



EVOLVING GREAT IDEAS INTO WORLD-CHANGING BUSINESSES

IP GROUP PLC
Annual Report and Accounts
for the year ended 31 December 2019

Registration Number: 04204490 | Stock Code: IPO



Evolving great ideas into world-changing businesses

IP Group's purpose is to evolve great ideas into world-changing businesses that achieve a positive impact on the environment and society as well as a financial return.

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

Our team is passionate about this endeavour and has spent many years finessing its approach to identifying attractive intellectual property ("IP"), nurturing and building businesses around that IP and then providing capital and support along the journey from 'cradle to maturity'. Through collaborations and established

partner relationships with leading research institutions in the UK, the US and Australasia, the Group seeks to access and commercialise a wealth of scientific research.

Our portfolio, which is currently valued at just over £1bn, comprises holdings in 57 focus companies covering a broad range of commercial innovations across life sciences and technology. We have a long track record and are proud to have helped create and build a number of exciting businesses that are making a real difference. We are pioneering in our approach, passionate about what we do, principled in how we work and committed to delivering results for all of our stakeholders.

DISCLAIMER: THIS ANNUAL REPORT AND ACCOUNTS MAY CONTAIN FORWARD-LOOKING STATEMENTS. THESE STATEMENTS REFLECT THE BOARD'S CURRENT VIEW, ARE SUBJECT TO A NUMBER OF MATERIAL RISKS AND UNCERTAINTIES AND COULD CHANGE IN THE FUTURE. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH CHANGES INCLUDE, BUT ARE NOT LIMITED TO, THE GENERAL ECONOMIC CLIMATE AND MARKET CONDITIONS, AS WELL AS SPECIFIC FACTORS RELATING TO THE FINANCIAL OR COMMERCIAL PROSPECTS OR PERFORMANCE OF INDIVIDUAL COMPANIES WITHIN THE GROUP'S PORTFOLIO. FURTHER DETAILS CAN BE FOUND IN THE RISK MANAGEMENT SECTION ON PAGES 36 TO 49.

THROUGHOUT THIS ANNUAL REPORT AND ACCOUNTS, IP GROUP PLC AND ITS SUBSIDIARIES ARE REFERRED TO AS 'IP GROUP', THE 'GROUP' OR THE 'COMPANY', AS APPROPRIATE. THE GROUP'S HOLDINGS IN PORTFOLIO COMPANIES REFLECT THE UNDILUTED BENEFICIAL EQUITY INTEREST EXCLUDING DEBT, UNLESS OTHERWISE EXPLICITLY STATED.

INVESTMENT CASE

BALANCED AND MATURING PORTFOLIO OF EXCITING COMPANIES BASED ON 'DEEP SCIENCE'.

INTERNATIONAL GROUP WITH OPERATIONS IN THE UK, US, AUSTRALIA AND ASIA, AND AN INTERNATIONAL SHAREHOLDER AND CO-INVESTOR NETWORK.

PERMANENT CAPITAL STRUCTURE, ENABLING THE PROVISION OF FUNDING FROM 'CRADLE TO MATURITY' UNCONSTRAINED BY TRADITIONAL FIXED-LIFE VC FUND APPROACH.

ESTABLISHED PARTNER RELATIONSHIPS WITH LEADING RESEARCH INSTITUTIONS, GIVING ACCESS TO POTENTIALLY DISRUPTIVE IP AROUND THE WORLD.

DEEP TECHNICAL AND BUSINESS-BUILDING EXPERTISE, INCLUDING BOARD REPRESENTATION AND SUPPORT, CAPITAL SOURCING, IP STRATEGY, EXECUTIVE SEARCH.

TRACK RECORD BUILT OVER 15+ YEARS.

STRONG PORTFOLIO FOCUS ON ESG AND POSITIVE IMPACT ON SOCIETY.

HIGHLIGHTS

+169%
**CASH
REALISATIONS**

Portfolio highlights

- Fair value of portfolio: £1,045.6m (2018: £1,128.2m)
- 169% increase in cash realisations to £79.5m, which exceeded investment into portfolio for the first time since 2007 (2018: £29.5m)
- Investment into portfolio: £64.7m (2018: £100.9m)
- Net portfolio fair value reduction¹ of £43.9m, approximately 4% (2018: £48.4m, 4%)
- Oxford Nanopore announced investment and secondary share sales totalling £109.5m, having more than doubled revenue and orders in 2018 to \$43.7m and \$60.6m respectively
- Istesso announced positive outcome from Phase 2a study of MBS2320 for rheumatoid arthritis
- Significant commercial progress at Ceres Power including first product launch with Japan's Miura and further £8m licence and joint development agreement with Korea's Doosan
- Total funds raised by portfolio companies of £430m (2018: £717m) including financing rounds for Inivata (£40.0m), Featurespace (£25.0m) and Azuri Technologies (£20.0m)



**READ ABOUT OUR
BUSINESS MODEL ON
PAGES 10 AND 11**



**READ ABOUT OUR
PORTFOLIO ON
PAGES 21 TO 31**

£194.9m
**GROSS CASH
AND DEPOSITS**

Financial and
operational highlights

- Hard NAV¹ £1,141.5m or 108 pence per share (2018: £1,217.5m, 115 pence per share)
- Net assets £1,141.9m (2018: £1,218.2m)
- Strong liquidity with gross cash and deposits at 31 December 2019 of £194.9m (2018: £219.0m) and net cash of £112.4m (2018: £121.2m)
- Return on Hard NAV¹ of negative £73.7m (2018: negative £75.6m)
- Loss for the year of £78.9m (2018: £293.8m loss)
- Net overheads reduced by 13% to £22.6m (2018: £26.0m)
- Parkwalk Advisors, the Group's specialist EIS subsidiary, grew assets under management to £300m (2018: £220m)
- Further encouraging progress made in developing the Group's businesses in the US and Australia
- Board strengthened through appointment of two additional independent non-executive directors

Post period end
highlights

- Ceres Power announces Bosch to increase stake to 18% from 4% with £38m strategic investment, which included a £22m partial realisation by IP Group
- Total further cash realisations from the portfolio of £55.4m in 2020

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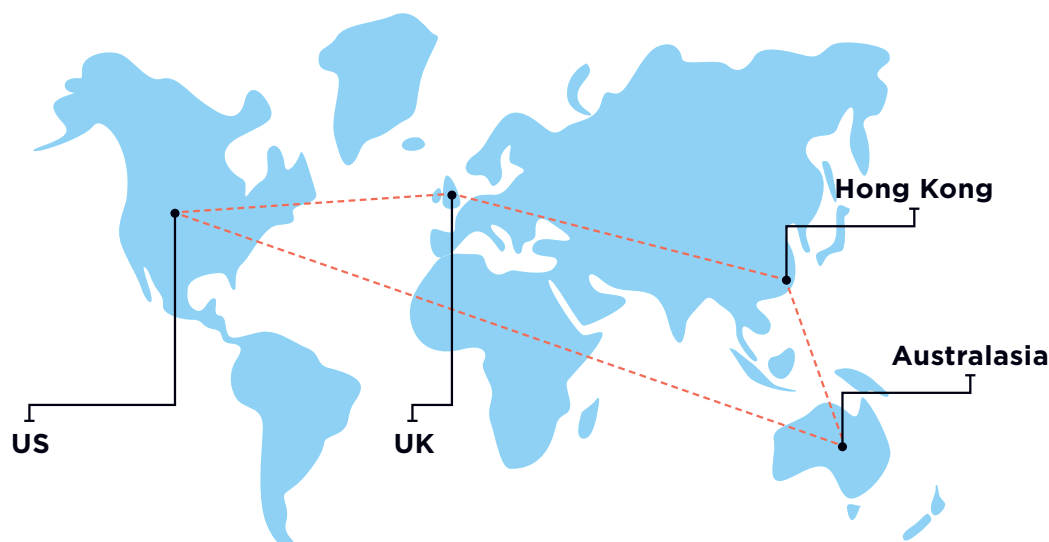
¹ Alternative performance measure, see note 29 for definition and reconciliation to IFRS primary statements.

GROUP AT A GLANCE

IP Group's purpose is to evolve great ideas into world-changing businesses. We achieve this by systematically helping to create, build and support outstanding intellectual property-based companies.

We partner with leading research institutions in countries where leading research is produced. The Group has three areas of geographic focus: the UK, the US and Australasia.

Accessing intellectual and financial capital from leading global hubs



Engagement and impact

Since the Group was founded, we have formed and supported over 300 companies in total and have invested more than £850m into those businesses which, in turn, have raised more than £4.4bn of funding. We estimate that more than 5,000 jobs have been created through IP Group and its portfolio companies. IP Group's vision is to create an international leader in IP commercialisation. Through our two divisions, Life Sciences and Technology, we evolve great ideas into world-changing businesses.

£4.4bn

RAISED BY
PORTFOLIO COMPANIES

300+

COMPANIES
CREATED

£850m+

INVESTED IN DEEP
TECH BUSINESSES

£1.1bn

NET ASSET VALUE
108 PENCE PER SHARE

5,000+

JOB
CREATED

ALIGNED WITH
SUSTAINABLE
DEVELOPMENT
GOALS



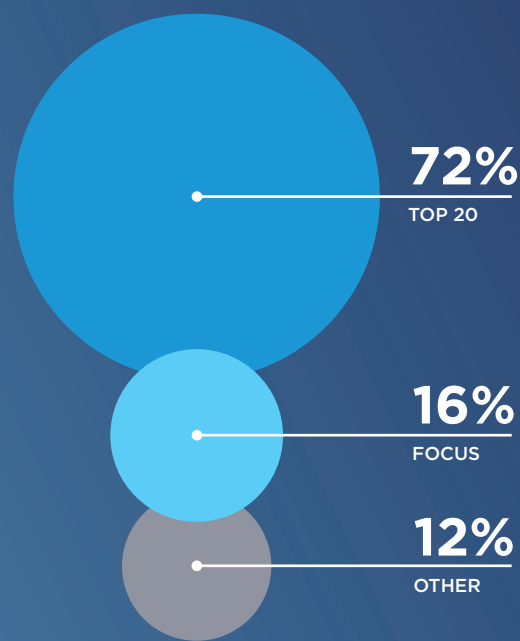
READ ABOUT OUR PARTNERS
IN OUR BUSINESS MODEL ON
PAGES 10 AND 11



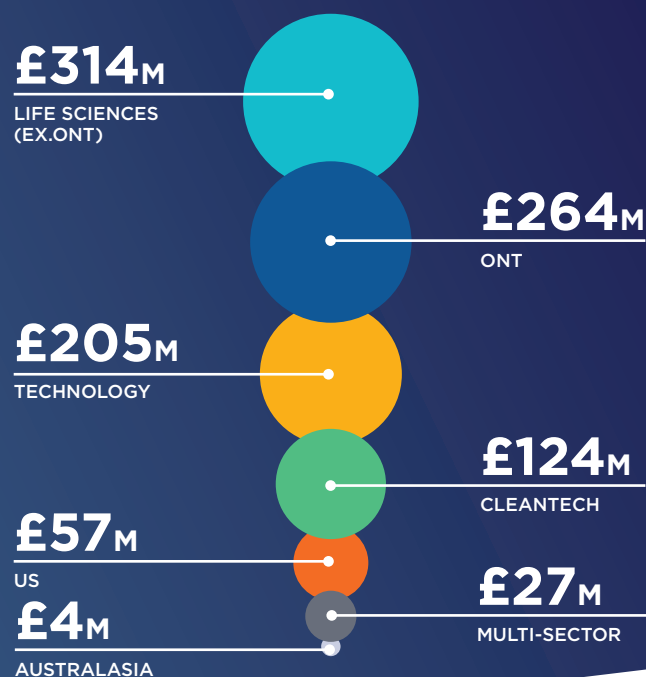
READ ABOUT OUR
PORTFOLIO PERFORMANCE
ON PAGES 21 TO 31

Portfolio summary by stage, sector and geography

FAIR VALUE BY STAGE



VALUE BY SECTOR/GEOGRAPHY



Portfolio analysis – UK breakdown

		Technology	Cleantech	Life Sciences	Multi-sector	Total UK Portfolio
Value of companies in the portfolio		£204.5m	£124.3m	£578.1m	£26.7m	£946.6m
2019 net portfolio gain/(loss)		(£38.7m)	£25.8m	(£43.8m)	£0.3m	(£51.5m)
Number of portfolio companies ¹		41	16	42	2	101
STAGE	Top 20	£114.5m	£104.1m	£463.5m	£23.9m	£706.0m
	Focus	£57.4m	£15.0m	£71.3m	–	£143.7m
	Other	£32.6m	£5.2m	£43.3m	£2.8m	£83.9m

¹ Excluding organic and de minimis (89 companies)



READ THE FULL
PORTFOLIO ANALYSIS
ON PAGES 30 TO 31

STRATEGIC REPORT

CHAIRMAN'S SUMMARY



Sir Douglas Flint
Chairman

During 2019, the Group focussed on its financial priorities including generating realisations and managing the Group's net overheads.

2019 was a pivotal year for IP Group. It was the year in which the resilience of the Group, its operating and funding models and the cohesion and adaptability of its management team, were all severely tested. Our share price fell by 35% during the year to close at 71p, while net assets per share reduced by 6% to 108p. It is testament to the strength of the Group's culture, in particular executive management's determination to demonstrate the latent value within the portfolio of companies, that we enter 2020 in a more sustainable financial position than that in which we entered 2019. This has yet to be reflected in the share price which, after an initial recovery, has fallen further in 2020 as part of the recent general market decline. The share price therefore remains significantly below the Group's year end net asset value per share, a gap that the Board is focused on reducing.

At the outset of 2019, the Board recognised that it was no longer prudent to continue to rely upon a funding model dominated by a small number of shareholders, a number of whom were facing their own challenges, due in part to weakening public market sentiment for smaller, technology driven companies. This led to the Board exploring the full range of alternative operating and funding models to determine which were best suited to support the Group's backing of world-changing technology through its 'cradle to maturity' operating model. The urgency of this review was accelerated upon the well-publicised difficulties surrounding Woodford Investment Management who had hitherto been a leading supporter and investor in IP Group.

Management's response to the challenges the Group faced was both insightful and pragmatic. There was a clear recognition that hard choices needed to be made, first to realise cash from the portfolio and second, to be even more selective in deploying our valuable financial and management resources to the portfolio companies most likely to

demonstrate returns in the short to medium term. The cohesion and adaptability displayed by executive management in making the necessary choices was impressive. Through the course of 2019, the Group made cash realisations from the portfolio of £79.5m, a record sum, and ended the year with gross cash resources of £194.9m, significantly ahead of its plan. This was achieved after supporting the portfolio with a further £64.7m of investment.

2019 was also the year in which the maturity of the portfolio began to show clearly the value inherent from the range and depth of past investment activity. A few examples illustrate this well. Life Sciences portfolio company, Istesso, successfully concluded Phase 2a trials for its leading investigational drug, with no serious adverse events and some evidence of clinical benefit. Oxford Nanopore's technology was selected for the population-scale 'Genome Program' launched by Abu Dhabi's Department of Health. Oxford Nanopore also successfully negotiated primary and secondary funding deals at the turn of the year, which confirmed its valuation and encouraged optimism over future growth. Finally, Ceres Power further developed its industrial partnerships with leading global companies in the power generation and supply sectors, building on its global leadership in fuel cell technology. The company is on track to make a meaningful contribution to the achievement of a lower carbon future. The Chief Executive's review covers these in more detail together with other notable developments within the portfolio.

Coincident with this, the Group's recent expansion of its University partnership model into both Australia and the United States showed encouraging progress, both in terms of portfolio investment and fresh sources of funding. A highly successful roadshow of portfolio



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

Sir Douglas Flint,
Chairman

companies in Beijing in October added to the growing international reach and reputation of the Group.

This progress, without doubt, contributed to the company's ability during 2019 to reshape its shareholder base. A bookbuild led by BofA Securities in September facilitated liquidity for departing shareholders and attracted a broad range of new shareholders including leading public pension fund, RPMI Railpen, who have built their stake in the Company to just over 15%. We are delighted to welcome them as shareholders.

We took steps during the year to strengthen the Board in terms of experience and prepare for known retirement plans. Dr. Caroline Brown, a seasoned Non-executive Director ("NED") in energy and technology focussed companies, with a successful investment banking career behind her, joined the Board on 1 July. On 1 August we welcomed Aedhmar Hynes to the Board who brought with her invaluable experience from having founded and led a global, US-based, digital marketing and communications business. Jonathan Brooks, who served on the Board for nearly nine years, is stepping down from the Board as of today. On behalf of shareholders and the Board I want to record our sincere appreciation of his dedication and wise counsel over his period of service. Dr. Brown has taken over his role as Chair of the Audit and Risk Committee, and Heejae Chae succeeds him as Chair of the Remuneration Committee.

The current year has started well with the Group realising a further £55.4m

of cash from its portfolio in the year to date. The major contributors to this have been Oxford Nanopore, as described above, and Ceres, who in January announced that Bosch was increasing its equity shareholding in the company to c.18% from c.4% - a significant strategic step forward in the partnership, established in August 2018 following successful collaboration on technology development and manufacturing in both the UK and Germany. IP Group took this opportunity to realise a small portion of its investment in Ceres while retaining a significant holding in the company. Following this announcement, Ceres Power has seen its share price rise 37% in early 2020 adding approximately £25m to the value of our shareholding. Overall, as at 10 March 2020, the Group's quoted portfolio has seen a net fair value gain of £20m, versus a decline in the AIM market of 16% over the same period.

There is still, however, much to do to build on the reshaping of the Group, which commenced last year but we start from a good position, with momentum within the portfolio and against a backdrop of strong commitment from the new Government to expand support and development to the UK's leadership positions in science and technology.

We also benefit from a strong purpose-led and entrepreneurial culture at IP Group, one in which our team are deeply committed to the Group's aim of delivering and supporting world-changing businesses for the benefit of all stakeholders. IP Group recognises that meaningful engagement with

stakeholders is critical as it enables the Board to make informed decisions. In my role as Chair, I held a number of meetings with shareholders during the course of the year. Engagement with all stakeholders is reported in further detail on pages 66 to 75.

As the world seeks expanded support from technology to contribute to addressing the major challenges of our time in terms of climate change, demographic ageing and more productive use of scarce resources, IP Group is well placed through our portfolio companies to be part of the solutions needed. The Group is monitoring the spread and impact of Coronavirus, which has caused significant volatility in global equity markets, focusing on the safety of our employees and monitoring potential impacts within our portfolio. Oxford Nanopore is supporting and collaborating with public health professionals enabling real-time genomic surveillance to be used in the fight against the virus around the world.

Finally, I want to express the Board's appreciation of all our colleagues working for the Group who, in challenging times, worked tirelessly and effectively to secure the strong position from which the Group can now build.



Sir Douglas Flint
Chairman

10 March 2020

MARKET

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

Competitive environment

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

Market environment

The year was characterised by significant geopolitical developments, including the US/China trade war and the spectre of Brexit in the UK, and the consequent increased political and economic uncertainty. In addition, there were significant developments in investor appetite and sentiment in the UK following the closure of Woodford Investment Management.

As a result, the number of companies and organisations seeking to commercialise intellectual property, and/or provide capital to spin-out companies from universities and research-intensive institutions in the UK, declined this year. This caused a significant downturn in sentiment in the sector in the UK with a number of other capital providers also taking a far more cautious approach with

access to capital in the UK coming under pressure in 2019. In response, IP Group focussed on driving value from its diversified and maturing portfolio of assets by substantially increasing cash realisations, either by partially or fully exiting holdings in some companies.

In addition, there was a continuation of the trend that private companies have, on the whole, found it easier to raise finance at attractive valuations than those on the public markets and thus we have seen companies staying private for longer.

As is more fully described in the risk management section on pages 36 to 49, while the ongoing European Union exit negotiations may have an impact on the Group's business, management has taken mitigating actions in recent years, including diversification of access to both research and capital. The Group has operations, portfolio companies and co-investors in the UK, US, Australasia and Asia. In addition, the Group continues to take steps to broaden its shareholder register and counts several large global investors among its shareholder base.

IP Group's key differentiators

IP Group's approach to building and supporting businesses is one of the ways in which it differentiates itself from more traditional venture and fixed life funds. As described in the business model on pages 10 to 11, the Group actively supports the development of its portfolio companies through access to early-stage business-building expertise,

interim executive support, technical and commercial networks and senior team recruitment and development in addition to the provision of capital.

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

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



**READ MORE ON
PARKWALK ON
PAGE 14**

Key differentiators



INTERNATIONAL GROUP WITH OPERATIONS IN THE UK, US, AUSTRALIA AND ASIA, AND AN INTERNATIONAL SHAREHOLDER AND CO-INVESTOR NETWORK.



ESTABLISHED PARTNER RELATIONSHIPS WITH LEADING RESEARCH INSTITUTIONS, GIVING ACCESS TO POTENTIALLY DISRUPTIVE IP AROUND THE WORLD.



BALANCED AND MATURING PORTFOLIO OF EXCITING COMPANIES BASED ON 'DEEP SCIENCE'.



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PERMANENT CAPITAL STRUCTURE, ENABLING THE PROVISION OF FUNDING FROM 'CRADLE TO MATURITY' UNCONSTRAINED BY TRADITIONAL FIXED-LIFE VC FUND APPROACH.



TRACK RECORD BUILT OVER 15+ YEARS.



STRONG PORTFOLIO FOCUS ON ESG AND POSITIVE IMPACT ON SOCIETY.



IP Group aims to address some of the world's most pressing challenges through the companies and innovation we back and support, allowing us to generate positive social and environmental impact alongside financial returns.

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



**READ ABOUT OUR
SUSTAINABILITY
ON PAGES 50 TO 53**

BUSINESS MODEL

The Group focuses on evolving great ideas, based on scientific research mainly from universities, into world-changing businesses. We aim to address some of the world's most pressing challenges through the companies we back, allowing us to achieve a positive impact on the environment and society as well as a financial return. Over the years, we have developed a unique approach to creating, building and supporting outstanding businesses along the journey from 'cradle to maturity' to provide attractive returns for all of our stakeholders.

Our key resources



Intellectual capital

Our knowledge, expertise and experience provides a unique understanding of how to generate value from scientific research as well as our industry and our portfolio.



Capital

We deploy capital, whether from our balance sheet or from funds raised through our 100%-owned FCA-authorized subsidiaries IP Capital and Parkwalk Advisors (read more about Parkwalk on page 14), to back, build and develop promising companies.



Employees

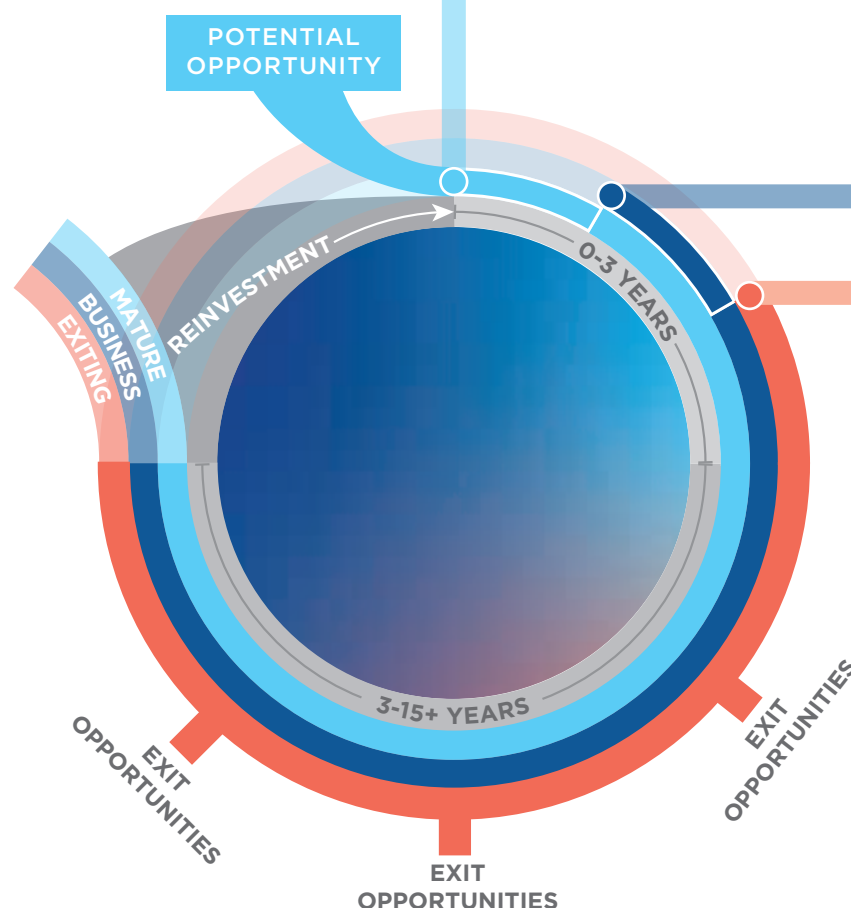
Our employees enable us to identify, back, build and support businesses that have a positive impact on the world.



Relationships

We work closely with university and/or research and corporate partners around the world to identify and back promising research as well as with a number of capital partners and individuals to help finance promising companies.

Our key activities



The Group applies its policy and ethical framework to its selection and investment decisions and ongoing portfolio management to ensure that the Group focuses only on companies which create a positive impact.



READ MORE ON ESG
ON PAGES 50 TO 53

How we ensure our business model is sustainable

The Group remains extremely focused on actions that will bring it into a more sustainable position, having taken steps to streamline its operations following the Touchstone acquisition in late 2017, reducing both cost and complexity in the business. We have also slimmed the portfolio, disposed of a number of smaller investments and increased the rate of realisations. These actions have positioned the Group well to deliver significant benefits for all stakeholders over time.

How we add value

Companies need more than just capital to thrive. IP Group's technical experts are critical in identifying opportunities and understanding the markets these companies operate in and the issues that they face. The knowledge that the Group has accumulated in building and supporting growth companies over time is crucial to our success.



READ ABOUT OUR
SUSTAINABILITY ON
PAGES 50 TO 53

Value created for stakeholders

For portfolio companies

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

Provided £67.4m to portfolio companies and projects (2018: £100.9m)



READ ABOUT OUR
SUSTAINABILITY ON
PAGES 50 TO 53

SELECTION

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

INCUBATION

Typically, a company will be set up and owned by the academic team, the university and any other founders. IP will be transferred in and an initial investment made with IP Group represented on the Board and typically taking a very hands-on approach. Time and a limited level of capital are then deployed by IP Group, often alongside 'soft' grant funding, to develop the ideas to early commercial and technical validation using stringent milestones.

SEED

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

SCALE-UP AND ACTIVE MANAGEMENT

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

Our supporting framework

Deep sector expertise

Our sector experts take a hands-on role in identifying promising opportunities and are the primary interface between the Group and the universities/research institutions, evaluating very early-stage opportunities and then developing and shaping them into businesses. They work closely with founders to shape strategic direction and frequently take an interim commercial management role. As the portfolio companies develop, the sector experts' interactions remain hands-on but become increasingly strategic and non-executive in nature as the company management team builds out.

IP Capital

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

IP Exec

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

Additional support

We also provide operational and legal support, to our portfolio companies with a view to minimising the most common administrative factors that can contribute to early-stage company failure. Our in-house IP specialism assists companies with optimising their IP strategy.



For society including the community and the environment

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

More than 5,000 jobs created (2018: more than 5,000 jobs created)

For employees

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

The Group has set up an employee forum and a number of working groups around ESG

For shareholders

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

Hard NAV of £1.1bn (2018: £1.2bn)

For universities and research institutions

- Working with a trusted partner with a strong track record
- Working with the global industry leader
- New company creation and job and value creation

More than 300 companies formed and supported (2018: more than 300 companies formed)

For capital partners

- Investing in companies that have a positive social and environmental impact
- A diverse portfolio of opportunities and exposure to high-growth businesses in growth markets
- Financial returns

Hard NAV of £1.1bn (2018: £1.2bn)

OUR STRATEGY

Systematically building businesses

Our strategic aims	What we did in 2019 to address our objectives
 To create and maintain a pipeline of compelling intellectual property-based opportunities	• Provided capital for the first time to 10 companies or projects: two UK, two US¹, six Australasia (2018: nine total: five UK, two US, two Australasia)
 To develop and support these opportunities into a diversified portfolio of robust businesses	• Maintained board representation on more than 90% of our 57 'focus' companies • IP Exec team placed eleven senior executives with portfolio companies, of which six were chair appointments and three were non-executive director appointments • Portfolio fair value decreased to £1,045.6m after net portfolio losses² of £43.9m • Total capital raised by portfolio companies of £430m during 2019
 To deliver attractive financial returns on our assets and third-party funds	• Generated cash proceeds of £79.5m • Net portfolio losses¹ of £43.9m • Provided £64.7m of capital to 55 distinct portfolio investments • Portfolio of 130 companies and two multi-sector investments with a combined total value of approximately £5bn • Over £50m of EIS funds raised by Parkwalk during 2019, with £65m invested into companies • Total funds managed or advised by Group subsidiaries now in excess of £400m

¹ Excluding pre-incorporation sponsored research projects.

² Alternative performance measure, see note 29 for definition and reconciliation to IFRS primary statements.



READ ABOUT OUR KPIs
ON PAGES 16 AND 17

Objectives for 2020	Link to KPIs
• Maintain a similar level of new opportunity formation in the UK and US • Create additional opportunities from Australasian partner universities • Maintain exposure to similar level of world-class commercialisable IP through partner relationships with UK, US and Australasian academic institutions	• Number of new portfolio companies • Purchase of equity and debt investments
• Increase value of portfolio company holdings through hands-on support and development • Replicate our successful UK support model in the US and Australasia through the provision of local business support, IP Exec and IP Capital offerings • Seek to maintain approach of direct IP Group representation on spin-out company boards • Increase the number of executive search mandates within IP Exec and assist portfolio companies to increase diversity of boards • Complete capital raising mandates for certain portfolio companies requiring finance from non-Group sources • Continue to provide specialist support services such as IP Exec and corporate finance advice	• Number of new portfolio companies • Purchase of equity and debt investments • Hard NAV • Return on Hard NAV • Purchase of equity and debt investments
• Seek to continue net long-term increase in portfolio value and net assets • Assist, directly or indirectly, portfolio companies to access public and private markets to raise development capital • Where appropriate, generate cash realisations from portfolio • Generate attractive performance in Group's managed funds	• Return on Hard NAV • Net portfolio gains/(losses) • Proceeds from sale of equity investments

OUR STRATEGY IN ACTION: PARKWALK

Parkwalk is an award-winning EIS growth fund manager, which IP Group acquired in 2017.

Parkwalk has co-invested £71.8m with IP Group since inception, including £43.9m in the last three years of IP Group ownership.

Acquired complementary business that is well aligned with the Group's strategy.



READ ABOUT OUR
PORTFOLIO STEWARDSHIP
ON PAGES 60 AND 61

The company

Parkwalk is an award-winning EIS growth fund manager which IP Group acquired in 2017. Parkwalk is closely aligned with the Group, backing world-changing technologies out of UK universities and research institutions with the aim of delivering world-class returns.

Parkwalk now has assets under management of over £300m including funds managed in conjunction with the universities of Oxford, Cambridge and Bristol and was the largest EIS fund (by monies raised) in the 2018/2019 tax year. In March 2020, Parkwalk announced a new EIS fund with Imperial College London, its first Innovation Fund, to invest in early-stage, high-growth, knowledge-intensive companies.

In 2019, Parkwalk invested £65m in the university spin-out sector across 38 companies including four companies in the core IP Group portfolio. These investments include opportunities in plant genetics, graphene production, AI and genomics.

Link to strategy

Through the EIS funds that Parkwalk manages, it provides capital to growth companies. The Group is also focussed on generating attractive performance in its managed funds for stakeholders.

Link to sustainability and the SDGs

Parkwalk is aligned with the Group's work on sustainability and influences SDGs 17 (partnerships for the goals), 8 (decent work and economic growth) and 5 (gender equality) in particular, and has also mapped its portfolio against the SDGs, see more on page 52 to 53.



PARKWALK: 2019 IN NUMBERS

44

DEALS
COMPLETED

NAMED
TOP 10

GLOBAL INVESTOR IN IOT

APPROACHING
£300m

AUM

£1bn

RAISED BY
PORTFOLIO IN CO-
INVESTMENT TO DATE

15

NEW COMPANIES
(95 TOTAL)

10

EXITS THIS YEAR
(29 EXITS IN TOTAL)

£65m

INVESTED
(£240M TOTAL)

2

UNIVERSITY SEED FUNDS
CLOSED (OXFORD V
AND BRISTOL III)

LARGEST
EIS FUND

BY AMOUNT RAISED

OUR STRATEGY IN ACTION: DUKOSI

IP Group first invested in Dukosi in 2014, seeing the potential for its disruptive technology in the rapidly growing battery market. We have worked closely with the business ever since and, through multiple investment rounds, built a substantial stake.

