yielded increasing amounts of high-fidelity data. The release of 'R9.4', the company's newest nanopore, in the autumn, delivered higher yields and higher accuracy data to users of its technology. This led to the release in December of the first set of human genomes and the first large plant genome datasets created using MinION. These are considered a landmark in terms of new market possibilities and potential customer bases for the company. In 2017, the Company's CTO reported achieving 20 Gb of data from a single MinION Flow Cell in internal use, following the release of software updates that optimise performance. The significant implications for the competitive position of the MinION, progressing it from an emerging, disruptive technology to one that has novel properties and can outperform many existing systems.

The majority of current users of Oxford Nanopore's technology are scientific researchers, using devices for research into areas such as pathogens/antimicrobial resistance, environment, cancer research, human genetics research or a broad range of aspects of general genome research. The DNA sequencing market for this research market has been estimated at approximately \$2-3 billion per annum based on relatively low penetration of potential users; Oxford Nanopore management has always stated that it aims to establish its technology in a very broad user base.

As research markets become more established for the company, it is now preparing to access 'applied markets'. Instead of being interested in performing experiments, applied users may want an answer to a biological question that is either actionable or has inherent value. Potential applied markets include healthcare (diagnostics/oncology/reproductive health), industrial supply chain monitoring (food/water), industrial inspection (pest control/ environmental/ customs) or Agricultural (surveillance of livestock/fish/crops) and many of these are potentially billion dollar markets in their own right. Oxford Nanopore believes that different products, commercial structures and mechanisms are required to open up and develop sales in these markets. The Company has created a fully owned company, Metrichor Ltd, to provide end to end analysis solutions for applied markets.

Further, DNA extraction and preparation for sequencing has traditionally been a barrier to wider adoption, as it has been time consuming, complex and expensive. Having already reduced library preparation (extracted DNA to instrument) to a 10-minute process with minimal skill or consumables required, Oxford Nanopore has recently released VoITRAX, a USB-powered, automated library preparation device to early users. It is designed to offer consistent, hands-off processes in any environment that would normally be performed by a person in a lab, facilitating wider adoption.

In terms of the competitive landscape, during 2016, US-based Pacific Biosciences of California, Inc. filed a complaint with the US International Trade Commission alleging that the company is infringing a granted US patent. This followed a similar action by Illumina that was settled by the parties earlier in 2016. On 3 November, the Company issued a statement that said, in its opinion, the action by Pacific Biosciences was "...without merit". Oxford Nanopore has an intellectual property portfolio of more than 500 issued patents and patent applications, in over 120 patent families. These cover all aspects of nanopore sensing including fundamental patents for nanopore sensing, and patents relating to DNA-sequencing.

The company has a product pipeline that is designed not only to extend existing customer usage but to create new markets for biological analysis technology. For example, Oxford Nanopore is developing an ultra-portable smartphone sequencer SmidgION, as well as Project Zumbador, the development of a universal, low-cost, integrated sample and library preparation device for inexpert users. The company intends to use the proceeds from its £100m December private financing, which valued the business at £1.25bn, to expand its commercial operations across a range of territories, including in Asia.

#### *Other significant portfolio company updates*

Looking to our larger publicly listed holdings, the year was mixed. Tissue Regenix has made good commercial progress with US sales, the announcement of Group Purchasing Organisation contracts with US healthcare providers and ongoing

success in its clinical development programmes, and the company's share price increased during the year. Meanwhile the hVIVO plc share price performed disappointingly. The company carried out three exploratory studies on the drug PrEP-001, with the results published in January 2017 showing mixed success. While two of the exploratory studies did not meet their primary endpoints, they provided valuable insights for PrEP-001 and build on the profile of the drug following the previously reported positive proof of concept trials in flu and the common cold.

For the smaller publicly listed holdings, the year was equally mixed. A patent litigation, which was settled in December, for Medaphor Group plc put severe downward pressure on the share price following its successful acquisition and placing early in the year, resulting in a net fair value decrease of £2.5m for the year. Ixico plc's share price, however, performed reasonably well following board changes and disclosure of its income generating patient stratification programme in partnership with Biogen.

During the year, Oxford Nanopore aside, highlights in the private portfolio included:

- Creavo Medical Technologies Limited (previously Quantum Imaging Limited) – successful product development leading to award of VitalScan CE Mark in November 2016. The successful receipt of the CE mark means that the device has started a large scale, multi-centre clinical trial at four of the UK's major A&E departments, followed by second stage trials at three centres in the US.
- Oxehealth Limited – completion of a £2.5m financing concurrent with strengthening its board and the executive as the company entered into its first material commercial engagement with Hanwha Techwin and the successful completion of a trial of its Oxecam patient safety monitoring software at Broadmoor Mental Health Hospital. Oxehealth was also one of five finalists competing for the TechCrunch Startup Battlefield finals at TechCrunch Disrupt London, having been shortlisted from over 500 entries and successfully making it through the preliminary round.
- Genomics plc – Appointed as Analysis Partner for the Genomics England GENE consortium and, working alongside the Wellcome Trust Centre for Human Genetics, was the first to Sequence Multiple Human Genomes using hand-held Nanopore Technology demonstrating the potential for wide-scale whole-genome sequencing in humans using nanopore approaches.

Working with the New Business and Partnerships team, IP Healthcare also completed or approved five new grub investments, ensuring a steady pipeline of high-growth opportunities as we head into 2017 and beyond.

Company name	Description	Quoted/ Unquoted	Group stake at 31 December 2016 <sup>(i)</sup> %	Fair value of Group holding at 31 December 2015 £m	Year to 31 December 2016		Fair value of Group holding at 31 December 2016 £m
					Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	
Oxford Nanopore Technologies Limited	Enabling the analysis of any living thing, by any person, in any environment. Developer of the portable, real time, long-read, low cost MinION nanopore DNA/RNA sequencer	Unquoted	19.6%	193.0	19.5	33.8	246.3
hVIVO plc	World leader in human models of viral disease	Quoted	16.7%	29.0	—	(7.2)	21.8
Tissue Regenix Group plc	Regenerative dCELL <sup>®</sup> soft tissue body parts	Quoted	13.6%	15.5	—	5.2	20.7
Creavo Medical Technologies Limited <sup>(ii)</sup>	Quantum cardiac imaging technology	Unquoted	48.1%	6.5	—	—	6.5
Alesi Surgical Limited	Medical devices to improve the safety and efficiency of laparoscopic surgery	Unquoted	58.8%	6.5	—	(1.2)	5.3
Genomics plc	Platform for analysis and interpretation of genomic sequence data	Unquoted	19.0%	4.9	—	—	4.9
Other companies (21 companies)				17.3	3.3	(2.9)	17.7
Value not attributable to equity holders				4.9	0.6	(0.7)	4.8
<b>Total<sup>(iii)</sup></b>				277.6	23.4	27.0	328.0

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

<sup>(ii)</sup> Formerly known as Quantum Imaging Limited.

(iii) Total now excludes investments classified as *De minimis* holdings; 2015 comparatives have been restated.

## Portfolio review Technology

### Purpose

The aim of the Technology division is to “shape the future” by commercialising innovative technologies derived from our partner research institutions. The division covers a broad spectrum of scientific fields from advanced materials, through the various disciplines of chemical, mechanical, electrical and electronic engineering, to information and communications technologies, including both hardware and software.

### Review of the year

In March 2016, the Technology division was responsible for the second largest exit in the history of IP Group. The sale of the Group’s stake in Tracsis plc yielded proceeds of £13.1m after fees, which, when taken with dividends and other proceeds received to date, reflects a multiple of approximately 38 times the £0.4m that IP Group had historically invested in the company. IP Group was the first investor in Tracsis when it originally spun-out from the University of Leeds and supported the company throughout its early stages of growth. We are proud of all that has been achieved in building a successful company that we believe will continue to return value to shareholders.

Elsewhere in the portfolio, the division’s most valuable asset, Actual Experience plc, announced two new major partnership deals. The first, a 5-year framework agreement with Vodafone, was signed in March, followed by a 3-year framework agreement with Proquire, the procurement arm of Accenture plc, in November. Whilst it takes time to gather momentum with such huge partner organisations, the agreements announced so far represent major milestones and we believe that they will yield significant financial benefit for Actual Experience in the medium term.

Positive developments continue apace at remote haptic feedback pioneer Ultrahaptics. The University of Bristol spin-out is increasingly being considered as one of the UK’s most promising early-stage technology start-ups. A list of prestigious industry awards has accompanied growing revenue as customers pay for integration of the Ultrahaptics technology into cars and consumer electronics devices. We expect more significant commercial progress in 2017 and are optimistic that early royalty revenue will begin to flow during the year.

We are also pleased with the commercial progress made during the year at Mirriad, an exciting company with an innovative, patented computer vision technology that can retrospectively insert advertising and branded products into existing video content. The company has begun to see encouraging levels of adoption with some key, high-value customers and anticipates rapid growth in 2017.

It has been a challenging year for some of the division’s quoted assets, with both Revolymmer plc and Applied Graphene Materials plc in particular suffering from considerable share price headwinds. We do not believe that the price movement in the year necessarily reflects the underlying progress over the same period at either company, and, indeed, both have seen worthwhile commercial developments during the year, so we are hopeful that both businesses will become more valuable in 2017 and beyond.

Company name	Description	Quoted/ Unquoted	Group stake at 31 December 2016 <sup>(i)</sup> %	Fair value of Group holding at 31 December 2015 £m	Year to 31 December 2016		Fair value of Group holding at 31 December 2016 £m
					Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	
Actual Experience plc	Optimising the human experience of networked applications	Quoted	24.9%	23.8	—	(0.4)	23.4
Tracsis plc	Resource optimisation software for the transport industry	Quoted	—	14.6	(14.6)	—	—
Mirriad Advertising Limited	Native in-video advertising allowing post-production ad placement	Unquoted	38.9%	4.5	4.0	4.9	13.4
Ultrahaptics Holdings Limited <sup>(ii)</sup>	Contactless haptic technology “feeling without touching”	Unquoted	33.8%	7.9	—	—	7.9
Applied Graphene Materials plc	Producer of speciality graphene materials	Quoted	20.8%	6.0	2.0	(2.2)	5.8
Uniformity Labs Inc	Equipment, materials and software for additive manufacturing	Unquoted	25.1%	0.2	2.5	2.4	5.1

Company name	Description	Quoted/ Unquoted	Group stake at 31 December 2016 <sup>(i)</sup> %	Fair value	Year to 31 December 2016		Fair value
				of Group holding at 31 December 2015 £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 December 2016 £m
Perpetuum Limited	Self-powered, wireless sensing technology	Unquoted	29.2%	3.4	0.7	—	4.1
Other companies (24 companies)				28.8	7.5	(4.8)	31.5
Value not attributable to equity holders				2.4	—	—	2.4
<b>Total<sup>(iii)</sup></b>				91.6	2.1	(0.1)	93.6

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

<sup>(ii)</sup> Formerly known as Ultrahaptics Limited.

<sup>(iii)</sup> Total now excludes investments classified as *De minimis* holdings; 2015 comparatives have been restated.