The Company

Dukosi is a pioneer in battery optimisation and management. Its patented approach maximises the performance, reliability and safety of batteries in applications from electric vehicles to grid storage systems, bringing benefits through the whole battery value chain.

Link to strategy

The IP Group Cleantech team had been tracking batteries as a potential investment area for some time, and was particularly interested in innovations focused on the electronics/control of the batteries that could be applied across multiple different battery chemistries. Dukosi was identified when it was a small team of three people as having an interesting approach to the battery market and the Cleantech team believed that with appropriate funding and support, it could have real potential.

This has proven to be the case. Dukosi was acquired by KCK in October 2019, delivering an overall gross IRR of 32.5%, following five years of investment and close support from IP Group. Jamie Vollbracht, IP Group Cleantech partner, was the Group's representative on Dukosi's board and was very hands-on in supporting the business from the early days working on value proposition enhancement to latterly guiding the exit process. The expertise of IP Exec, IP Group's in-house executive search function, was also used to identify and recruit new senior executives and strengthen the board.

Link to sustainability and the SDGs

IP Group's investment in Dukosi reflects our commitment to building world-changing businesses that have positive environment impacts. It is also aligned with our work on the SDGs on 7 (Affordable and Clean Energy), 9, (Industry, Innovation and Infrastructure) and 13 (Climate Action).



This sale marks the start of the next phase for the business and represents a great result for all stakeholders."

Jamie Vollbracht, Cleantech partner, IP Group



KEY PERFORMANCE INDICATORS

Measuring our performance: focusing on delivery against our strategy

Financial KPIs	Further description	2019 performance
Hard NAV ¹	The value of the Group's assets less the value of its liabilities, including minority interest, less intangible assets	£1,141.5m (2018: £1,217.5m)
Return on Hard NAV ¹	Total comprehensive income or loss for the year excluding amortisation of intangible assets, share-based payment charges and the charge in respect of deferred and contingent consideration deemed to represent post acquisition services under IFRS 3	Negative £73.7m (2018: negative £75.6m)
Purchase of equity and debt investments	The total level of capital deployed from the Group's balance sheet into portfolio companies during the year	£64.7m (2018: £100.9m)
Net portfolio gains/(losses) ¹	Movement in the fair value of holdings in portfolio companies due to share price movements, other increases/decreases in fair value	(£43.9m) (2018: £48.4m)
Net overheads ¹	The Group's core overheads less operating income	£22.6m (2018: £26.0m)
Proceeds from sale of equity investments	The total amount received from the disposal of interests in portfolio companies	£79.5m (2018: £29.5m)
Non-Financial KPIs		
Number of new portfolio investments	The number of portfolio investments that received initial capital from the Group during the year	10 (2018: 9)

¹ Alternative performance measure, see note 29 for definition and reconciliation to IFRS primary statements.

Key

- | | | |
|---|---------------------------------------|--|
| 1 Insufficient capital: Group | 4 Failure of university relationships | 7 Legislation, governance and regulation |
| 2 Insufficient capital: Portfolio companies | 5 Personnel risk | 8 Cyber & IT security |
| 3 Uncertain investment returns | 6 Macroeconomic conditions | 9 International operations |

Strategic element	Risks potentially impacting KPI	Link to performance-related director remuneration
To grow the value of our assets (and those we manage on behalf of third parties) and deliver attractive financial returns from these assets	1 2 5 6 7	LTIP 2017 – 2019
Portfolio fair value movement has the most material impact on this figure, which also reflects corporate expenses. Measures the development of portfolio companies and return on our assets	1 2 5 6 7	2019 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	2 3 4 6 7	Indirectly impacts both Return on Hard NAV and Hard NAV
To develop IP-based businesses and grow their value	1 2 5 7	Indirectly impacts both Return on Hard NAV and Hard NAV
To control the Group's operating cost base	1 4 6 7	2019 annual incentive
Cash from proceeds can be used for redeployment into the portfolio or for new opportunities	1 2 5	2019 annual incentive
Build and maintain a pipeline of IP-based opportunities and develop these into robust businesses	3 4 5 6 7	Indirectly impacts both Hard NAV and Return on Hard NAV (see above)



READ ABOUT OUR
STRATEGY ON
PAGES 12 AND 13



READ ABOUT OUR
RISKS ON
PAGES 36 TO 49



READ ABOUT OUR
REMUNERATION ON
PAGES 98 TO 117

CHIEF EXECUTIVE'S OPERATIONAL REVIEW



Alan Aubrey
Chief Executive Officer



The Group's portfolio saw a net fair value reduction of 4% during 2019 and, while disappointing, this reflects ongoing rationalisation and significant headwinds, particularly in the UK market. Importantly, our three most valuable holdings, Oxford Nanopore, Istesso and Ceres Power, made excellent progress during the year with Oxford Nanopore and Ceres Power also announcing positive developments since the year end."

Alan Aubrey,
Chief Executive Officer

During 2019, the Group focussed on its financial priorities including generating realisations and managing the Group's net overheads.

Summary

During 2019, the Group focussed on its financial priorities including generating realisations and managing the Group's net overheads. The Group continued to prioritise maintaining strong liquidity and our targeted disposals programme resulted in record cash realisations from our portfolio in 2019 of £79.5m (2018: £29.5m), resulting in year-end cash balances of £194.9m while net overheads for the year reduced to £22.6m (2018: £26.0m).

This was a positive outcome in a year characterised by significant geopolitical developments and the consequent increased political and economic uncertainty as well as challenging market sentiment. Against that backdrop, there were fewer large-scale capital raises completed by the Group's portfolio companies in 2019 than in the previous year. As a result, the total portfolio capital raised reduced to £430m of which the Group contributed £64.7m (2018: £717m; £100.9m). Further, and continuing a trend also evident in 2018, less than 1% of the £430m total capital raised was from parties with a shareholding of 1% or more in IP Group (2018: 6% of £717m).

In addition to the recent success in generating cash realisations from its increasingly mature portfolio, the Group has been seeking to broaden its formal access to third-party private capital. The Group's 'hybrid' strategy for accessing capital for its portfolio companies comprises funds from its 'evergreen' balance sheet, third-party funds under management or advisement, and its wide network of international co-investors. In recent years, the Group has developed the second category through its market leading EIS fund management business, Parkwalk Advisors, and in Australia through its advisory mandate with Hostplus, one of the largest Australian Superannuation Funds. In addition, the Group has seen recent success in attracting blue-chip

family office investment into its US platform. The Group continues to explore several similar opportunities.

In 2019, the Group also took further actions to focus the portfolio, aimed at returning to NAV growth in the short to medium term, while our three most valuable assets Oxford Nanopore, Ceres Power and Istesso, which account for 37% of net asset value, all performed strongly in the year.

As at 31 December 2019, the fair value of the Group's portfolio was £1,045.6m (2018: £1,128.2m). This reflects net portfolio fair value reductions of 3.9% or £43.9m (2018: £48.4m) during the period. Including Net Overheads, the overall Return on Hard NAV for the period was negative £73.7m (2018: negative £75.6m), or around 7p per share, with the Group finishing the period with Hard NAV per share of 107.8p (2018: 115.0p).

The Group's purpose of addressing some of the world's most pressing challenges through the companies we back remains highly relevant. Our portfolio is well aligned with the UN's Sustainable Development Goals and we have made good progress this year in embedding ESG matters across our organisation. Our team are deeply committed to the Group's purpose, which is reflected in our culture and this, as well as our focus on sustainability, is reported in greater detail on pages 50 to 65.

UK portfolio

The UK portfolio continues to represent more than 80% of the Group's net assets and our teams have directed time and resources primarily at the focus assets considered most likely to have a meaningful impact on Group NAV in the short to medium term. The Group also continued to invest capital cautiously, primarily into those focus assets.

Individual company highlights in the portfolio came from Oxford Nanopore, Istesso and Ceres Power, which all announced significant

technical and/or commercial developments. Oxford Nanopore confirmed a more than doubling of revenues in 2018 to \$43.7m and orders to \$60.6m, alongside opening a new factory in Oxfordshire this year to support rapid growth in demand for nanopore sequencing technology. In January 2020, Oxford Nanopore announced it had raised £29.3m of new capital and facilitated the secondary sale of £80.2m of shares, an aggregate investment of £109.5m. The resulting fair value gain was reflected in the Group's 2019 results while the £22.0m cash proceeds were received in February 2020.

Istesso, the Group's most valuable life sciences company holding, announced positive headline results from its Phase 2a study of MBS2320, its investigational drug for the treatment of rheumatoid arthritis. In the third quarter of the year, Istesso was notified by its collaboration partner J&J that it did not intend to exercise its option in respect of the programme. We see this as a neutral development when offset against the increase in value conferred by the positive Phase 2a data. The J&J partnership was signed in 2014 at a pre-clinical stage, whereas the drug is now in Phase 2 with a novel mechanism-of-action that has potential in rheumatoid arthritis, other autoimmune conditions and cancer. Thus, we believe that the product has significant development potential and licensing value as an unencumbered asset. Ceres Power also announced a number of key milestones, including its first product launch, having jointly developed a fuel cell heat and power system with Miura Co. Ltd, Japan's largest industrial boiler company, as well as an £8m collaboration and licensing agreement with South Korea's Doosan. In January 2020, Ceres completed a £38m financing, and announced that Bosch increased its holding in Ceres to c.18% from c.4%, and extended its strategic relationship.

These positive performances were, however, offset by the reduction in value of a number of life sciences companies due to clinical or commercial setbacks. The Group

regularly assesses its portfolio and, particularly in light of their recent performance, has given consideration to those therapeutic development companies in its life sciences portfolio, which, excluding Istesso, are valued at £144m. Management considers that there continues to be a significant opportunity to generate value for stakeholders through therapeutic development companies, a view supported by a significant recent McKinsey & Company report, *Biotech in Europe: A strong foundation for growth and innovation*. However, recognising the risk profile typically associated with such companies, going forward it intends to direct capital expenditure at a smaller number of high conviction assets with a target ownership of at least 25%.

In the Cleantech portfolio, while First Light Fusion successfully commissioned its pulsed power fusion demonstrator, 'Machine 3', it has not yet demonstrated a fusion reaction, a delay to the targeted schedule that it had previously communicated. The company remains confident, however, that achieving fusion is a matter of time and believes there is no fundamental issue with its approach. This view is supported by the eminent First Light Scientific Advisory Board.

Further information on the performance of the Group's portfolio businesses is provided in the Portfolio Review on pages 21 to 30.

Parkwalk Advisors

Parkwalk, the Group's specialist EIS fund management subsidiary, now has assets under management of over £300m (2018: £220m) including funds managed in conjunction with the universities of Oxford, Cambridge and Bristol and, for the first time in 2020, Imperial College London. Parkwalk has managed the largest EIS fund (by monies raised) in each of the last three years. In 2019, Parkwalk invested £65.0m (2018: £64.3m) in the university spin-out sector across 38 companies including four companies in the core IP Group portfolio. Fifteen new companies joined the portfolio and Parkwalk achieved ten exits: five higher than cost (between

1.7x and 12.8x) and five lower. Investments were made across a range of technologies including plant genetics, graphene-based electronics, autonomous driving, cleantech, healthcare, AI and genomics. In 2019 Parkwalk liaised with the government and universities on improving the financial ecosystem for knowledge-intensive spin-out companies. Over the period Parkwalk received five awards, including 'Growth Investor of the Year'.

North America

In North America, IP Group, Inc. and its portfolio companies continued to make progress, achieving a number of financial and developmental milestones. Most notably, two companies in the portfolio secured external investment rounds from strategic and financial investors. Exyn Technologies, Inc. (University of Pennsylvania) raised \$16m in a Series A round, including investment from Centricus Asset Management, Yamaha Ventures, In-Q-Tel, Corecam Family Office, and Red and Blue Ventures; and MOBILion Systems, Inc. (Pacific Northwest National Laboratory) raised \$15.4m in a Series A financing, which included investment from Agilent Technologies, Hostplus, Cultivation Capital, and iSelect Fund. The total amount raised by the US portfolio was \$31m with 75% of the funds coming from external investment.

Prior to its Series A funding, MOBILion was deemed to be controlled by IP Group, and hence consolidated as a subsidiary. The successful Series A financing resulted in a dilution of the Group's shareholding and loss of control of the board of MOBILion, resulting in its deconsolidation as a subsidiary and recognition as a portfolio company. This resulted in a fair value gain of £10.6m.

Other advancements include Optimeos Life Sciences (Princeton University) signing a commercial agreement with an undisclosed pharmaceutical company, marking their third commercial deal to date. Chip Diagnostics (University of Pennsylvania) was awarded the Johnson & Johnson Quickfire



CHIEF EXECUTIVE'S OPERATIONAL REVIEW

CONTINUED

Challenge and will be collaborating with J&J on cancer diagnostics. MOBILion Systems partnered with strategic investor, Agilent Technologies Inc. to integrate its patented ion mobility separations technology, called Structures for Lossless Ion Manipulation (SLIM), with Agilent's Q-TOF mass spectrometry platform as its first commercial product offering. MOBILion also partnered with investigators at the Complex Carbohydrate Research Center at the University of Georgia to explore ion mobility technology in glycoscience. Exyn Technologies announced the commercial availability of its Autonomy Aerial Robots ("A3Rs"), the first and most advanced fully autonomous aerial system for data collection in GPS-denied environments. The US team closed six proof-of-concept investments with the University of Pennsylvania, National Renewable Energy Laboratory (NREL), Princeton University, the University of Washington and Yale University

In March 2020, IP Group, Inc. attracted further strategic investment into the US business, building on the investment made by two US-based blue-chip family offices during late 2018 and early 2019.

Australasia

In Australasia, the Group continued to build on the solid foundation of its partnerships with the Group of Eight and the University of Auckland, completing a further six new investments, bringing the portfolio to eight companies. Among these new investments were AMSL Aero (University of Sydney) which is developing a highly efficient novel electric vertical take-off and landing (eVTOL) aircraft platform, and Kira Biotech which is developing an

antibody against a novel target for the treatment of GvHD and other autoimmune diseases. Alongside these companies, the Group continues to build a strong pipeline of projects from across its university partners. The IP Group team in Australasia now stands at eleven, split between Melbourne, Sydney, Brisbane and Perth. In terms of capital, the Group continues to work with Hostplus, one of Australia's largest superannuation funds with over AUD46bn in funds under management through the AUD100m IP Group Hostplus Innovation Fund, which is invested in a number of companies across the global portfolio.

Greater China

Following the launch of IP Group Greater China in Hong Kong in 2018, two employees relocated from London HQ in 2019 to establish the office. The Greater China office continued to facilitate market entry and business partnership engagement with relevant Chinese partners for our portfolio companies. The Group hosted its third annual 'Global Deep Tech Forum' event in Beijing in October where 13 of our portfolio companies introduced their technology and business to over 200 attendees from the Greater China area. Having seen increasing business needs from our portfolio companies for local partnership, joint-venture, and/or supply chain management in China, the Group is working with top tier financial institutions in China to explore ways of providing our portfolio companies with support in accessing local capital as well as relationships with local customers and suppliers.

Outlook

During 2019 the Group realised a record £79.5m in cash from its portfolio, which exceeded investment for the first time since 2007. This strong cash generation has continued into 2020, with realisations to date now totalling more than £55m. Realisations from our maturing companies, the ongoing focusing and rationalisation of the portfolio as well as tight cost control has placed the Group in a strong financial position and these remain three areas of focus for the Group in 2020.

Our three most valuable holdings, Oxford Nanopore, Istesso and Ceres Power, made excellent progress during the year with Oxford Nanopore and Ceres Power also announcing positive developments since the year end. We also anticipate further commercial and technical updates from a number of other companies over the coming twelve months, including Diurnal, Featurespace, First Light Fusion, Microbiotica, PsiOxus, Ultraleap and Wave Optics. Consequently, we remain confident in the prospects of our portfolio, which we continue to believe includes world-changing businesses that will deliver significant benefits for multiple stakeholders.

Our portfolio aligns well with the UN's Sustainable Development Goals, such as Climate Action and Human Health, and we are well positioned to benefit from the increased investor interest in impact investing given the efforts being made by portfolio companies to address climate change, disease prevention, and an ageing population, among other issues.

Alan Aubrey
Chief Executive Officer
10 March 2020

PORTFOLIO REVIEW

OUR PORTFOLIO: ON THE PATH TO SELF-SUSTAINABILITY, WITH PORTFOLIO REALISATIONS EXCEEDING INVESTMENT

Overview

As at 31 December 2019, the value of the Group's portfolio was £1,045.6m (2018: £1,128.2m) reflecting net investment offset by net portfolio losses of £43.9m (2018: loss £48.4m). The portfolio consists of interests in 57 'focus' companies, representing over 87% of the portfolio value, and 75 other companies (2018: 61, 90%, 76). Of these, 99 are based in the UK, 23 in the US and eight in Australasia (2018: 122, 23, 2). In addition, the Group has holdings in two multi-sector platform businesses as well as a further 49 de minimis holdings and 40 organic holdings. (2018: 3, 44, 47).

The Group exited its interest in eight companies (2018: three) and realised total cash proceeds during the year of £79.5m (2018: £29.5m). In addition, £22.0m of cash from the Group's partial realisation of its holding in Oxford Nanopore was received in February, while a further £5.3m of deferred consideration was outstanding at year end (2018: £nil). The largest contributors to this cash figure were the Group's partial realisation of its holdings in Oxford Sciences Innovation plc (£32.1m), Concirrus Limited (£6.1m), Cambridge Innovation Capital plc (£4.3m) and Nexeon Limited (£4.0m), and the full realisation of its holdings in Process Systems Enterprise Limited (£13.8m), Dukosi Technologies Limited (£5.3m cash received in year, £5.0m deferred consideration), Circassia Pharmaceuticals plc (£4.6m) and Cortexica Vision Systems Limited (£4.5m).

During the year to 31 December 2019, the Group provided pre-seed, seed and post-seed capital totalling £64.7m to its portfolio companies (2018: £100.9m). The Group deployed capital into ten new companies and six new pre-incorporation projects during the year (2018: nine, zero). Two of the companies were sourced from the UK, two from the US and six from Australasia (2018: five, two, two), and the six pre-incubation projects were sourced from the US (2018: zero).

Performance summary

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

	2019 £m	2018 £m
Unrealised gains on the revaluation of investments	86.3	99.7
Unrealised losses on the revaluation of investments	(154.6)	(153.1)
Effects of movement in exchange rates	(2.3)	3.0
Change in fair value of equity and debt investments	(70.6)	(50.4)
Gain on disposals of equity investments	16.1	2.0
Gain on deconsolidation of subsidiary	10.6	—
Net portfolio gains/(losses)	(43.9)	(48.4)

The largest contributors to unrealised gains on the revaluation of investments were Ceres Power Holdings plc (£27.5m), Istesso Limited (£24.7m) and Oxford Nanopore Technologies Limited (£12.2m). These unrealised gains were principally offset by unrealised losses on the revaluation of Autifony Therapeutics Limited (£13.0m), PsiOxus Therapeutics Limited (£10.9m), Topivert Limited (£10.7m), AIM-quoted Actual Experience plc (£10.6m), and AIM-quoted Circassia Pharmaceuticals plc (£8.4m).

The performance of the Group's holdings in companies quoted on AIM saw a net unrealised fair value decrease of £12.4m (2018: decrease of £99.8m) while the Group's holdings in unquoted companies experienced a net fair value decrease of £58.2m (2018: increase of £46.4m).

Investments and realisations

The Group deployed a total of £64.7m across 55 new and existing projects during the period (2018: £100.9m, 77 projects), versus realisations of £79.5m (2018: £29.5m), resulting in overall net realisations for the year of £14.8m (2018: net investment of £71.4m).

An analysis of amounts invested by company focus as follows:

	2019 £m	2018 £m
Top 20	21.8	26.0
Focus	21.2	41.6
Other (including companies exited by 31 December 2019)	11.8	19.4
Total United Kingdom	54.8	87.0
United States ¹	6.9	13.2
Australasia	3.0	0.7
Total purchase of equity and debt investments	64.7	100.9
Less cash proceeds from sales of equity investments	(79.5)	(29.5)
Net (realisations) / investment	(14.8)	71.4

¹ United States investment total includes £1.6m (2018: £1.1m) invested in Uniformity Labs, Inc., which is one of the Top 20 holdings by value.

PORTFOLIO REVIEW

CONTINUED

Co-investment analysis

Including the £65m invested by the Group, the Group's portfolio raised a total of £430m during the year to 31 December 2019 (2018: £717m). Co-investment in 2019 came from more than 200 different investors, excluding individuals, and less than 1% of the funding came from parties with a greater than 1% shareholding in IP Group plc (2018: 6%). An analysis of this co-investment by source is as follows:

Portfolio capital raised	2019		2018	
	£m	%	£m	%
IP Group ¹	64.5	15%	100.9	14%
Funds managed by Parkwalk Advisors	13.2	3%	20.8	3%
IP Group plc shareholders (>1% holdings)	0.7	0%	43.1	6%
Institutional investors	147.0	34%	291.6	41%
Corporate, other EIS, individuals, universities and other	138.6	33%	234.6	33%
Capital into multi-sector platforms	66.3	15%	26.0	3%
Total	430.3	100%	717.0	100%

1. Reflects primary investment only; the Group made further £0.2m investment via secondary purchase of shares

Portfolio analysis by focus

At 31 December 2019, the Group's portfolio fair value of £1,045.6m was distributed across the portfolio as follows:

Stage	As at 31 December 2019				As at 31 December 2018			
	Fair value		Number		Fair value		Number	
	£m	%		%	£m	%		%
Top 20 by value	720.2	72%	20	15%	732.5	68%	20	13%
Focus	164.0	16%	37	28%	204.4	19%	41	27%
Other	110.2	12%	75	57%	147.7	13%	89	60%
Total	994.4	100%	132	100%	1,084.6	100%	150	100%
<i>De minimis and organic holdings</i>	13.0				8.3			
Total Portfolio	1,007.4				1,092.9			
Attributable to third parties ¹	38.2				35.3			
Gross Portfolio	1,045.6				1,128.2			

1 In the above table, the amount attributable to third parties consists of £17.2m attributable to minority interests represented by third party limited partners in the consolidated fund, IP Venture Fund II, £7.2m attributable to minority interests represented by third party limited partners in the consolidated US portfolio, £10.9m attributable to Imperial College London and £2.9m attributable to other third parties (2018: £18.7m, £5.5m, £8.1m and £3.0m).

Top 20 investments consist of the 20 most valuable holdings in the Group's portfolio by the period-end value. Focus investments are those investments that are not within the 20 most valuable, but on which the Life Sciences and Technology teams focus a significant proportion of their resources and capital. These investments typically, although not exclusively, fall within the 100 most valuable portfolio company holdings by period-end value, and they comprise 88% of the portfolio by value (2018: 84%). Outside of these companies, the portfolio contains a broad selection of potentially exciting opportunities, categorised as 'other'. Many of these opportunities are at an early stage, and they typically receive a lower level of capital and management resource.

Companies that are at a very early stage or in which the Group's holding is of minimal value, but remain as operating businesses, are classed as de minimis holdings. Organic holdings are investments in which the Group has acquired a shareholding upon creating the company as a result of our technology transfer relationship with Imperial College London, but in which we have not actively invested.

The total value of the Group's portfolio companies (excluding multi-sector platforms, organic investments and de minimis holdings) is almost £5bn.

Portfolio analysis by sector

The Group funds spin-out companies based on a wide variety of scientific research emerging from leading research-intensive institutions and does not limit itself to funding companies from particular areas of science. The Group splits its core opportunity evaluation, investment and business-building team into two specialist divisions, Life Sciences and Technology. Where the Group invests in businesses that cannot be classified within these divisions, primarily those portfolio companies which also invest in other opportunities, they are recorded as multi-sector platforms. An update on the two primary operating segments is included in the financial review below.

Sector	As at 31 December 2019				As at 31 December 2018			
	Fair value		Number		Fair value		Number	
	£m	%		%	£m	%		%
Life Sciences	598.7	60%	56	42%	624.5	57%	64	43%
Technology	372.0	37%	74	56%	396.9	37%	83	55%
Multi-sector platforms	26.7	3%	2	2%	63.2	6%	3	2%
Total	994.4	100%	132	100%	1,084.6	100%	150	100%
<i>De minimis</i> and organic holdings	13.0				8.3			
Total portfolio	1,007.4				1,092.9			
Attributable to third parties ¹	38.2				35.3			
Gross portfolio	1,045.6				1,128.2			

¹ The amount attributable to third parties consists of £17.2m attributable to minority interests represented by third party limited partners in the consolidated fund, IP Venture Fund II, £7.2m attributable to minority interests represented by third party limited partners in the consolidated US portfolio, £10.9m attributable to Imperial College London and £2.9m attributable to other third parties (2018: £18.7m, £5.5m, £8.1m and £3.0m)

PORTFOLIO REVIEW

CONTINUED

The following table lists information on the 20 most valuable portfolio company investments, which represent 71% of the total portfolio value (2018: 63%). Additional detail on the performance of these companies is included in the Life Sciences and Technology portfolio reviews.

Company name	Sector	Description	Significant named co-investors at 31 Dec 2019
Oxford Nanopore Technologies Limited	Life Sciences	Enabling the analysis of any living thing, by any person, in any environment	Amgen, CCB, GIC, Hostplus, Invesco, Lansdowne
Istesso Limited	Life Sciences	Reprogramming metabolism to treat autoimmune disease	Puhua Capital
Ceres Power Holdings plc	Technology	Cheaper, cleaner power for a changing world	Bosch, Oceanwood
Featurespace Limited	Technology	Leading predictive analytics company	Highland Europe, Insight, Invoke, MissionOG, TTV Capital, Robert Sansom
Garrison Technology Limited	Technology	Anti-malware solutions for enterprise cyber defences	BGF, Dawn Capital, NM Capital
Ultraleap Holdings Limited	Technology	Contactless haptic technology "feeling without touching"	Cornes, Dolby Ventures, Hostplus, Mayfair Partners
Inivata Limited	Life Sciences	Transforming clinical cancer care with liquid biopsy	Cancer Research, CIC, J&J Innovation, RT Partners
Oxford Sciences Innovation plc	Multi-sector	University of Oxford preferred IP partner under 15-year framework agreement	Blue Pool, Fosun Pharma, Invesco, Lansdowne, Redmile, Sequoia, Temasek, Tencent
Ieso Digital Health Limited	Life Sciences	Digital therapeutics for psychiatry	Draper Esprit
First Light Fusion Limited	Technology	Solving fusion with the simplest possible machine	OSI
Wave Optics Limited	Technology	Novel optical waveguides and modules for augmented reality displays	Bosch Venture Capital, Gobi Partners, GoerTek Inc., Octopus
PsiOxus Therapeutics Limited	Life Sciences	Gene and viral therapies for cancer	Invesco, Lundbeckfonden, Mercia, SR One
Uniformity Labs, Inc.	Technology	Equipment, materials and software for additive manufacturing	Not disclosed
Mission Therapeutics Limited	Life Sciences	Targeting deubiquitylating enzymes for the treatment of CNS and mitochondrial disorders	Pfizer, Roche, Sofinnova Partners, SR one, Schroder
YoYo Wallet Limited	Technology	Mobile payments with integrated loyalty schemes	Hard Yaka, LeadX Capital
Autifony Therapeutics Limited	Life Sciences	Developing high value, novel medicines to treat serious diseases of the central nervous system	Pfizer, SV Health Investors
Crescendo Biologics Limited	Life Sciences	Biologic therapeutics eliciting the immune system against solid tumours	Andera Partners, Astellas, EMBL Ventures, Quan Capital, Sofinnova Partners, Takeda
Oxbotica Limited	Technology	Software to enable every vehicle to become autonomous	Fundamental Insurance Investments
Creavo Medical Technologies Limited	Life Sciences	Next generation cardiac diagnostic device platform bringing magnetocardiography to the point of care	Puhua Capital, University of Leeds
Genomics plc	Life Sciences	Leading the genomic transformation of healthcare	Vertex, Foresight, F-Prime Capital, Tamorer, Invesco, Lansdowne, Schroder, OSI
Other companies (112 companies)			
De minimis and organic investments			
Value not attributable to equity holders ¹			
Total			

Primary valuation basis at 31 Dec 2019	Group Stake at 31 Dec 2019 ⁱ %	Fair value of Group holding at 31 Dec 2018 £m	Net investment/ (divestment) ⁱⁱⁱ £m	Unrealised Fair value movement and fees settled in equity £m	Fair value of Group holding at 31 Dec 2019 £m
Recent financing (within 0–6 months)	16.7	274.1	(22.5)	12.2	263.8
DCF*	56.4	57.9	–	24.7	82.6
Quoted (bid price)	18.6	47.1	–	27.5	74.6
Recent financing (within 6–12 months)	22.3	25.2	4.1	0.1	29.4
Recent financing (within 12–18 months)*	23.4	28.8	–	–	28.8
Recent financing (within 12–18 months)*	22.6	27.5	–	–	27.5
Recent financing (within 6–12 months)	28.2	18.9	4.1	1.0	24.0
Post-balance sheet transaction	3.2	55.5	(31.8)	0.2	23.9
Recent financing (anticipated)	46.6	13.9	2.0	2.5	18.4
DCF, market-based*	35.9	17.9	–	–	17.9
Recent financing (within 0–6 months)	17.5	15.2	–	–	15.2
PWERM*	26.3	22.6	2.8	(10.9)	14.5
Recent financing (within 18–24 months)*	22.8	13.1	1.4	(0.4)	14.1
PWERM	20.2	13.7	–	–	13.7
Recent financing (within 12–18 months)	39.6	13.7	–	–	13.7
DCF*	27.6	25.6	–	(13.0)	12.6
Recent financing (within 12–18 months)	18.7	12.3	–	–	12.3
Recent financing (within 0–6 months)	17.2	5.5	5.0	1.1	11.6
Recent financing (18–24 months) adjusted downwards	39.3	14.4	3.0	(6.1)	11.3
Recent financing (within 12–18 months)	12.7	10.3	–	–	10.3
		371.4	14.0	(111.2)	274.2
		8.3	(0.2)	4.9	13.0
		35.3	(1.2)	4.1	38.2
		1,128.2	(19.3)	(63.3)	1,045.6

i. Represents the Group's undiluted beneficial economic equity interest (excluding debt), including only the Group's portion of IPVF II, and the Group's portion of the US portfolio. Voting interest is below 50%.

ii. Includes £2.7m increase in revenue share to Imperial College London, with a corresponding increase in revenue share liability resulting in no net fair value movement.

iii. Includes £11.2m movement in respect of the deconsolidation of MOBILion Systems, Inc. and recognition as a portfolio company.

* Third party valuation specialists used for 31 December 2019 valuation

PORTFOLIO REVIEW: LIFE SCIENCES



Dr Sam Williams
Managing Partner,
Life Sciences

Review of the year

IP Group's Life Sciences portfolio comprises 56 companies worth £598.7m as at 31 December 2019.

Oxford Nanopore

Oxford Nanopore Technologies Ltd, the Group's most valuable holding, made further significant progress in 2019. The company, whose goal is to enable the analysis of any living thing, by anyone, anywhere, is behind the only real-time DNA/RNA sequencer that can sequence any read length. The technology is also fully scalable from smaller portable formats to larger devices for population-scale sequencing.

In 2019, expansion of the customer community continued as evidenced by the bank of more than 650 scientific publications, driven by continued technology improvement and a greater range of devices that serve broader market segments. Between 2017 and 2018, sales growth of 2.3x was achieved, whilst maintaining margins, and managing a small increase in operating expenditure (8%).

More recently, in January 2020, Oxford Nanopore announced that it had completed another successful fundraising, raising £29.3m of new capital and facilitating the secondary sale of £80.2m of shares, representing an aggregate investment of £109.5m. Funds were raised from both new investors and existing shareholders from the US, Europe and Asia Pacific. The fundraising brings the total primary investment in Oxford Nanopore to approximately £480m.

In early 2020, highlights also include the heavy involvement of Oxford Nanopore's technology in genomic surveillance during the novel coronavirus outbreak with the company shipping an additional 200 MinION sequencers and related consumables to China.

2019 highlights

Oxford Nanopore's technology has continued to be proven in broader applications. New publications and applications citing the technology in 2019 included workflows for rapid, accurate and data-rich cancer

genome analysis, pathogen analysis, crop genomes and human genetics and, in 2020, COVID-19 pathogen analysis and outbreak surveillance. The total number of publications citing nanopore technology for sequencing is now in excess of 750. The technology is also starting to be adopted beyond research laboratories into more regulated environments, and 2019 saw tests becoming available in infectious disease, HLA tissue typing and food safety.

Oxford Nanopore also continued to scale up production and in July, the first processes at its new manufacturing facility in Oxfordshire came online. The MinION building features what is one of the largest clean rooms in Europe and when fully fitted out will have the ability to run 20 modular production lines for the manufacturing of 1.2m flow cells a year. This will be achieved with deep automation, for consistent high-quality product and increasingly cost-efficient manufacturing.

In December 2019, Oxford Nanopore noted that its technology had been selected for the population-scale 'Genome Program' launched by Abu Dhabi's Department of Health. The project aims to be the first of its kind worldwide to provide citizens with their own high-quality genome as a baseline and aims to incorporate genomic data into healthcare management.

Technology

Oxford Nanopore has developed and commercialised a novel generation of DNA/RNA sequencing technology. Unlike any other sequencing technology on the market, nanopore sequencing provides all of the following features:

- The ability to sequence any length fragment of DNA/RNA, whether short to ultra-long – conferring benefits in genome assembly, the characterisation of structural variation, phasing and other advantages
- Real time analysis – with data available as soon as an experiment starts, analysis workflows can be shortened for rapid insights.



Oxford Nanopore technology has been selected for the population-scale 'Genome Program' launched by Abu Dhabi's Department of Health. The project aims to be the first of its kind worldwide to provide citizens with their own high-quality genome as a baseline and aims to incorporate genomic data into healthcare management."

Dynamic workflows are possible, for example 'adaptive sampling' where the device selects regions of interest (typically this has been done with sample preparation techniques)

- Scalability – to portable devices. This provides the unique ability to take the device into the field, or simply for researchers to operate a personal sequencer on-demand
- Scalability – to ultra-high yields, catering to large genome projects or larger genomes (e.g. human or plant genomes, at scale)
- Direct electronic analysis – resulting in rich biological information such as direct methylation or direct RNA sequencing

Notable technical developments in 2019 included:

- The delivery of PromethION 48 to the market in 2019. This device can run the full 48 flow cells concurrently. A single run using all flow cells, performed internally, has generated more than 7Tb of data. (for context, a human genome is ~3Gb). P48 is designed to address ultra- high throughput opportunities such as human or plant genomes, at scale.
- The introduction of Flongle, a flow cell adapter for MinION or GridION. This is the first on-demand, low cost sequencing solution for smaller tests on the market and is designed to open up new users and markets. Demand for Flongle has been very high and the company is currently scaling up production of this technology.
- Device upgrades in 2019 include GridION Mk1, PromethION 24, VolTRAXv2. The latter provides an automated, programmable sample prep solution that is designed to drive consistent high performance for any user – with or without lab skills or kit.

In addition, the company has focused on improving performance by enhancing yield, accuracy and usability, adding to existing disruptive properties such as portability, real-time data and long reads.

Recent customer records include the generation of 43Gb data from a

MinION Flow Cell and 180Gb from a PromethION Flow Cell. This translates to better value experiments for customers and increased uptake of the technology as it becomes increasingly cost competitive and able to enable larger projects. Yields have been driven by multiple factors including software upgrades and new kits that can 'refuel' flow cells. Oxford Nanopore has also addressed the increasing power of nanopore devices by providing high-performance GPUs for real time analysis in PromethION and GridION devices, as well as the MinIT accessory for MinION.

Multiple strategies have also been deployed to continuously increase accuracy, including the improvement of basecalling algorithms/onward analysis tools and new nanopore chemistries. A range of applications are enabled by the current, improved performance of the R9.4.1 nanopore, and the newest R10.3 nanopore is also showing positive results in high consensus accuracy. In addition, Oxford Nanopore continues to focus on delivering even further enhanced accuracy through a combination of data analysis and chemistry, with a goal of providing across-the-board competitive and disruptive performance.

Other significant portfolio company updates

At 31 December 2019, the Life Sciences division, excluding Oxford Nanopore, consisted of 55 companies, with a combined value of £334.9m (2018: 63 companies; £350.4m). The reduction in number of companies and a £60.2m net fair value reduction, excluding net investment, reflects three main factors:

1. poor performance in the public markets;
2. technical and commercial setbacks in several key private companies; and
3. ongoing rationalisation of the portfolio.

In terms of the performance of the quoted Life Sciences portfolio, there was a net reduction of £18.6m, equating to 33% of the net fair value loss, with the biggest impact coming

from Circassia and Tissue Regenix (each down approximately £8m). Diurnal's development of its late-stage portfolio of endocrinology products continued to show progress, with marketing applications filed for Alkindi in the US and Chronocort in Europe.

In the private portfolio, the key write-downs related to Autifony (£13.0m), PsiOxus (£10.9m), Topivert (£10.7m), Creavo (£7.4m) and Cell Medica (£7.0m), each resulting from financing, partnering or technical setbacks. In terms of positive developments, Istesso announced positive headline data from its Phase 2a study of its investigational drug for rheumatoid arthritis, MBS2320, which led to a £25m write-up of the division's holding value. In the third quarter of the year, Istesso was notified by its collaboration partner J&J that it did not intend to exercise its option in respect of the programme. We see this as a neutral development when offset against the increase in value conferred by the positive Phase 2a data. The J&J partnership was signed in 2014 at a pre-clinical stage, whereas the drug is now in Phase 2 with a novel mechanism-of-action that has potential in rheumatoid arthritis, other autoimmune conditions and cancer. Thus, we believe that the product has significant development potential and licensing value as an unencumbered asset. Elsewhere, Pulmocide generated promising data in a study of its novel agent for the treatment of fungal infection in lung transplant.

Rationalisation of the portfolio has been ongoing since the combination of the Life Sciences portfolios of both IP Group and Touchstone in late 2017. This rationalisation process will continue over the next year or so and will result in a smaller, more focussed but diverse portfolio of 10-20 companies, each one with 'NASDAQ potential' and with a target ownership of at least 25%.

During 2020, several companies are expected to go through key, potentially value-enhancing inflection points, for example, Diurnal, Microbiotica and PsiOxus.

PORTFOLIO REVIEW: TECHNOLOGY



Mark Reilly
Managing Partner,
Technology

Review of the year

IP Group's Technology portfolio comprises 74 companies worth £369.0m as at 31 December 2019.

Technology

The Technology division had two strategic priorities in 2019: focus and sustainability. We aimed to ensure that our human and capital resources were focused on a small group of assets that we believe to have the greatest potential to deliver strong returns, whilst also achieving cash sustainability by taking advantage of a maturing portfolio to increase cash realisations compared to previous years. Both objectives were comprehensively achieved: investment capital was directed to a narrow group of high conviction portfolio company holdings and in parallel we were able to realise significant proceeds from equity sales with an overall IRR of 9.1% and 1.3x multiple. As a result of the full and partial exits achieved during 2019, the sale proceeds (including £5m deferred funds) from the Tech portfolio exceeded the investment outflow by £13.1m, whilst the portfolio overall decreased in value by roughly £10.0m against a challenging market backdrop.

The largest realisation in the Tech portfolio came from the sale of our portfolio company Process Systems Enterprise Ltd (PSE) to Siemens in a deal that yielded £13.8m for the Group. This transaction served as an excellent example of the strength in depth of the portfolio: PSE was not amongst our most valuable holdings and may not have been particularly well-known to IP Group shareholders, but the company was profitable with healthy revenue streams and had a compelling product suite that attracted a top-tier acquirer. We were also pleased to be able to realise around £6m from the sale of some of our stake in insurance data analytics company Concirrus, which allowed us the opportunity to realise all monies invested to date alongside increasing ownership from co-investors deeply connected to the sector.

In terms of major investment transactions, Featurespace closed a £25m round led by Insight Partners,

a leading US venture capital and private equity firm, in early 2019. The company continues to grow strongly, closing commercial deals with Enfuce, RBS and Circulo de Credito. The market Featurespace is addressing continues to expand rapidly and the company is well positioned to take advantage of this growth. Elsewhere in the Tech portfolio, we saw relatively few major fundraising transactions as many of the most valuable portfolio company holdings in the portfolio, including UltraLeap (formerly Ultrahaptics) and Garrison, completed large funding rounds during 2018 and so were focused on deploying that capital to achieve commercial progress in 2019.

In another positive move, UltraLeap, acquired the Silicon Valley company Leap Motion, which owned a broad portfolio of fundamental patents relating to hand tracking. The Leap Motion technology, which was already embedded in UltraLeap's own products, can very accurately recognise human hand gestures. We believe that the combined company now owns the most compelling technology stack for gesture-based computer input and feedback. The merger presents an opportunity for UltraLeap to become one of the defining players in the rapidly evolving field of human-machine interaction. The company is seeing strong early commercial progress, recording a doubling of booked orders in Q4 2019 compared to the previous quarter.

Also in the field of Virtual and Augmented Reality, our portfolio company WaveOptics made excellent progress this year with further investment secured from Goertek and Hostplus alongside the achievement of some very encouraging commercial milestones.

Progress has also been made by the new management team at Mirriad plc, which announced a major deal with Tencent in June 2019 that the company reported would generate multiple millions of pounds of revenue for Mirriad over the 24-month contract term. This followed proactive management of the asset by IP Group



2019 objectives were comprehensively achieved: investment capital was directed to a narrow group of high-conviction assets and in parallel we were able to realise significant proceeds from equity sales."

that precipitated a fundamental change in the leadership team and strategy last year.

The share price of AIM-listed Actual Experience plc decreased significantly during the year, despite that company announcing 1.8x revenue growth to £1.9 million, “significant customer deployments” and a successful evaluation with Vodafone, resulting in a £10.6m fair value reduction in the Group’s holding. We reduced the fair value of the Group’s holding in private company, Impression Technologies, that is developing ‘lightweighting’ solutions for manufacturing processes, as well as holdings in a handful of other assets. This followed an assessment of each company’s value in light of delayed technical and/or commercial progress or based on investor feedback where such companies are seeking to raise further capital.

Cleantech

It has been a very successful year for the Cleantech portfolio’s most valuable asset, Ceres Power. The company has seen significant commercial progress including the doubling of revenue for a fourth consecutive year, the first product launch with Japan’s Miura Co. using Ceres’ SteelCell® in a combined heat and power system for commercial use, and the signing of a new system licence and joint development agreement with Doosan worth £8m

over two years. This progress was recognised in the company’s share price, which continued to increase during 2019, adding around £27.5m to the Group’s holding value. Since the year-end, the share price has risen a further 37%, resulting in a further increase of approximately £25m to the value of the Group’s holding. In January 2020 Bosch announced a strategic move to increase its holding in Ceres to c.18%, and as part of this transaction the Group sold approximately a quarter of its shareholding, generating £22.4m cash proceeds and realising a 5.1x equity multiple and a 46% IRR.

Elsewhere in the Cleantech portfolio, and as highlighted in ‘Strategy in Action’ on page 15, our cell-level battery controls company, Dukosi, was sold to the investment group KCK, delivering an overall gross IRR of 33%. The Cleantech team identified battery management systems as an attractive part of the value chain, assembled a compelling offering from university and industrial IP and expertise, funded the company from an early stage and dedicated considerable effort to developing and helping to shape the business into an attractive exit proposition.

We were also pleased to see Azuri, the provider of pay-as-you-go solar home solutions to off-grid households across Africa, close a new investment of US\$26 million, led by Fortune Global 500 company Marubeni Corporation.

In the first half of the year, First Light Fusion successfully commissioned its pulsed power fusion demonstrator, ‘Machine 3’. Constructing the world’s highest-current (14 MA) pulsed power machine dedicated to fusion for a capital cost of only £4m was a remarkable achievement. In October, the UK Atomic Energy Authority (UKAEA), the leading government lab for fusion energy research, completed a project to establish the basic operating parameters for First Light’s ‘fusion island’ concept at the heart of its power plant design, and concluded that it is fundamentally viable, the first time a start-up in the space has received this endorsement. As at the results publication date, First Light has not yet demonstrated a fusion reaction, a delay to the targeted schedule that it had previously communicated. The company remains confident that achieving fusion is a matter of time and believes there is no fundamental issue with its approach. This view is supported by the eminent First Light Scientific Advisory Board. Balancing the progress since the last financing round, particularly on reactor development, with the more recent delay to the forecast achievement of fusion, the Group has maintained the fair value of its 35.9% holding in First Light at £17.9m.

PORTFOLIO REVIEW: MULTI-SECTOR PLATFORMS

The Group has shareholdings in two multi-sector platform companies, Oxford Sciences Innovation plc ("OSI") and Cambridge Innovation Capital plc ("CIC"). During 2019, the Group has reduced its exposure to OSI and CIC, and has exited its small holding in AIM-quoted Frontier IP Group plc, generating total proceeds of £36.8m. As at 31 December 2019, IP Group has a 3.3% holding in OSI valued at £23.9m and a 1.0% holding in CIC valued at £2.8m.

As a result of its 15-year framework agreement with the University of Oxford, OSI is the preferred intellectual property partner for the provision of capital to, and development of, Oxford spin-out companies and is entitled to 50% of the university's founder equity in spin-out companies. In 2019 OSI has continued to support its

existing portfolio, with £58.2m further investment being made and OSI leading on 32 investments. The number of investments now stands at 78 with a total portfolio value of £290.6m and cash and deposits of £173.7m. Net asset value per share has risen from 116.1p to 118.0p during 2019.

CIC is a preferred investor for the University of Cambridge for the commercialisation of intellectual property created at the University under a ten-year memorandum of understanding, and a Cambridge-based investor in technology and healthcare companies from the Cambridge Cluster. Since its inception, CIC has secured £275m of investment, invested £155.3m, and its current portfolio of 31 investments is held at £253.6m.

Additional portfolio analysis

	Tech	Cleantech	Life Sciences	Multi Sector	Organic and De minimis	Total UK Portfolio
Value of companies in the portfolio	£204.5m	£124.3m	£578.1m	£26.7m	£13.0m	£946.6m
2019 net portfolio gain/(loss) (realised and unrealised)	(£38.7m)	£25.8m	(£43.8m)	£0.3m	£5.3m	(£51.1m)
Number of portfolio companies ¹	41	16	42	2	n/a	101
Cost of holdings sold in 2019	£20.7m	£8.8m	£57.9m	£5.3m	-	£92.7m
Proceeds of holdings sold in 2019 - cash	£25.9m	£9.4m	£39.3m	£4.8m	£0.1m	£79.5m
Proceeds of holdings sold in 2019- non cash	£0.3m	£5.0m	£22.0m	-	-	£27.3m
Attention:						
Top 20	£114.5m	£104.1m	£463.5m	£23.9m	-	£706.0m
Focus	£57.4m	£15.0m	£71.3m	-	-	£143.7m
Other	£32.6m	£5.2m	£43.3m	£2.8m	-	£83.9m
Organic and De minimis	-	-	-	-	£13.0m	£13.0m

¹Excluding organic and de minimis (89 companies)

Additional portfolio analysis

United States	Australasia	Attributable to third party investors in VF II & US	Total Net Portfolio	Revenue share	Total Gross Portfolio	
£57.1m	£3.7m	£24.4m	£1,031.8m	£13.8m	£1,045.6m	Value of companies in the portfolio
£9.2m	(£0.1m)	(£1.9m)	(£43.9m)	£7.2m	(£36.7m)	2019 net portfolio gain/(loss) (realised and unrealised)
23	8	-	132	-	132	Number of portfolio companies ¹
-	-	-	£92.7m	-	£92.7m	Cost of holdings sold in 2019
-	-	-	£79.5m	-	£79.5m	Proceeds of holdings sold in 2019 - cash
-	-	-	£27.3m	-	£27.3m	Proceeds of holdings sold in 2019- non cash
£14.2m	-	£13.1m	£733.3m	£0.1m	£733.4m	Attention: Top 20
£19.2m	£1.1m	£5.7m	£169.7m	£0.1m	£169.8m	Focus
£23.7m	£2.6m	£5.6m	£115.8m	£5.1m	£120.9m	Other
-	-	-	£13.0m	£8.5m	£21.5m	Organic and De minimis

FINANCIAL REVIEW



Greg Smith
Chief Financial Officer

The Group recorded a loss for the year of £78.9m (2018: loss of £293.8m) and a negative Return on Hard NAV, i.e. on the Group's net assets excluding goodwill and intangible assets, of £73.7m (2018: negative £75.6m). Net assets at 31 December 2019 were £1,141.9m (2018: £1,218.2m) and Hard NAV totalled £1,141.5m at 31 December 2019 (2018: £1,217.5m), representing 107.8p per share (2018: 115.0p).

Consolidated statement of comprehensive income

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

	2019 £m	2018 £m
Net portfolio losses ⁽¹⁾	(43.9)	(48.4)
Change in fair value of limited and limited liability partnership interests	(0.7)	2.3
Net overheads ⁽²⁾	(22.6)	(26.0)
Administrative expenses – consolidated portfolio companies	(5.4)	(2.6)
Administrative expenses – share-based payments charge	(2.3)	(1.9)
IFRS 3 charge in respect of acquisition of subsidiary	(2.5)	(3.3)
Carried interest plan release	1.3	1.1
Amortisation of intangible assets	(0.3)	(9.9)
Goodwill impairment	—	(203.2)
Net finance (expense)/income	(2.4)	(1.8)
Taxation	(0.1)	(0.1)
(Loss)/profit for the year	(78.9)	(293.8)
Other comprehensive income	0.1	(0.1)
Total comprehensive income/(loss) for the year	(78.8)	(293.9)
Exclude:		
Amortisation of intangible assets	0.3	9.9
Goodwill impairment	—	203.2
Share-based payment charge	2.3	1.9
IFRS charge in respect of acquisition of subsidiary	2.5	3.3
Return on Hard NAV	(73.7)	(75.6)

¹ Defined in note 29 Alternative Performance Measures.

² See net overheads table below and definition in note 29 Alternative Performance Measures.

Net portfolio gains/(losses) consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses, which are analysed in detail in the portfolio review on pages 21 to 31.



In 2019, cash realisations hit a record £79.5m and exceeded investment into the portfolio for the first time since 2007. This strong cash generation has continued into 2020, with realisations to date totalling £55m. The Group remains in a strong financial position."

A WaveOptics wafer with waveguide, enabling the projection of images for AR

Net overheads

	2019 £m	2018 £m
Other income	8.6	9.9
Administrative expenses – all other expenses	(29.2)	(34.5)
Administrative expenses – Annual Incentive Scheme	(2.0)	(1.4)
Net overheads	(22.6)	(26.0)

Other income totalled £8.6m, a decrease on the year (2018: £9.9m) due in part to the transfer of future commercialisation operations of the Group's Technology Transfer Office to Imperial College London on 28 February 2019. Under this arrangement, the Group retains its rights to earnings in respect of existing licences, while new commercialisation activity is undertaken directly by Imperial, resulting in reduced income in respect of these activities in 2019. Additionally, 2019 saw a lower level of corporate finance fees earned by its IP Capital team, reflecting the lower level of funding raised by the portfolio in 2019.

Other income comprises fund management fees, licensing and patent income from Imperial Innovations, corporate finance fees as well as consulting and similar fees, typically chargeable to portfolio companies for services including executive search and selection as well as legal and administrative support.

Other central administrative expenses, excluding performance-based staff incentives and share-based payments charges, have decreased to £29.2m during the period (2018: £34.5m), primarily as a result of cost savings realised from the transfer of the TTO noted above, as well as the surrender of the lease on 7 Air Street, the former

Touchstone head office on 22 March 2019. Offsetting these savings was growth in the cost of the Group's US and Australasian operations. Of the £29.2m gross overheads, £6.5m relates to the cost of the Group's US, Australasian and Greater China operations (2018: £5.8m).

The charge of £2.0m in respect of the Group's Annual Incentive Scheme (2018: £1.4m), reflects performance against 2019 AIS targets as described in the report on page 98.

Other income statement items

The share-based payments charge of £2.3m (2018: £1.9m) reflects the accounting charge for the Group's Long-Term Incentive Plan and Deferred Bonus Share Plan. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or net assets.

Included within the Group's administrative expenses are costs in respect of a small number of other portfolio companies. Typically, the Group owns a non-controlling interest in its portfolio companies; however, in certain circumstances, the Group takes a controlling stake and hence consolidates the results of a portfolio

company into the Group's financial statements. The administrative expenses included in the Group's results for such companies primarily comprise staff costs, R&D and other operating expenses. These costs included consolidated costs in respect of MOBILion Systems, Inc., for the first half of the year until its deconsolidation on 1 July 2019.

The carried interest plan release of £1.3m (2018: release of £1.1m) relates to the recalculation of liabilities under the Group's carry schemes, which include the current UK scheme, as well as historic IP Group and Touchstone schemes. Payments are generally only due to carry plan participants when sufficient asset realisations have occurred.

Costs of £2.5m (2018: £3.3m) were recognised in relation to contingent consideration payable to the sellers of Parkwalk Advisors Limited deemed under IFRS 3 to be a payment for post-acquisition services.

Acquisition intangibles relate to separately identifiable assets recognised through the acquisition of Touchstone Innovations plc, Parkwalk Advisors Limited and Fusion IP plc; these assets are amortised over the period to which the contractual commitments relate and were fully amortised as at 31 December 2019.

FINANCIAL REVIEW

CONTINUED

Consolidated statement of financial position

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Goodwill and other intangible assets	0.4	0.7
Portfolio	1,045.6	1,128.2
Other non-current assets	22.5	18.8
Cash and deposits	194.9	219.0
EIB debt facility	(82.5)	(97.8)
Other net current liabilities	6.3	(9.9)
Other non-current liabilities	(45.3)	(40.8)
Total Equity or Net Assets	1,141.9	1,218.2
Exclude:		
Goodwill and other intangible assets	(0.4)	(0.7)
Hard NAV	1,141.5	1,217.5
Hard NAV per share	107.8p	115.0p

The composition of, and movements in, the Group's portfolio is described in the Portfolio review on pages 21 to 31.

Portfolio Valuation Basis

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Quoted	117.7	133.2
Recent financing (<12 months)	455.3	657.3
Recent financing (>12 months)	251.1	197.9
Other valuation methods	197.8	106.7
Debt	23.7	33.1
Total portfolio	1,045.6	1,128.2

The table above summarises the valuation basis for the Group's portfolio. Further details on the Group's valuation policy can be found in notes 1 and 15. The Group seeks to use observable market data as the primary basis for determining asset fair values where appropriate. Other valuation methods include: market-derived valuations adjusted to reflect considerations including (inter alia) technical measures, financial measures and market and sales measures; discounted cash flows and price-earnings multiples.

The Group engages third party valuation specialists to provide valuation support where required; during 2019 we commissioned third party valuations on ten out of the top 20 holdings in respect of our half-yearly or full year reporting (2018: five).

Other Assets/Liabilities

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

The largest items within other non-current liabilities are loans from LPs of consolidated funds. The Group consolidates the assets of two managed funds in which it has a significant economic interest, specifically co-investment fund IP Venture Fund II LP and IPG Cayman LP. The latter was created in late 2018 to facilitate third-party investment into the Group's US portfolio. Loans from third parties of consolidated funds represent third-party loans into these partnerships. These loans are repayable only upon these funds generating sufficient realisations to repay the Limited Partners.

At 31 December 2019, the Group held gross cash and deposits of £194.9m (2018: £219.0m). 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 Prime 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 2019, the Group had a total of £16.6m (2018: £40.2m) held in US Dollars and £0.2m (2018: £0.1m) held in AUS Dollars.

Both IP Group and Touchstone Innovation plc arranged debt facilities with the European Investment Bank ("the EIB"), total borrowings under which totalled £82.5m at the period end (2018: £97.8m). Of these facilities, £15.4m is due to be repaid within twelve months of the period end (2018: £15.4m). The facility provides IP Group with an additional source of long-term capital to support the development of the portfolio.

Share Capital

In November 2019, the Board approved in principle a capital reduction involving a reduction of the Group's share premium and merger reserves, with a corresponding increase in the Group's retained profit reserve, in order to create distributable reserves at the IP Group plc individual company level. This gave the Group the flexibility to make future purchases of its own shares and/or to make future distributions of profits in cash or specie although at the time the Board confirmed that it had no current plans to do so. The capital reduction was completed in December 2019, and the impact is shown in the Group Statement of Changes in Equity, page 139.

Cash and deposits

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Net cash generated/(used) by operating activities	(17.3)	(24.9)
Net cash generated/(used) in investing activities (excluding cash flows from deposits)	9.3	(76.0)
Cash acquired on acquisition of subsidiary undertakings net of cash acquired)	(2.5)	—
Repayment/drawdown of debt facility	(15.3)	(6.3)
Other financing activities	1.7	—
Effect of foreign exchange rate changes	—	(0.1)
Movement during period	(24.1)	(107.3)

At 31 December 2019, the Group's Cash and deposits totalled £194.9m, a decrease of £24.1m from a total of £219.0m at 31 December 2018 due largely to net cash used by operating activities of £17.3m, net cash generated by investing activities of £9.3m and debt repayments of £15.3m.

A categorisation of the Group's cash and deposits is provided below:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Held within Group subsidiaries	188.1	199.6
Held by consolidated funds – US portfolio	5.8	15.7
Held by consolidated funds – all other funds	0.5	1.8
Held by consolidated portfolio companies	0.5	1.9
Total Cash	194.9	219.0

Under the terms of its term loans with the EIB, the Group is required to maintain a minimum cash balance of £30m. The Group is also required to hold six months of debt service costs (interest and capital repayments) in a separate bank account, which totalled £9.4m at 31 December 2019 (2018: £9.4m).

Taxation

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

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

Alternative Performance Measures ("APMs")

The Group discloses alternative performance measures, such as Hard NAV, Hard NAV per share and Return on Hard NAV, in this Annual Report. The directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. Further information on APMs utilised in the Group is set out in note 29.

RISK MANAGEMENT

Managing risk: our framework for balancing risk and reward



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

Governance

Overall responsibility for the risk framework and definition of risk appetite rests with the Board, who, through regular review of risks ensure, that risk exposure is matched with an ability to achieve the Group's strategic objectives. The IP Group Risk Council is the executive body that operates to establish, recommend and maintain a fit-for-purpose risk management framework appropriate for the Group and oversees the effective application of the framework across the business. The Risk Council is chaired by the CFO, has representation from operational business units as required during the year, and is supported in its operation by PwC. Risk identification is carried out through a bottom-up process via operational risk registers maintained by individual teams, which are updated and reported to the Risk Council at least bi-annually, with additional top-down input from the management team with non-executive review being carried out by the Audit and Risk Committee at least annually, see page 118 for details.

Risk management process

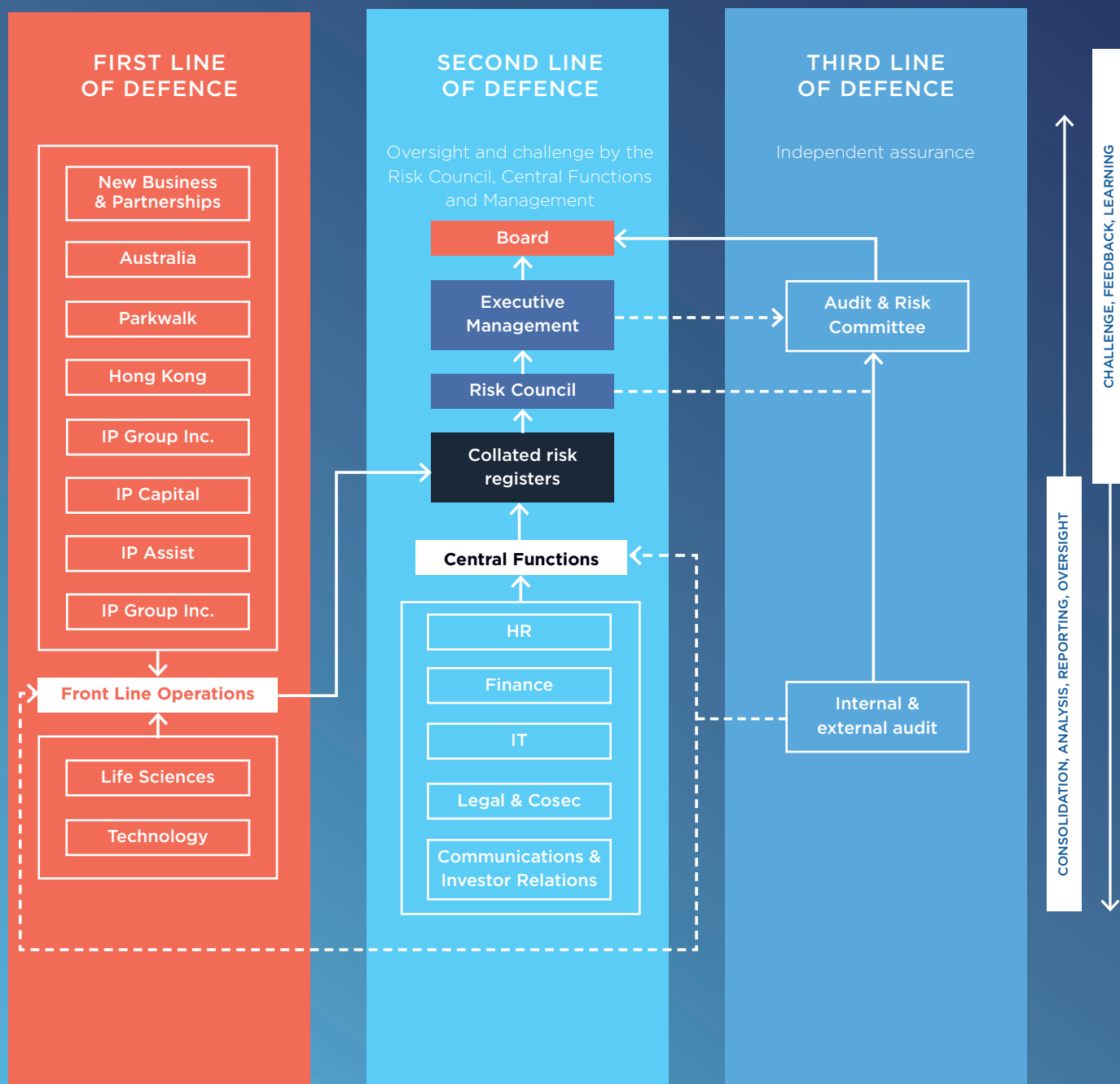
Ranking of the Group's risks is carried out by combining the financial, strategic, operational, reputational, regulatory and employee impact of risks and the likelihood that they may occur. Operational risks, are collated into strategic risks, which identifies key themes and emerging risks, and ultimately informs our principal risks which are detailed in the Principal Risk and Uncertainty section of this report. The operations of the Group, and the implementation of its objectives and strategy, are subject to a number of principal risks and uncertainties. Were more than one of the risks to occur together, the overall impact on the Group may be compounded.

The design and ongoing effectiveness of the key controls over the Group's principal risks are documented using a “risk and control matrix”, which includes an assessment of the design and operating effectiveness of the controls in question. The key controls over the Group's identified principal risks are reviewed as part of the Group's risk management process, by management, the Audit and Risk Committee and the Board during the 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 2019 we have continued to build on our existing risk management framework, enhancing risk management and internal control processes and working with PwC in an outsourced internal audit capacity. This activity included refreshing the Group's operational, strategic and principal risk registers, an assessment of the strategic risks and the appropriateness of our principal risks, which resulted in the identification of two new principal risks, as described below. Testing of key controls over our principal risks, a refresh of the Group's risk appetite statements over the principal risks and developing key risk indicators to aid Board monitoring also took place. Internal audit reviews were conducted over the investment process, financial controls and Cyber and IT security and an updated assessment of the risk posed by Brexit was led by the Risk Council. The Risk Council has continued to support the Board in exercising its responsibility surrounding risk management through its regular meetings. Priorities for 2020 include further business reviews by the internal audit function, enhancing risk reporting across the business and communicating the key outputs of the risk management programme to the wider employee group.