## Portfolio review Cleantech

### Purpose

IP Cleantech finds, funds and builds outstanding, science-based businesses that mitigate the impacts of climate change and other environmental challenges.

### Review of the year

2016 has been a mixed year, with commercial progress in key assets offset by challenging capital market conditions; public capital markets in particular were affected at various times by political uncertainty. Most notably, the outcome of the US presidential election impacted sentiment towards the prospects for many cleantech companies around the world. However, against this backdrop, IP Cleantech completed several funding rounds, which is testament to the strength of our portfolio and reputation.

Ceres Power Holdings plc, our fuel cell company, has had a successful year. Its strategy is to provide technology to leading corporate OEMs who have the brands and balance sheets to take the Ceres technology to mass markets. The company's key objective for the year was to secure development agreements and it exceeded expectations in signing up 3 leading OEMs: Honda, Nissan and Cummins.

The Honda agreement was announced in January. Honda produces over six million power products a year and is a world leader in small generators and engines. Ceres was then approached by Nissan, which was looking for a robust, flexible fuel cell technology as a range extender for electric vehicles. In June the two companies announced an agreement to develop Ceres's first automotive system. In September Ceres secured the third contract, with global power systems company Cummins, to develop a power system for use in data centres, a rapidly-growing market that already accounts for around 2% of global electricity consumption. Following this strong commercial progress, the company raised £20.0m in October. This new capital will provide the financial strength to move from development to commercial programmes while maintaining technology leadership.

Our off-grid solar business, Azuri, had a successful 2016 and has now deployed over 40,000 home systems in Africa. The company raised £8.0m in November and continues to innovate. In April, Azuri launched Homesmart, using machine-learning algorithms to maximise the duration of light output from its products in response to customer behaviour and climatic conditions. In December, it launched the first complete pay-as-you-go solar satellite TV system in Kenya.

Xeros Technology Group plc also made strong commercial progress; this progress did not appear to have been reflected in the company's share price during the year, which remains relatively volatile. The company continued to expand its commercial laundry business, broadening its product offerings and partnering with eLaundry to launch a laundry-as-a-service offer. Beyond laundry, Xeros is making strides in the leather industry, completing a successful full-scale trial with a leading leather tannery.

However, despite the strong commercial performance of Ceres and Xeros in particular, the overall Cleantech portfolio performance for the year from a fair value perspective has been disappointing. We are, nonetheless, confident about the portfolio and the sector in the long term. The sector received a boost in December, with the announcement of Breakthrough Energy Ventures ("BEV"). BEV is a \$1bn Cleantech fund backed by 20 of the world's richest entrepreneurs, including Bill Gates, Jeff Bezos, Vinod Khosla and Jack Ma. This commitment from high profile figures is a vote of confidence and IP Cleantech is planning to collaborate with BEV and other recently-formed Cleantech funds in Europe in 2017.

Company name	Description	Quoted/ Unquoted	Group stake at 31 December 2016 <sup>(i)</sup> %	Year to 31 December 2016			Fair value of Group holding at 31 December 2015 £m	Fair value of Group holding at 31 December 2016 £m
				Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 December 2016 £m		
Xeros Technology Group plc	Polymer bead, near-waterless cleaning for commercial laundry	Quoted	11.5%	23.4	—	(3.2)	20.2	
Ceres Power Holdings plc	World leading developer of next generation fuel cell technology	Quoted	25.5%	12.2	6.6	(0.8)	18.0	
First Light Fusion Limited	New methodology for achieving extreme intensity cavity collapse	Unquoted	34.9%	13.9	—	—	13.9	
Azuri Technologies Limited	Pay-as-you-go solar power for off- grid customers in rural emerging markets	Unquoted	34.6%	1.6	2.9	1.0	5.5	
Other companies (16 companies)				16.6	3.3	(3.0)	16.9	
Value not attributable to equity holders				1.3	0.9	0.2	2.4	
<b>Total<sup>(ii)</sup></b>				69.0	13.7	(5.8)	76.9	

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

<sup>(ii)</sup> Total now excludes investments classified as *De minimis* holdings; 2015 comparatives have been restated.

## Portfolio review Biotech

### Purpose

The aim of the Biotech division is to support the discovery and development of breakthrough therapeutics, achieved either by in-house development of proprietary products licensed directly into the Group or via the more conventional development and financing of portfolio companies.

### Review of the year

The most valuable and advanced of the Group's biotech assets is Diurnal Group plc, which was floated successfully on AIM towards the very end of 2015. A spin-out from the University of Sheffield, Diurnal has two products in Phase 3 studies, Infacort and Chronocort, for the treatment of the childhood and adult forms of adrenal insufficiency, respectively. During 2016, the company made excellent progress, initiating a pivotal European Phase 3 for Chronocort, announcing positive results from its European Phase 3 Infacort study and moving its next product, a native oral testosterone product for testosterone deficiency, into Phase 1. Unfortunately, due in our view to low trading volumes and selling by minority shareholders, the shares have not performed as well as the company, but we remain confident of the company's fundamental positioning, with regulatory approval of Infacort and potential first sales expected in 2017, along with the initiation of Phase 3 studies for both products in the US.

Avacta Group plc, the Biotech division's other listed biotech asset, continues to develop its Affimer platform in the therapeutic space, demonstrating that the technology has the ability to create high-affinity binders for a range of therapeutically important targets, including the checkpoint proteins in cancer. The company's poor share price performance during the year did not appear to be consistent with a number of strong commercial updates.

The Group's other key biotech asset is Modern Biosciences plc ("MBS"), a drug discovery and development operation. MBS has continued to make good progress during 2016 with MBS2320, a novel agent for the treatment of rheumatoid arthritis ("RA"). MBS2320 is unique amongst RA drugs in its mechanism of action which appears to not only reduce the inflammation associated with RA, but to also potentially reverse some of the bone damage that this inflammation causes. MBS2320 is partnered with Janssen Biotech Inc. and MBS expects the outcome of ongoing Phase 1a studies during 2017. MBS is a majority-owned subsidiary of the Group and, hence, its results are consolidated in the Group financials rather than being included in the portfolio valuation.

Elsewhere, Asterion Limited continues to develop its recombinant growth hormone fusion for the treatment of acromegaly-related growth disorder towards clinical trials, helped by a £2.4m Medical Research Council grant. Asterion represents the Group's second majority-controlled drug discovery asset. Glythera Limited continues to make headway in the area of antibody-drug conjugates ("ADCs"), demonstrating that its Permalink technology has significant safety advantages over current methods of making ADCs for the treatment of cancer.

Company name	Description	Quoted/ Unquoted	Group stake at 31 December 2016 <sup>(i)</sup> %	Fair value	Year to 31 December 2016		Fair value
				of Group holding at 31 December 2015 £m	Net investment/ (divestment) £m	Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 December 2016 £m
Diurnal Group plc	Novel treatments of hormone deficiency	Quoted	45.0%	39.6	—	(10.3)	29.3
Avacta Group plc	Bio-therapeutic affimer technology	Quoted	23.1%	21.1	—	(9.9)	11.2
Other companies <sup>(ii)</sup> (10 companies)				7.7	4.1	(0.2)	11.6
Value not attributable to equity holders				—	—	—	—
<b>Total<sup>(iii)</sup></b>				68.4	4.1	(20.4)	52.1

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

<sup>(ii)</sup> Simm Investments Limited has been reclassified from Multi-sector platforms to Biotech; 2015 comparatives have been restated.

<sup>(iii)</sup> Total now excludes investments classified as *De minimis* holdings; 2015 comparatives have been restated.

## Financial review

### Statement of comprehensive income

Overall the Group recorded a loss for the year of £14.8m (2015: profit of £75.1m) and a Return on Hard NAV, i.e. on the Group's net assets excluding goodwill and intangible assets, of negative £7.6m (2015: positive £84.0m).

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

	2016 £m	2015 £m
Net portfolio gains <sup>1</sup>	6.5	86.2
Change in fair value of limited and limited liability partnership interests	(0.3)	0.4
Fair value loss on contingent value rights	(1.4)	—
Licensing income	0.2	8.1
Other income	2.6	3.6
Amortisation of intangible assets <sup>1</sup>	(5.6)	(7.3)
Administrative expenses – Modern Biosciences	(1.4)	(2.5)
Administrative expenses – other consolidated portfolio companies	(1.1)	(0.3)
Administrative expenses – performance based staff incentives and share based payments charge	(1.5)	(3.4)
Administrative expenses – all other expenses	(13.0)	(11.0)
Acquisition costs	(0.4)	—
Net finance income	0.6	1.3
<b>(Loss)/profit for the year</b>	<b>(14.8)</b>	<b>75.1</b>
Other comprehensive income	0.1	0.1
<b>Total comprehensive (loss)/income for the period</b>	<b>(14.7)</b>	<b>75.2</b>
<i>Exclude:</i>		
Amortisation of intangible assets and amortisation of Oxford Equity Rights asset	5.6	7.3
Share based payment charge	1.5	1.5
<b>Return on Hard NAV</b>	<b>(7.6)</b>	<b>84.0</b>

1. Defined in the Portfolio review section

Net portfolio gains consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses. A detailed analysis of fair value gains and losses is provided in the Portfolio review, above.

Other income comprises fund management fees, corporate finance fee income and other fees typically chargeable to its portfolio companies for services including executive search and selection, legal and administrative support. Other income for the year decreased to £2.6m (2015: £3.6m). The decrease was primarily due to lower fund management fees due to the end of the investment period for North East Technology Fund ("NETF") in December 2015, resulting in a lower management fee being charged in the current year. Additionally, there was a lower level of corporate finance fee income, reflecting the lower level of investment into the portfolio in 2016. In 2016 we settled approximately half of these fees via the receipt of equity in portfolio companies, which we believe aligns IP Capital with value creation in the portfolio companies that are the subject of its mandates.

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

As described in the portfolio review, the results of the Group's drug development subsidiary, MBS, are consolidated into those of the Group. MBS continues to make good progress in its lead MBS2320 programme, partnered with Janssen Biotech, Inc. The timing of payments under this partnership are linked to the development of the programme and none were scheduled or paid during the year. All development costs are expensed to the income statement as they are incurred. MBS continued to benefit from the recovery of a proportion of the OsteoRx costs through a Biomedical Catalyst grant, with the net expense being reflected in the statement of comprehensive income. The Group intends to continue developing a small number of early-stage therapeutic assets.

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

Other central administrative expenses, excluding performance-based staff incentives and share based payments charges, have increased to £13.0m during the period (2015: £11.0m), as a result of increases in staffing costs and other overhead costs as we continue to build our teams, most notably in the US.

Administrative expenses resulting from performance-based staff incentives and share-based payment charges decreased significantly to £1.5m during the period (2015: £3.4m), as the Group's return on Hard NAV during the period is below the minimum threshold for any payments to be awarded under the Group's Annual Incentive Scheme. The full current year cost therefore relates to the IFRS 2 share-based payments charge attributable to the Group's Long-Term Incentive Plan and Deferred Bonus Share Plan awards schemes. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or "net assets".