IP Group risk management framework

KEY Direct Reporting  Review and Challenge 



READ ABOUT OUR
STRATEGY
ON PAGES 12 AND 13



READ ABOUT OUR
GOVERNANCE
ON PAGES 77 TO 125

RISK MANAGEMENT

CONTINUED

EMERGING RISKS

The Group's management and Board regularly considers emerging risks and opportunities, both internal and external, which may affect the Group in the near, medium and long term. The Board also considered this subject in detail at its strategy day in October. Set out below are examples of some of the potential emerging risks that are currently being monitored by management and the Board:

NEAR TERM – COVID-19 (NOVEL CORONAVIRUS)

As the Covid-19 virus has developed over recent weeks, we have been assessing the impact on our employees and our business to ensure that both are effectively supported and managed. We are regularly communicating advice to all of our employees, based on local government advice in each of our geographies, that focuses on safety, travel, hygiene (including self-quarantine) and recognising the symptoms of the virus. Contingency planning, primarily centred around remote working, has been carried out to help ensure that the Group can continue to operate as effectively as possible. It is too early for us to be able to fully assess the likely impact on our portfolio companies although the fair values of a number of the Group's quoted portfolio companies have experienced volatility in recent weeks. In addition, management teams are generally following government travel advice, which may limit fundraising or commercial activities in the short term. However, certain companies, such as Oxford Nanopore, have seen both disruption for certain customers alongside an increase in recent demand for their products and services as a result of the outbreak. We will continue to monitor the impact.

NEAR TERM – CYBER AND IT SECURITY

Cyber and IT security continue to be areas of risk for the Group and its portfolio as we continue to invest in intellectual-property based portfolio companies which could be targets for hackers or competitors and the regulatory landscape which is evolving rapidly around data security and the increasing powers of regulators to impose significant fines on companies who inadvertently breach new legislation such as GDPR. It is against this backdrop that the Group has now considered that Cyber and IT security now constitutes a principal risk for the Group in its own right. While historically this risk was recognised and captured within the risk of failing to comply with legislation, government policy and regulation risk, it has now been elevated to a stand-alone risk.

MEDIUM TERM – THE UK'S WITHDRAWAL FROM THE EU

The UK left the EU on 31 January 2020 and at the time of writing, had entered into a transition period scheduled to last until the end of 2020, during which it will continue to be bound by EU laws until it negotiates a new trade deal with the remaining 27 member states. While the Group has considered that the risk posted by Brexit does not constitute a principal risk for the Group, uncertainty in the medium term remains over certain areas that could impact the Group's strategic aims, as follows:

Key risks

Access to capital	Performance and management of portfolio companies	People	Partnerships
Macroeconomic environment could cause a short-term UK recession which would reduce investor confidence and impact access to capital for both IP Group and its portfolio companies. Uncertainty over grant funding capital available for the Group's early-stage portfolio companies could cause funding risks for university spin out companies in the UK.	The performance and management of portfolio companies is crucial to the success of the Group and, as a result, the preparation that portfolio company management teams have undertaken to address key Brexit risks will be central to the successful navigation of operational and other issues that may impact their performance.	The macroeconomic environment has an impact on long-term recruitment and planning for companies. Additional visa restrictions will also impact academics and student movement to the UK, thus affecting the pool for potential portfolio companies and the quality of university partnerships.	University research funding risks could mean that the UK becomes a less attractive place for academics to come and perform research projects in the UK.

LONGER TERM – CLIMATE CHANGE

Climate change continues to be a key concern of the Group and all its stakeholders. IP Group invests in technology which has the potential to have positive impacts on the environment and the Group is well positioned to take advantage of the changing preferences of governments, businesses and individuals, see case study on C-Capture Ltd on page 55.

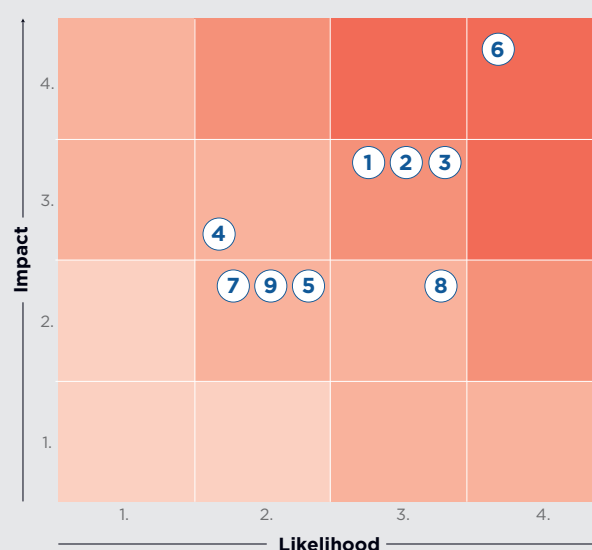
Summary of principal risks and mitigants

A summary of the principal risks affecting the Group and the steps taken to manage these is set out below. Further discussion of the Group's approach to principal risks and uncertainties are given on page 90 of the Corporate Governance Statement and pages 117 to 121 of the Report of the Audit and Risk Committee, while further disclosure of the Group's financial risks is set out in note 2 to the consolidated financial statements on pages 148 to 150.

Following the 2019 annual review process, the Group's principal risks were updated to elevate Cyber and IT Security Risk to an independent risk where historically this risk was captured within the legislation and regulation risk and Access to Capital has been split into two separate risks to better capture the funding risks for the Group as a corporate entity and the funding risks associated with its portfolio companies. The heatmap below describes the relative potential risks posed by each of the Group's identified principal risks.

PRINCIPAL RISKS

- 1 Insufficient capital: Group
- 2 Insufficient capital: portfolio companies
- 3 Uncertain investment returns
- 4 Failure of university relationships
- 5 Personnel risk
- 6 Macroeconomic conditions
- 7 Legislation, governance and regulation
- 8 Cyber and IT security
- 9 International operations



Risk appetite ratings defined:

- Very low**
following a marginal-risk, marginal-reward approach that represents the safest strategic route available
- Low**
seeking to integrate sufficient control and mitigation methods in order to accommodate a low level of risk, though this will also limit reward potential
- Balanced**
an approach which brings a high chance of success, considering the risks, along with reasonable rewards, economic and otherwise
- High**
willing to consider bolder opportunities with higher levels of risk in exchange for increased business payoffs
- Very high**
pursuing high-risk, inherently uncertain options that carry with them the potential for high-level rewards

RISK MANAGEMENT

CONTINUED

Consideration of risk appetite:

The industry the Group operates in inherently involves accepting risk in order to achieve the Group's strategic aims of creating and maintaining a pipeline of compelling intellectual property-based opportunities, developing and supporting its portfolio companies into a diversified portfolio of robust businesses and delivering attractive financial returns on those assets and third-party funds. The Group accepts risk only as it is consistent with the Group's purpose and strategy and where they can be appropriately managed and offer a sufficient reward. The Board has determined its risk appetite in relation to each of its principal risks and considered appropriate metrics to monitor performance to ensure it remains within the defined thresholds. The Board's assessment of risk appetite is described in the summary of each principal risk below.

1 It may be difficult for the Group to maintain the required level of capital to continue to operate at optimum levels of investment, activity and overheads

The Group's business has historically been reliant on capital markets, particularly those in the UK. While the Group's business model is moving towards self-sustainability with realisations contributing to the Group's ongoing capital needs, the ability of the Group to raise further capital, either through equity issues, debt or realisations is influenced by the general economic climate and capital market conditions, particularly in the UK.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
Access to sufficient levels of capital allows the Group to invest in its investment assets, develop early-stage investment opportunities and invest in its most exciting companies to ensure future financial returns.  	- The Group has significant internal capital and managed funds capital to deploy in portfolio opportunities - The Group regularly forecasts cash requirements of the portfolio and ensures all capital allocations are compliant with budgetary limits, treasury policy guidelines and transaction authorisation controls - The Group ensures that minimum cash is available for maintain sufficient headroom over debt covenants and regulatory capital requirements	
KPI	DEVELOPMENT DURING THE YEAR	
- Change in fair value of equity and debt investments - Total equity ("Net Assets") - Profit/loss attributable to equity holders	- Significant proceeds from sale of equity and debt investments in the year (£79.5m) - The Group's share register diversified in the year and saw significant changes in the constitution of its major shareholders. - The Group's share price traded below NAV during the year which makes it less attractive to raise new capital through share issues	
EXAMPLES OF RISK	CHANGE FROM 2018	
The Group may not be able to provide the necessary capital to key strategic assets which may affect the portfolio companies' performance or dilute future returns of the Group		

KEY



Create



Develop



Deliver



Increase



Decrease



No change



New



Very low



Low



Balanced



High



Very high

2 It may be difficult for the Group's portfolio companies to attract sufficient capital

The Group's portfolio companies are typically in their development or growth phases and therefore require new capital to continue operations. While a proportion of this capital will generally be forthcoming from the Group, subject to capital allocation and company progress, additional third-party capital will usually be necessary. The ability of portfolio companies to attract further capital is influenced by their financial and operational performance and the general economic climate and trading conditions, particularly (for many companies) in the UK.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
Access to sufficient levels of capital allows the Group's portfolio companies to invest in its technology and commercial opportunities to ensure future financial returns.  	- The Group operates a corporate finance function which carries out fundraising mandates for portfolio companies - The Group maintains close relationships with a wide variety of co-investors that focus on companies at differing stages of development - The Group regularly forecasts cash requirements of the portfolio - While Parkwalk Advisors operates independently they have been and continue to be an important co-investor of the Group, supporting shared portfolio companies	
KPI	DEVELOPMENT DURING THE YEAR	
- Change in fair value of equity and debt investments - Total equity ("Net Assets") - Profit/loss attributable to equity holders	- IP Group hosted investor events in 2019 including a Deep Tech Forum in China and the IP Group Technology Summit in the US to showcase portfolio technology to investors - Continued management of an AUS\$100m trust for an Australian Super Fund which has a mandate to co-invest with IP Group plc portfolio companies. In the year, four Group portfolio companies received funding from this investment vehicle.	
EXAMPLES OF RISK	CHANGE FROM 2018	
- The success of those portfolio companies which require significant funding in the future may be influenced by the market's appetite for investment in early stage companies, which may not be sufficient - Failure of companies within the Group's portfolio may make it more difficult for the Group or its spin-out companies to raise additional capital		

RISK MANAGEMENT

CONTINUED

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

Early-stage companies typically face a number of risks, including not being able to secure later rounds of funding at crucial development inflection points and not being able to source or retain appropriately skilled staff. Other risks arise where competing technologies enter the market, technology can be materially unproven and may ultimately fail, IP may be infringed, copied or stolen, may be more susceptible to cybercrime and other administrative taxation or compliance issues. These factors may lead to the Group not realising a sufficient return on its invested capital at an individual company or overall portfolio level.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
Uncertain cash returns could impact the Group's ability to deliver attractive returns to shareholders when our ability to react to portfolio company funding requirements is negatively impacted or where budgeted cash proceeds are delayed. 	- The Group's employees have significant experience in sourcing, developing and growing early-stage technology companies to significant value, including use of the Group's systematic opportunity evaluation and business building methodologies within delegated board authorities - Members of the Group's senior leadership team often serve as non-executive directors or advisers to portfolio companies to help identify and remedy critical issues promptly - Support on operational and legal matters is offered to minimise failures due to common administrative factors - The Group has spin-out company holdings across different sectors managed by experienced sector-specialist teams to reduce the impact of a single company failure or sector demise - The Group maintains significant cash balances and seeks to employ a capital efficient process deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage	
KPI	DEVELOPMENT DURING THE YEAR	
- Change in fair value of equity and debt investments - Purchase of equity and debt investments - Proceeds from the sale of equity investments	- The Group's portfolio companies raised approximately £430m of capital in 2019 - The Group maintained board representation on more than 92% of its "focus" companies by number	
EXAMPLES OF RISK	CHANGE FROM 2018	
- Portfolio company failure directly impacts the Group's value and profitability - At any time, a large proportion of the Group's portfolio may be accounted for by very few companies which could exacerbate the impact of any impairment or failure of one or more of these companies - The value of the Group's drug discovery and development portfolio companies may be significantly impacted by a negative clinical trial result - Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year		

4 Universities or other research-intensive institutions may terminate their partnerships or other collaborative relationships with the Group

The Group's business, results of operations and prospects are at least partially dependent on access to leading scientific research through partnerships and other collaborative relationships with research-intensive institutions. Failure to maintain such relationships may impact the Group's ability to source new investment opportunities.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategic objective of building and maintaining a pipeline of compelling intellectual property-based opportunities, in part depends on the quality of the commercialisation partnerships and other collaborative relationships the Group holds. 	- The Group continues to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research institutions - The Group has been able to source opportunities through non-exclusive relationships and other sources - Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive - The Group's track record in IP commercialisation may make the Group a partner of choice for other institutions, acting as a barrier to entry for competitors	
KPI	DEVELOPMENT DURING THE YEAR	
Number of new portfolio companies	- Integrated the management of UK university partnerships within the UK investment partnership teams - Completed investments with four new university partnerships in Australasia	
EXAMPLES OF RISK	CHANGE FROM 2018	
- Termination or non-renewal of arrangements through failure to perform obligations may result in the loss of exclusive rights - The loss of exclusive rights may limit the Group's ability to secure attractive IP opportunities to commercialise - This could potentially have a material adverse effect on the Group's long-term business, results of operations, performance and prospects - Competition in the market may reduce the opportunities available to create new spin-out companies		

KEY



Create



Develop



Deliver



Increase



Decrease



No change



New



Very low



Low



Balanced



High



Very high

RISK MANAGEMENT

CONTINUED

5 The Group may lose key personnel or fail to attract and integrate new personnel

The industry in which the Group operates is a specialised area and the Group requires highly qualified and experienced employees. There is a risk that the Group's employees could be approached and solicited by competitors or other technology-based companies and organisations or could otherwise choose to leave the Group. Scaling the team, particularly in foreign jurisdictions such as Australasia and Hong Kong, presents an additional potential risk.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategic objectives of developing and supporting a portfolio of compelling intellectual property-based opportunities into robust businesses capable of delivering attractive financial returns on our assets is dependent on the Group's employees who work with the portfolio companies and those who support them. 	• Senior team succession plans have been developed • The Group carries out regular market comparisons for staff and executive remuneration and seeks to offer a balanced incentive package comprising a mix of salary, benefits, performance-based long-term incentives and benefits such as flexible working and salary sacrifice arrangements • The Group encourages employee development and inclusion through coaching and mentoring and carries out annual objective setting and appraisals • The Group promotes an open culture of communication and provides an inspiring and challenging workplace where people are given autonomy to do their jobs. The Group is fully supportive of flexible working and has enabled employees to work flexibly.	
KPI	DEVELOPMENT DURING THE YEAR	
• Total equity • "Net Assets" • Number of new portfolio companies	• Created IP Connect employee forum and appointed designated non-executive director to facilitate dialogue with Board in both directions. Part of IP Connect's remit is also to support the evolution of the culture and continuous improvement of working life at the Group. • Continued to support the 30% Club initiative and during the year 17 employees across the Group took part in the Club's annual cross-company mentoring programme. • Continued to dedicate resources to remuneration and incentivisation. • Staff attrition, excluding the technology transfer operations, was 18.5%, broadly flat with 2018. • Approximately 42% of employees have been with the Company for at least five years.	
EXAMPLES OF RISK	CHANGE FROM 2018	
• Loss of key executives and employees of the Group or an inability to attract, retain and integrate appropriately skilled and experienced employees could have an adverse effect on the Group's competitive advantage, business, financial condition, operational results and future prospects		

6 Macroeconomic conditions may negatively impact the Group's ability to achieve its strategic objectives

Adverse macroeconomic conditions could reduce the opportunity to deploy capital into opportunities or may limit the ability of such portfolio companies to receive third party funding, develop profitable businesses or achieve increases in value or exits. Political uncertainty, including impacts from Brexit or similar scenarios, could have a number of potential impacts, including changes to the labour market available to the Group for recruitment or regulatory environment in which the Group and its portfolio companies operate.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategic objectives of developing a portfolio of commercially successful portfolio companies and delivering attractive financial returns on our assets and third-party funds can be materially impacted by the current macroeconomic environment.  	• Senior management receive regular capital market and economic updates from the Group's capital markets team and its brokers • Six-monthly budget and quarterly capital allocation process and monitoring against agreed budget • Regular oversight of upcoming capital requirements of portfolio from both the Group and third parties • The Group's Risk Council conducts horizon scanning for upcoming events which may impact the Group such as a hard Brexit or climate change.	
KPI	DEVELOPMENT DURING THE YEAR	
• Change in fair value of equity and debt investments • Total equity • "Net Assets" • Profit or loss attributable to equity holders	• Macroeconomic and geopolitical conditions remain uncertain in the UK. The UK left the EU on 31 January 2020 and at the time of writing, had entered into a transition period scheduled to last until the end of the year, during which it will continue to be bound by EU laws until it negotiates a new trade deal with the remaining 27 member states. Uncertainty remains on the long-term impacts of Brexit and anticipated future trade deals. • Brexit process remained a source of uncertainty in the year. The Risk Council reconsidered the risks posed by a hard Brexit for the Group's operations and portfolio companies and took precautionary actions to ensure any impacts were mitigated appropriately.	
EXAMPLES OF RISK	CHANGE FROM 2018	
• 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 • 11.2% of the Group's portfolio value is held in companies quoted on the AIM market and decreases in values to this market could result in a material fair value impact to the portfolio as a whole		

KEY



Create



Develop



Deliver



Increase



Decrease



No change



New



Very low



Low



Balanced



High



Very high

RISK MANAGEMENT

CONTINUED

7 There may be changes to, impacts from, or failure to comply with, legislation, government policy and regulation

There may be unforeseen changes in, or impacts from, government policy, regulation or legislation (including taxation legislation). This could include changes to funding levels or to the terms upon which public monies are made available to universities and research institutions and the ownership of any resulting intellectual property.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategic objectives of creating and maintaining a portfolio of compelling opportunities to deliver attractive returns for shareholders could be materially impacted by failure to comply with or adequately plan for a change in legislation, government policy or regulation. 	- 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 - The Group maintains D&O, professional indemnity and clinical trial insurance policies	
KPI	DEVELOPMENT DURING THE YEAR	
- Total equity "Net Assets"	- Ongoing focus on regulatory compliance, including third party reviews and utilisation of specialist advisers - UK Government has committed to university funding and has emphasised the importance of science and innovation - Group of specialist therapeutics advisors continually consulted	
EXAMPLES OF RISK	CHANGE FROM 2018	
- Changes could result in universities and researchers no longer being able to own, exploit or protect intellectual property on attractive terms. - Changes to tax legislation or the nature of the Group's activities, in particular in relation to the Substantial Shareholder Exemption, may adversely affect the Group's tax position and accordingly its value and operations. - Regulatory changes or breaches could ultimately lead to withdrawal of regulatory permissions for the Group's FCA-authorised subsidiaries, resulting in loss of fund management contracts, reputational damage or fines. - The UK's decision to leave the EU could have an adverse impact on the level of research funding made available to UK universities from which the Group sources new opportunities.		

8 The Group may be subjected to phishing and ransomware attacks, data leakage and hacking.

This could include taking over email accounts to request or authorise payments, GDPR breaches and access to sensitive corporate and portfolio company data.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategic objectives of creating and maintaining a portfolio of compelling opportunities to deliver attractive returns for shareholders could be materially impacted by a serious cyber security breach at a corporate or portfolio company level.  	- The Group reviews its data and cyber-security processes with its external outsourced IT provider and applies the UK Government's "ten steps" framework - Regular IT management reporting framework in place - Internal and third-party reviews of policies and procedures in place to ensure appropriate framework in place to safeguard data - Assessment of third-party suppliers of cloud-based and on-premises systems in use	
KPI	DEVELOPMENT DURING THE YEAR	
- Total equity "Net Assets"	- Ongoing focus on IT security and staff training, including internal audit reviews and utilisation of specialist advisers - Implementation of network and infrastructure security systems to respond to emerging threats - Continued programme of penetration testing - Review of business continuity and disaster recovery plan undertaken in the year	
EXAMPLES OF RISK	CHANGE FROM 2018	
- The Group or one or a combination of its portfolio companies could face significant fines from a data security breach - The Group or one of its portfolio companies could be subjected to a phishing attack which could lead to invalid payments being authorised or a sensitive information leak - A malware or ransomware attack could lead to systems becoming non-functioning and impair the ability of the business to operate in the short term		

KEY



Create



Develop



Deliver



Increase



Decrease



No change



New



Very low



Low



Balanced



High



Very high

RISK MANAGEMENT

CONTINUED

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

The potential for a negative impact to the Group arising from the overseas operations through non-compliance with local laws and regulations, failure to integrate overseas operations with the Group, an inability to foresee territory-specific risks and macro-events. The Group may also fail to establish effective control mechanisms, considering different working culture and environment, leading to significant senior management time requirement, distracting from core day-to-day business.

LINK TO STRATEGY	ACTIONS TAKEN BY MANAGEMENT	RISK APPETITE
The Group's strategy includes building a portfolio of compelling intellectual-property based companies across the UK, US and Australasia. The scale of the Group's international operations represents increased importance of successful execution of this element of the Group's strategy.  	- Local legal and regulatory advisers have been engaged in the establishment phase of overseas operations. US and Australasian teams have their own in-house legal teams who regularly report to the UK-based General Counsel - IP Exec and HR are involved in senior hires for new territories. Senior international personnel include current and former UK employees, encouraging a shared culture across territories - There is regular travel between the UK and other territories to ensure the Group is aligned in its strategy and culture - The risk management framework in place across each business unit has been established in each international territory and is integrated into the Group's regular risk management processes and reporting - Third party suppliers are used for accounting and payroll services to reduce the risk of fraud	
KPI	DEVELOPMENT DURING THE YEAR	
- Total equity "Net Assets"	- Coordination of risk reporting across Australia, Hong Kong and USA - Developed a US operating manual alongside professional advisors having restructured the US operation in late 2018 - Application for Hong Kong regulatory permissions being explored with specialist local advisors	
EXAMPLES OF RISK	CHANGE FROM 2018	
- A legal or regulatory breach could ultimately lead to the withdrawal of regulatory permissions in Australia, resulting in loss of trust management contracts, reputational damage and fines - Divergent group cultures may lead to difficulties in achieving the Group's strategic aims - A major control failure could lead to a successful fraudulent attack on the Group's IT infrastructure or access to bank accounts - Senior management may spend a significant amount of time in setting up and establishing new territories which could detract from central Group strategy and operations		

Viability statement

The directors have carried out a robust assessment of the viability of the Group over a three-year period to December 2022, considering its strategy, its current financial position and its principal risks. The three-year period reflects the time horizon over which the Group places a higher degree of reliance over the forecasting assumptions used.

The strategy and associated principal risks underpin the Group's three-year financial plan and scenario testing, which the directors review at least annually. As a business which seeks to develop great ideas into world-changing businesses, our business model seeks to balance cash investments, the generation of portfolio returns and ultimately portfolio realisations. The three-year plan is built using a bottom-up model and makes assumptions about the level of capital deployed into, and realisations from, its portfolio of companies, the financial performance (and valuation) of the underlying

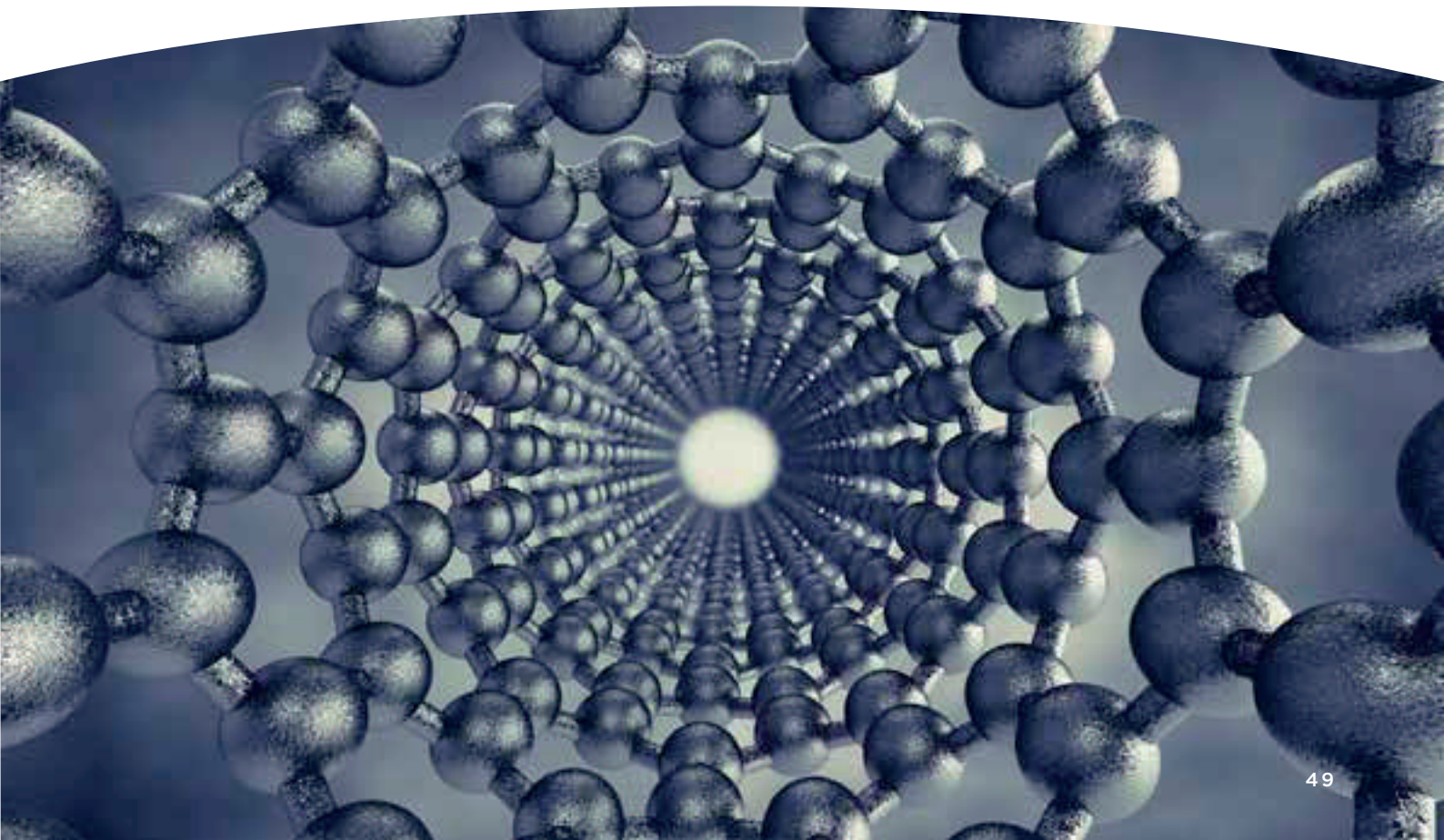
portfolio companies, the Group's utilisation of its debt finance facility and ability to raise further capital, and the level of the Group's net overheads.

To assess the impact of the Group's principal risks on the prospects of the Group, the plan is stress-tested by modelling several severe downside scenarios as part of the Board's review of the principal risks of the business. The severe downside scenarios model situations where, at the end of 2020, the Group has been unable to raise additional equity or debt finance or generate significant portfolio realisations. Under these scenarios, significant reductions to portfolio and fund investments and the Group's operating cost base are made in the following two years to preserve the Group's remaining cash.

Specifically, management has identified the most likely and potentially significant adverse impacts from Brexit, over the three-year period under consideration, to be reduced availability of capital and a weaker macroeconomic environment,

which would adversely impact the Group's financial returns. In all scenarios modelled the Group remains solvent at the end of the three-year period and no breach of EIB financial covenants occur. Given the severity of the assumptions used in the scenarios it is considered that Brexit-related risks are adequately incorporated into the sensitivity analysis.

Based on this assessment, the directors have a reasonable expectation that the Group will continue to operate and meets its liabilities, as they fall due, up to December 2022.



SUSTAINABILITY

Our goal is to build a sustainable and viable business.

IP Group's approach to sustainability in 2019

- ESG at a corporate level in our operations
- Stewardship across our portfolio
- Supporting diversity
- Implementing best practice governance

IP Group's core purpose is to evolve great ideas into world-changing businesses that will have a positive impact on the environment and society as well as generate financial returns. Through the companies we back, we aim to address some of the world's most pressing challenges in areas such as disease prevention and mitigation, the transition to a less carbon intense energy world and support productivity improvement.

Our approach therefore considers ESG factors and their impact both at Group level and across our portfolio and investment approach.

WE SUPPORT



Year of action

In 2019, the Group focused on putting its approach to ESG into practice by implementing the range of initiatives committed to in 2018. This includes our approach to managing environmental impacts, diversity and community engagement.

The Group established an ESG Working Group in 2018 and has also put in place guidelines to ensure our portfolio management and investment process is aligned to our ESG aims. We have collected data from portfolio companies to enable us to get a clearer picture of current ESG standards with an aim of advising about and improving them where needed as well aiming to provide a benchmark for future measurement.

Key activities:

- Through regular meetings the ESG Working Group has developed a Sustainability & ESG Policy and an Ethical Investment Framework;
- Developed an approach to 'responsible stewardship' across the portfolio, read more about this on pages 60 to 61;
- Communicated our portfolio companies' links to the SDGs through our website and other communications channels such as social media;
- Implemented a training programme for employees with a focus on waste reduction and education around the principles of ESG;
- Committed to offsetting 100% of IP Group's carbon emissions through our offsetting project and reducing our carbon emissions which have fallen for the second year running, see page 58; and
- Became a signatory of the UN Global Compact.

Looking to 2020

The Group will continue its efforts this year and with a particular focus on the following areas:



ENSURE THAT OUR
SUSTAINABILITY AND ESG POLICY
AND ETHICAL INVESTMENT
FRAMEWORK ARE IMPLEMENTED
ACROSS THE GROUP



FORM AN ETHICS COMMITTEE



EXPLORE BECOMING A
SIGNATORY OF A RESPONSIBLE
INVESTMENT BODY SUCH AS
THE UN PRI AND ADOPTING AN
APPROPRIATE ESG REPORTING
FRAMEWORK AND METRICS



SCOPE AN APPROACH AT HOW
WE ASSESS, MONITOR AND
COMMUNICATE IMPACT OF
PORTFOLIO COMPANIES



FURTHER IMPLEMENT
RESPONSIBLE STEWARDSHIP
ACROSS OUR PORTFOLIO
COMPANIES;



CONSIDER WHETHER AN ESG
LINKED KPI IS APPROPRIATE
FOR IP GROUP.

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

A sustainability framework

In order to reiterate our commitment to responsible business practices and investment, IP Group has aligned its portfolio with the Sustainable Development Goals ("SDGs").

The SDGs, created by the UN, are the blueprint to achieve a better and more sustainable future for all. Through the activities of IP Group, we address a number of the global challenges identified by the SDGs.

As mentioned earlier in the report and by way of illustration of the positive impact of IP Group, we have invested more than £850m in the UK in science and technology, created more than 300 companies and approximately 5,000 jobs.

We invest in businesses that are developing cutting-edge solutions in the fight against non-communicable diseases such as cancer and lung disease as well as diagnostics companies that can identify and reduce national and global health risks. Read more in the Oxford Nanopore case study on page 54. These companies can help to change the world through a **healthier society**.

One key global challenge is affordable and clean energy. IP Group's portfolio includes companies that provide **cheaper and cleaner energy**. Within our portfolio, we also have businesses that focus on the development of carbon capture technology in order to reduce CO₂ emissions and develop energy management systems for electric cars.

There are positive impacts from the technology and innovation supplied by IP Group's portfolio. We estimate that the Group and/or its portfolio companies are currently influencing all 17 SDGs.

However, to build on work done around mapping these companies to the SDGs last year, we have looked at which SDG targets are associated with individual goals and how our portfolio companies can help achieve these targets.

We have concentrated on the six most relevant SDGs to the Group. While SDG 13 is a high-level goal aimed at governments, we believe that the technologies and services provide by some of our portfolio companies can help to achieve the targets associated with this goal.



At Group level we:

- Support the wellbeing of our employees
- Provide training opportunities to continually develop our employees
- Have implemented a quarterly speaker series with 'high impact women' in our industry
- Have committed to offsetting IP Group's carbon emissions (see page 58) and waste impact
- Support community projects that support talented young people from disadvantaged backgrounds
- Endeavour to conduct our business in accordance with best practice



	THEMATIC FOCUS	PORTFOLIO COMPANY	SDG TARGET	
TECH	DATA ANALYTICS CYBER DEFENCE IT TO IMPROVE EFFICIENCY	AMSL Innovations Featurespace Garrison Technology Helio Display Materials C-Capture Mixergy Oxbotica	11.2 Affordable and sustainable transport systems 11.3 Inclusive & sustainable urbanisation 11.6 Reduce the environmental impact of cities 9.1 Develop sustainable, resilient & inclusive infrastructures 9.4 Upgrade all industries and infrastructures for sustainability 9.5 Enhance research and upgrade industrial technologies 9.C Universal access to ICT	SUSTAINABLE DEVELOPMENT GOALS 11 SUSTAINABLE CITIES AND COMMUNITIES 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
		Azuri Technologies Bramble Energy C-Capture Ceres Power Holdings Econic Technologies First Light Fusion Oxbotica Oxford Nanopore Technologies Mixergy RFC Power	7.1 Universal access to modern energy 7.2 Increase global percentage of renewable energy 7.3 Double energy efficiency 7.A Promote R&D and investment into cleantech 7.B Expand & upgrade energy services in developing countries 13.2 Integrate climate change measures into policies & planning 13.3 Build knowledge & capacity to meet climate change	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
CLEANTECH	RENEWABLE ENERGY SUSTAINABLE TRANSPORT ENERGY TRANSITION	Azuri Technologies Econic Technologies Mixergy	12.2 By 2030, achieve the sustainable management and efficient use of natural resources 12.4 Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
		Artios Pharma Cell Medica Creavo Medical Tech Crescendo Biologics Diurnal Group Enterprise Therapeutics Genomics Ieso Digital Health Iksuda Therapeutics Inivata Istesso Mission Therapeutics MOBILion Oxehealth Oxford Nanopore Technologies Oxular PsiOxus Therapeutics	3.3 By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases 3.4 By 2030, reduce by one third premature mortality from non-communicable diseases and promote mental health and well being 3.d Strengthen the capacity for early warning, risk reduction and management of national and global health risks.	3 GOOD HEALTH AND WELL-BEING
LIFE SCIENCES	DIAGNOSTICS THERAPEUTICS ONCOLOGY DIGITAL HEALTH			
SUSTAINABLE DEVELOPMENT GOAL				

CASE STUDY: OXFORD NANOPORE

Helping the fight against Coronavirus

In January 2020, Oxford Nanopore announced it was working with a number of public health laboratories in China and elsewhere, to support the rapid sequencing of the novel Coronavirus that was first seen in Wuhan, China.



**READ ABOUT OUR
SUSTAINABILITY
ON PAGES 50 TO 53**

Sequencers provide rapid, near sample sequencing to monitor the virus

Sequencing the virus can support 'genomic epidemiology' - characterising the virus and helping public health authorities to understand the identity of the virus, whether it is changing and how it is being transmitted.

Nanopore sequencing workflows can map the virus's genome within eight hours. It is the only technology in the world that can provide this field-based, real-time sequencing capability and has provided support in many outbreaks in this field setting, including Ebola, Zika, yellow fever and Dengue.

In January, Oxford Nanopore sent 200 of its MinION sequencers to China to support surveillance of the outbreak of the Coronavirus. The portable sequencer, which is approximately the size of stapler, was designed for broad accessibility. It weighs under 100g and is run with a laptop or special accessory, the MinIT, to perform data analysis.

Oxford Nanopore staff have also been working with communities in China to support the development and sharing of best practice and protocols for the sequencing of this virus. Staff also offer technical support to public health authorities all over the world, the technology is also being used in the USA, UK and many other countries.

How IP Group has supported ONT

IP Group provided the original seed funding to Oxford Nanopore (ONT) in 2005 and has backed numerous follow-on funding rounds. The Group has introduced many new shareholders and helped recruit directors, including a number of members of the executive team. Oxford Nanopore is the Group's largest holding by value and its work is aligned with a number of the SDGs, including:

SDG 3 and SDG 3 target - 3.3 Fight Communicable Diseases



CASE STUDY: C-CAPTURE

Helping to achieve 'net zero'

In 2019, the UK became the first major economy in the world to commit to 'net zero' by 2050. The target will require the UK to bring all greenhouse gas emissions (GHGs) to net zero with any emissions balanced by schemes to offset equivalent amount of emissions through technology such as carbon capture and storage (CCS).



READ ABOUT OUR
SUSTAINABILITY
ON PAGES 50 TO 53

Partnership with Drax Power Station

C-Capture is currently one of three providers conducting a demonstration project at Drax Power Station in North Yorkshire which, when scaled up, will remove carbon dioxide from emissions produced by Drax's four generating units that are fuelled by sustainable biomass.

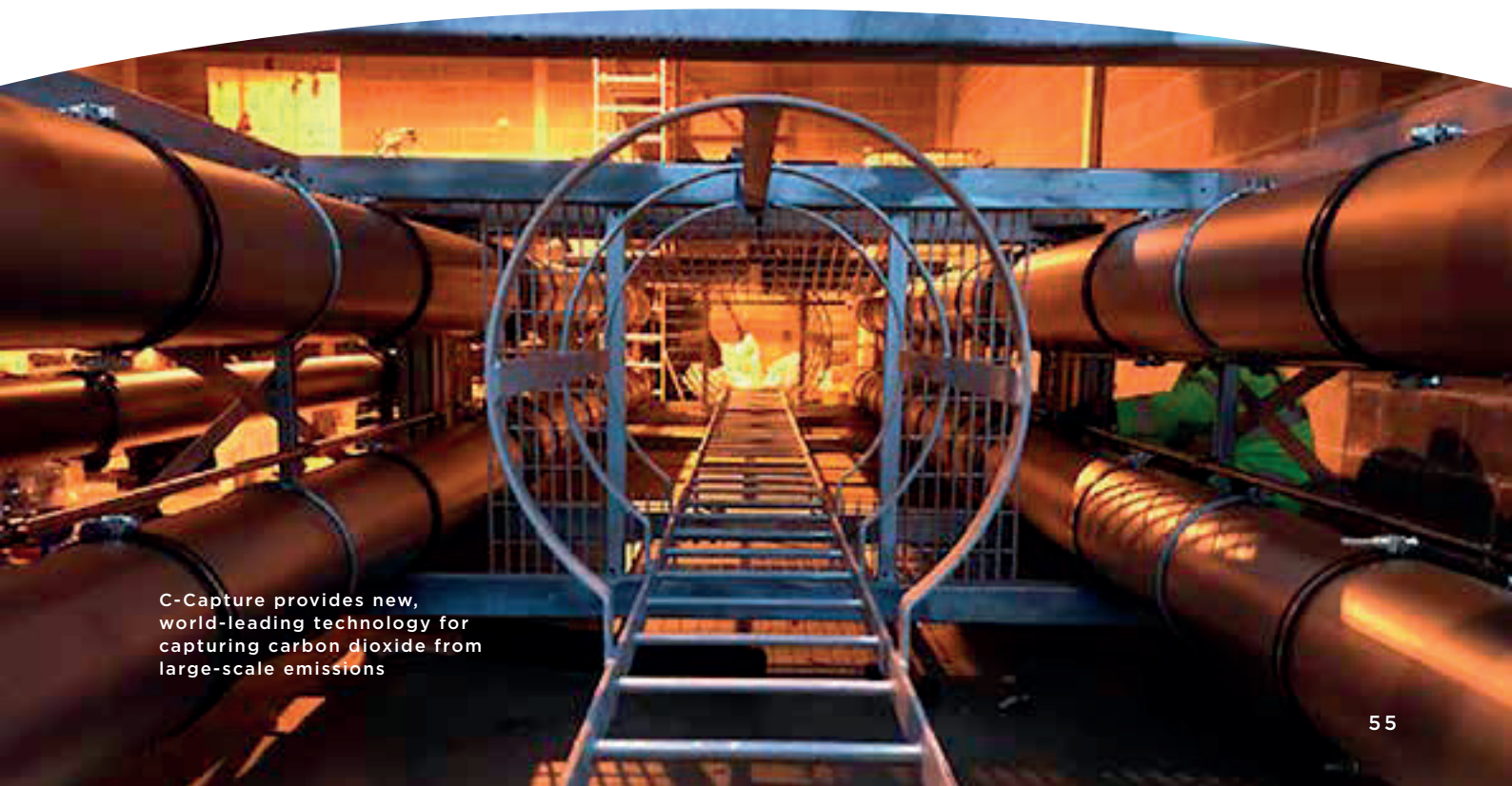
The bioenergy carbon capture and storage (BECCS) project at Drax, which is the first of its kind in the world to capture carbon from a 100% biomass feedstock, has the potential to be the greatest single CO₂ mitigation project serving the UK electricity sector. This is because it has the capacity to produce negative emissions meaning CO₂ is removed from the atmosphere at the same time as electricity is being produced.

As work towards decarbonisation and achieving net zero has progressed in 2019, so too has the adoption of C-Capture's technology. The company started the year being named as a Sunday Times Volvo Visionary, received a further £3.5 million in funding from IP Group, BP and Drax, signed an agreement to work with Norway's SINTEF institute on a new

phase of R&D into carbon capture technologies and was in the 'Leading on Clean Growth: The Government's Response to the Committee on Climate Change's 2019 Progress Report to Parliament - Reducing UK emissions report, which highlighted the BECCS plant at Drax and its roles in helping in the UK's energy transition to net zero. The company ended the year on a high, being named as Business Green's 'Breakthrough of the Year' in its Technology Awards.

Link to SDGs

C-Capture's goal is to make energy cleaner through decarbonisation and use of renewable fuels, without making it prohibitively expensive to the consumer.



C-Capture provides new, world-leading technology for capturing carbon dioxide from large-scale emissions

SUSTAINABILITY

CONTINUED

Carbon offsetting at
Arnott's Loan, Dunbar, Scotland

Environment

As described above, we believe the indirect environmental impact of the Group to be positive when considering the potential of our portfolio companies to influence major global challenges addressed by the UN's 17 SDGs. However, we also consider the direct negative environmental impact of IP Group plc and its subsidiary companies, including through emissions caused by staff activity (e.g. travel) and premises and are committed to ensuring these remain as low as possible. We aim to ensure that the business operates in an environmentally responsible and sustainable manner. The single biggest contributor to our direct emissions remains business travel, particularly overseas flights. Employees are therefore encouraged to host meetings via video conference where possible, thereby only engaging in business travel when necessary, and to use public transport. The Group also focuses on waste prevention, has recycling facilities within its offices and has trained employees on their use. You can read more on the Group's greenhouse gas emissions on page 58.

Carbon offset

Despite the relatively low direct negative environmental impact of the Group, we have, for the second year, offset 100% of the Group's direct 2019 CO₂ equivalent greenhouse gas emissions. As in 2018, we have done this through a programme of supporting UK woodland creation certified under the Government's Woodland Carbon Code. Our commitment has supported the planting of **4,022 trees, 1,000 tonnes of CO₂ capture** and three hectares of new woodland near Dunbar, Scotland. Our support for woodland creation will not only mitigate our entire carbon footprint but also deliver additional benefits to society and the environment.

The specific project that IP Group is supporting through its carbon offset activity is called Arnott's Loan and it consists of 75% oak with the remainder silver birch, alder, hazel, hawthorn and rowan. The woodland connects two existing mature oak woodlands and will improve water quality and biodiversity over one mile of streambank. The site will be sustainably managed on a continuous cover basis, meaning long-term and gradual thinning and replacement of trees creating a natural all-age forest.

The Woodland Carbon Code delivers independently certified woodland creation projects – audited by UKAS accredited bodies to ISO standards – that offer tangible social and environmental benefits; it is the only standard of its kind in the UK.

Woodland Carbon Code credits are an accepted mitigation mechanism under government corporate environmental reporting guidelines.

All Woodland Carbon Code certified projects offer public access as a core requirement, and woodlands also have a significant role to play in mitigating flooding, reducing air pollution, cleaning watercourses and creating habitat for biodiversity. An investment in woodland creation contributes to the UK's rural economy by helping to create jobs in the forestry and nursery sector, and also makes a contribution to the UK's national carbon budget, enabling the country to meet its climate change obligations.

The Code ensures that:

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

Social

IP Group aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders. We recognise the importance of diversity and have instigated a number of initiatives on this detailed on page 64 under “employee diversity”. A key community initiative for the Group has been its three-year strategic charity partnership with Generating Genius, a charity set up to support talented young people from disadvantaged backgrounds to help realise their potential in STEM (science, technology, engineering and maths) subjects. More information on this is set out under “Community Engagement” on page 58.

The Group also seeks to ensure that there is diversity in the supply chain, working with SMEs as well as larger organisations. Where possible, we work with local suppliers, therefore impacting positively on the communities where we operate. The Group is also a signatory to the Prompt Payment Code. IP Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. We take a zero-tolerance approach to bribery and corruption and implement and enforce effective systems. The Group is bound by the laws of the UK, including the Bribery Act 2010, and has implemented policies and procedures based on such laws.

Governance

The Group seeks to conduct all of its operating and business activities in an honest, ethical and socially responsible manner and these values underpin our business model and strategy. We are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships with consideration for the needs of all of our stakeholders, including university partners, investors, suppliers, employees, and the businesses in which the Group has holdings. IP Group endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships. As a publicly traded entity, IP Group actively seeks to engage and maintain an open dialogue with both institutional and private shareholders through its investor relations programme. You can read more in the Stakeholder Engagement section on pages 66 to 75.

Policies

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

Cyber Security

Over the course of 2019, the Group conducted a cyber maturity assessment with the PwC internal audit team and engaged cyber security specialists, the NCC Group, to carry out a further review. These reviews led to a series of recommendations that have been implemented to reduce the risk to the Group of a cyber incident or a data breach. Notable changes included the establishment of a cyber security working group, increased automated IT management reporting, a review of the policies and procedures in force and the implementation of additional security systems. An ongoing programme of security training for employees and penetration testing remains in place. The Group takes the threat of a cyber incident very seriously and endeavours to mitigate this risk wherever possible.

SUSTAINABILITY

CONTINUED

Greenhouse gas emissions

This year, the Group has reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. In 2020 IP Group will be required to report in line with the new Streamlined Energy and Carbon Reporting (SECR) requirements for the first time for the period 1 January 2020 to 31 December 2020.

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

Methodology

The Group has employed the services of a specialist adviser, Ditto Sustainability, to quantify the GHG emissions associated with the Group's operations. The analysis was done in accordance with the international standard ISO14064.

The greenhouse gas inventory has been calculated in accordance with ISO14064 and the World Resources Institute's greenhouse gas protocol.

Emissions factors calculated based on an office location:

- UK – 2019 UK Government Greenhouse Gas Conversion Factors for Company Reporting
- USA – Emissions Factors for Greenhouse Gas Inventories 2018
- Australia – National Greenhouse Accounts Factors August 2019

Target and baselines

Although IP Groups total emissions have reduced, IP Group's carbon intensity has increased in 2019 compared to 2018. Carbon intensity for the Australian offices is much higher than other parts of the business and has been a growth area for the business.

Absolute emissions

The total greenhouse emissions from IP Group plc's operations in the financial year 2019 (year ending 31 December 2019) were: 721.4 tonnes of CO₂ equivalent (tCO₂e) which we completely offset through the Dunbar woodland project as described on page 56.

	2019 Tonnes CO ₂	2018 restated ⁴ Tonnes CO ₂ e
GHG emissions	721.4	908.8
Scope 1 ⁽¹⁾	8.9	14.8
Scope 2 (location-based) ⁽²⁾	134.4	126.0
Scope 3 ⁽³⁾	565.1	768.0
Carbon offset via woodland projects	(721.4)	(908.8)
Total GHG emissions post carbon offset	-	-

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

(2) Scope 2 being electricity (indirect emissions), heat, steam and cooling purchased for the Group's own use.

(3) Scope 3 being all indirect emissions (not in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions 2019 (112 employees and 2,245m² office space).

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

Intensity ratio

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

	Carbon tCO ₂ e	FTE	m ²	tCO ₂ e/FTE	tCO ₂ e/m ²
2019	721.4	111	2,245	6.4	0.32
2018	908.8	167	4,706	5.4	0.19

Flights

As with previous years, flights are still the largest contributor to IPG's carbon emissions despite a gradual reduction in emissions from flights from 581 tCO₂e in 2018 to 426.9 tCO₂e to 2019.



Generating genius students participate in an IP Group 'host day'



I was able to network with so many different people of so many different academic backgrounds and gain so much insight into how they got to where they are. I also got to speak in front of the CEO and COO of IP Group."

(Student when asked about the best part of their work experience)

Community engagement

The 50 students recruited at the start of the Group's partnership with Generating Genius:

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

In 2019, IP Group entered the final year of its three-year strategic partnership with Generating Genius.

The charity aims to address the attainment gap of black, Asian and minority ethnic (BAME) students compared with other demographics within STEM (science, technology, engineering and maths) subjects and related industries by supporting talented and able students over a prolonged period of time with a mix of academic and professional engagement.

During the year, the original cohort of 50 students supported by the Group's donation completed their GCSE examinations. Out of these:

- 42 studied Maths – of which 88% achieved grades 9-7 (A**-A equivalent)
- 37 studied Chemistry – 64% grades 9-7

- 29 studied Biology – 82% grades 9-7
- 34 studied Physics – 69% grades 9-7

The original 50 have now joined Generating Genius' Uni Genius programme (for years 12 and 13), along with newly recruited individuals. The Group's donation has also been used to support an additional 104 students at different stages of Generating Genius' programmes.

In addition to its donation of £33,333 (2018: £33,333), the Group continued to work with Generating Genius through its Charity Liaison Team to deliver a Host Day and two weeks of work experience for four students. At the Host Day, students gained insight from the careers and professional history of speakers from both IP Group and selected Group portfolio companies. This was followed by a design challenge, where young people were put into groups and asked to solve a question sourced from the speakers' own work. Students were challenged to decide on the next step of a drug's development path, think of ways to commercialise quantum computing, and even grappled with business ethics.

Work experience weeks saw students learn about how IP Group works in more detail. This was achieved through meetings with representatives from teams across the Group and projects that ranged from making investment recommendations to formulating policy advice.

Outside IP Group, Generating Genius students participated in a series of events, masterclasses, and work experiences to further develop their skills and inform their future education and career decisions at institutions such as St Anne's College at the University of Oxford, the University of Leeds, Barclays Bank, and Kilburn & Strode.

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

SUSTAINABILITY

CONTINUED

Responsible stewardship

In 2019, IP Group increased its focus on stewardship of our portfolio to ensure that investee companies are mindful of issues such as climate change, diversity and strong governance, themes which are key to the values of the Group.

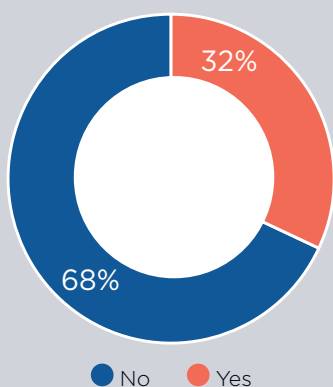
We recognise the importance of ensuring that the businesses we help create comply with all applicable environmental, ethical and social legislation. Furthermore, our direct involvement in many of these companies allows greater scope to engage with their management teams and offer guidance.

As a first step IP Group collected data from portfolio companies to enable us to get a clearer picture of current ESG standards and to set a benchmark for future measurement.

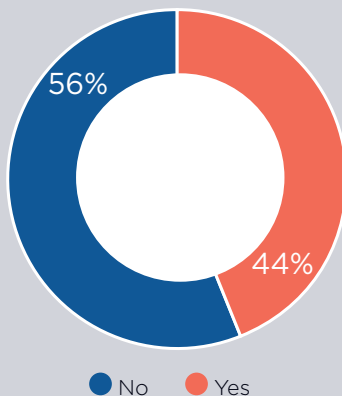
In 2019 we engaged with **49** companies representing **75%** of the companies held in the focus portfolio at June 30th 2019.

Excellent compliance across governance with room for improvement in environmental and diversity policies

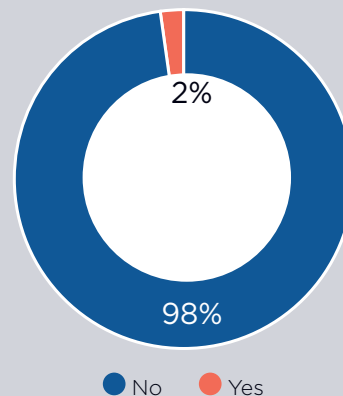
ENVIRONMENTAL POLICY



DIVERSITY POLICY



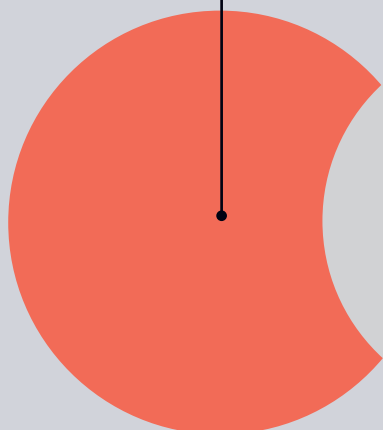
REPORTING ON GHG EMISSIONS



GOVERNANCE: POLICIES

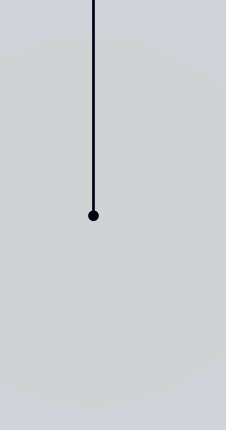
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HEALTH & SAFETY



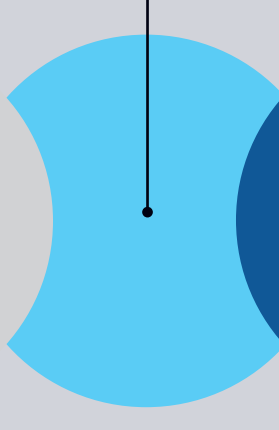
92%

ANTI-CORRUPTION/
ANTI-BRIBERY



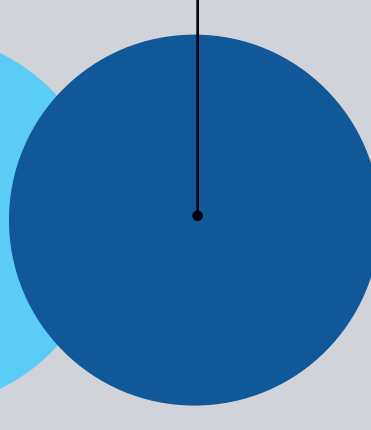
92%

HUMAN RIGHTS



92%

DATA PROTECTION



To ensure high standards of compliance are reached in ESG, IP Group, will in 2020, offer help to companies, including:

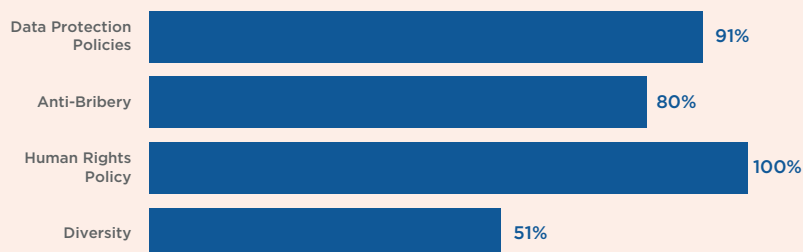
1. A 'Sustainability' toolkit – outlining best practice and encouraging a more progressive approach to ESG issues;
2. Engaging in meaningful dialogue with portfolio companies in relation to routine and event-driven shareholder resolutions; and
3. A list of suppliers (for example measuring GHG data, supplying HR training, analysing flight data, 30% Club).

In addition to the support they receive from the Group, our portfolio companies often seek funding from other sources, both public (such as government-backed grant funding) and private (from sources ranging from angel investors and small privately owned funds to large institutional investors), and the Group will often assist in gaining access to this financial capital. The Group complies with all applicable legislation in this respect and communicates with its co-investors in an appropriate and transparent manner.

Parkwalk

Parkwalk is closely aligned with IP Group's mission of evolving great ideas into world-changing businesses that achieve a positive impact. This alignment also applies to ESG and stewardship across portfolios. As well as mapping investment companies to the SDGs (as IP Group has done, see pages 52 and 53). Parkwalk carried out a survey of specific ESG policies across its portfolio. The numbers largely reflect those of IP Group's survey.

Highlights



JOBS CREATED BY IP GROUP AND PARKWALK TOTAL

7500¹



SEE OUR STRATEGY IN
ACTION ON PAGES 52
TO 53

¹ Approximately, from current and exited investments.

SUSTAINABILITY

CONTINUED

Culture

A purpose-led culture

IP Group's success is highly dependent on attracting, developing and engaging exceptional people across a range of disciplines. We have always had a strong story that people can relate to and find compelling – the basic concept of creating businesses that address some of the most challenging issues in the world is a powerful one.

As a result, IP Group has always had a purpose-led and entrepreneurial culture – one in which our diverse team are deeply committed to what we do, and together help to deliver ground-breaking work.

In 2014 we codified that culture in our first set of values, an exercise which involved all members of the team. The output was the three Ps – Passionate, Pioneering and Principled.

Over recent years, the IP Group team has evolved in a number of ways:

1. Becoming more international with operations in the UK, US, Australasia and Greater China
2. Growing the team through the acquisitions of Touchstone Innovations plc and Parkwalk Advisors
3. Shifting to a partnership model, with Technology and Life Sciences partnerships with increased delegated investment and divestment decision making authority, working alongside the internal specialist teams

As the team and Group have evolved, so too has the culture. To help us take stock, at the end of 2018, we undertook our first engagement survey and, in 2019, we gathered feedback from the team on the IP Group culture.

Engaging the team

In the engagement survey, we saw good scores and feedback around pride in working for the company. The responses showed a particular strength around flexible working and people feeling able to balance home and working lives. Areas flagged for improvement included internal communication; in particular people wanting to hear more about the IP Group strategy and decision making.

As a result, the Group undertook a number of initiatives aimed at increasing the accessibility of the senior team to employees. These included increasing the frequency of our All Staff meetings, a weekly update from the CEO as well as face-to-face sessions with our executive team.

The Group also launched a new intranet and reviewed its onboarding communication for new joiners. We continue, through our regular internal communications, to share stories of the great work happening in the portfolio. These initiatives have been positively received by the team.

Employees have also had the opportunity to get involved in our Generating Genius collaboration – our thirst for new ideas and passion for science has been a great fit.

Reviewing the IP Group culture

Following the integration of Touchstone Innovations plc in particular, we also felt it was the right time to reflect on the culture of the Group. At our summer All Staff meeting ran a session with the UK team to start the conversation on what culture is, how each individual contributes to it and actions we could take to positively influence the culture. One of the key themes from the day was the desire to encourage a more collegiate and communal working environment. As a result, a range of cross-team social activities have taken place, as well as improvements to the working environment.

In addition, we asked for volunteers to provide feedback against a range of cultural dimensions. We received input from a wide range of people (teams, geographies and seniority) including the CEO and his direct reports. The responses reflected the diversity of the participants, however, there were some common themes.

Strengths

- People continue to feel deeply passionate about the company's purpose – both building businesses and the impact that those businesses have.
- People report that they enjoy working with their fellow colleagues who are fun, smart and committed
- The team values the very flexible nature of IP Group as a place to work – in line with our entrepreneurial roots. As per the results from the engagement survey, people on the whole feel able to strike a work-life balance, and this is seen as a significant plus.

Areas for improvement

- People are keen for even more transparency, in particular around how decisions are made and the organisation's future plans
- As our international teams continue to expand, some people felt that there is an opportunity to develop more global ways of working.

As part of this review, people were also asked to share their feedback on the three Ps. Encouragingly, 86% of people felt that these values were still relevant; though only 52% felt they saw evidence of them in action.

There is work to do in 2020 to reflect on how we can bring the values to life in a more meaningful way that supports us in realising our purpose and delivering the strategy. This will include fleshing out the behaviours that underpin our values and bringing those behaviours into our appraisal process and incentives more clearly.

Meaningful dialogue with the Board

This year we established two new and exciting mechanisms to increase the dialogue between the Board and employees. Firstly, we established our first employee forum, IP Connect. Made up of a representative group of employees, IP Connect has been set up to enable the Board to understand and consider the interests of the wider team in its discussions and decisions, and to increase engagement of employees overall. IP Connect meets regularly, with the agenda in part determined by topics raised by employees. Minutes from the sessions are published on the intranet and discussed with the executive team and Board.

Secondly, the Group appointed Aedhmar Hynes as the Designated Non-executive Director for workforce engagement ("Designated NED") to act as conduit for dialogue between Board and the wider team, via IP Connect. Aedhmar brings deep experience of leading global organisations, and with it a passion for engaging and developing people.

Though early days, these mechanisms are a positive step forward and will help us continue to evolve our culture and embed the values.

Culture 2020

Our plans to further strengthen the IP Group culture for the coming year include:

Increasing dialogue between Board and the wider team to increase transparency e.g.

- We will improve the process of cascading the output of Board meetings to the wider team
- We are exploring a range of ways in which NEDs and employees can spend time together productively
- We will continue to build upon 2019 initiatives, in particular IP Connect

Embedding IP Group values e.g.

- We will expand the definitions of the values so it is clearer what they look like in practice and they will be reflected in the appraisal process more explicitly
- We will refresh how we recognise people who embody our values

Fast-tracking initiatives that make IP Group a better place to work e.g.

- We will review our family-friendly policies to ensure they reflect our value of being pioneering
- We will expand the range of learning and development opportunities offered to the team including driving forward initiatives such as the Board development framework (see more on page 65)
- We will introduce pulse surveys to gather feedback on a more regular basis
- We will continue to support and encourage diversity and inclusion through initiatives such as the 30% Club (see page 65).

SUSTAINABILITY

CONTINUED

Training

Our people gain significant experience from working with a number of start-up enterprises and seeing first-hand what works and what doesn't, sharing knowledge and discussing these experiences (notably at our company away days). All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses. In 2019, all staff undertook training on the following topics: GDPR, IT/cyber security training, anti-bribery, unconscious bias and ESG training; as well as gaining access to an online learning platform.

Recruitment and development

All vacancies are advertised internally to offer opportunities to current employees in the first instance. Thereafter, we use our extensive networks to recruit for staff with candidates solicited from various backgrounds and expertise. All staff have now undertaken annual

performance reviews to summarise their achievements as well as to highlight development needs which are then converted into learning and development plans.

Reward and retention

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

Staff turnover in 2019 was unusually high at 37.5% as a result of the return of technology transfer operations to Imperial College earlier in the year and some small structural changes in the final quarter. Excluding the technology transfer operations, turnover was 18.5%, broadly flat with 2018.

Health and safety

All our people are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The Chief Operating Officer has overall responsibility for the implementation of the Group's health and safety policies and procedures. The primary purpose of the Group's health and safety policy is to enable all of the Group's people to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. During the years ended 31 December 2019 and 31 December 2018, no reportable accidents occurred under UK Health and Safety regulations.

Employee diversity

Diversity is key to the culture and to how we work at IP Group. We are committed to equal opportunities for all people when it comes to recruitment, selection and career development.

In 2019, two new female non-executive directors joined the Group's main Board, bringing the total number of female directors to three or 27.3%. In March 2020, Jonathan Brooks retired from the Board and therefore the percentage of female directors on the Board has now risen to 30%.

In addition, the Group also put several initiatives in place to support gender diversity and women in the workplace.

For the year ended 31 December 2019, the Group employed 111 employees and had seven non-executive directors. A breakdown of our people by gender can be seen in the table below. IP Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and, insofar as it is able to, ensures that all transactions the Group enters into uphold these principles.

Gender split as at 31 December 2019

	Male		Female	
Board	8	73%	3	27%
Senior Leadership Team ⁽¹⁾	8	100%	0	0%
Senior managers/partners	14	67%	7	33%
Senior Leadership Team & senior managers/partners	22	76%	7	24%
All Employees				
Total employees 111 ⁽²⁾	57	51%	54	49%

⁽¹⁾ Defined for these purposes as executive directors and other direct reports to CEO

⁽²⁾ Excludes non-executive directors

The above table illustrates the gender balance across the Group. During the year, the Group made significant progress in support of the "30% Leadership" campaign to improve gender diversity with female representation of the Group's Board of Directors having risen to 27% from 11% on a like-for-like basis compared to last year.

Female representation on the Group's Senior Leadership Team remains below the desired level. The Senior Leadership Team has been in transition since the Touchstone transaction in late 2017, when the previous Executive Committee was disbanded, and the plc board widened through the addition of two observers to the four executive directors to create a single, unitary board structure. A wider Executive Committee, with delegated responsibility for implementing the Group's strategy and policies, day-to-day management of the business and monitoring performance, will be reconstituted in 2020 with diversity (in gender and perspective) as a key element. The Chief Executive Officer is progressing this as a matter of urgency and will include an update on progress for diversity in senior leadership in the half-year report. The Group recognises the need for improvement at the most senior levels in the business and continues to aspire to at least 30% female representation in the senior leadership team, having now reached this proportion at Board level.