#### Statement of financial position

The Group ended the period with net assets attributable to shareholders of £768.4m, representing a decrease of £12.0m from the position at 1 January 2016 (£780.4m). As described above, this decrease in net assets resulted from the £14.8m loss in the year. "Hard" net assets, i.e. those excluding goodwill and other intangible assets, totalled £706.5m at 31 December 2016 (2015: £714.3m). Based on the Group's shares in issue at 31 December 2016 of 565,221,967, this represents 125.0p per share (2015: 564,648,168 shares; 126.5p)

	2016 £m	2015 £m
<b>Total Equity or Net Assets</b>	<b>768.7</b>	781.9
<i>Exclude:</i>		
Goodwill	(57.1)	(57.1)
Other intangible assets	(5.1)	(10.5)
<b>Hard NAV</b>	<b>706.5</b>	714.3
Hard NAV per share	<b>125.0p</b>	126.5p

At 31 December 2016, the Group held gross cash and deposits of £112.3m (2015: £178.8m) and a diversified portfolio of equity and debt investments in 90 private and publicly listed technology companies (2015: 82).

The value of the Group's holdings in portfolio companies increased to £614.0m at year end (2015: £552.2m) after net fair value gains of £6.5m (2015: £86.2m) and net investment of £55.0m (2015: £115.3m). The Portfolio review above contains a detailed description of the Group's portfolio of equity and debt investments including key developments and movements during the year.

The Group's statement of financial position includes goodwill of £57.1m (2015: £57.1m) and acquired intangible assets of £5.1m (2015: £10.5m). £38.7m (2015: £38.7m) of the goodwill and substantially all of the acquired intangible asset value arose as a result of the Group's acquisition of Fusion IP in 2014. The remainder of the goodwill balance arose from historical acquisitions of IP Assist Services Limited (university partnership business, £16.3m; 2015: £16.3m) and Top Technology Ventures Limited (venture capital fund management business, £2.1m; 2015: £2.1m). Goodwill is tested at least annually for impairment, as described in note 11. The intangible assets are separately identifiable assets resulting from Fusion IP's agreements with its partner universities. The fair value of the intangible assets is amortised on a straight-line basis over each partnership's useful economic life.

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

## Cash, cash equivalents and short-term deposits (“Cash”)

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

	2016	2015
	£m	£m
Net Cash (used)/generated by operating activities (excluding cash flows from deposits)	(11.4)	2.3
Net Cash used in investing activities	(55.2)	(114.6)
Issue of share capital	—	178.8
Drawdown of debt facility	—	14.9
Effect of foreign exchange rate changes	0.1	0.1
<b>Movement during period</b>	<b>(66.5)</b>	<b>81.5</b>

At 31 December 2016, the Group’s Cash totalled £112.3m, a decrease of £66.5m from a total of £178.8m at 31 December 2015 predominantly due to net investment in the Group’s spin-out companies and operating expenses.

Cash used in operations has increased from the comparable period in 2015, most significantly due to the receipt of £11m of payments under MBS’s agreement with Janssen Biotech in 2015 (£3m of which had been recognised in debtors as at 31 December 2014).

The Group’s net cash used in investing activities decreased during 2016, reflecting a reduction in the level of investment (2016: £69.7m; 2015: £115.9m) and significant realisations in the year, most notably the disposal of Tracsis plc for £13.1m bringing total cash realisations to £14.7m (2015: £0.6m). As described in the Portfolio review, above, the Group allocated a total of £58.8m across 55 portfolio companies during the period (2015: £75.9m; 53 companies) and £10.9m across two multi-sector platform investments (2015: £40m; one multi-sector platform investments).

The Group made a £0.1m contribution to IP Venture Fund during 2016 (2015: £nil), which made its final investment during the period (2015: none). The Group received no distributions in the year (2015: £0.6m).

In 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank (“the EIB”). The facility is to be disbursed in two tranches, with the first tranche of £15m having been drawn down in December 2015 and the second tranche is anticipated to be drawn in 2017. The facility provides IP Group with an additional source of long-term capital and represents an evolution in the Group’s capital structure to support its future growth and development.

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

At 31 December 2016, the Group recognised £9.8m of loans (2015: £7.1m) from the Limited Partners of IPVFII, a fund raised during 2013 that is consolidated by the Group. These loans are repayable only upon IPVFII generating sufficient returns to repay the Limited Partners. A further £15.0m of non-current liabilities are recognised which arise from the Group’s use of the EIB debt facility described above.

At 31 December 2016, the Group had a total of £1.1m (2015: £1.3m) held in US Dollars to meet the short-term working capital requirements of its US operations, including capital anticipated to be required by new and existing spin-out company opportunities.

## Taxation

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

In the Autumn Statement 2016, the UK Government announced its intention to make certain changes to the SSE regime, principally from the Group’s perspective, to remove the requirement for the investing entity (in this case, IP Group) to be a sole trading entity or member of a trading group and extending the minimum 10% holding period to any 12-month period in the six years prior to disposal. These changes are anticipated to be substantively enacted in the Finance Bill 2017 to apply from 1 April 2017. The Group welcomed these changes and the directors anticipate that they will have a favourable impact

on the Group, giving greater certainty over the exemption of qualifying gains under SSE, and increasing the Group's flexibility over the timing of future portfolio company disposals.

The Autumn Statement also included proposals to restrict companies' use of brought forward losses. Under the proposed plan, the amount of profit that can be mitigated by brought forward losses will be restricted to 50% of the amount of profits in excess of £5m. The Directors do not currently consider that these proposed changes will result in the recognition of a deferred tax liability in respect of any unrealised gains that do not qualify for SSE, but note that such liabilities may arise in the future.

## Risk Management

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

### Governance

Overall responsibility for the risk framework and definition of risk appetite rests with the Board, who through regular review of risks ensure that risk exposure is matched with an ability to achieve the Group's strategic objectives. Risk identification, using a structured risk framework, is carried out primarily by the management team with non-executive review being carried out by the audit and risk committee.

### Risk management process

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

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

During 2016 we have continued to build on our existing risk management framework, enhancing risk management and internal control processes. This included the creation on a Risk Council in the latter part of the year, to support the Executive Committee and Board in their risk management responsibilities. In addition to our permanent risk management activities, our priority for 2017 is to enhance risk management within our front line operations, supported by a programme of activity including an external risk review of the group's US operations.

### Summary of principal risks and mitigants

A summary of the principal risks affecting the Group and the steps taken to manage these is set out below.

Risk and description	Impact	Mitigation	Risk trend	Developments during the year	Strategy	KPI
<p><b>1 It may be difficult for the Group and its early-stage companies to attract capital.</b></p> <p>The Group's operations are reliant on capital markets, particularly those in the UK. As the Group's operations, and the operations of the majority of its portfolio companies, are based in the UK, the financial and operational performance of the Group and particularly the ability of its portfolio companies to attract development capital is influenced by the</p>	<p>The success of those portfolio companies which require significant funding in the future may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient.</p> <p>Failure of companies within the Group's portfolio may make it more difficult for the Group or its spin-out companies to raise additional capital.</p>	<p>The Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities.</p> <p>The Group operates a corporate finance function which carries out fundraising mandates for portfolio companies.</p> <p>The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development.</p> <p>The Group frequently forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary</p>	No change	<p>The Group announced the proposed acquisition of Parkwalk Advisors Ltd, the UK's leading university spin-out focused EIS fund manager. The acquisition reinforces IP Group's access to a diversified pool of capital for co-funding the earlier stages of the portfolio.</p> <p>The Group hosted investor relations roadshows in the UK and US</p>	<p>Develop</p> <p>Deliver</p>	<p>Change in fair value of equity and debt investments.</p> <p>Total equity ("net assets").</p> <p>Profit/loss attributable to equity holders.</p>

Risk and description	Impact	Mitigation	Risk trend	Developments during the year	Strategy	KPI
general economic climate and trading conditions in the UK.		limits, treasury policy guidelines and transaction authorisation controls.				
<p><b>2 The returns and cash proceeds from the Group's early-stage companies can be very uncertain.</b></p> <p>The following risks are typically associated with early-stage companies:</p> <ul style="list-style-type: none"> <li>may not be able to secure later rounds of funding;</li> <li>may not be able to source or retain appropriately skilled staff;</li> <li>competing technologies may enter the market;</li> <li>technology can be materially unproven and may fail;</li> <li>IP may be infringed, copied or stolen;</li> <li>may be more susceptible to cyber crime; and</li> <li>other administrative, taxation or compliance issues may lead to company failure.</li> </ul>	<p>Portfolio company failure directly impacts the Group's value and profitability.</p> <p>At any time, a large proportion of the Group's portfolio value may be accounted for by one, or very few, companies, which could exacerbate the impact of any impairment or failure of one or more of these companies. Oxford Nanopore is an example of such a portfolio company that has the potential to materially impact the Group's results.</p> <p>The value of the Group's in-house drug discovery company MBS may be significantly impacted by a negative clinical trial result.</p> <p>Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.</p>	<p>The Group's staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including use of the Group's systematic opportunity evaluation and business building methodologies within delegated board authorities.</p> <p>Members of the Group's senior team often serve as non-executive directors or advisers to portfolio companies to help identify and remedy critical issues promptly.</p> <p>Support on operational, legal and company secretarial matters is offered to minimise failures due to common administrative factors.</p> <p>The Group has spin-out company holdings across different sectors managed by experienced sector-specialist teams to reduce the impact of a single company failure or sector demise.</p> <p>The Group maintains significant cash balances and seeks to employ a capital efficient process deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage.</p>	No change	<p>The Group's portfolio companies raised approximately £230m of capital.</p> <p>The Group maintained board representation on approximately 80% of companies by number.</p> <p>2016 saw significant volatility in equity markets, particularly around the timing of the Brexit referendum.</p>	<p>Deliver</p>	<p>Change in fair value of equity and debt investments.</p> <p>Purchase of equity and debt investments.</p> <p>Proceeds from the sale of equity investments.</p>
<p><b>3 Universities or other research-intensive institutions may terminate their partnerships or other collaborative relationships with the Group.</b></p> <p>The Group's business, results of operations and prospects are at least partially dependent on competitive advantage gained from access to leading scientific research through partnerships and other collaborative arrangements with research-intensive institutions and commercial partners such as Oxford Sciences Innovation</p>	<p>Termination or non-renewal of arrangements through failure to perform obligations may result in the loss of exclusive rights.</p> <p>The loss of exclusive rights may limit the Group's ability to secure attractive IP opportunities to commercialise.</p> <p>This could potentially have a material adverse effect on the Group's long-term business, results of operations, performance and prospects.</p> <p>With several new entrants to our market, this may reduce our opportunities to</p>	<p>Dedicated New Business &amp; Partnerships team to service existing partnerships and source new opportunities.</p> <p>The Group continues to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research institutions.</p> <p>The Group has been able to source opportunities through non-exclusive relationships and other sources.</p> <p>Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive.</p>	No change	<p>Completed agreements with two additional US university partners.</p> <p>The Group announced the proposed acquisition of Parkwalk Advisors Ltd. Parkwalk's investment vehicles include the University of Cambridge Enterprise Funds, the University of Oxford Innovation Funds and the University of Bristol Enterprise Funds. The Directors believe that Parkwalk's strong links to university partners will be beneficial to the Group.</p> <p>Completed seed investments with both Oxford Sciences Innovation and Cambridge Innovation Capital as co-investors, demonstrating the value of our strategic stakes in these partners.</p>	Create	Number of new portfolio companies.