Female representation in senior employees just below the interim Senior Leadership Team is 33% which meets targets set by the Hampton-Alexander Review. The combined Senior Leadership Team and senior direct reports (senior managers and partners) together account for female gender representation of 24.1%, similar to the Hampton-Alexander reported average of 24.9% at ExecCo & Direct Reports across the FTSE 250.

IP Group formed a '30% Club Working Group' in 2018. At the end of 2018, a focussed set of initiatives were drawn up and 2019 saw the working group meeting regularly with CEO Alan Aubrey as the accountable Executive Director. Initiatives to support women in the workplace during 2019 included:

- Improved gender diversity at the Board level, with the goal of at least three female directors (based on research showing effectiveness levels of Board diversity), see pages 94 to 95 for more detail;

- Unconscious bias training for all employees;
- External mentoring scheme through 30% Club;
- Inspirational speaker series focusing on women executives and directors;
- Board development framework.

2019 highlights Mentoring

IP Group joined the External Mentoring Scheme of the 30% Club, which sees some 2,346 senior leaders from 100 organisations provide mentors to high potential women of every level of the career pyramid. At the end 2019, mentors and mentees from IP Group were paired with people from other organisations for a nine-month mentoring programme that concludes in 2020. Pairs are recommended to meet every four to six weeks and explore diverse areas such as work-life balance and career development identified by the mentee as areas where support is required. Initial feedback from the programme has been positive and will be reviewed in full when the programme concludes. In addition to the mentoring sessions, the 30% Club hold masterclass events that are free to programme participants. The most recent events (attended by IP Group participants) included an 'In conversation with' panel session with a diverse set of senior female leaders and an interactive event with an organisational psychologist and mental health expert.

Inspirational speaker series

The 30% Club working group introduced a speaker series whereby high-profile women talk about their career paths and how, in some cases, they have achieved a successful career. Speakers referenced concepts including building mental resilience, handling corporate politics, balancing career with family, therefore providing invaluable insight and motivation to both women and men at IP Group. These are carried out in a 'fireside chat' format and are filmed and posted on the Group's intranet for those that cannot attend in person.

Speakers in 2019 included new non-executive director Aedhmar Hynes as well as Ceres Power Director Dr. Caroline Hargrove (CTO of Babylon Health and previously CTO of McLaren).

The speaker series also provides the opportunity to raise the profile of IP Group's own female employees as the hosts for the fireside chats alongside the high-profile speakers.

Board development framework

This initiative is to enable a programme framework within IP Group to give everybody the opportunity to observe portfolio company boards when it is a relevant personal development area. Studies have indicated that board experience is seen as valuable and relevant for career progression amongst women.

This framework recognises that IP Group has a diverse set of people having different levels of expertise in different sectors and hence this framework cannot be a one size fits all. It is envisaged the framework will be used to guide the initiatives and pilots that may be progressed in 2020.

2020 initiatives

IP Group's '30% Club working group' will build on the achievements of 2019 aimed at supporting women in the workplace and encouraging diversity. The working group will continue to support and progress the current initiatives of a gender balanced board; a mentoring scheme to support female progression; and an inspirational speaker series focused on highly accomplished women. The Group will also review and create additional initiatives for 2020, including examination of gender diversity opportunities in the senior management team as well as improvement of family friendly policies across the firm.

WORKING WITH THE GROUP'S STAKEHOLDERS

Statement by the Directors in performance of their duties in accordance with s172(1) Companies Act 2006

The directors of IP Group plc consider, both individually and together as a Board, that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This statement sets out how the Board has had regard to the matters set out in s172(1) Companies Act 2006 when performing its duties under s172 Companies Act 2006 ("s172") for the year ended 31 December 2019.

Identifying key stakeholders



The Group's stakeholders are people, communities and entities with an interest in the Group's purpose, strategy and business and who are or may be impacted by the Board's decisions. The Board is responsible for creating sustainable value for the Group's shareholders and in order to ensure the Group's long-term success, it is critical that the Board engages with and considers the interests of the Group's wider stakeholders when making decisions.

During 2019, the Group undertook a complete analysis of its stakeholders, to ensure that those stakeholders whom it had previously identified remained accurately characterised and relevant in 2019. The first stage of this process was to create a list of all stakeholders who had or might have an interest in the Group and its objectives.

The Board then analysed each potential stakeholder to assess their relevance and the perspective that they offer. The following questions were considered by the Board:

- Does the stakeholder have information or expertise on matters helpful or relevant to the Group?
- How legitimate is the stakeholder's claim for engagement?
- Is the stakeholder willing to engage?
- How much influence does the stakeholder have?
- What are the possible consequences if a potential stakeholder is not included in the engagement process?
- Does the Group have a specific s172 duty and/or a moral responsibility to that stakeholder?

The Board is aware that when considering potential decisions, there may be other stakeholders not included in the key stakeholder list above whose interests may be relevant and the Group will engage with and consider such stakeholders' views in its deliberations as necessary.

Engaging with key stakeholders

Engaging with stakeholders is an integral part of the Group's business and critical to ensuring the future success of the business. The table below sets out the Group's focus on the key relationships with stakeholders which enable the Group to discuss the potential impact of its decisions on the stakeholders affected by or relevant to the issue in question.

Name of stakeholder	Why we engage	How we engage	Issues that matter to this stakeholder group
SHAREHOLDERS	To ensure shareholders have a strong understanding of and confidence in the Group's strategy, performance, purpose and culture, and to ensure that the Group has strong relationships with its shareholders, and the Board understands the issues that are important to them.	• Direct meetings/calls, primarily with the Executive Directors and senior management and consultation on various key issues for the Group with the Chairman and Senior Independent Director • Results announcements and presentations • The Group's website • Meeting with analysts and feedback from the Group's brokers • Annual General Meeting/other General Meetings • Annual Report and Accounts • RNS and RNS Reach announcements • Shareholder circulars • Group capital markets events (including the China Deep Tech Forum and US Hard Science Innovation Forum)	• Financial performance • Strategy • The Group's funding model • Capital allocation • Long-term growth • ESG factors • Culture • Significant changes to the Board • Remuneration of directors • Capital allocation • Matters affecting the share capital • Diversity • Compliance and governance
EMPLOYEES	To attract, develop, incentivise and retain the best people which is critical to achieving the Group's strategy and vision. Meaningful engagement with employees also helps to create a strong and supportive culture.	• IP Connect employee forum • Appointment of Designated NED for employees • Regular all-staff meetings in person and via video conference • Annual all-staff off-site • Informal employee lunch sessions with CEO • Weekly all-staff emails from the CEO • Internal newsletter • Speaking up hotline and web reporting tool • Culture and engagement survey • Regular all-staff social events	• Strategy • Culture • Transparency of decision making • Opportunities for development and progression • Talent management • Diversity and inclusion • Employee/workplace policies • Strong communication • Remuneration and benefits • Wellbeing

WORKING WITH THE GROUP'S STAKEHOLDERS

CONTINUED

Name of stakeholder	Why we engage	How we engage	Issues that matter to this stakeholder group
PORTFOLIO COMPANIES	To build successful businesses to address some of the world's most pressing challenges. Part of the Group's purpose is to build businesses that have a positive social and environmental impact, and this builds into the Board's consideration of the long-term impact of its decisions. This engagement supports one of the Group's strategic aims, which is to develop and support opportunities into a diversified portfolio of robust businesses.	• Hands-on approach via portfolio company boards as investor directors/observers • Offering fundraising and capital markets expertise via IP Capital (the Group's fund management and corporate advisory business) and executive search services to help build strong boards via IP Exec (in-house executive search function) • Regular portfolio company events • Facilitating access to co-investors • Group capital markets events	• Strategy • Financial performance • ESG factors • Fundraising • Building strong boards • The Group's funding model • Capital allocation • Culture • Investment Committee decision-making process
CO-INVESTORS	To build an investment network to support the Group's portfolio companies and to co-invest in portfolio companies. This helps to ensure that the Group's portfolio companies are adequately supported, both financially and also in other areas such as board support, corporate governance and strategy.	• Interacting with IP Capital, the Group's specialist fund management and corporate advisory business • Via portfolio company boards where several investors have a Board seat • Attending conferences and sector events (for example, JP Morgan Healthcare Conference and the Consumer Electronics Show) • Group capital markets events	• Strategy • Financial performance • Realisations • ESG factors • Investment evaluation and decision-making process • Culture
UNIVERSITIES AND OTHER RESEARCH INSTITUTIONS	To build, develop and maintain relationships with universities to identify promising research and create and build businesses around such research. This builds into one of the Group's strategic aims, which is to create and maintain a pipeline of compelling intellectual property-based opportunities.	• Regular interaction with investment teams • Regular review meetings in the UK and US • Annual relationship review in Australia	• Strategy • Financial performance • ESG factors • Culture • Realisations • The Group's funding model • Capital allocation

Name of stakeholder	Why we engage	How we engage	Issues that matter to this stakeholder group
THE ENVIRONMENT AND WIDER COMMUNITY	To generate social and environmental impact, which is part of the Group's core purpose.	• Via the Group's portfolio companies. See page 55 for a specific example of the impact of C-Capture, a portfolio company in the Cleantech division, on the environment • Supporting UK woodland creation via Woodland Carbon Code • Partnering with Generating Genius charity • Website	• ESG factors • Capital allocation • Strategy • Diversity and inclusion
THE EUROPEAN INVESTMENT BANK AND THE EUROPEAN INVESTMENT FUND	To maintain strong partnerships with the EIB, as lender to the Group, and the EIF, a significant investor in the Group's managed funds.	• Regular reporting requirements • Direct conversations and consultation on matters relevant to them • Attendance and presentation at EIB and EIF conferences	• Strategy • Financial performance • The Group's funding model • Realisations • Compliance and governance • ESG factors
REGULATORS INCLUDING THE FINANCIAL CONDUCT AUTHORITY, TAKEOVER PANEL AND THE AUSTRALIAN SECURITIES AND INVESTMENT COMMISSION	To maintain strong relationships with regulators.	• Direct correspondence on matters as necessary • Correspondence with the Takeover Panel on concert party matters • Regular reporting to the Financial Conduct Authority • Regular reporting to the Australian Securities and Investment Commission, Australian Prudential Regulation Authority and the Australian Transaction Reports Analysis Centre	• Strategy • Financial performance • Compliance and governance • The Group's funding model • Portfolio liquidity • ESG factors
INDUSTRY ANALYSTS	To ensure analysts have a strong understanding of the Group's strategy, performance, purpose and culture and to ensure that the Group has strong relationships with its analysts	• Regular dialogue and correspondence with management team led by the CFO.	• Strategy • Financial performance • The Group's funding model • Capital allocation • Compliance and governance • ESG factors
GOVERNANCE BODIES	To maintain strong relationship with proxy advisers, the Investment Association, the Financial Reporting Council and other governance bodies	• Direct correspondence on matters as necessary • Correspondence with proxy bodies in relation to the Group's AGM and any other general meetings	• Compliance and governance • Remuneration Policy • ESG factors • Diversity and inclusion

WORKING WITH THE GROUP'S STAKEHOLDERS

CONTINUED

Stakeholder engagement in action

Employees

Focus on: IP Connect and Designated Non-executive Director

During 2019, Aedhmar Hynes joined the Group's Board and was appointed the Designated NED responsible for engaging with the Group's workforce. This role complements Aedhmar's passion and commitment to ensuring a meaningful two-way communication between the Board and the Group's employees. In order to further facilitate the dialogue between employees and the Board, the Group set up an employee forum called 'IP Connect' during the year.

IP Connect allows the Board (via Aedhmar Hynes) to engage with employees, to ensure the views of employees are taken into account in the Board's decision-making process on those decisions that may have an impact on them. IP Connect's composition is comprised of 8 colleagues (plus Karen Callaghan, the Group's HR Consultant, acting as the Chair) from across the business, including representatives across different teams and jurisdictions and a mix of people in terms of gender, seniority and length of time with the Group. IP Connect meets with Aedhmar on a quarterly basis to discuss relevant HR matters requiring input, Board matters brought to the forum by Aedhmar for input and other matters tabled by the members for wider team input, together with hearing feedback from Aedhmar on how the Board has taken into account their views in any decisions it has made in the preceding quarter.

The Group's 2019 annual All-Staff meeting off-site focused on culture and engagement. Following a workshop at the session, feedback was taken and developed into a number of initiatives which are described on page 62. IP Connect sought further feedback from employees on culture and values and intends to feedback to the Board via Aedhmar the results of this. The Executive Directors also sought the views of IP Connect in relation to communications to be issued to the wider workforce regarding certain small structural changes within the Group in the final quarter of 2019, and amended the communications as a result of such feedback.

In 2020, IP Connect has committed to focus on: (i) facilitating constructive dialogue with both the Executive team and the Board, to increase transparency within the Group; (ii) providing input on development of specific people and culture related initiatives (including the development of the Group's values); and (iii) engaging with HR to fast track various initiatives which will make the Group a better place to work (including actions identified at the 2019 annual All-Staff off-site).



IP Group considers employees to be important stakeholders, key to the performance of our business. The creation of IP Connect provides us with a forum, to bring the Board closer to employees, driving greater transparency and engagement. As a strong believer that the integration of culture and values within an organisation drives positive business outcomes, I'm pleased to act as the liaison between these two important groups".

**Aedhmar Hynes,
Non-executive Director**

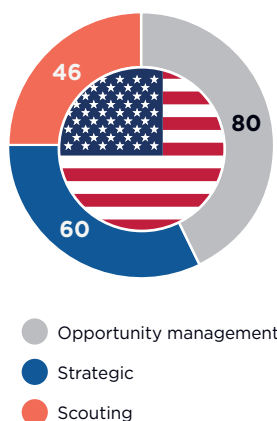
Universities and research institutions

By way of a specific example of stakeholder engagement in action, IP Group's US team proactively engages with its partner universities as follows:

1. Develops a partner plan collaboratively with the relevant IP Group lead contact and the university partner.
2. Holds informal quarterly meetings with the partner.
3. Holds annual formal partner meetings to discuss progress over the past year and plan for the upcoming year.
4. Receives additional feedback following a partner survey.

The US team had 186 meetings with its partner universities in 2019, broken down as follows:

ENGAGEMENTS BY TYPE



Consideration of long-term consequences in decision-making

The Group's long-term strategy is to develop and support intellectual property-based businesses that will have a positive impact on the environment and society into robust businesses, from cradle to maturity, with the aim of delivering attractive financial returns for the Group. A detailed explanation of the long-term strategy is set out on pages 12 to 13, and the Group's business model is set out on page 10.

The Group considers environmental, social and governance (ESG) factors at both Group level and across its portfolio and investment approach. Two directors of the Group, Alan Aubrey and Greg Smith are members of the Group's ESG Working Group, which was established in 2018. One of the key purposes of the ESG Working Group is to ensure that the Group's strategy, of building businesses with a positive impact on the environment and society whilst achieving financial returns, is aligned with its investment process. Further details of the actions the ESG Working Group completed during 2019 and its planned focus for 2020 are detailed on pages 50 to 53. In particular, the Group's new Sustainability & ESG Policy and Ethical Investment Framework, codifies its commitment to invest in an ethical and sustainable manner.

The Group also plays a role as a responsible steward to its portfolio companies. This includes setting expectations of high levels of corporate governance, taking up director positions on the boards of the Group's focus companies to ensure robust corporate governance processes are in place, facilitating introductions to external advisers, and sharing any best practice or helpful tips on new legislation. Further details of the Group's stewardship activities are detailed on pages 60 to 61.

Culture

As described on pages 62 and 63, one of the key purposes for the Board is to help to establish and embed the Group's purpose, values and culture, and the Board identified the Group's stakeholders (as set out above) with this in mind. The Group's strategy has an inbuilt focus on long-term investment and its core purpose, to evolve great ideas into world-changing businesses, requires strong engagement with portfolio companies. The Group prides itself on its high standards of business conduct and expects that its portfolio companies, co-investors and suppliers hold the same high standards when conducting their respective businesses.

How stakeholders' views are reported to the Board and influence the Board agenda

By understanding the views of its stakeholders, the Board can take into account their opinions, needs and concerns when debating and making decisions. Where considered appropriate, major institutional shareholders are consulted on significant decisions and transactions, changes to the Board and the structure of the executive directors' remuneration. For example, the major shareholders were consulted on the Group's recent capital reduction (see below). Shareholders are increasingly asking the Board about the Group's ESG credentials, and the Group has shared its Sustainability & ESG policy and Ethical Investment Framework with shareholders when requested to do so. Further details on the Group's approach to ESG matters are set out on pages 50 to 53.

WORKING WITH THE GROUP'S STAKEHOLDERS

CONTINUED

The following table details some examples of matters debated by the Board during 2019 following discussion with and feedback from shareholders.

Theme	Discussion topics with and feedback from shareholders	Action taken by the Board as a result of shareholder feedback
OXFORD NANOPORE TECHNOLOGIES	Shareholders frequently request updates on Oxford Nanopore's commercial, technical and operational progress. As Oxford Nanopore has continued to develop and increase in value, shareholders have also sought to better understand the Board's strategy regarding the Group's shareholding in this company.	The Board considered the differing views of various shareholders as part of its decision to sell a proportion of its holding in Oxford Nanopore during the company's recent fundraising, whilst deciding to maintain the majority of its holding. The Board has also given consideration to various potential methods for optimising the value of the Group's holding in the future for its stakeholders, including, for example, selling shares at a future value inflection point, distributing shares in specie and/or retaining some shares as the company continues to develop. The Group's recent capital reduction has given the Board flexibility to pursue such approaches, as appropriate.
NET ASSET VALUE (NAV) MEASUREMENT	Some shareholders sought further clarity on how the Group calculates its net asset value (NAV).	The feedback was considered by management and, in conjunction with the Audit and Risk Committee, the Board decided to include more detailed disclosures on how it measures its NAV, particularly in relation to unlisted portfolio company holdings, in its half-year and full-year report and accounts.
AVAILABILITY OF CO-INVESTMENT CAPITAL FOR THE GROUP'S PORTFOLIO COMPANIES	Shareholders sought to understand the availability of co-investment capital for portfolio companies, particularly in light of the well-publicised withdrawal from the sector of two of the Group's major long-term shareholders	The Board decided to make more detailed disclosures around the sources and availability of co-investment capital in its half-year and full-year accounts. This included highlighting the significant proportion of co-investment capital into the Group's portfolio that is from sources other than the Group's direct shareholders
CAPITAL MODEL	Some shareholders expressed a desire for the Group to continue to move towards a more sustainable capital model.	The Group took a highly proactive approach to realisations in 2019. As a result, the Group's highest realisations were achieved in 2019 and early 2020. This has helped to ensure that the business has put itself in the position to enable it to fund its near-term priorities from existing resources. In addition, the Remuneration Committee has sought to ensure that executive remuneration is aligned with the Group's realisation strategy by determining that a greater proportion of management's annual incentives will be linked to realisations. The Board also discussed different capital models including consideration of various potential longer-term hybrid capital models, continuing to combine balance sheet capital with third-party managed funds.
CAPITAL ALLOCATION	Some shareholders requested a greater understanding of the Board's approach to capital allocation including when or if the Group's existing cash resources should be used to buy back the Group's shares, particularly when shares are trading at a discount to NAV per share.	The Board discussed this issue at length and obtained advice from its external advisers. Following this consideration, the Board resolved to undertake a capital reduction to ensure the Group was well positioned to take advantage of a share buyback or other distribution of capital opportunities (if any) as they arise in the future. Please see below detailed case study on the capital reduction decision.

Training and board processes

During 2019, the Board received training on the s172 requirements and an update from the Company Secretary on the procedures in place to enable sufficient information about stakeholder issues to be included in Board packs. This included the implementation of a new cover sheet for relevant Board papers setting out the possible impacts of decisions on relevant stakeholders.

A Board pack is circulated to the Board in advance of every Board meeting, containing both matters for information and matters for decision by the Board. The Board considers the s172 factors in all of its decisions, using the Board paper presented to the Board as a helpful starting point for its own deliberations on the relevant factors to be considered.

Once a decision has been made, the decision (including the s172 considerations) is documented in the Board minutes and the Board feeds back to the relevant stakeholders as appropriate as part of its continued meaningful stakeholder engagement process. Where appropriate and being mindful of its listing rules, market abuse regulations and other legislative obligations, together with confidentiality, the Board seeks feedback from stakeholders prior to a decision being implemented. The Board then documents its decision-making process for its principal decisions in its s172 statement.

In each case, the directors considered how a short-term decision to sell an asset and achieve a financial return linked into the longer-term strategy to create long-term value for its shareholders. In certain circumstances, such as the partial disposal of Oxford Nanopore, the directors concluded that a partial disposal was the most appropriate action, achieving a financial return and strengthening the Group's cash position, whilst allowing the Group to retain a significant shareholding (by size and value) in the company to further grow in value over the longer term.

Principal decisions

Disposal of certain assets

During 2019, the Board debated the disposal or partial disposal of certain investments in portfolio companies, including certain strategic assets for which the Board has direct oversight and divestments, which have been referred up from the sector investment committees given the transaction size mandates a Board decision. In particular, the Board approved partial disposals of its shares in Oxford Nanopore and Ceres Power. When debating and making these decisions, the Board's approach was as set out below:

In relation to decisions regarding disposals in 2019, the Board considered the following factors to be relevant:

- *Shareholders and consideration of long-term effects of the decision and link with Group's strategy:* Alongside the specific stakeholder interests, the directors considered any long-term effects of the disposal and how this linked to the Group's strategy. One consideration was how these assets fit in with the Group's ESG policy and ethical framework, whilst noting that a key part of the Group's strategy is to return financial value from its investee companies to shareholders and a disposal would meet this aim.
- *Portfolio companies:* As any disposal decision relates to a sale of the Group's shares in another company, the interests of the underlying company are highly relevant and need to be considered. The directors considered in each case whether the disposal of the investment could be beneficial to the company, for example by allowing new investors to be introduced to the company, or whether it may have a possible negative effect, perhaps due to the perception in the market of the Group selling its shares. Engagement with the portfolio company would most typically take place by a direct communication prior to the decision taking place. In relation to the partial disposal of shares in Ceres Power, the Group

WORKING WITH THE GROUP'S STAKEHOLDERS

CONTINUED

was able to support the strategic transaction to facilitate Bosch's increased holding in the company, which the directors believed was in the interests of Ceres Power and all of its stakeholders.

- *Co-investors:* The directors also considered the interests of any co-investors invested in the relevant portfolio company. Depending on the portfolio company in question, a disposal may be beneficial for co-investors, for example, giving them the opportunity to increase their own shareholdings in the company or alternatively co-investors may be concerned about the wider perception as a result of the Group's sale of shares.

- *Employees:* When considering disposals, the directors considered the impact on its employees generally and in particular any employees who may be working with the asset being discussed or acting as a director of such company. In addition, the impact on any other internal teams providing services to portfolio companies (such as IP Capital) were considered. To understand the views of employees, where appropriate, the directors sought feedback via IP Connect or otherwise liaised directly with specific employees.

Consideration of any conflicts

When making decisions, the directors were aware of the duty to act fairly between members of the company. This was relevant in particular where

a shareholder of the Group was also a shareholder in the portfolio company or otherwise had an interest in the disposal. Any director who had or may have a conflict declared this conflict, and if necessary, was excluded from the decision-making process.

Feedback

Once the Board had agreed to dispose of certain of its shares in an asset, direct feedback was delivered to the portfolio company, employees and any co-investors. In addition, and as referenced above, given the size and significance of Oxford Nanopore to the Group, the Board's intentions regarding the Group's holding in it almost always features as a topic for discussion at any shareholder meetings, whether these are ad hoc or during results roadshows.

Capital Allocation and Dividend Policy

The Board seeks to ensure that the Group has sufficient capital to optimally pursue its long-term strategic aims:

Capital allocation

- The Board considers capital allocation in the context of organic growth (primarily through portfolio company holdings), potential M&A opportunities, servicing of debt and return of capital to shareholders.
- Investment capital allocation is considered at least annually by the Board with management reviews typically on a quarterly basis, involving the executive directors and country/partnership heads as required.

- Potential M&A opportunities are considered periodically.

Dividend policy

- IP Group does not currently pay a dividend.
- The Board has considered potential methods for returning any excess capital to shareholders and is now in a stronger position to do so, either by way of a share buyback or dividend (including distribution in specie), following the capital reduction completed in 2019.

The below case study provides an overview of the relevant stakeholder interests that were considered by the Board in taking the principal decision to approve the Group carrying out a capital reduction in late 2019.

IP Group capital reduction

In November 2019, the Board approved in principle a capital reduction involving a reduction of the Group's share premium account and capitalisation of the entire amount of IP Group plc's merger reserves, with a corresponding increase in the Group's retained profit reserve, in order to create distributable reserves at an IP Group plc individual company level. This gave the Group the flexibility to make future purchases of its own shares and/or to make future distributions of profits in cash or specie although, at the time, the Board confirmed that it had no current plans to do so. The capital reduction was completed in December 2019.

The Board decision paper detailing the proposed capital reduction contained an analysis of the impact that the capital reduction would or could have on its key stakeholders and the considerations that the Board would need to take into account when deciding whether to approve the proposal. When making its decision, each director had consideration (amongst other things) to the following stakeholders:

Shareholders: The Board confirmed that the capital reduction would allow flexibility to carry out a future market purchase of its own shares or to make a distribution in profit, although the Group noted that it had no current plans to do so. The Board noted that all these possible future actions would return value to shareholders and therefore would be carried out for the benefit of the Group's shareholders. When considering the interests of its shareholders, the Board also noted that there was no specific guidance from proxy advisory bodies in terms of purchases of its own shares.

The Executive Directors held meetings and/or calls with its major institutional shareholders and were also able to engage with its shareholders who attended its general meeting to discuss their views.

Creditors: The Board discussed that the interests of creditors would need to be considered to ensure that creditors would not be adversely affected by the decision. The Board considered its principle creditors including, but not limited to, the landlord of its office premises in London and the European Investment Bank ("EIB").

Regarding engagement, although the Group was not legally required to seek the consent of the landlord or the EIB, the Board determined that it would be prudent to engage with such parties and accordingly their agreement to the proposed capital reduction was sought and received.

Portfolio companies: Although the Board considered that portfolio companies were unlikely to be directly affected by the capital reduction, the Board nonetheless considered whether this would impact on portfolio companies and the Group's future investments into such companies. The Board concluded that the interests of portfolio companies would not be adversely affected by the decision and conversely, it may allow the Group to access additional capital which could be re-invested so could therefore be beneficial to this stakeholder group.

Based on the Board's consideration of the interests of the relevant stakeholders, the Board resolved that the capital reduction would be most likely to promote the success of the company for the benefit of its members as a whole so made the decision that, subject to the relevant shareholder approval being obtained, it should proceed with the capital reduction.

Board approval

The Strategic Report as set out on pages 6 to 75 has been approved by the Board.

On behalf of the board



Sir Douglas Flint

10 March 2020

OUR GOVERNANCE

BOARD OF DIRECTORS



Sir Douglas Flint **NON-EXECUTIVE CHAIRMAN**

Effective date of current letter of appointment:

Appointed as a Non-executive Director from 17 September 2018 and as Chairman from 1 November 2018

Age: 64

Independent: N/A¹

Tenure: 1 year

Term of office:

3 years, 3 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience: Sir Douglas has a strong track record of Board leadership and in-depth knowledge of financial reporting, banking and investment business and brings this wealth of finance and governance experience and

expertise to the Board. Former positions include Group Chairman of HSBC for 7 years, HSBC's Group Finance Director for 15 years and Non-executive Director of BP plc for 6 years. Formerly a partner in KPMG.

Current external appointments: Chairman of Standard Life Aberdeen plc, HM Treasury's Special Envoy to China's Belt and Road Initiative, Chairman of the Just Finance Foundation, Director of the Centre for Policy Studies, sits on the Global Advisory Council of Motive Partners, Chairman of the Corporate Board of Cancer Research UK, and a Trustee of the Royal Marsden Cancer Charity.

Committee memberships: Nomination (chair) and Remuneration



Alan Aubrey **CHIEF EXECUTIVE OFFICER**

Effective date of current service agreement:

20 January 2005

Age: 58

Independent: No

Tenure: 15 years

Term of office:

Permanent, 6 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience: Alan was the joint founder of Techtran Group, which went on to merge with IP2IPO Limited and the combined business was subsequently renamed IP Group.

Alan has significant experience in finance as well as in the commercialisation of science and the creation of new businesses that address global markets, particularly in the high-technology manufacturing, clean technology and life science sectors. He brings 7 years' experience as partner at KPMG and significant experience of audit and risk processes in both the private and public sectors.

Current external appointments:² Non-executive Chairman Proactis Holdings plc

Committee memberships: None



Mike Townend **CHIEF INVESTMENT OFFICER**

Effective date of current service agreement:

5 March 2007

Age: 57

Independent: No

Tenure: 13 years

Term of office:

Permanent, 6 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience: Mike's knowledge and experience of all aspects of equity capital markets and investment process are invaluable to the Board. He holds over 17 years' equity capital markets experience from positions at Lehman Brothers and Donaldson, Lufkin and Jenrette.

Current external appointments:² Green Urban Transport Limited

Committee memberships: None



Greg Smith **CHIEF FINANCIAL OFFICER**

Effective date of current service agreement:

2 June 2011

Age: 41

Independent: No

Tenure: 8 years

Term of office:

Permanent, 6 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience: Greg's financial expertise plays a fundamental role in driving the Group to meet its financial goals. Prior to joining IP Group, Greg worked in senior positions at Tarchon Capital Management and KPMG. Greg is a Fellow of the ICAEW and holds a degree in Mathematics.

Current external appointments:² None

Committee memberships: None

¹ Sir Douglas Flint was considered by the Board to be independent on appointment.

² Excludes appointments to Group portfolio company boards.



David Baynes CHIEF OPERATING OFFICER

Effective date of current service agreement:
20 March 2014

Age: 56
Independent: No
Tenure: 6 years
Term of office:
 Permanent, 6 months' notice
Re-election to Board:
 Annually at AGM

Skills and Experience: David was appointed to the Board in March 2014 following the acquisition by the Group of Fusion IP plc where he held the position of Chief Executive for 10 years. David also brings previous experience taking companies from start-up to full listing on the London Stock Exchange. David was also previously CFO of Codemasters Limited, the UK's largest privately held games company.

Current external appointments:² None

Committee memberships: None



Professor David Begg SENIOR INDEPENDENT DIRECTOR

Effective date of current letter of appointment:
18 October 2017

Age: 69
Independent: Yes
Tenure: 2 years
Term of office:
 3 years, 3 months' notice
Re-election to Board:
 Annually at AGM

Skills and Experience: Previously a Non-Executive Director at Imperial Innovations, Touchstone Innovations, and Trace Group, Professor Begg has also held a number of distinguished advisory and academic appointments including Principal of Imperial College Business School, Vice Master of Birkbeck College, Visiting Professor at M.I.T, and Economic Policy Advisor to the Bank of England.

Current external appointments: None

Committee memberships: Nomination, Audit and Remuneration



Jonathan Brooks NON-EXECUTIVE DIRECTOR

(Resigned from the Board on 10 March 2020)

Effective date of current letter of appointment: 31 August 2011

Age: 64
Independent: Yes
Tenure: 8 years
Term of office:
 3 years, 3 months' notice
Re-election to Board:
 Annually at AGM

Skills and Experience: Jonathan has extensive commercial, financial, investor relations and public company experience with former appointments as CFO of ARM Holdings plc and 20+ years technology sector experience. Jonathan is a Fellow of the Chartered Institute of Management Accountants.

Current external appointments: NCC Group plc

Committee memberships: Nomination, Audit and Remuneration



Dr Elaine Sullivan NON-EXECUTIVE DIRECTOR

Effective date of current letter of appointment: 30 July 2015

Age: 59
Independent: Yes
Tenure: 4 years
Term of office:
 3 years, 3 months' notice
Re-election to Board:
 Annually at AGM

Skills and Experience: Dr Elaine Sullivan has over 25 years' international experience working in the pharmaceutical industry, and was a member of the senior management teams in R&D at Eli Lilly and

Astra Zeneca. Dr Sullivan is also co-founder and former CEO of Carrick Therapeutics. She has extensive experience in partnerships with venture, equity and strategic collaborations and was a member of the Investment Committees of Lilly Ventures and Lilly Asian Ventures. She has an outstanding track record of identifying drug hunting cutting-edge technologies at beta stage and working with the inventors to produce the commercial product.

Current external appointments: Supervisory Board of Evotec AG

Committee memberships: Nomination, Audit and Remuneration

BOARD OF DIRECTORS

CONTINUED



Heejae Chae NON-EXECUTIVE DIRECTOR

Effective date of current letter of appointment:
3 May 2018

Age: 51

Independent: Yes

Tenure: 1 year

Term of office:

3 years, 3 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience:

Heejae is an experienced public company Director, bringing both knowledge of finance and industry, having spent the early part of

his career in finance at The Blackstone Group and Credit Suisse First Boston before moving into industry. He was also former Group Chief Executive of Volex Group plc and Group General Manager for Amphenol Corporation.

Current external appointments: CEO of Scapa Group plc and Board of Overseers at Boston Children's Hospital

Committee memberships: Nomination, Audit and Remuneration (Chair)



Dr Caroline Brown NON-EXECUTIVE DIRECTOR

Effective date of current letter of appointment: 1 July 2019

Age: 57

Independent: Yes

Tenure: Less than 1 year

Term of office:

3 years, 3 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience:

Dr Brown has a wealth of experience covering accounting and audit, banking and investments, as well as science and technology, all of which

are highly relevant for the Board. She has 20 years plc board experience and held previous positions in corporate finance at Merrill Lynch (New York), USB and HSBC. Caroline is a Fellow of the Chartered Institute of Management Accountants

Current external appointments: Non-Executive Chair of NAHL Group plc; independent Director of Georgia Capital plc and Luceco plc; and Trustee of the Raspberry Pi Foundation.

Committee memberships: Nomination, Audit (chair) and Remuneration



Aedhmar Hynes NON-EXECUTIVE DIRECTOR

Effective date of current letter of appointment:
1 August 2019

Age: 53

Independent: Yes

Tenure: Less than 1 year

Term of office:

3 years, 3 months' notice

Re-election to Board:

Annually at AGM

Skills and Experience:

Aedhmar brings fresh and valuable experience to the Board in relation to technology disruption, digital transformation and marketing and strategic communications. Aedhmar has multiple years' experience in communications

and is the former CEO of Text100, a digital communications agency with 22 offices and over 600 consultants across Europe, Asia and North America. Aedhmar is also the Group's employee Designated NED.

Current external appointments: Chair of the Board of Trustees of The Page Society, member of the Advisory Council of the MIT Media Lab, Board Director of Technoserve, Board Director of Tupperware Brands Corporation, Board Director of Rosetta Stone Inc and member of the US Foundation Board of the National University of Ireland, Galway.

Committee memberships: Nomination, Audit and Remuneration

CORPORATE GOVERNANCE FRAMEWORK

Compliance with the UK Corporate Governance Code

The directors are committed to a high standard of corporate governance and to compliance with best practice as set out in the Code (available at www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code). The

directors consider that the Group has been and continues to be in compliance with all of the relevant provisions set out in the Code.

Further explanation as to how the main principles set out in the Code have been applied by the Group is

set out in the following statement, the s172 statement, the Directors' Remuneration Report, the Audit and Risk Committee Report, the Nomination Committee Report and the Strategic Report.

Board of Directors

Audit & Risk Committee
Pages 118 to 121

Remuneration Committee
Pages 98 to 117

Nomination Committee
Pages 92 to 97

Disclosure Committee
Page 85

Chairman

Leadership and conduct of the Board, encouraging open and constructive discussion
Promotes high standards of governance and effectiveness

Ensures active engagement with shareholders

Sets the Board's agenda and responsible for ensuring the committees carry out their duties

Ensures that Board members receive timely, accurate and clear information about the Group's activities

Ensures Board members receive appropriate induction and ongoing training on the Group's activities and their own responsibilities

Leads performance assessment of Board members

Senior Independent Director

Available to shareholders to discuss their views

Intermediary between the Board and the Chair

Leads the Board in deliberations where the Chair is conflicted

Leads assessment of the Chair's performance

Company Secretary

Responsible for governance matters

Ensures Board procedures are followed

Ensures compliance with laws and regulations

Ensures Board papers are concise, clear and that their purpose is explicitly stated

Chief Executive Officer

Leads on development and delivery of strategy

Leads with the senior executive team the management of the Group

Leads delivery of the Group's operating plans and budgets and the execution of Board decisions

Monitors operating and financial performance and reports thereon to the Board

Ensures the Group's financial structure and capacity supports the Group's objectives

Leads with the Head of HR succession planning for the senior executive positions

Represents the Group to external stakeholders

Executive Directors

Responsible for executing day-to-day decisions (other than matters reserved for the Board) within the risk tolerance and operating and financial constraints set by the Board

Non-executive Directors

Approve Group strategy and operating plans

Approve business and financing models

Discuss and constructively challenge executive recommendations within matters brought to the Board

Monitor and performance manage delivery of strategy and operating plans

Investment Committees, Life Sciences and Technology

Portfolio investment and realisation decisions (other than those reserved for the Board) are delegated to the Investment Committees of the Life Sciences and Technology Partnerships.

CORPORATE GOVERNANCE STATEMENT



Sir Douglas Flint,
Chairman



Good governance is the essential underpin to fulfilling the Group purpose and strategic objectives, as well as to delivering transparent and understandable reports covering the fiduciary responsibilities of the Board to shareholders. Together with the Board's broader responsibilities to all stakeholders under s172 of the Companies Act 2006, it is something we take extremely seriously."

During 2019, the Group focused on reviewing and, where necessary, updating its governance procedures to ensure it is in full compliance with the UK Corporate Governance Code 2018 (the "Code").

The Board is committed to the execution of the Group's strategy and recognises that it is critical to build strong relationships with its stakeholders in order to develop and support outstanding businesses based on unique intellectual property. The Group continues to foster a culture of innovation, support and diversity, whilst encouraging employees to engage in healthy debate to consider a wide range of opinions when making decisions. For more information on the culture the Group and its Board wishes to foster, see page 62. A key focus during the year has been to ensure that the Group has strong practices relating to stakeholder engagement in place. This engagement is a two-way process and involves seeking feedback from stakeholders on issues that are important to them, and then ensuring that stakeholder views are properly reported to the Board so that it can make informed decisions and update stakeholders accordingly. For further details on how the directors have complied with their duties under s172 of the Companies Act 2006 (the "CA 2006"), please refer to pages 66 to 75.

The Board aims to ensure the highest standards of corporate governance and accountability are met alongside promoting a culture of risk identification, reporting and mitigation. The Board is accountable to the Group's shareholders for good governance, and this report, together with the Reports of the Remuneration, Nomination, and Audit and Risk Committees of the Board, describes the Group's detailed approach to corporate governance and further information on the key developments which have taken place in this area during the year.

The Group upholds strong business values which focus on being passionate, principled and pioneering in all of its activities and actions. These values continue to guide the Group in implementing our strategy and employees are committed to demonstrating these values throughout their work. The Group's ESG policy and Ethical Investment Framework as outlined on page 50 ensures that the Group's values and culture are also implemented in our approach to its investments.

The Board looks forward to having the opportunity to discuss any matters relating to corporate governance with shareholders at the Group's forthcoming AGM in June 2020 or indeed at any other point during the year.

Sir Douglas Flint
Chairman

The Board

Role and responsibilities of the board

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

The Board recognises that, in discharging its responsibilities, it is necessary to support the maintenance and evolution of a policy and decision-making framework in which such strategic aims are implemented; ensuring that the necessary financial and human resources are in place to meet those aims; monitoring performance against key financial and non-financial indicators; planning for Board and senior management succession; overseeing the system of risk management; setting values and standards in governance matters; monitoring environmental, social and governance policies and performance

and helping to shape and embed the Group's purpose, values and culture. The Board recognises that its role in setting and maintaining the Group's culture is of key importance. The Group's culture is one of the key strengths of its business and plays a strong role in attracting, retaining and incentivising the most talented people. Further information on the Group's culture is on page 62.

In supporting the Group's business and its portfolio companies, the Board acknowledges the key roles of Group functions in the fields of executive search, capital raising and legal support, alongside the hands-on approach and high level of support provided by the experienced, sector specific investment partnership team members. The directors believe that the Group's approach to supporting its portfolio companies in this way is unique and serves not only to build sustainable businesses with longevity, but also to provide attractive returns for stakeholders by creating value over the longer term.

The directors are responsible for promoting the long-term success of the Company and thereby the Group, taking into account the interests of shareholders and all other relevant stakeholders in carrying out this responsibility. The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors. The non-executive directors are responsible for constructively challenging and contributing to proposals on strategy, scrutinising the performance of management and determining levels of remuneration. The non-executive directors must also satisfy themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and comprehensive.

The Board reviews the purpose and strategy of the Group and any issues arising from it on a regular basis, and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets.



CORPORATE GOVERNANCE STATEMENT

CONTINUED

Board activities during 2019

Principal decisions

- Approved a capital reduction (please see page 75 for further details including s172 considerations)
- Approved the disposal of certain significant assets (please see page 73 for further details including s172 considerations)
- Approved the Group's capital allocation (please see page 74 for further details including s172 considerations)
- Approved the transfer of the technology transfer office back to Imperial College
- Approved one of the Group's brokers exploring a book building operation to identify shareholder appetite to replace departing shareholders

Board and committee composition and conduct

- Approved the appointments of Dr Caroline Brown and Aedhmar Hynes as directors
- Approved the appointments of Dr Caroline Brown as Chair of the Audit and Risk Committee and Heejae Chae as Chair of the Remuneration Committee
- Appointed an external adviser to assess Board performance (for further details please see page 96)

Strategy and Risk

- Considered various strategic options including, in particular, the Group's access to capital and its funding model
- Considered the Group's short, medium and long-term strategy and objectives
- Debated in detail the Board's risk appetite to its principal risks
- Agreed the Group's capital allocation
- Discussed the evolution of the shareholder base

Corporate governance

- Reviewed and updated processes and procedures to ensure compliance with the Code, in particular in relation to stakeholder engagement
- Received training on corporate governance, s172 requirements and shareholder activism
- Reviewed and improved engagement with the workforce; in particular, approved the appointment of Aedhmar Hynes as the new Designated NED responsible for employee engagement and the creation of employee forum
- Approved updated terms of reference for its Committees
- Received presentations from the Group's 30% Club and ESG working groups

Shareholders

- Attracted new strategic shareholders
- Considered the Group's ability to return cash to shareholders
- Discussed the Group's share price performance
- Monitored and discussed the evolving situation with Woodford Investment Management

Updates from the business and portfolio companies

- Received updates each Board meeting from the managing partners of the Life Sciences and Technology Partnerships, such updates which included detail on the short to medium-term strategy for each partnership and their focus portfolio companies
- Received bi-annual updates from the managing partners from the US and Australia
- Received an update on the progress in building group presence in Hong Kong and mainland China
- Received bi-annual updates from Parkwalk
- Received presentations from or on certain portfolio companies including Ceres Power

Board effectiveness

- Oversaw the implementation of the recommendations from the 2018 Board evaluation
- Reviewed plans for the external Board effectiveness review that was carried out in 2019

Schedule of matters

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group's operations to the Executive Directors, supported closely by its senior management team. The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial and/or reputational

implications. The schedule, along with the terms of reference for each of the Audit and Risk Committee, Remuneration Committee and Nomination Committee can be found within the Corporate Governance section of the Group's website at www.ipgroupplc.com and are also available from the Group's Company Secretary. This schedule was reviewed in 2019 and no changes were deemed necessary at that time. The schedule will be reviewed again in 2020.

Committees and Oversight

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

The three principal Board Committees (Audit and Risk, Remuneration and Nomination) play an essential role in supporting the Board in

fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board.

Separate reports on the role, composition, responsibilities and operation of the Nomination Committee, the Remuneration Committee and the Audit and Risk Committee are set out on page 92 to 97, pages 98 to 116 and pages 117 to 121 respectively.

The composition of the three Committees of the Board and a record of the attendance of the members throughout the year is set out in the table on page 87.

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

The Group has investment committees for each of its Technology and Life Sciences Partnerships, as well as in each of Australasia and the US. Decisions relating to investments and divestments in portfolio companies (other than those reserved for the Board) are delegated to these investment committees within defined parameters and with specific quorum requirements.

Board size and composition

As at 31 December 2019, there were eleven directors on the Board: the Chairman, four executive directors and six non-executive directors. The biographies of all directors are provided on pages 79 and 80.

2019 saw two changes to the Board: Dr Caroline Brown was appointed as

Non-executive Director of the Group with effect from 1 July 2019 and Aedhmar Hynes was appointed as Non-executive Director of the Group with effect from 1 August 2019.

Jonathan Brooks, who served on the Board for nearly nine years, stepped down on 10 March, upon finalisation of the 2019 Annual Report and Accounts. Dr Caroline Brown took over his role as Chair of the Audit and Risk Committee in September 2019, and Heejae Chae succeeded him as Chair of the Remuneration Committee in December 2019 allowing for an orderly handover of committee chair responsibilities.

New directors may be appointed by the Board from time to time, but the appointee is always subject to election by shareholders at the first Annual General Meeting following their appointment. Accordingly, Dr Caroline Brown and Aedhmar Hynes will submit themselves for election by shareholders at the Group's Annual General Meeting to be held on 18 June 2020. In accordance with both the Code and the Group's policy, all of the other directors (other than Jonathan Brooks) will also submit themselves for re-election by shareholders at that Annual General Meeting.

The Board unanimously recommends to shareholders the appointment of Dr Caroline Brown and Aedhmar Hynes as directors of the Company: Dr Caroline Brown brings a wealth of experience covering accounting and audit expertise to banking and investment, as well as science and technology from her studies and time at Merrill Lynch (New York), UBS and HSBC, and is currently Chair of NHAL Group plc. Aedhmar Hynes brings to the Board considerable experience in communications, having previously been CEO of Text100, a digital communications agency with 22 offices and over 600 consultants. The Board is satisfied that, having considered the other demands on their time, Dr Brown and Ms. Hynes have sufficient time to devote to their respective roles and to be effective members of the Board and the various Board Committees on which they sit. The Board also unanimously

recommends to shareholders the reappointment of all of the other directors offering themselves for re-election, on the basis that the results of the annual Board evaluation and the annual one-to-one performance appraisal process demonstrated that they are all effective directors of the Company and continue to display the appropriate level of commitment in their respective roles.

Board observers

Dr Sam Williams and Dr Mark Reilly, the Group's Managing Partners of Life Sciences and Technology respectively, continue to attend the Group's Board meetings as observers. The Board considers it is important for the managing partners to have a degree of direct representation at Board meetings and to be available to report to, and respond directly to questions and challenge from, the Board over the assets they manage.

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

Company Secretary

All directors have access to the impartial advice and services of the Company Secretary. The Company Secretary acts as a key point of contact for the Chairman and has an important role in the quality of information that flows between the executive and non-executive directors, and in ensuring that agreed actions are completed. The Company Secretary supports the Chairman on performance evaluation, the induction of new directors and the continuing development of current directors to enable them to comply with their duties and effectively carry out their roles.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Non-executive Directors

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

Since 2009, the Board's policy has been to prohibit personal investments by the non-executive directors in any of the Group's portfolio companies. This policy remains unchanged and accordingly, none of the non-executive directors presenting themselves for election or re-election at the Annual General Meeting in 2020 have holdings in any of the Group's portfolio companies.

Non-executive directors are required to obtain the formal written approval of the Chairman before taking on any further directorial appointments or other engagements with an organisation which competes with the Group (whether directly or indirectly), and the Chairman requires the approval of the Board before adding to his commitments. In all cases, the non-executive directors must ensure that their external appointments do not involve excessive time commitments.

Board meetings, provision of information and decisions

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

The Board had six scheduled Board meetings in 2019 with six Board meetings and a two-day strategy session scheduled for 2020 to ensure that the meeting schedule is sufficient to meet the needs of the business. The requirement for additional scheduled meetings shall be kept under review by the Chairman and the Company Secretary.

The majority of Board meetings are held at the Group's offices in London. To encourage further interaction with the Group's stakeholders, each year the Board receives presentations from certain of the Group's portfolio companies. Meetings between the Chairman and the non-executive directors, both with and without the presence of the Chief Executive Officer, are also held throughout the year.

In addition to the six scheduled Board meetings in 2019, the Board held a two-day strategy meeting in October 2019. The strategy days provided an opportunity for all directors, and particularly the non-executive directors, to discuss in detail the current strategy of the Group and its funding model, and whether action or changes are required in the short to medium term to bring the Group to a more sustainable position; to discuss medium and longer term strategic objectives, and the key drivers underpinning these; and to review the combined Group's risk framework and risk appetite, including considering the major risks facing the combined Group and its strategy, its appetite towards these risks and how to assess, manage, mitigate and/or monitor these risks taking into account its level of appetite.

The schedule of Board and Committee meetings each year is, so far as is possible, determined before the commencement of that year, and all directors are expected to attend each meeting. Board and Committee meetings are often split over two days to ensure sufficient time is allocated for the business of the committees and the Board and that full engagement is possible from those in attendance. Such scheduling also seeks to enable more in-depth engagement between the non-executive directors, executive directors and managing partners and other staff of the Group outside of the formally scheduled meetings, primarily through Board and observer dinners and social drinks with staff around the Board meetings. Accordingly, throughout 2019, the Board (including both executive

and non-executive directors and the managing partners) met for two dinners and the non-executive directors also met with the Group's employees in July 2019 and in November 2019. In addition, the Chairman and the non-executive directors met without the presence of the executive directors twice during the year.

Three to five business days prior to each scheduled Board meeting, every member of the Board receives detailed Board packs, which include an agenda based upon the schedule of matters reserved for its approval along with appropriate reports and briefing papers, save in respect of meetings called on short notice or where late papers are permitted to be included with the consent of the Chairman.

The Chairman, Chief Executive Officer, Chief Financial Officer, Company Secretary and Managing Partners of the Life Sciences and Technology Partnerships work together to ensure that the directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes monthly management accounts containing an analysis of performance against budget and other forecasts, as well as written reports from each of the Life Sciences and Technology Partnerships, IPG Australia, IPG US, IP Capital and Parkwalk. Additional information is provided as appropriate or if requested. At each Board meeting, the Board receives information, reports and presentations from the Chief Executive Officer, the other Executive Directors, the Managing Partners of the Life Sciences and Technology Partnerships and, by invitation, other members of senior management. This ensures that all directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy, and its management of risk.

Board and committee attendance

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

	Scheduled Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Sir Douglas Flint	     	     	   	  
Alan Aubrey	      ⁵	–	–	–
Mike Townend	     	–	–	–
Greg Smith	     	–	–	–
David Baynes ¹	      	–	–	–
Jonathan Brooks	     	     	   	  
Dr Elaine Sullivan	      ⁵	     	    ⁵	   ⁵
Prof. David Begg	     	     	   	  
Heejae Chae ²	      ⁵	     	   	  
Dr Caroline Brown ³	  	  	 	 
Aedhmar Hynes ⁴	 	 		

1. David Baynes was unable to attend the Board meeting in November 2019 as he was the keynote speaker at the Group's inaugural Australian Showcase conference and time zones meant it was difficult to dial in.
2. Heejae Chae was unable to attend the Audit and Risk Committee and the Remuneration Committee in February 2019 due to a prior binding commitment.
3. Appointed to the Board with effect from 1 July 2019.
4. Appointed to the Board with effect from 1 August 2019.
5. Including one attendance by telephone.

 Attended  Did not attend

Directors' conflicts of interest

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

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

In deciding whether to authorise any conflict, the directors must have regard to their general duties under the CA 2006 and their overriding obligation to act in a

way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors are able to impose limits or conditions when authorising a conflict or potential conflict of interest if they think this is appropriate. The authorisation of any conflict matter, and the terms of any authorisation, may be reviewed by the Board at any time. The Board believes that the procedures established to deal with conflicts of interest are operating effectively. Notwithstanding this, the Board considers it prudent to conduct a detailed review of its conflict policies and procedures during 2020 and has mandated the Company Secretary to take this forward.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

The Board's policy permits personal investments by the executive directors in the Group's portfolio companies but this is tightly controlled by the Group's internal policy 'Holdings in Portfolio Companies' in order to ensure conflict management. Amongst other restrictions, the policy includes maximum levels of investment by directors and staff in portfolio company financing rounds, requires that all interests of executive directors in portfolio companies are

fully disclosed and regulates any potential conflicts that could arise.

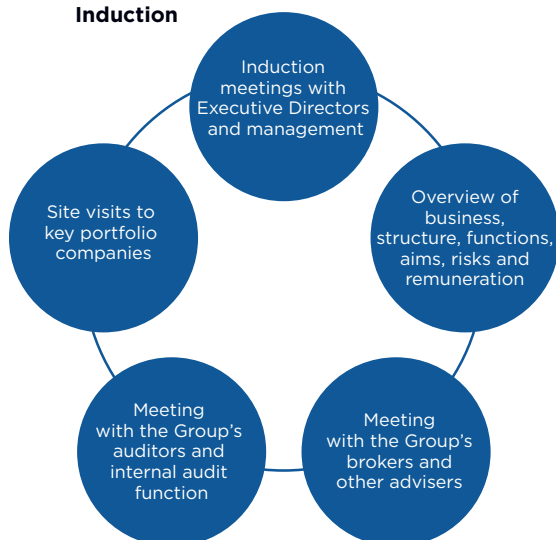
Board support

There is an agreed procedure for directors to take independent professional advice at the Company's expense. In accordance with the Company's Articles of Association, directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred as a

result of their office. The indemnity would not provide any coverage where a director is proved to have acted fraudulently or dishonestly. A copy of the indemnity is available for inspection as required by the CA 2006. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

Induction, awareness and development

Induction



A comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her in advance and monitored throughout the process to ensure that he or she can gain a better understanding of the Group and its businesses.

This process includes:

- an overview of the Group and its businesses, structure, functions, strategic aims, risk management framework and remuneration policies;
- meetings/calls with all executive directors, the Company Secretary, the managing partners of the Life Sciences and Technology

Partnerships, heads of the various internal functions and Parkwalk executives;

- a meeting with both the Group's auditor and internal audit function;
- training on key legal matters relevant to the Group and its policies;
- site visits to a number of the Group's portfolio companies, including, where possible, at least one or more within the Group's top ten holdings (by value), which will include meeting with such companies' management and a presentation from them on their businesses; and

Training



- sessions as appropriate with the Group's advisers, as well as with appropriate external governance specialists, to ensure that any new directors are fully aware of and understand their responsibilities and obligations as a director of a FTSE 250 company, and of the governance and legislative framework within which they must operate.

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

the relevant incoming director to assist with this refreshing of induction processes. Induction programmes were completed in 2019 for both Dr Caroline Brown and Aedhmar Hynes following their respective appointments to the Board.

On an ongoing basis for all directors, the Company Secretary arranges for an external governance specialist to attend one Board meeting annually to present on the key corporate governance changes over the previous twelve months and to signpost expected developments going forwards. In addition, the Board is kept updated on key legislative changes affecting the Group and how the Group is ensuring its compliance.

The Chairman and non-executive directors are encouraged to continue to visit a number of the Group's portfolio companies, as well as to attend portfolio company events both at the Group's head office and off-site. In addition, the Board is also exposed to the early-stage opportunities in which the Group has invested through presentations at Board meetings by relevant members of the Group's staff. In 2020, it is intended that presentations will be provided on a rolling basis by members of the Life Sciences and Technology Partnerships, the US team, the Australasian team and the Hong Kong team, as well as representatives from the Group's various working groups, in order to continue to update the Board on progress and to enhance the awareness of the Board as to how the Group operates on a day-to-day basis. As a further aspect of their ongoing development, each director also receives feedback on his or her performance following the Board's performance evaluation in each year and the Chairman reviews and agrees with each director their training and development needs for the year ahead. Access to training and development opportunities, including those relevant to the non-executive directors' membership on the Board's committees, is facilitated through the Company Secretary. Details relating to the assessment of the Board's performance are set out on page 96.

Director rotation and independence

The Nomination Committee and the Company Secretary have agreed a standardised rotation schedule for each of the non-executive directors (including the Chairman), with each being appointed for an initial three year term pursuant to the terms of their respective letters of appointment, such initial three year term is then subject to renewal for subsequent three year term(s) and, other than the Chairman, to a maximum of three rolling three year terms in order to maintain his or her independence from a governance perspective in accordance with the Code. There is currently no maximum term on the Chairman's appointment, but, notwithstanding the relatively short tenure of the current Chairman meaning that it will not be an issue for some time, the Nomination Committee has agreed to revisit this in light of the implementation of the Code.

Statement of non-executive directors' independence

The Code sets out the circumstances that should be relevant to the Board in determining whether each non-executive director is independent. The Board considers Non-executive Director independence on an annual basis as part of each non-executive director's performance evaluation. Having undertaken this review, and with due regard to provision 10 of the Code, the Board has concluded this year that all of the non-executive directors are considered to be independent of management and free of any relationship or circumstance which could materially influence or interfere with, or affect, or appear to affect, the exercise of their independent judgement.



CORPORATE GOVERNANCE STATEMENT

CONTINUED

Internal control

The Board fully recognises the importance of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Group's internal controls, which are Group-wide and were in place throughout 2019, were reviewed by the Board. No significant failings or weaknesses were identified in respect of the year ended 31 December 2019 and up to the date of the Annual Report. Where the Board has identified areas requiring improvement, processes have been put in place to ensure that the necessary action is taken and that progress is monitored.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group. However, it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss.

The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date of approval of these financial statements, are as follows:

Control environment and procedures

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

The Group outsources its internal audit function to PwC. Details of the internal audit activity during 2019 including internal audit reviews is detailed on page 128.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Audit and Risk Committee. No significant failings or weaknesses were identified in respect of the year ended 31 December 2019 and up to the date of the Annual Report and Accounts.

Identification and evaluation of principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. The Board actively identifies and evaluates the risks inherent in the business, formally reviews these on at least

an annual basis (or as market or business developments require) and ensures that appropriate controls and procedures are in place to monitor and, where possible, mitigate these risks. Specifically, all decisions relating to strategic partnerships and other collaborations and strategic acquisitions and disposals entered into by the Group are reserved for the Board's review and approval.

The Board regularly reviews any significant fair value movements in individual portfolio companies, the Group's investments in its strategic assets and the top 20 most valuable portfolio company holdings. In addition, the managing partners of the Life Sciences and Technology Partnerships attend Board meetings as observers and present updates on their respective portfolios during each Board meeting.

As described on page 36, the Group maintains risk registers setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 38 to 48. If more than one of the risks occurred together, the overall impact on the Group may be compounded.



Information and financial reporting systems

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

Further details in relation to the Group's approach to the management of its business risks, and the function and ongoing roles and responsibilities of its internal risk council are set out on pages 36 to 49 and on pages 117 to 121.

Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 1 to the consolidated financial statements. Details of powers of the Company's directors in relation to the issuing or buying back by the company of its

shares are set out in pages 122 to 123 of the Directors' Report.

Articles of association

Details of the rules that the Company has about the amendment of the Company's articles of association are set out on page 123 of the Directors' report. The Company's articles of association may be amended by a special resolution of the shareholders.

Substantial shareholders

Details of persons who hold a significant direct or indirect holding of securities in the Company are set out on page 123 of the Directors' report.

Annual General Meeting

Notice of the AGM, which will be held at 11.00am on 18 June 2020 at IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF, is included with this report, containing details of the resolutions to be proposed at the meeting and explanatory notes on those resolutions. To ensure compliance with the Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against, or to withhold their vote on each resolution. The results of all proxy voting are published on the Group's website

after the meeting and declared at the meeting itself to those shareholders who attend. Shareholders who attend the AGM will have the opportunity to ask questions and all directors are expected to be available to take questions.

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

On behalf of the board

Sir Douglas Flint
Chairman

10 March 2020

NOMINATION COMMITTEE REPORT



Sir Douglas Flint
Chairman



The effort made during the year to augment the range and diversity of skills on the Board were highly successful, with benefits already evidenced in the quality and depth of discussion within the Board and through greater employee engagement, in better understanding within the Group of the role of the Board"

Purpose

The Nomination Committee leads the process for Board and senior management appointments and the re-election and succession of directors, the Chairman and senior management. Its key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its duties and is independent for the purposes of the 2018 Corporate Governance Code.

Key responsibilities

- Makes recommendations to the Board concerning the composition and skills of the Board including any changes considered necessary in the identification and nomination of new directors and senior management, the reappointment of existing directors and the appointment of members to the Board's Committees
- Assesses the roles of the existing directors in office to ensure there continues to be a balanced Board in terms of skills, knowledge, experience, independence and diversity
- Reviews the senior management needs of the Group which will enable the Group to compete effectively in the marketplace
- Advises the Board on succession planning for directors and other senior management appointments, although the Board as a whole is responsible for succession generally
- Oversees a diverse pipeline for succession and considers the setting of diversity objectives and strategies, alongside the Group's 30% Club working group
- Oversees the induction of new directors and the training requirements of the Board as a whole
- Assists the Chairman in the annual evaluation of the Board and ensures an externally facilitated evaluation at least once every three years

Membership and meetings

The Committee is chaired by Sir Douglas Flint. Its other members, as at 31 December 2019, were all of the other non-executive directors ensuring a majority of independent non-executive directors as prescribed by the Code.

The Nomination Committee meets as and when required, or as requested by the Board, and had three scheduled meetings and one ad hoc meeting during 2019. The attendance by each member of the Committee at the meetings during 2019 is set out on page 87.

Committee activities during 2019

Appointments

- Reviewed the composition of the Board, and recommended role profiles for two additional non-executive positions to the Board
- Recommended to the Board the appointments of Dr Caroline Brown and Aedhmar Hynes as new independent Non-executive Directors
- Considered membership of the Board Committees in light of these new appointments to the Board in 2019, recommending the new non-executives should join the Board's committees
- Considered the chair roles of the Audit and Risk Committee and the Remuneration Committee in light of Jonathan Brooks' expected retirement in 2020 and recommended replacements to the Board
- Considered the newly created role of Designated NED for workforce engagement and recommended Aedhmar Hynes for appointment into this role

Succession planning

- Continued to develop a formal succession plan for the Board
- Considered succession plans for each Executive Director
- In conjunction with the Group's HR Consultant, reviewed senior management succession planning and the development of the internal talent pipeline

Governance

- Reviewed and approved updates to its terms of reference and recommended the same to the Board for approval
- Reviewed corporate governance trends in light of the 2018 Corporate Governance Code

Evaluation

- Oversaw the externally facilitated evaluation of the Board and its Committees

Terms of reference

In light of the 2018 Corporate Governance Code, the terms of reference for the Nomination Committee were reviewed by the Nomination Committee and updated and adopted by the Board in May 2019. Changes were made to reflect the expansion of the Nomination Committee's responsibilities with respect to senior management and succession planning, and to take into account the wider definition of diversity. The Nomination Committee will review its terms of reference at least annually and will propose updates where necessary and/or appropriate to reflect current market practice.

Appointments

The Nomination Committee recommended the appointments of both Dr Caroline Brown and Aedhmar Hynes as additional independent Non-executive Directors during 2019. The process of their appointments is set out below.

At the end of 2018, following the appointment of Sir Douglas Flint as Chairman, Stuart Thompson, Director of IP Exec, the Group's in-house executive search function, conducted a gap analysis on the Board's current skills and composition in order to define the profile of two new non-executive directors, one of whom would also be a future candidate for the chair of the Audit Committee. After considering the various available options and the positives and negatives of each, the Committee concluded that the existence of an experienced in-house executive search function within the Group meant that it did not require the services of an external search consultancy in relation to these appointments.

The analysis carried out by Mr Thompson identified skills, experience and attributes that would be required for both non-executive positions.

The conclusions of this analysis were reviewed by the Nomination Committee, following which detailed job specifications were prepared, and Mr Thompson was asked to

run the search and recruitment process on behalf of the Nomination Committee. Using the analysis, Mr Thompson compiled a diverse list of candidates. When considering potential candidates, the Nomination Committee was mindful of diversity considerations including the recommendations of the Hampton-Alexander Review and the Parker Review, and its desire to increase female representation on the Board during the year.

Following interviews with the Chairman and certain of the other directors, Dr Caroline Brown and Aedhmar Hynes were duly appointed to the Board, with effect from 1 July 2019 and 1 August 2019 respectively.