Risk and description	Impact	Mitigation	Risk trend	Developments during the year	Strategy	KPI
plc, Technikos LLP and Cambridge Innovation Capital. The Group may be unable to recreate these elements of its competitive advantage in other geographies in which it may seek to operate (such as the US).	create new spin-out businesses.	The Group's track record in IP commercialisation may make the Group a partner of choice for other institutions, acting as a barrier to entry to competitors.				
<b>4 The Group may lose key personnel or fail to attract and integrate new personnel.</b> The industry in which the Group operates is a specialised area and the Group requires highly qualified and experienced employees. There is a risk that the Group's employees could be approached and solicited by competitors or other technology-based companies and organisations, or could otherwise choose to leave the Group. Given the relatively small size of the Group, its operations are reliant on a small number of key individuals. Scaling the team, particularly into foreign jurisdictions such as the US, presents an additional potential risk.	Loss of key executives and employees of the Group or an inability to attract, retain and integrate appropriately skilled and experienced staff could have an adverse effect on the Group's competitive advantage, business financial condition, operational results and/or future prospects.	Senior team succession plans are in place and updated regularly. The Group's corporate culture and values are well-articulated and consistently promoted. The Group carries out regular market comparisons for staff and executive remuneration and seeks to offer a balanced incentive package comprising a mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working and salary sacrifice arrangements. The Group encourages staff development and inclusion through coaching and mentoring and carries out regular objective setting and appraisal.	No change	The Group continues to promote an open culture of communication and provides an inspiring and challenging workplace where people are given autonomy to do their jobs. We are fully supportive of flexible working and have enabled employees with technology to work flexibly. The Group also continues to dedicate resources to remuneration and incentivisation.  Staff attrition increased slightly during the year, albeit at 4%, it remained at low absolute levels. Approximately 45% of staff have been with the Company for at least five years.	Develop Deliver	Total equity ("net assets").  Number of new portfolio companies.
<b>5 Macroeconomic conditions may negatively impact the Group's ability to achieve its strategic objectives.</b> Adverse macroeconomic conditions could reduce the opportunity to deploy capital into opportunities or may limit the ability of such portfolio companies to raise third party funds, develop profitable businesses or achieve increases in value or exits. Political uncertainty, including impacts from Brexit or similar scenarios, could have a number of potential impacts,	The UK's recession has had (and may continue to have) an adverse effect on trading conditions and availability of capital in the UK, particularly for smaller businesses. The success of those portfolio companies which require significant external funding may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient. A significant proportion of the Group's portfolio value is held in companies quoted on the AIM market and decreases in values	Management team receives regular capital market and economic updates from the Group's capital markets team and its brokers. Six-monthly budget and capital allocation process and monitoring against agreed budget. Regular oversight of upcoming capital requirements of portfolio from both the Group and third parties.	No change	Macroeconomic and geopolitical conditions remain uncertain in the UK, Europe and the rest of the world.  Both the Brexit referendum and the US presidential election were a source of uncertainty in the year, with negotiations around the exit from the EU likely to be a source of volatility through 2017 and 2018.	Develop Deliver	Change in fair value of equity and debt investments.  Total equity ("net assets").  Profit/loss attributable to equity holders.

Risk and description	Impact	Mitigation	Risk trend	Developments during the year	Strategy	KPI
including changes to the labour market available to the Group for recruitment or regulatory environment in which the Group operates.	to this market could result in a material fair value impact to the portfolio as a whole.					
<b>6 There may be changes to, impacts from, or failure to comply with, legislation, government policy and regulation.</b> There may be unforeseen changes in, or impacts from, government policy, regulation or legislation (including taxation legislation). This could include changes to funding levels or to the terms upon which public monies are made available to universities and research institutions and the ownership of any resulting intellectual property.	Changes could result in universities and researchers no longer being able to own, exploit or protect intellectual property on attractive terms. Changes to tax legislation or the nature of the Group's activities, in particular in relation to the Substantial Shareholder Exemption, may adversely affect the Group's tax position and accordingly its value and operations. Regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions for the Group's FCA- authorised subsidiary resulting in loss of fund management contracts, reputational damage or fines. A material adverse event could occur during an MBS clinical trial. A data security or cyber breach could occur or the Group could otherwise fail to adhere to data protection regulations.	University partners are incentivised to protect their IP for exploitation as the partnership agreements share returns between universities, academic founders and the Group. The Group utilises professional advisers as appropriate to support its monitoring of, and response to changes in, tax, insurance or other legislation. The Group has internal policies and procedures to ensure its compliance with applicable FCA regulations and these are subject to external review. MBS utilises an experienced specialist advisory panel covering all aspects of clinical trial design and delivery. The Group maintains D&O, professional indemnity and clinical trial insurance policies. The Group reviews its data and cyber-security processes with its external outsourced IT provider and applies the UK Government's 'ten steps' framework.	Decreased	Proposed changes to UK Substantial Shareholding Exemption rules reduce the level of uncertainty around the exemption of disposal gains. Ongoing focus on regulatory compliance including third party reviews. UK Government has committed to university funding and has emphasised the importance of science and innovation. Specialist therapeutics advisory panel continually consulted. Increased focus on cyber security including further development of the Group's controls using the UK Government's 'ten steps' approach and review of the Cyber Essentials regime and how this applies to the Group.	Create Deliver	Total equity ("net assets").

### Viability statement

The Directors have carried out a robust assessment of the viability of the Group over a three-year period to December 2019, considering its strategy, its current financial position and its principal risks.

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

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

Based on this assessment, the Directors have a reasonable expectation that the Group will continue to operate and meets its liabilities, as they fall due, up to December 2019.

#### **STRATEGIC REPORT APPROVAL**

The Strategic Report as set out above has been approved by the Board.

#### **CONSOLIDATED FINANCIAL INFORMATION**

The financial information set out below has been extracted from the Annual Report and Accounts of IP Group plc for the year ended 31 December 2016 and is an abridged version of the full financial statements, not all of which are reproduced in this announcement.

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The responsibility statement set out below has been reproduced from the Annual Report and Accounts, which will be published in April 2017, and relates to that document and not this announcement.

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

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The Annual Report and Accounts includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description of the principal risks and uncertainties that they face.

ON BEHALF OF THE BOARD

Mike Humphrey  
Chairman

Alan Aubrey  
Chief Executive Officer

6 March 2017

## Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	14	7.0	86.4
Loss on disposal of equity investments		(0.5)	(0.2)
Change in fair value of limited and limited liability partnership interests	22	(0.3)	0.4
Change in fair value of contingent value right	16	(1.4)	—
Other portfolio income		—	0.2
Licensing income		0.2	8.1
Revenue from services and other income		2.6	3.4
		<b>7.6</b>	<b>98.3</b>
<b>Administrative expenses</b>			
Research and development costs		(1.0)	(2.0)
Share-based payment charge	21	(1.5)	(1.5)
Change in fair value of Oxford Equity Rights asset		—	(1.3)
Amortisation of intangible assets	12	(5.6)	(6.0)
Acquisition costs		(0.4)	—
Other administrative expenses		(14.5)	(13.7)
		<b>(23.0)</b>	<b>(24.5)</b>
<b>Operating (loss)/profit</b>	7	<b>(15.4)</b>	<b>73.8</b>
Finance income – interest receivable		1.1	1.3
Finance costs – interest payable		(0.5)	—
<b>(Loss)/profit before taxation</b>		<b>(14.8)</b>	<b>75.1</b>
Taxation	9	—	—
<b>(Loss)/profit for the year</b>		<b>(14.8)</b>	<b>75.1</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		0.1	0.1
<b>Total comprehensive (loss)/income for the period</b>		<b>(14.7)</b>	<b>75.2</b>
<b>Attributable to:</b>			
Equity holders of the parent		(13.5)	73.9
Non-controlling interest		(1.2)	1.3
		<b>(14.7)</b>	<b>75.2</b>
<b>Earnings per share</b>			
Basic (p)	10	(2.39)	13.66
Diluted (p)	10	(2.39)	13.63

## Consolidated statement of financial position

As at 31 December 2016

	Note	2016 £m	2015 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
Goodwill	11	57.1	57.1
Acquired intangible assets	12	5.1	10.5
Property, plant and equipment		0.2	0.2
Portfolio:			
Equity investments	14	594.9	543.1
Debt investments	14	19.1	9.1
Limited and limited liability partnership interests	22	4.2	4.4
Contingent value rights	16	—	1.4
<b>Total non-current assets</b>		<b>680.6</b>	<b>625.8</b>
<b>Current assets</b>			
Trade and other receivables	15	2.6	3.2
Deposits		—	70.0
Cash and cash equivalents		112.3	108.8
<b>Total current assets</b>		<b>114.9</b>	<b>182.0</b>
<b>Total assets</b>		<b>795.5</b>	<b>807.8</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the parent			
Called up share capital	19	11.3	11.3
Share premium account		504.7	504.7
Merger reserve		12.8	12.8
Retained earnings		239.6	251.6
<b>Total equity attributable to equity holders</b>		<b>768.4</b>	<b>780.4</b>
Non-controlling interest		0.3	1.5
<b>Total equity</b>		<b>768.7</b>	<b>781.9</b>
<b>Current liabilities</b>			
Trade and other payables	17	2.1	3.9
<b>Non-current liabilities</b>			
EIB debt facility	18	14.9	14.9
Loans from limited partners of consolidated funds	18	9.8	7.1
<b>Total equity and liabilities</b>		<b>795.5</b>	<b>807.8</b>

Approved by the Board of Directors and authorised for issue on 6 March 2017 and signed on its behalf by:

**Greg Smith**

Chief Financial Officer

**Alan Aubrey**

Chief Executive Officer

## Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Operating activities</b>			
Operating (loss)/profit for the period		(15.4)	73.8
<b>Adjusted for:</b>			
Change in fair value of equity and debt investments	14	(7.0)	(86.4)
Change in fair value of limited and limited liability partnership interests		0.3	(0.4)
Change in fair value of contingent value right		1.4	—
Loss on disposal of equity investments		0.5	0.2
Depreciation of property, plant and equipment		0.1	0.1
Amortisation of intangible non-current assets	12	5.6	6.0
Change in fair value of Oxford equity rights asset		—	1.3
Fees settled in the form of equity		(0.4)	(0.7)
Share-based payment charge		1.5	1.5
Other portfolio income classified as investing activities cash flows		—	(0.1)
<b>Changes in working capital</b>			
Decrease in trade and other receivables		0.2	2.2
(Decrease)/Increase in trade and other payables		(1.8)	1.9
Increase in non-current liabilities		2.7	2.2
Net cash flow to deposits		70.0	(40.0)
<b>Other operating cash flows</b>			
Net interest received		0.9	0.7
<b>Net cash inflow/(outflow) from operating activities</b>		<b>58.6</b>	<b>(37.7)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(0.1)	—
Purchase of equity and debt investments	14	(69.7)	(115.9)
Investment in limited and limited liability partnerships		(0.1)	—
Proceeds from sale of equity investments		14.7	0.6
Distributions from limited and limited liability partnerships		—	0.6
Other portfolio income		—	0.1
<b>Net cash outflow from investing activities</b>		<b>(55.2)</b>	<b>(114.6)</b>
<b>Financing activities</b>			
Proceeds from the issue of share capital		—	178.8
Proceeds from drawdown of EIB facility	18	—	14.9
<b>Net cash inflow from financing activities</b>		<b>—</b>	<b>193.7</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>3.4</b>	<b>41.4</b>
Cash and cash equivalents at the beginning of the year		108.8	67.3
Effect of foreign exchange rate changes		0.1	0.1
<b>Cash and cash equivalents at the end of the year</b>		<b>112.3</b>	<b>108.8</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2016

	Attributable to equity holders of the parent				Total £m	Non- controlling interest <sup>(iv)</sup> £m	Total equity £m
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m			
At 1 January 2015	9.6	327.6	12.8	176.2	<b>526.2</b>	—	<b>526.2</b>
Comprehensive income	—	—	—	73.9	<b>73.9</b>	1.3	<b>75.2</b>
Issue of equity	1.7	177.1	—	—	<b>178.8</b>	0.2	<b>179.0</b>
Equity settled share based payments	—	—	—	1.5	<b>1.5</b>	—	<b>1.5</b>
<b>At 1 January 2016</b>	11.3	504.7	12.8	251.6	<b>780.4</b>	1.5	<b>781.9</b>
Comprehensive income	—	—	—	(13.5)	<b>(13.5)</b>	(1.2)	<b>(14.7)</b>
Equity-settled share-based payments	—	—	—	1.5	<b>1.5</b>	—	<b>1.5</b>
<b>At 31 December 2016</b>	11.3	504.7	12.8	239.6	<b>768.4</b>	0.3	<b>768.7</b>

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

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

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

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

# Notes to the consolidated financial information

## 1. Accounting Policies

### Basis of preparation

The consolidated financial information is based on the Group financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee's interpretations as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. This release does not include all of the information required for full annual financial statements. Copies of the 2016 Annual Report and Accounts will be published on the Group's website and will be available upon request.

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

The accounting policies are consistent with those applied by the Group in its 2015 annual report and accounts. No new standards, interpretations and amendments effective for the first time from 1 January 2016 have had a material effect on the Group's financial statements.

## 2. Financial Risk Management

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

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

### (a) Market risk

#### (i) Price risk

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

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

The Group holds investments which are publicly traded on AIM (17 companies) and investments which are not traded on an active market.

The net increase in fair value of the Group's equity and debt investments during 2016 of £6.5m represents a 1.2% change against the opening balance (2015: net increase of £86.2m, 25%) and a similar increase or decrease in the prices of quoted and unquoted investments is considered to be reasonably possible. The table below summarises the impact of a 1% increase/decrease in the price of both quoted and unquoted investments on the Group's post-tax profit for the year and on equity.

	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	1.6	4.6	6.2	2.0	3.6	5.6

#### (ii) Interest rate risk

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

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

### (iii) Concentrations of risk

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

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

	2016				2015			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
<b>Financial assets</b>								
Equity investments	—	—	594.9	594.9	—	—	543.1	543.1
Debt investments	0.2	—	18.9	19.1	0.2	—	8.9	9.1
Limited and limited liability partnership interests	—	—	4.2	4.2	—	—	4.4	4.4
Contingent value rights	—	—	—	—	—	—	1.4	1.4
Deposits	—	—	—	—	70.0	—	—	70.0
Cash and cash equivalents	30.0	82.3	—	112.3	—	108.8	—	108.8
Trade receivables	—	—	2.3	2.3	—	—	3.0	3.0
Other receivables	—	—	0.3	0.3	—	—	0.2	0.2
	<b>30.2</b>	<b>82.3</b>	<b>620.6</b>	<b>733.1</b>	<b>70.2</b>	<b>108.8</b>	<b>561.0</b>	<b>740.0</b>
<b>Financial liabilities</b>								
Trade payables	—	—	(0.7)	(0.7)	—	—	(0.7)	(0.7)
Other accruals and deferred income	—	—	(1.4)	(1.4)	—	—	(3.2)	(3.2)
EIB debt facility	—	(14.9)	—	(14.9)	—	(14.9)	—	(14.9)
Loans from limited partners of consolidated funds	—	—	(9.8)	(9.8)	—	—	(7.1)	(7.1)
	<b>—</b>	<b>(14.9)</b>	<b>(11.9)</b>	<b>(26.8)</b>	<b>—</b>	<b>(14.9)</b>	<b>(11.0)</b>	<b>(25.9)</b>

At 31 December 2016, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.8m (2015: £1.1m) higher/lower as a result of higher interest received on floating rate cash deposits.

### (b) Liquidity risk

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

### (c) Credit risk

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

Credit rating	2016 £m	2015 £m
P1	76.7	126.3
P2	35.6	52.5
Total deposits and cash and cash equivalents	<b>112.3</b>	<b>178.8</b>

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2016 was £50m (2015: £50m).

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

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

### 3. Significant Accounting Estimates and Judgements

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

#### (i) Valuation of unquoted equity investments

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

#### (ii) Impairment of goodwill

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

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

### 4. Revenue from Services

All revenue from services is derived from either the provision of advisory and venture capital fund management services or the licensing of internally developed therapeutic compounds.

### 5. Operating Segments

For both the year ended 31 December 2016 and the year ended 31 December 2015, the Group's revenue and profit/loss before taxation were derived almost entirely from its principal activities within the UK. Though the Group has initiated operations in the US, the associated revenues and costs are currently immaterial and accordingly, no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partner relationships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Strategic report above.

Year ended 31 December 2016	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	7.0	—	—	7.0
Loss on disposal of equity investments	(0.5)	—	—	(0.5)
Change in fair value of limited and limited liability partnership interests	(0.3)	—	—	(0.3)
Change in fair value of contingent value right	(1.4)	—	—	(1.4)
Other portfolio income	—	—	—	—
Licensing income	0.2	—	—	0.2
Revenue from services and other income	0.8	0.9	—	1.7
Revenue from fund management services	—	0.9	—	0.9
Amortisation of intangible assets	(5.6)	—	—	(5.6)
Acquisition costs	(0.4)	—	—	(0.4)
Administrative expenses	(14.9)	(0.7)	(1.4)	(16.9)
<b>Operating loss</b>	(15.1)	1.1	(1.4)	(15.4)
Finance income – interest receivable	0.6	—	—	0.6
<b>Loss before taxation</b>	(14.5)	1.1	(1.4)	(14.8)
Taxation	—	—	—	—
<b>Loss for the year</b>	(14.5)	1.1	(1.4)	(14.8)
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	778.4	10.9	6.2	795.5
Liabilities	(26.5)	(0.1)	(0.2)	(26.8)
<b>Net assets</b>	751.9	10.8	6.0	768.7
<b>Other segment items</b>				
Capital expenditure	0.1	—	—	0.1
Depreciation	(0.1)	—	—	(0.1)

Year ended 31 December 2015

	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	86.4	—	—	86.4
Gain on disposal of equity investments	(0.2)	—	—	(0.2)
Change in fair value of limited and limited liability partnership interests	0.4	—	—	0.4
Other portfolio income	0.2	—	—	0.2
Licensing income	0.1	—	8.0	8.1
Revenue from services and other income	0.9	1.1	—	2.0
Revenue from fund management services	—	1.4	—	1.4
Change in fair value of Oxford Equity Rights asset	(1.3)	—	—	(1.3)
Amortisation of intangible assets	(6.0)	—	—	(6.0)
Administrative expenses	(13.9)	(0.8)	(2.5)	(17.2)
<b>Operating profit</b>	<b>66.6</b>	<b>1.7</b>	<b>5.5</b>	<b>73.8</b>
Finance income — interest receivable	1.3	—	—	1.3
Profit before taxation	67.9	1.7	5.5	75.1
Taxation	—	—	—	—
<b>Profit for the year</b>	<b>67.9</b>	<b>1.7</b>	<b>5.5</b>	<b>75.1</b>

#### STATEMENT OF FINANCIAL POSITION

Assets	788.8	11.3	7.7	807.8
Liabilities	(25.5)	(0.1)	(0.3)	(25.9)
<b>Net assets</b>	<b>763.3</b>	<b>11.2</b>	<b>7.4</b>	<b>781.9</b>
<b>Other segment items</b>				
Capital expenditure	—	—	—	—
Depreciation	(0.1)	—	—	(0.1)

#### 6. Auditor's Remuneration

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

	2016 £'000s	2015 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	74	73
The audit of the Company's subsidiaries, pursuant to legislation	87	87
Total fees for audit services	161	160
Audit-related assurance services	21	20
Total assurance services	182	180
Tax compliance services	—	—
Taxation advisory services	—	—
All other services	18	—
Total non-assurance services	—	—
	200	180

#### 7. Operating Profit

Operating profit has been arrived at after charging:

	2016 £m	2015 £m
Amortisation of intangible assets	(5.6)	(6.0)
Depreciation of tangible assets	(0.1)	(0.1)
Employee costs (see note 8)	(9.5)	(10.3)
Operating leases — property	(0.5)	(0.4)
Loss on disposal of equity investments	(0.5)	(0.2)

## 8. Employee Costs

Employee costs (including directors) comprise:

	2016 £m	2015 £m
Salaries	7.0	5.5
Defined contribution pension cost	0.4	0.3
Share-based payment charge (see note 21)	1.5	1.5
Other bonuses accrued in the year	-	2.2
Social security	0.6	0.8
	9.5	10.3

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 70, all of whom were involved in management and administration activities (2015: 64). Details of the Directors' remuneration can be found in the Directors' Remuneration Report in the full Annual Report and Accounts.

## 9. Taxation

	2016 £m	2015 £m
Current tax	—	—
Deferred tax	—	—

The Group primarily seeks to generate capital gains from its holdings in spin-out companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings, however, since the Group's activities, including its activities in the US, are substantially trading in nature, the Directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying holdings are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity holdings that meet the qualifying criteria. Gains arising on sales of non-qualifying holdings would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time.

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

	2016 £m	2015 £m
Profit before tax	(14.8)	75.1
Tax at the UK corporation tax rate of 20.0% (2015: 20.3%)	(3.0)	15.2
Expenses not deductible for tax purposes	0.9	1.4
Fair value movement on investments qualifying for SSE	(1.3)	(18.8)
Movement on share-based payments	0.1	(0.6)
Unrecognised other temporary differences	—	1.3
Movement in tax losses arising not recognised	3.3	1.5
Total tax charge	—	—

At 31 December 2016, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £141.7m (2015: £105.5m). An analysis is shown below:

	2016		2015	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs and other temporary differences	14.1	2.4	6.0	1.1
Unused tax losses	127.6	21.7	99.5	17.9
	141.7	24.1	105.5	19.0

At 31 December 2016, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2015: £nil). An analysis is shown below:

	2016		2015	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	2.6	0.4	(4.4)	(0.8)
Unused tax losses	(2.6)	(0.4)	4.4	0.8
	—	—	—	—

## 10. Earnings per Share

	2016	2015
	£m	£m
<b>Earnings</b>		
Earnings for the purposes of basic and dilutive earnings per share	(13.5)	73.9

	2016	2015
	Number of shares	Number of shares
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	565,056,171	540,681,647
Effect of dilutive potential ordinary shares:		
Options or contingently issuable shares	—	1,237,274
Weighted average number of ordinary shares for the purposes of diluted earnings per share	565,056,171	541,918,921

Potentially dilutive ordinary shares include contingently issuable shares arising under the Group's LTIP arrangements, and options issued as part of the Group's Sharesave schemes and Deferred Bonus Share Plan (for annual bonuses deferred under the terms of the Group's annual incentive scheme). As the Group made a loss for the period the potentially dilutive shares outstanding at the period end are not considered when calculating the diluted earnings per share.

## 11. Goodwill

	£m
At 1 January 2016	57.1
<b>At 31 December 2016</b>	<b>57.1</b>

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

	2016	2015
	£m	£m
University partnership CGU	55.0	55.0
Fund management CGU	2.1	2.1
	57.1	57.1

### Impairment review of venture capital fund management CGU

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

	2016	2015
Discount rate	9%-11%	9%-11%
Number of funds under management	4	3
Management fee	2%-3.25%	2%-3.5%
Cost inflation	1.5%	2%
Percentage of assets under management	2%-7.5%	2%-7%

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

### Impairment review of the university partnership CGU

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

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

	2016	2015
	£m	£m
Number of spin-out companies per year	10-15	10-15
Annual investment rate	£40-£75m	£40m-£60m
Rate of return achieved	15%-22%	18%-22%
Initial equity stake acquired by the Group under the university partnership	12%-30%	15%-35%
Proportion of spin-out companies failing	38%-54%	32%-45%
Weighted average holding period (years)	4-6	3-5
Dilution rates prior to exit as a result of financing for spin-out companies	40%-60%	40%-60%

	2016 £m	2015 £m
Proportion of IPO exits	25%–35%	25%–35%
IPO exit valuations	£30m–£40m	£30m–£40m
Proportion of disposal exits	25%–32%	28%–32%
Disposal valuations	£25m–£35m	£25m–£35m
Discount rate	9%–11%	9%–11%

When determining the key variables, management has, where possible and appropriate, used historical performance data as a basis. In instances where the forecasted volumes and scale of activity do not align with the Group's prior performance, management applies its judgement in determining said variables. A number of different value-in-use models were assessed in order to evaluate the recoverable value of the CGU, none of which resulted in an impairment being required.

## 12. Intangible Assets

	£m
<b>Cost</b>	
At 1 January 2016	21.4
Additions	0.2
<b>At 31 December 2016</b>	<b>21.6</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	10.9
Charge for the year	5.6
<b>At 31 December 2016</b>	<b>16.5</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>5.1</b>
At 31 December 2015	10.5

The intangible assets represent contractual arrangements and memorandums of understanding with four UK universities acquired through acquisition of a subsidiary. The contractual arrangements have fixed terms and, consequently, the intangible assets have a finite life which align with the remaining terms which, at the end of the period, range from 14 months to 19 months. The individual contractual arrangements are amortised in a straight line over the remainder of their terms with the expense being presented directly on the primary statements.

## 13. Categorisation of Financial Instruments

	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
<b>Financial assets</b>				
<b>At 31 December 2016</b>				
Equity investments	—	594.9	—	594.9
Debt investments	—	19.1	—	19.1
Other financial assets	—	—	—	—
Limited and limited liability partnership interests	—	4.2	—	4.2
Trade and other receivables	—	—	2.6	2.6
Deposits	—	—	—	—
Cash and cash equivalents	—	—	112.3	112.3
<b>Total</b>	<b>—</b>	<b>618.2</b>	<b>114.9</b>	<b>733.1</b>
<b>At 31 December 2015</b>				
Equity investments	—	543.1	—	543.1
Debt investments	—	9.1	—	9.1
Other financial assets	—	—	—	—
Contingent value rights	—	1.4	—	1.4
Limited and limited liability partnership interests	—	4.4	—	4.4
Trade and other receivables	—	—	3.2	3.2
Deposits	—	—	70.0	70.0
Cash and cash equivalents	—	—	108.8	108.8
<b>Total</b>	<b>—</b>	<b>558.0</b>	<b>182.0</b>	<b>740.0</b>

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

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2015: £nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2015: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

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

## 14. Investment Portfolio

	Level 1	Level 2	Level 3		
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	Total £m
At 1 January 2016	201.3	308.6	9.1	33.2	552.2
Investments during the year	10.9	50.9	6.2	1.7	69.7
Transaction-based reclassifications during the year	—	0.7	(0.7)	—	—
Other transfers between hierarchy levels during the year	—	(39.8)	6.7	33.1	—
Disposals	(15.0)	(0.2)	(0.1)	—	(15.3)
Fees settled via equity	—	0.4	—	—	0.4
Change in fair value in the year <sup>(i)</sup>	(36.1)	47.4	(2.1)	(2.2)	7.0
<b>At 31 December 2016</b>	<b>161.1</b>	<b>368.0</b>	<b>19.1</b>	<b>65.8</b>	<b>614.0</b>
At 1 January 2015	138.2	193.2	4.0	14.5	349.9
Investments during the year	26.2	82.3	7.1	0.3	115.9
Transaction-based reclassifications during the year	2.3	(1.4)	(0.9)	—	—
Other transfers between hierarchy levels during the year	24.6	(50.9)	0.1	26.2	—
Disposals	—	—	(0.3)	(0.5)	(0.8)
Fees settled via equity	—	0.7	—	—	0.7
Change in fair value in the year <sup>(i)</sup>	10.0	84.7	(0.9)	(7.3)	86.5
<b>At 31 December 2015</b>	<b>201.3</b>	<b>308.6</b>	<b>9.1</b>	<b>33.2</b>	<b>552.2</b>

<sup>(i)</sup>The change in fair value in the year includes a gain of £0.7m (2015: £0.1m) in exchange differences on translating foreign currency investments, which is entirely attributable to Level 2 equity.

The Group's policy is to classify equity investments in unquoted spin-out companies as Level 2 where prices have been determined from recent investments in the last twelve months. The impact of changing the qualifying criteria for Level 2 to be determined from recent investments in the last six months would mean 4.4% (2015: 29.9%) of the equity investments in unquoted spin-out companies would be re-classed to Level 3.

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined, in part or in full, by valuation techniques that are not supported by observable market prices or rates. Investments in 32 (2015: 21) companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions.

Where fair values are based upon the most recent market transaction, but that transaction occurred more than twelve months prior to the balance sheet date, the investments are classified as Level 3 in the fair value hierarchy. The fair values of investments categorised as Level 3 are analysed on a monthly basis to determine business factors which may make the most recent investment rate no longer a representation of fair value.

There are no identified unobservable inputs to which the Level 3 fair values would be materially sensitive. This is represented by the fact that if the fair value of all Level 3 investments were to decrease by 10%, the net assets figure would decrease by £6.6m (2015: £3.3m), with a corresponding increase if the unobservable inputs were to increase by 10%.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Transfers between tiers are then made as if the transfer took place on the first day of the period in question, except in the cases of transfers between tiers based on an initial public offering ("IPO") of an investment wherein the changes in value prior to the IPO are calculated and reported in tier 2, and those changes post are attributed to tier 1.

If the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company. The effect on the consolidated statement of comprehensive income for the period is also not expected to be material.

Transfers between Level 2 and Level 1 occur when a previously unquoted investment undertakes an initial public offering, resulting in its equity becoming quoted on an active market. In the current period, transfers of this nature amounted to £nil.

Transfers between Level 1 and Level 2 would occur when a quoted investment's market becomes inactive, or the portfolio company elects to delist. There has been one such instance in the current period which amounted to £nil (2015: £nil).

Transfers between Level 3 and Level 2 occur when an investment which previously had a most recent investment of over twelve months ago undertakes an investment, resulting in an observable market rate. In the current period, transfers of this nature amounted to £7.3m (2015: £2.1m).

Transfers between Level 2 and Level 3 occur when an investment's recent investment becomes more than twelve months old, with the price being deemed unobservable. In the current period, transfers of this nature amounted to £45.3m (2015: £28.4m).

Fair value changes in Level 3 investments have been a loss of £2.2m (2015: £7.3m) in the period, recognised within change in fair value of equity and debt investments in the condensed consolidated statement of comprehensive income.

#### Change in fair value in the year

	2016 £m	2015 £m
Fair value gains	57.3	115.4
Fair value losses	(50.3)	(29.0)
	7.0	86.4

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

#### 15. Trade and Other Receivables

	2016 £m	2015 £m
Trade debtors	2.3	3.0
Prepayments	0.3	0.2
Other receivables	—	—
	2.6	3.2

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

#### 16. Contingent Value Rights

As a result of the disposal of Proximagen Group plc in August 2012, the Group received contingent consideration, in the form of contingent value rights ("CVRs"), based upon future net revenues of two associated drug programmes. In line with the Group's policies, these have previously been recognised as financial assets at fair value through profit and loss. The Group re-evaluated the likelihood of receiving the contingent consideration in relation to the CVRs at the reporting date and no longer consider that it is realisable. The financial asset has been fair valued at £nil (2015: £1.4m) and the associated fair value movement has been charged to the consolidated statement of comprehensive income. The Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

#### 17. Trade and Other Payables

	2016 £m	2015 £m
<b>Current liabilities</b>		
Trade payables	0.7	0.7
Social security expenses	0.3	0.2
Other accruals and deferred income	1.1	3.0
	2.1	3.9

#### 18. Borrowings

	2016 £m	2015 £m
<b>Non-current liabilities</b>		
EIB debt facility	14.9	14.9
Loans drawn down from the Limited Partners of consolidated funds	9.8	7.1
	24.7	22.0

#### Loans drawn down from the Limited Partners of consolidated funds

The loans from Limited Partners of consolidated funds are interest free and repayable only upon the applicable funds generating sufficient returns to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities.

#### EIB debt facility

On 8 July 2015 the Group secured a £30m, 8-year debt facility from the European Investment Bank. The facility is to be disbursed in two tranches. The Group will use the proceeds to continue to fund UK university spin-out companies as they develop and mature. A non-utilisation fee of 0.15% is charged over the undrawn element of the facility, which in 2016 was £nil (2015: £nil).

The first tranche of £15.0m was drawn down on 16 December 2015. There were £0.1m of initial transaction costs incurred in the arrangement of the facility. This balance was set against the loan amount and is to be subsequently amortised over the term of the loan. The associated charge to the statement of comprehensive income for 2016 was £nil (2015: nil). The capital is repayable in ten equal payments over a five-year period with the first payment due on 7 January 2019.

The drawn down element of the facility bears interest at a fixed rate of 1.98% with an additional variable spread equal to the six month GBP Libor rate as at the first date of each six-month interest period. The first £15.0m tranche was disbursed on 17 December 2015 and the average floating interest rate (including the fixed element) for 2016 was 2.66% (2015: 2.48%). The interest charged in 2016 was £0.4m (2015: £nil).

The Group must ensure that the ratio between the value of the portfolio along with the value of the Group's cash net of any outstanding liabilities, and the outstanding debt facility does not fall below 6:1. The Group must maintain that the amount of unencumbered funds freely available to the Group is not less than £15.0m. The Group is also required to maintain a separate bank account which must at any date maintain a minimum balance equal to that of all payments due to the EIB in the forthcoming six months.

## 19. Share Capital

Issued and fully paid:	2016		2015	
	Number	£m	Number	£m
<b>Ordinary Shares of 2p each</b>				
At 1 January	564,648,168	11.3	479,524,397	9.6
Issued under share placings	—	—	83,388,888	1.7
Issued under employee share plans	573,799	—	1,734,883	—
<b>At 31 December</b>	<b>565,221,967</b>	<b>11.3</b>	<b>564,648,168</b>	<b>11.3</b>

The Company has one class of ordinary shares with a par value of 2p ("Ordinary Shares") which carry equal voting rights, equal rights to income and distributions of assets on liquidation, or otherwise, and no right to fixed income.

In April 2016, the Group issued 457,877 new Ordinary Shares in order to settle the 2013 LTIP scheme for which the vesting conditions were fully achieved and consequently the resulting shares became issuable to the Group's employees. The Group issued 101,622 new Ordinary Shares in order to settle the exercise of certain options that had been issued under the Group's Deferred Bonus Share Plan ("DBSP", see Note 21). Finally, in November 2016, the Group issued 14,300 new Ordinary Shares in order to settle the exercise of options by a former Group employee.

## 20. Operating Lease Arrangements

	2016 £m	2015 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	0.5	0.4

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

	2016 £m	2015 £m
Within one year	0.6	0.3
In the second to fifth years inclusive	3.1	0.1
	<b>3.7</b>	<b>0.4</b>

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

In December 2016 the Group entered into a lease for new head office premises with an initial rent free period of twelve months and a total 5-year commitment of £3.1m in lease and service charge payments.

## 21. Share-Based Payments

In 2016, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report in the full Annual Report and Accounts.

### Deferred Bonus Share Plan ("DBSP")

Awards made to employees under the Group's AIS above a certain threshold include 50% deferred into IP Group equity through the grant of nil-cost options under the Group's DBSP. The number of nil-cost options granted under the Group's DBSP is determined by the share price at vesting date. The DBSP options are subject to further time-based vesting over two years (typically 50% after year one and 50% after year two).

An analysis of movements in the DBSP options outstanding is as follows:

	2016	2015
At 1 January	187,869	362,608
AIS deferral shares award during the year	781,148	—
Exercised during the year	(101,622)	(174,739)
Lapsed during the year	(29,400)	—
<b>At 31 December</b>	<b>837,995</b>	<b>187,869</b>

No associated expense has been incurred for the 2016 AIS as the financial performance targets were not achieved.

### Long-Term Incentive Plan (“LTIP”)

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group’s institutional investors from time to time.

The 2016 LTIP awards were made on 16 May 2016. The awards will ordinarily vest on 31 March 2019, to the extent that the performance conditions have been met. The awards are based on the performance of the Group’s Hard NAV and Total Shareholder Return (“TSR”). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors’ Remuneration Report within the Group’s 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group’s TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2016 to 31 December 2018, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2019, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods (“threshold performance”). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2015 LTIP awards were made on 21 May 2015. The awards will ordinarily vest on 31 March 2018, to the extent that the performance conditions have been met. The awards are based on the performance of the Group’s Hard NAV and Total Shareholder Return (“TSR”). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors’ Remuneration Report within the Group’s 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group’s TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2015 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2015 to 31 December 2017, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2018, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods (“threshold performance”). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2014 LTIP award was made on 31 March 2014. The awards will ordinarily vest on 31 March 2017, to the extent that the performance conditions have been met. The awards are based on the performance of the Group’s Hard NAV and Total Shareholder Return (“TSR”). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors’ Remuneration Report within the Group’s 2016 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group’s TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2014 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2014 to 31 December 2016, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2017, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods (“threshold performance”). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2013 LTIP awards vested on 31 March 2016 and thereafter shares in IP Group were issued via the Group’s employee benefit trust to the relevant members of the Group’s staff accordingly. The table below sets out the performance measures relating to the 2013 LTIP awards and the actual performance achieved.

<b>Performance condition</b>	<b>Target performance</b>	<b>Actual performance</b>
Hard NAV (at 31 Dec 2015) <sup>(i)</sup>	8%: £624m 15%: £712m	£714.3m (15.2% p.a. growth)
Annual TSR <sup>(ii)</sup> (share price)	8%: 180p 15%: 217p	175.1p (7.2% p.a. growth)
Comparative TSR <sup>(iii)</sup>	FTSE 250 +29%	IP Group +22%

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

ii. TSR performance shown reflects the Group’s one-month average share price to 26 February 2016. Actual performance period is the one-month average to 31 March 2016.

The performance measures were achieved in full however the underpin was only partially achieved, as a result 57.6% of the 2013 LTIP awards vested on 31 March 2015.

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

	2016	2015
At 1 January	3,378,595	3,650,493
Forfeited during the year	(493,959)	(39,876)
Vested during the year	(457,877)	(1,552,144)
Notionally awarded during the year	3,188,078	1,320,122
At 31 December	5,614,837	3,378,595

The fair value of LTIP shares notionally awarded during 2016 was calculated using Monte Carlo pricing models with the following key assumptions:

	2016	2015
Share price at date of award	£1.558	£2.188
Exercise price	£nil	£nil
Fair value at grant date	£0.41	£0.78
Expected volatility (median of historical 50-day moving average)	31%	32%
Expected life (years)	2.83	2.83
Expected dividend yield	0%	0%
Risk-free interest rate	1.0%	1.0%

#### Former Fusion IP LTIP

In 2014, three former employees of Fusion IP plc were each conditionally awarded 1,000,000 shares in Fusion IP plc under the Fusion IP LTIP. As part of the arrangements for the acquisition of Fusion IP plc, the Fusion IP LTIP awards were converted into awards over IP Group shares at the same conversion price per share as the scheme of arrangement was undertaken (0.446 IP Group plc shares for every Fusion IP plc share). The awards will vest on 31 December 2017 provided certain performance conditions are met which relate to, inter alia, the growth in value of Fusion IP plc's net asset value ("Fusion NAV") from the date of acquisition and the continued employment of the individual by the Group. In summary, if Fusion NAV growth of 10% per annum is achieved then 30% of an award shall vest. Maximum vesting will occur if Fusion NAV growth of 20% per annum is achieved with straight-line vesting between 30% and 100% if Fusion NAV growth of 10%-20% per annum is achieved. No vesting shall occur if Fusion NAV growth of less than 10% is achieved.

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

	2016	2015
At 1 January	1,338,000	1,338,000
At 31 December	1,338,000	1,338,000

#### Fair value charge

The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £1.5m (2015: £1.5m).

## 22. Limited and Limited Liability Partnership Interests

	£m
At 1 January 2015	4.6
Additions during the year	—
Realisations in the year	(0.6)
Change in fair value during the year	0.4
At 1 January 2016	4.4
Additions during the year	0.1
Realisations in the year	—
Change in fair value during the year	(0.3)
At 31 December 2016	4.2

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

## 23. Related Party Transactions

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

### a) Limited Partnerships

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

	2016	2015
<b>Statement of comprehensive income</b>	<b>£m</b>	<b>£m</b>
Revenue from services	0.9	1.3

	2016	2015
<b>Statement of financial position</b>	<b>£m</b>	<b>£m</b>
Investment in limited partnerships	2.8	3.1
Amounts due from related parties	0.2	—

## b) Key management personnel

### i) Key management personnel transactions

Key management had investments in the following spin-out companies as at 31 December 2016:

<b>Director/Company Secretary</b>	<b>Company name</b>	<b>Number of shares held at 1 January 2016</b>	<b>Number of shares acquired/ (disposed) in the period</b>	<b>Number of shares held at 31 December 2016</b>	<b>%</b>
<b>Alan Aubrey</b>	Accelercomm Limited	—	333	333	0.3%
	Alesi Surgical Limited	18	—	18	0.2%
	Amaethon Limited — A Shares	104	—	104	3.1%
	Amaethon Limited — B Shares	11,966	—	11,966	1.0%
	Amaethon Limited — Ordinary shares	21	—	21	0.3%
	Avacta Group plc <sup>(v)</sup>	202,761	—	202,761	0.3%
	Boxarr Limited	1,732	—	1,732	0.3%
	Capsant Neurotechnologies Limited	11,631	—	11,631	0.8%
	Cloud Sustainability Limited	26	—	26	0.4%
	Crysalin Limited	1,447	—	1,447	0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	15	—	15	0.9%
	Empiricom Technologies Limited	—	119,965,724	119,965,724	17.3%
	Getech Group plc	15,000	—	15,000	<0.1%
	Gunsynd plc	767,310	—	767,310	<0.1%
	hVivo plc	37,160	—	37,160	<0.1%
	Ilika plc	69,290	—	69,290	<0.1%
	Karus Therapeutics Limited	223	—	223	<0.1%
	Microbiotica Limited	—	3,750	3,750	<0.1%
	Mirriad Advertising Limited	33,333	—	33,333	<0.1%
	MDL 2016 Limited — Ordinary shares	3,226	—	3,226	0.4%
	MDL 2016 Limited — A shares	229	—	229	0.5%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	519,269	—	519,269	0.7%
	Cronin Group plc	2,172,809	—	2,172,809	0.4%
	Oxford Nanopore Technologies Limited	101,208	—	101,208	0.4%
	Oxtox Limited	25,363	(25,363)	—	0.0%
	Perachem Holdings plc	108,350	—	108,350	0.8%
	Revolymmer plc	88,890	—	88,890	0.1%
	Salunda Limited	53,639	—	53,639	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	453	—	453	0.3%
	Tissue Regenix Group plc	2,389,259	—	2,389,259	0.3%
Xeros Technology Group plc	40,166	—	40,166	<0.1%	
Zeetta Networks Limited	212	212	424	<0.1%	
<b>Mike Townend</b>	Amaethon Limited — A Shares	104	—	104	3.1%
	Amaethon Limited — B Shares	11,966	—	11,966	1.0%
	Amaethon Limited — Ordinary shares	21	—	21	0.3%
	Applied Graphene Materials plc	—	7,619	7,619	<0.1%
	Avacta Group plc <sup>(v)</sup>	9,314	10,687	20,001	<0.1%
	Capsant Neurotechnologies Limited	11,282	—	11,282	0.8%
	Cloud Sustainability Limited	25	—	25	0.4%
	Creavo Technologies Limited <sup>(i)</sup>	117	—	117	<0.1%
	Crysalin Limited	1,286	—	1,286	0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	14	—	14	0.8%
	Getech Group plc	20,000	—	20,000	<0.1%
	hVivo plc	37,160	—	37,160	<0.1%
	Ilika plc	10,000	—	10,000	<0.1%
	Mirriad Advertising Limited	25,000	—	25,000	<0.1%
	Mode Diagnostics Limited	1,756	—	1,756	0.1%
	Modern Biosciences plc	1,185,150	—	1,185,150	1.7%
	Modern Water plc	575,000	—	575,000	0.7%
	Cronin Group plc	932,944	—	932,944	0.2%
	Oxford Advanced Surfaces Limited	5,000	—	5,000	0.2%

Director/Company Secretary	Company name	Number of shares held at 1 January 2016	Number of shares acquired/ (disposed) in the period	Number of shares held at 31 December 2016	%
	Oxford Nanopore Technologies Limited	30,967	—	30,967	0.1%
	Oxtox Limited	25,363	(25,363)	—	0.0%
	Perachem Holdings plc	113,222	—	113,222	0.8%
	Revolymmer plc	35,940	29,000	64,940	<0.1%
	Structure Vision Limited	212	—	212	1.0%
	Surrey Nanosystems Limited	404	—	404	0.2%
	Tissue Regenix Group plc	1,950,862	—	1,950,862	0.3%
	Tracsis plc	25,430	(25,430)	—	0.0%
	Ultrahaptics Holdings Limited <sup>(iv)</sup>	35	—	35	<0.1%
	Xeros Technology Group plc	35,499	—	35,499	<0.1%
<b>Greg Smith</b>	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc <sup>(v)</sup>	3,904	—	3,904	<0.1%
	Capsant Neurotechnologies Limited	896	—	896	<0.1%
	Cloud Sustainability Limited	8	—	8	0.1%
	Crysalin Limited	149	—	149	<0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	4	—	4	0.2%
	Encos Limited	5,671	—	5,671	0.3%
	Getech Group plc	8,000	—	8,000	<0.1%
	hVivo plc	61,340	—	61,340	<0.1%
	Perachem Holdings plc <sup>(ii)</sup>	4,830	—	4,830	<0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary shares	361	—	361	<0.1%
	MDL 2016 Limited — A shares	28	—	28	<0.1%
	Modern Biosciences plc	313,425	—	313,425	0.5%
	Modern Water plc	7,250	—	7,250	<0.1%
	Oxford Nanopore Technologies Limited	1,581	—	1,581	<0.1%
	Revolymmer plc	4,500	—	4,500	<0.1%
	Summit Therapeutics plc	798	—	798	<0.1%
	Surrey Nanosystems Limited	88	—	88	<0.1%
	Tissue Regenix Group plc	50,000	—	50,000	<0.1%
	Xeros Technology Group plc	1,392	—	1,392	<0.1%
<b>David Baynes</b>	Alesi Surgical Limited	4	—	4	<0.1%
	Arkivum Limited	377	—	377	<0.1%
	Creavo Technologies Limited <sup>(i)</sup>	46	—	46	<0.1%
	Diurnal Group plc	73,000	—	73,000	0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	Oxford Nanopore Technologies Limited	155	19	174	<0.1%
	Ultrahaptics Holdings Limited <sup>(iv)</sup>	26	—	26	<0.1%
	Zeetta Networks Limited	212	212	424	<0.1%
<b>Angela Leach</b>	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc <sup>(v)</sup>	1,897	—	1,897	<0.1%
	Boxarr Limited	102	—	102	<0.1%
	Capsant Neurotechnologies Limited	1,858	—	1,858	0.1%
	Cloud Sustainability Limited	10	—	10	0.1%
	Creavo Technologies Limited <sup>(i)</sup>	23	—	23	<0.1%
	Cronin Group plc	68,101	—	68,101	<0.1%
	Diurnal Group plc	11,500	—	11,500	<0.1%
	Gunsynd plc <sup>(iii)</sup>	7,990	—	7,990	<0.1%
	First Light Fusion Limited	17	—	17	<0.1%
	Getech Group plc	2,083	—	2,083	<0.1%
	hVivo plc	25,903	—	25,903	<0.1%
	Mirriad Advertising Limited	16,667	—	16,667	<0.1%
	MDL 2016 Limited — Ordinary Shares	606	—	606	<0.1%
	MDL 2016 Limited — A Shares	102	—	102	0.2%
	Modern Water plc	15,570	—	15,570	<0.1%
	Modern Biosciences plc	322,923	—	322,923	0.5%
	Oxford Nanopore Technologies Limited	1,721	61	1,782	<0.1%
	Revolymmer plc	4,500	—	4,500	<0.1%
	Structure Vision Limited	21	—	21	0.1%
	Surrey Nanosystems Limited	90	—	90	<0.1%
	Tissue Regenix Group plc	329,172	(52,381)	276,791	<0.1%
	Ultrahaptics Holdings Limited <sup>(iv)</sup>	5	—	5	<0.1%
	Xeros Technology Group plc	5,666	—	5,666	<0.1%

- i. Creavo Technologies Limited was formerly known as Quantum Imaging Limited.
- ii. Boxarr Limited was formerly known as Plexus Planning Limited
- iii. Gunsynd plc was formerly known as Evocutis plc
- iv. Ultrahaptics Holdings Limited was formerly known as Ultrahaptics Limited
- v. Avacta Group plc had a share consolidation during the year 100:1

## ii) Key management personnel compensation

Key management personnel compensation comprised the following:

	2016 £000s	2015 £000s
Short-term employee benefits <sup>1</sup>	1,489	1,890
Post-employment benefits <sup>2</sup>	71	89
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments <sup>3</sup>	623	550
<b>Total</b>	<b>2,183</b>	<b>2,529</b>

<sup>1</sup> Represents key management personnel's base salaries, benefits including cash in lieu of pension where relevant, and the cash settled element of the Annual Incentive Scheme.

<sup>2</sup> Represents employer contributions to defined contribution pension and life assurance plans

<sup>3</sup> Represents the accounting charge for share based payments, reflecting LTIP and DBSP options currently in issue as part of these schemes. See note 21 for a detailed description of these schemes.

### c) Portfolio companies

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. Through the lack of control over portfolio companies these fees are considered arms-length transactions. The following amounts have been included in respect of these fees:

	2016 £m	2015 £m
<b>Statement of comprehensive income</b>		
Revenue from services	1.6	2.0

	2016 £m	2015 £m
<b>Statement of financial position</b>		
Trade receivables	0.7	1.5

### d) Subsidiary companies

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

	2016 £m	2015 £m
<b>Statement of financial position</b>		
Intercompany balances with other Group companies	10.7	10.5

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

## 24. Capital Management

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

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

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain healthy cash and short-term deposit balances that enable it to provide capital to all portfolio companies, as determined by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

The Group has an external debt facility with associated covenants that are described in Note 18.

## 25. Capital Commitments

### Commitments to university partnerships

A number of the Group's partnerships with research intensive universities in the UK include certain arrangements to provide seed capital to spin-out companies arising from such universities. As at 31 December 2016, the balances were as follows:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton <sup>(i)</sup>	2002	5.0	3.6	1.4
King's College London <sup>(ii)</sup>	2003	5.0	1.8	3.2
University of York — CNAP <sup>(iii)</sup>	2003	0.8	0.2	0.6
University of Leeds <sup>(iv)</sup>	2005	4.2	1.1	3.1
University of Bristol <sup>(v)</sup>	2005	5.0	1.1	3.9
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	4.5
University of York <sup>(iii)</sup>	2006	5.0	0.2	4.8
Queen Mary University of London <sup>(vii)</sup>	2006	5.0	0.7	4.3

University of Bath <sup>(viii)</sup>	2006	5.0	0.2	4.8
University of Glasgow <sup>(ix)</sup>	2006	5.0	1.6	3.4
University of Manchester <sup>(x)</sup>	2013	7.5	0.2	7.3
		<b>52.5</b>	<b>11.2</b>	<b>41.3</b>

- i. Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies.
- ii. Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Group agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of this agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2010. Under the revised agreement, the Group agreed to target investing the remaining commitment of £3.2m over a three-year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.
- iii. In 2003, the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006, the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with the University of York was amended during 2013 so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of the University of York's proceeds from out-licensing has been removed from the agreement.
- iv. The Group extended its partnership with the University of Leeds in July 2005 by securing the right with associated contractual commitment to invest up to £5.0m in University of Leeds spin-out companies. This agreement was varied in March 2011 to, amongst other things, remove the Group's entitlement to a share of out-licensing income generated by the University of Leeds except in certain specific circumstances where the Group is involved in the relevant out-licensing opportunity. Under the terms of the variation agreement, subject to quality and quantity of the investment opportunities, the Group, IP Assist Services Limited and the University of Leeds have agreed to target annual investments of at least £0.7m in aggregate and, subject to earlier termination or the parties otherwise agreeing alternative target, to review this target on 30 April 2017.
- v. In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.
- vi. Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey, the Group has committed to invest up to a total of £5.0m in spin-out companies based on the University of Surrey's intellectual property.
- vii. In July 2006, the Group entered into an agreement with Queen Mary University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies. The agreement was amended in January 2014, primarily to remove the Group's entitlement to licence fees save where it is involved in the development or licensing of the relevant IP and, in most cases, to replace the Group's automatic entitlement to a share of the initial equity in any spin-out company with an equivalent warrant exercisable at the seed stage of the relevant company.
- viii. In September 2006, the Group entered into an agreement with the University of Bath to invest in University of Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Bath spin-out companies. The agreement with the University of Bath was amended during 2009 so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by the University of Bath from the commercialisation of its intellectual property in the event that the Group and its employees have not been actively involved in developing the relevant opportunity.
- ix. In October 2006, the Group entered into an agreement with the University of Glasgow to invest in University of Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in University of Glasgow spin-out companies.
- x. In February 2013, the Group entered into a commercialisation agreement with the University of Manchester. Initially the Group had agreed to make available an initial facility of up to £5.0m to provide capital to new proof of principle projects (excluding graphene projects) intended for commercialisation through spin-out companies. During January 2014, the Group extended its agreement to include funding for graphene projects; increased the capital commitment by a further £2.5m, bringing the total to £7.5m; and extended the agreement to 2019.

### Commitments to limited partnerships

Pursuant to the terms of their limited partnership agreements, the Group has committed to invest the following amounts into limited partnerships as at 31 December 2016:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
IP Venture Fund	2006	3.1	3.0	0.1
IP Venture Fund II L.P.	2013	10.0	3.9	6.1
		<b>13.1</b>	<b>6.9</b>	<b>6.2</b>

### 26. Post Balance Sheet Events

Effective 31 January 2017, the Group acquired 100% of the shares of Parkwalk Advisors Limited, the UK's leading university spin-out focussed EIS fund manager. This business will be consolidated in the Group's results from the date of acquisition. The total maximum consideration payable is £20m over a three-year period. The initial consideration comprises £5m of cash, £2.5m in the form of newly-issued IP Group ordinary shares and a further £2.5m of cash payable in two equal instalments over two years, subject to certain

conditions. The remaining £10m consideration is payable as £5m in cash and £5m in IP Group ordinary shares over a three-year period, subject to the acquired company achieving certain business performance targets. The Group is in the process of finalising the acquisition accounting and can therefore not provide any other reliable disclosure in line with IFRS 3 at this stage.