Following these appointments, IP Group had three female directors on its Board, equivalent to 30% of the Board including the Chairman, following the resignation of Jonathan Brooks, who retired from the Board on 10 March 2020.

In making future appointments to the Board and the senior management, the Committee will continue to adopt a formal, rigorous and transparent procedure. It will give full consideration to the balance, skills, knowledge, independence and diversity (including diversity of gender, social and ethnic backgrounds, cognitive and personal strengths) of the Board and the senior management team, as well as the future challenges facing the business. In addition, for appointments to the Board, the Committee will always assess whether identified candidates have enough time available to devote to the role.

No new senior managers were appointed during 2019.

NOMINATION COMMITTEE REPORT

CONTINUED

Diversity and inclusion

The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Group. In that culture, diversity across a range of criteria is valued. The Board recognises that diversity, in all its forms, is key to introducing different perspectives into Board debate and decision making. A genuinely diverse Board and senior management team comprises individuals with a range of personal attributes, perspectives, skills, knowledge, experiences and backgrounds, as well as representing differences in nationality gender, social and ethnic backgrounds, cognitive and personal strengths.

The Board's policy is to make appointments based upon merit measured against objective criteria. In addition, the Board agrees that diversity (including diversity of gender, age, social, ethnic and educational backgrounds, cognitive and personal strengths) along with inclusion remain key aspects in creating an optimal board in terms of balance and composition.

The terms of reference of the Nomination Committee include a requirement that it considers diversity in the wider sense including, but not limited to, gender, nationality and ethnicity in evaluating the composition of the Board and the senior management team, and in identifying suitable candidates for Board and senior management appointments. In relation to gender diversity, the Nomination Committee gave further consideration throughout the year as to whether to set a fixed target in relation to the number of women on the Board and in the senior management team, and with reference to the Hampton-Alexander Review. While the Group continues to endorse the target of 33% women in FTSE 350 Board and senior management teams contained in the Hampton-Alexander Review

and remains committed towards attaining this, including setting itself aspirational targets as described further below, it does not yet consider it appropriate nor in its best interests to set either Board, senior management or Group-wide fixed targets at this stage. It will instead continue to consider all aspects of diversity in the wider sense (including, but not limited to, gender) when assessing the overall Board and senior management composition and in making new appointments.

Consistent with the Group's aspirational target of at least 30% female representation at both Board and senior management level (see more below), the Board increased its female representation during 2019 with the appointments of Dr Caroline Brown and Aedhmar Hynes. Following these appointments, the Board now has three female directors equivalent to 30% following Jonathan Brooks' retirement from the Board in March 2020, thus attaining its aspirational target at this level. In relation to ethnic diversity, the Nomination Committee acknowledges the recommendation from the Parker Review Committee Report on the ethnic diversity of boards issued in October 2017 that each FTSE 250 board should have a director of colour by 2024 and is pleased that the Company currently complies with such recommendation. Consistent with the approach adopted by the Committee to gender diversity, the Committee does not consider it appropriate to set Board, senior management or Group-wide fixed targets at this stage with respect to ethnic diversity and will continue to consider all aspects of diversity when making further appointments.

When Board or senior management vacancies arise, the Group's Nomination Committee will engage the Group's in-house executive search function and/or external search consultants (as appropriate) and will require them to identify and present qualified people from a range of diverse backgrounds, gender,

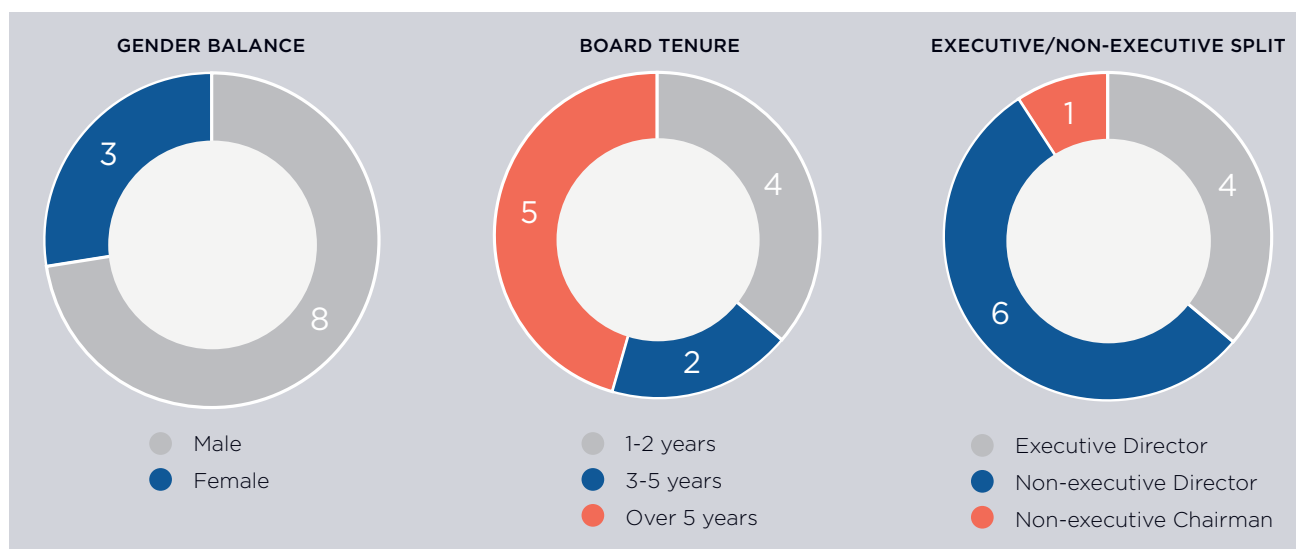
nationality, age and ethnicity to be considered for appointment. The Group also carried out compulsory unconscious bias training for all of its employees in 2019, which included unconscious bias awareness training regarding recruitment.

The Group's commitment to diversity and inclusion at the senior management level is also strong and it is actively working to increase the number of women, ethnic and other cultural and social diversities in leadership positions within the Group. Specifically on gender, while, as stated above, the Group does not have fixed targets for women in leadership positions at this stage, the Group signed up to the 30% Club in January 2018, setting an aspirational target for itself of 30% female representation in the Group's leadership team by 2020. In order to help it attain this target, the Group set up a 30% Club working group during 2018, which progressed certain initiatives during 2019 aimed at supporting and developing women in the workplace. For further details of these initiatives, see page 68.

The Group's CEO, Alan Aubrey, is the accountable Executive Director on this working group. Whilst, as described above, good progress has been made at Board level with female representation having risen to 30%, female representation on the Group's senior leadership team remains below the desired level. The Group recognises the need for improvement at the most senior levels in the business and the 30% Club working group has already met in early 2020 to review and critically analyse the 2019 progress in detail. It is also in the process of developing a further action plan for 2020 to include the reconstitution of a wider executive committee in 2020 with diversity (including, but not limited to, gender) as a key element. Further details on the plan for 2020 are set out on page 65.

Composition of the Board

A breakdown of the Group's people by gender, including the gender balance of senior management, as at 31 December 2019 can be found on page 64.



NOMINATION COMMITTEE REPORT

CONTINUED

Succession planning

The Nomination Committee recognises that the Group's performance is highly dependent on its ability to attract, recruit and retain the highest-quality people and that maintaining a robust succession planning framework is a key factor in ensuring the Group's long-term success. Succession planning also mitigates the risk of any unforeseen circumstances and ensures that changes in Board or senior management positions are effectively managed and do not cause significant disruption to the Group.

As referenced above, towards the end of 2018, the Board undertook a gap analysis of the Board using a skills matrix, supported by Stuart Thompson, the head of the Group's in-house executive search function, and its conclusions led to the appointments of Dr Caroline Brown and Aedhmar Hynes in 2019. Whilst mindful of its requirement to keep succession planning for its non-executive directors under continuous review, given the changes to the Board over the last two years and the resultant relatively short tenure of three of the Non-executives and the Chairman, together with the skills, experience and diversity which have been added in 2019, the Nomination Committee is not anticipating any new non-executive appointments over the next twelve months.

Insofar as the executive directors are concerned, the Group's Head of HR

worked closely with the Chairman and the other members of the Nomination Committee through 2019 to further develop and update the existing succession plans in place for each of the positions to fit to current circumstances. Such plans cover three timeframes: immediate, three year and five year. As part of her work, the Group's Head of HR spent time meeting face-to-face with each of the non-executive directors, executive directors, Managing Partners of Life Sciences and Technology and Stuart Thompson seeking their views on, amongst other things, role profiles. In addition, during the last few months of the year, the Group's Chairman had the opportunity to discuss the topic of executive succession at meetings he had with some of the Group's significant shareholders. With all of this input, the Nomination Committee then debated the matter in detail at its meeting at the end of November 2019 and will continue to refine its thinking and formalise the plan as it moves through 2020.

In addition to succession planning at Board level, developing internal talent at all levels within the Group remains a continuous process. The Nomination Committee is responsible for ensuring that suitable leadership and talent development plans and processes are in place to maximise the potential of the Group's employees and that the Group has effective recruitment policies to continue to attract and retain a diverse mix of talented employees. The Nomination

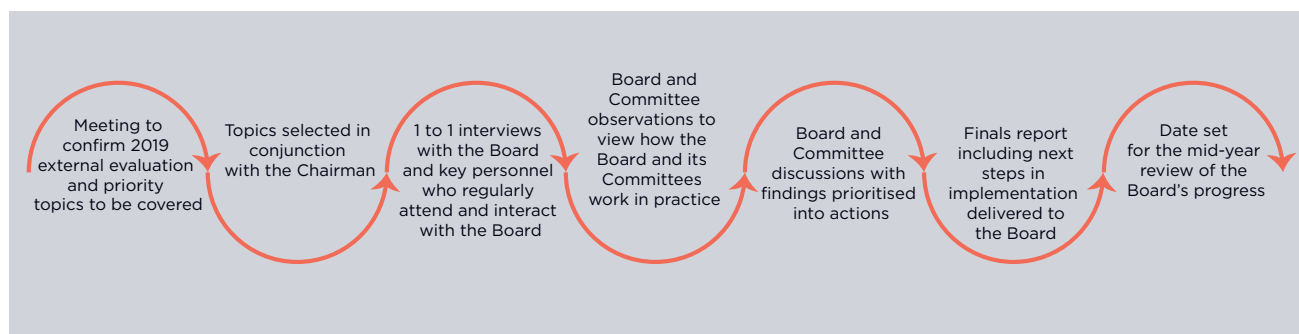
Committee intends to work closely with the Group's new HR Consultant through 2020 on her plans to drive forward the development of internal talent, including putting processes in place to identify "rising stars" and to continue the development of a diverse pipeline for the senior management and their direct reports.

Board effectiveness and performance evaluation

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

Bvalco, an external independent board review consultancy, was selected to undertake a full external board evaluation in respect of the year to 31 December 2019 to consider the Board's overall effectiveness and, amongst other things, its composition, diversity and how effectively members work together to achieve objectives. Bvalco has no connection with the Group or any individual directors.

Board evaluation process



The results of the evaluation exercise were reported back, in the first instance, via verbal presentations to the Chairman, Company Secretary and non-executive directors and then to the full Board, through both a written report and by Bvalco facilitating an open discussion at a Board meeting. The following key actions have been agreed by the Board in response:

- to bring more formality to the succession plans in place for the senior employees within the Group, including the executive directors and to keep these updated;
- to hold dedicated Board session to agree alignment of the role and objectives of the Board and its committees with the Group's s172 responsibilities;
- to review the construct and composition of the forum through which the Board's delegated authority to the executive is conducted, taking into account the Group's commitment to diversity in all its forms and specifically gender;
- to continue to build on and strengthen the work carried out in 2019 to ensure that the views of the Group's stakeholders are considered by the Board in its deliberations and decisions;
- for the Executive Directors and Company Secretary to ensure there is greater clarification in Board and committee papers of the actions and input required by the Board and committee members in response to each agenda item;
- building on the appointment of Aedhmar Hynes as the Designated NED for workforce engagement, to formalise how the outcomes of Board and Committee meetings are communicated to the wider workforce to ensure, amongst other things, consistency of messaging; and
- to continue to build on the Board's strategic dialogue and to further define the strategy development process ahead of the Board's strategy days in 2020.

Finally, the Board considered the actions which had been identified from the 2018/19 review and noted the following progress during 2019:

- the increased diversity on the Board, in terms of both gender and board experience, following the appointment of Dr Caroline Brown and Aedhmar Hynes as further described in the Appointments section on page 83. The skillsets and experience of both Dr Caroline Brown and Aedhmar Hynes are additive to the existing skillset of the Board and have assisted towards the achievement of the Chairman's vision of the optimal board composition and size;
- the delivery of training to the Board in 2019 by external advisers on the new corporate governance requirements and on the directors duties under s172 of the CA 2006, together with the associated reporting requirements in connection therewith, as well as a session on shareholder activism facilitated by the Company's brokers;
- the further development of the Group's succession plan for the executive directors as described in the Succession Planning section on page 93, including the discussions regarding succession planning which have taken place with the Group's major shareholders to ensure their views are taken into account in any decisions in relation to succession planning; and
- the consideration of the objectives of the Board including updating the Board rolling agenda for the year to ensure that sufficient time could be dedicated at Board meetings to achieve its aims/ actions throughout the year.

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

Director performance assessment and review

The performance of each of the non-executive directors is reviewed by the Chairman with support from the Company Secretary, the performance of the CEO is reviewed by the Chairman and the operational performance of the other executive directors is reviewed by the Chief Executive Officer as part of the annual appraisal process. In addition to those reviews, the performance of the Executive Directors is reviewed by the Board on an ongoing basis. One-to-one meetings have been held amongst the individuals concerned using, amongst other things, the input collated on the performance of each of the individual from the Board evaluation process and development plans are now in the process of being put in place for each of the directors for the year ahead.

DIRECTORS' REMUNERATION REPORT

REMUNERATION STATEMENT



Heejae Chai
Chair of the
Remuneration Committee

Dear fellow shareholder,

I am pleased to present my first Directors' Remuneration Report ("DRR") since assuming the role of Chairman of the Group's Remuneration Committee. In October, the Group's Nomination Committee appointed me as the new Committee Chairperson, assuming the role from Jonathan Brooks with effect from December 2019. On behalf of the Group and its shareholders, I would like to place on record my gratitude to Jonathan for the role he has played in developing our remuneration approach and I look forward to continuing this work following his departure.

This DRR is made on behalf of the Board and covers the year ended 31 December 2019. I believe that the highly shareholder-aligned nature of the Group's variable incentive schemes has once again resulted in remuneration out-turns for the executives, and wider staff, that are appropriate in light of the Group's performance. I elaborate on this further below, as well as the largely consistent approach to remuneration that we intend to employ for 2020.

2019 Remuneration Policy review

Last year, the Committee reviewed and amended our Remuneration Policy, with enhancements made predominantly to take into account the 2018 UK Corporate Governance Code. The two primary changes made were a reduction in the pension maximum to align with the wider workforce, and the introduction of a post-cessation shareholding policy. The revised Policy received 96.6% support at our AGM in May 2019.

2019 Performance and incentive out-turns

As has been discussed in the Strategic Review, the Group's Return on Hard NAV for 2019 was negative £73.7m and therefore did not meet the minimum levels of return that the Group targeted in 2019. The Group did however achieve a record level of realisations to date, with £79.5m cash being realised from the portfolio. Given the significant weighting of the AIS outcomes to Return on Hard NAV, the quantitative targets indicated a bonus out-turn of 27.9% of maximum, primarily as a result of these cash realisations.

The Committee members discussed the output of the quantitative targets and considered that this out-turn appropriately reflected the overall performance of the business for the period in question. The Committee considered that it was appropriate to reward the Group's directors for their success in delivering one of the Board's key objectives for the year, that of demonstrating increasing sustainability through cash generation from the portfolio. The Committee was also aware of the external market factors that may have contributed to the poor performance of the Group's portfolio, however, also mindful of the Group's 35% share price decline during the year, we determined that a nil out-turn in connection with portfolio performance was appropriate. The Committee therefore considered the formulaic AIS out-turn of 27.9% of maximum was appropriate.

Consistent with the Group's annual performance in 2019, the cumulative three-year return on the Group's Hard NAV did not meet the 8% per annum threshold target for the Group's 2017 LTIP awards scheduled to vest in March 2020. The wider Committee and I are very conscious of and, as fellow shareholders, disappointed by the Group's share price performance during 2019. So, while the actual absolute Total Shareholder Return ("TSR") performance period for the 2017 LTIP awards runs until 31 March 2020, based on the Group's share price at the date of this report, the Committee does not expect that the minimum 8% annualised return will be met. As a result, it is anticipated that the vesting of the LTIP awards in 2020 will again be zero.

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



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

We provide transparent disclosure of our AIS performance targets on both a retrospective and, where appropriate, prospective basis. Full details of the AIS targets for 2019 and forward-looking targets for 2020 are contained in this report.

The framework for our Executive Directors is summarised below:

Salary	Typically, salaries approach the bottom end of a market competitive range for similar sized companies
Pension	10% of salary contribution to Company defined contribution plan, personal pension plan or cash equivalent - The pension level is in line with the wider workforce
AIS	- Maximum 100% of salary - Based on stretching return on Hard NAV targets disclosed retrospectively and prospectively and other relevant 'leading indicators' of performance as determined by the Committee each year - Formulaic outcomes may be adjusted at the discretion of the Committee to reflect overall business or individual performance - Half of any bonus above a minimum amount deferred into equity over two-year period - AIS arrangements cascade to all employees in the business, with components based on team and/or individual objectives for non-director employees
LTIP	- Annual awards of 300% of salary (CEO) and 200% of salary (other Executive Directors) - Based on stretching Hard NAV and TSR growth targets (with a discretionary relative TSR underpin) - Formulaic outcomes may be adjusted at the discretion of the Committee to reflect overall business or individual performance - Includes a two-year post-vesting holding period - LTIP arrangements reserved for senior managerial levels and roles which are expected to have a material financial impact on the Group's outcomes
Shareholding guidelines	200% of salary (CEO) and 150% (other Executive Directors) - Post-employment shareholding policy in place
Malus and clawback	Comprehensive malus and clawback provisions on all variable elements

Executive Directors' base salaries for 2020

In the Group's 2019 Directors' Remuneration Report, the salaries of the executive directors were increased by 2%, well below the average level of salary increases in the wider employee population. Since late 2017, the Committee has planned to carry out a more comprehensive review of the salaries of its Executive Directors as it is conscious that the overall remuneration levels could be seen to be well below market levels for listed companies of similar size, scale and complexity. However, mindful of the Group's share price and net asset per share performance over this time, the Committee intends to carry out a more comprehensive review in due course.

The Group's total salary costs, including executive directors, decreased by approximately 13% from £14.9m to £13.0m between 2018 and 2019, largely as a result of the continued realisation of synergies following the Group's combination with Touchstone Innovations in late 2017, offset by the

full year effect of the newly-formed Australasian team. However, largely as a result of promotional and role expansions for a number of the Group's continuing team members, the average like-for-like base salary increase for UK employees, excluding executive directors, was 6.4%. Following further headcount reviews towards the end of 2019 to ensure that the business remains optimally sized for the management of its portfolio and operations, management expects a similar pattern to be seen in 2020, where the Group's overall salary costs are anticipated to be at or below 2019 levels while the average like-for-like base salary increase in the UK is expected to be around 6.4%.

Against this backdrop, the Committee has determined that the base salary increases for the Executive Directors, to be implemented in April 2020, will again be no more than the average for the wider employee population. In the case of the Group's CEO, we intend to implement a base salary increase of 2.0%. For the CFO, the increase will be 5.9%, which is lower than the average workforce increase but at a higher level than the other executive directors to ensure that his remuneration continues to progress towards what

DIRECTORS' REMUNERATION REPORT

REMUNERATION STATEMENT CONTINUED

the Committee considers to be market levels of salary and overall remuneration opportunity for this key executive board role. The increase for the Group's other executive directors will be 2.0%.

- The CEO's base salary will be £432,000;
- The CFO's base salary will be £297,000;
- The base salary for the other Executive Directors' will be £286,000

Executive Directors' AIS and LTIP opportunities

Consistent with the Group's recently approved Remuneration Policy, there will be no change to the maximum AIS or LTIP opportunities for 2020. For 2020, the Committee will base the AIS outcome for directors on (i) the return on Hard NAV, (ii) cash realisations from the portfolio, (iii) the level of net operating expenses and (iv) the engagement levels of the Group's employees. Where appropriate from a commercial point of view, disclosure of the forward-looking targets for the AIS has again been made, as has full disclosure of all backward-looking targets and outcomes.

The Committee will again assess performance under the LTIP against growth in Hard NAV and TSR. As I described earlier, the Committee is very mindful of the fall in the Group's share price during 2019. Assuming there is no significant recovery in the Group's share price by the date of award, we would anticipate reducing the normal level of each award made under our LTIP this year. We will assess the appropriate level of reduction at the time of award but expect that the level of award to be 275% of salary (rather than 300%) for the CEO and 185% of salary (rather than 200%) for the other executive directors.

LTIP rules

In May 2019, the Group became aware of a technical issue concerning the administration of its LTIP. Shareholders approved various amendments to the LTIP in 2011 rather than the LTIP rules being renewed in full. The Group will therefore seek approval of the LTIP by shareholders, in accordance with the Listing Rules, at the 2020 AGM. Further details are provided on page 91.

Terms of Reference and key responsibilities

In light of the 2018 Corporate Governance Code, the terms of reference for the Remuneration Committee were reviewed by the Remuneration Committee and updated and adopted by the Board in July 2019. The Remuneration Committee will review its terms of reference at least annually and will propose updates where necessary and/or appropriate to reflect current market practice. The key responsibilities of the Committee are as follows:

- Determine the policy for executive director remuneration
- Design and set the remuneration for the Chairman, executive directors and senior management
- Review workforce remuneration and related policies to ensure they operate to attract and retain the best talent
- Review remuneration practice and its cost to the Group
- Consider pension and superannuation arrangements and other benefits
- Consider the engagement and independence of external remuneration advisers

Approval of the Remuneration Policy and 2018 Remuneration Report

Our updated Remuneration Policy and 2018 Directors' Remuneration Report received 96.6% and 99.2% of votes cast in favour at our AGM in May 2019. While this indicated a strong level of shareholder support, both I and the Group are committed to maintaining high levels of transparency and engagement surrounding our remuneration principles and practices. I welcome the opportunity to discuss the Group's remuneration with any shareholder, either at our AGM or at any other time during the year.

Structure of this report

The following pages contain an extract of our Remuneration Policy (as approved by shareholders in 2019), a summary of how we intend to implement the policy during 2020, and the detailed disclosure of outcomes in respect of 2019.

ON BEHALF OF THE BOARD

Heejae Chae
Chairman of the Remuneration Committee

10 March 2020

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

The Remuneration Policy was approved at the AGM held on 28 May 2019 and was effective as of that date. An extract of the policy table for executive directors contained in that policy is re-produced below for information only. The full Remuneration Policy is contained on pages 93 to 101 of the 2018 Annual Report and Accounts which is available in the investor relations section of the Group's website.

Remuneration Policy table

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

Component	How this component of remuneration operates	Maximum opportunity
SALARY Purpose and link to strategy To provide an appropriate level of fixed cash income to attract and retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy.	Generally reviewed annually with increases currently effective from 1 April. Base salaries will be set by the Committee taking into account a range of factors, including but not limited to: • scale, scope and responsibility of the role; • skills and experience of the individual; • retention risk; • pay and conditions across the Company; • base salary of individuals undertaking similar roles in companies of comparable size and complexity; • performance of the individual and IP Group; • impact of salary increases on total remuneration of the package; and • appropriate market benchmarks.	There is no prescribed maximum annual salary. Annual salary increases for executive directors will not normally exceed the average increase awarded to other UK-based employees. Increases may be above this level in circumstances where the Committee considers it appropriate, for example if there is an increase in the scale, scope or responsibility of the role or to allow the base salary of recently appointed executives who are appointed on initially lower levels of base salary to move towards market norms as their experience and contribution increase. Where a significant discrepancy exists between an executive director's current salary and market levels, the Committee will normally phase any increases over a number of years. Performance metrics None, although performance of the individual is considered by the Committee when setting and reviewing salaries annually
PENSION Purpose and link to strategy To provide a competitive post-retirement benefit in a way that manages the overall cost to the Group in order to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy.	Contribution to Group Pension Plan (defined contribution scheme) or to personal pension plan of the relevant executive's choosing or an equivalent cash alternative. No element other than base salary is pensionable.	Maximum pension is 10% of base salary. Performance metrics Not applicable.
BENEFITS Purpose and link to strategy To provide a competitive and appropriate benefits package to assist individuals in carrying out their duties effectively and to retain individuals with the personal attributes, skills and experience required to deliver the Group's strategy.	Ongoing benefits typically comprise, but are not limited to, health and travel insurance, income protection and life assurance and may also comprise a car benefit (or cash equivalent) and telecommunications such as broadband. The Group also offers certain salary sacrifice schemes including childcare vouchers, purchase of additional holiday and Ride to Work. Executive directors may also participate in any all-employee share plans that may be operated by the Group from time to time on the same terms as other employees. Additional benefits, which may include relocation or expatriation benefits, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, including as may be required on recruitment.	The cost of benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits under the Policy. There is therefore no overall maximum opportunity under this component of the Policy. One-off benefits, e.g. relocation, shall not ordinarily exceed 25% of base salary other than in exceptional circumstances at the discretion of the Committee. Maximum awards under all-employee share plans would be subject to prevailing statutory limit. Performance metrics Not applicable.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Component	How this component of remuneration operates	Maximum opportunity
ANNUAL INCENTIVE SCHEME ("AIS") Purpose and link to strategy To provide a simple, competitive, performance-linked annual incentive mechanism that will: • attract, retain and motivate individuals with the required personal attributes, skills and experience; • provide a real incentive to achieve our strategic objectives; and • align the interests of management and shareholders.	The AIS is reviewed annually prior to the start of each financial year to ensure the detailed performance measures and weightings are appropriate and continue to support the business strategy. Financial and/or non-financial performance targets are set at or around the start of each financial year. Actual AIS amounts are determined via a two-stage process. Firstly, performance against the agreed metrics is assessed. Secondly, the Committee reviews these results in the context of underlying business performance and the Group's financial position and may adjust the stage one outcome at its discretion. Above a suitable minimum cash amount, set by the Committee at the start of each year, awards will typically be payable 50% in cash and 50% in IP Group shares. The share element is in the form of conditional awards of shares or nil-cost options (or equivalent at the Committee's discretion) and is subject to further time-based vesting over two years (50% after year 1 and 50% after year 2) although the Committee may adjust the percentage split between cash and shares based on the financial position of the Group. In certain circumstances, including, but not limited to: • serious misconduct by a participant; • material misstatement of financial results; • payments based on erroneous or misleading data; • serious reputational damage; or • material corporate failure the Company will be entitled to claw back the value of any cash amount paid under the AIS for that year and to cancel the vesting of any deferred share element, for a period of up to three years following the date of award or payment.	The maximum annual level of award is 100% of salary. Given the Group's salary year currently runs from 1 April to 31 March, the base salary used will normally be that which is in effect at the end of the annual financial year to which the award relates. Performance metrics Specific targets and weightings will vary from year to year in accordance with strategic priorities but may include targets relating to: • relative or absolute TSR; • Hard net assets; • Financial performance; • appropriate non-financial measures; and • attainment of personal objectives. Weighting will be primarily towards Group financial performance. Performance will typically be measured over one year. The AIS is a discretionary plan and the Committee retains the discretion to adjust any formulaic outcome to reflect overall business or individual performance or any other reason considered appropriate.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

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

Statement of implementation of remuneration policy in the following financial year

The Group targets a remuneration package for its executive directors that will enable the attraction, retention and incentivisation of individuals of the highest calibre in order to successfully deliver the Group's strategic objectives. We have continued to apply our performance-based philosophy with a focus on the long term and consistent with a 'lower base/higher variable' approach.

Salary and fixed components

With effect from 1 April 2020, the base salaries of the executive directors will be:

	2020/21 base salary	2019/20 base salary	Increase %
Alan Aubrey (CEO)	£432,000	£423,500	2.0%
Mike Townend (CIO)	£286,000	£280,500	2.0%
Greg Smith (CFO)	£297,000	£280,500	5.9%
David Baynes (COO)	£286,000	£280,500	2.0%

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

For context, the Group's total salary costs, including executive directors, decreased by approximately 13% between 2018 and 2019, largely as a result of the continued realisation of synergies following the Group's combination with Touchstone Innovations in late 2017, offset by the full year effect of the newly-formed Australasian team. However, largely as a result of promotional and role expansions for a number of the Group's continuing team members, the average like-for-like base salary increase for UK employees, excluding executive directors, was 6.4%. Following further headcount reviews towards the end of 2019 to ensure that the business remains optimally sized for the management of its portfolio and operations, management expects a similar pattern to be seen in 2020, where the Group's overall salary costs are anticipated to be at or below 2019 levels while the average like-for-like base salary increase in the UK is expected to be around 6.0%.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT

The Committee intends to complete a review of executive directors' overall remuneration this year and looks forward to discussing this important topic with our major shareholders. For this coming year, in order to ensure that the Group's remuneration package does not become any less market relevant, we intend to increase the base salaries for the executive directors other than the CFO by 2%. For the CFO, the increase will be 5.9%, which while lower than the average workforce rate is a higher level than the other executive directors. This reflects the Committee's views that the CFO's overall remuneration opportunity remains significantly below market levels for this important executive role and that this level of salary increase will help to substantially mitigate the potential risk presented by this situation.

Pension and benefits will continue to be in line with the levels stated in the policy table. Pension levels are in line with those for the wider workforce, at up to 10% of salary.

Incentives

The maximum AIS opportunity will remain at 100% of base salary for all executive directors. The 2020 AIS, similar to 2019, will be based on four performance measures:

- 60% on annual return achieved on the Group's Hard NAV;
- 30% on cash realisations from the portfolio;
- 5% on the level of net operating expenses; and
- 5% employee engagement and culture.

These measures are considered appropriate leading indicators of underlying business performance, including one that explicitly takes into account the engagement of our most valuable asset, our people. This latter objective will be measured with input from the Group's Designated NED, Aedhmar Hynes, who in this regard has Board responsibility for bringing the voice of our employees into the Boardroom.

As in prior years, the Committee has determined the performance metrics that are required to be achieved. In terms of the Return on Hard NAV target, as before, the Committee has taken into consideration the blend of assets that constitute the Group Hard NAV, particularly the relative level of cash on which it is not currently possible to achieve a return in excess of approximately 1%. Reflecting our commitment to transparency, we are again disclosing this AIS target on a prospective basis. For 2020 the Committee has determined that threshold vesting of 25% of this element of the award will be available provided a minimum return of 5% is achieved while the maximum amount of this element will be available should a return of 15% or greater be achieved. In absolute terms, this requires the achievement of a return on Hard NAV in excess of £57m before any of the AIS component relating to return on Hard NAV may be awarded and a return in excess of £170m in order for this component to be awarded in full. The targets relating to the measures outlined above, as well as the performance against these targets, will be disclosed in the

2020 Directors' Remuneration Report. Overall, the targets are considered by the Committee to be appropriately stretching, especially in light of the current economic climate and 2019 performance out-turns.

The AIS operates as a discretionary plan and as is the case in 2019, in line with the UK Corporate Governance Code, the Committee may adjust the 2020 outcome to take into account overall business or individual performance or any other factors it considers appropriate.

Consistent with the maximum opportunity for the 2019 LTIP awards, the Committee would ordinarily have continued to make the 2020 LTIP awards at 300% of base salary for the CEO and 200% of base salary for all other executive directors. However, in light of the fall in the Group's share price during 2019, except in the event of a significant recovery in the Group's share price by the time of award, we expect the LTIP award levels for 2020 will be reduced to 275% of salary for the CEO and 185% of salary for the other executive directors. Performance will continue to be assessed against growth in Hard NAV and TSR as per the vesting table set out below.

Vesting matrix: 2020 LTIP awards

TSR (p.a.)	15%	60%	75%	90%	100%
	10%	30%	45%	60%	90%
	8%	12.5%	25%	45%	75%
	<8%	0%	12.5%	30%	60%
	<8%		8%	10%	15%
	Growth in NAV (p.a.)				

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

Post-cessation shareholding policy

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

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

During the course of 2019, the Committee put in place a framework to assist it in applying the policy. The Committee also explored structures to best enforce the requirements of the policy and will be working with its Employee Benefit Trust in 2020 to put in place a nominee arrangement whereby any shares vesting under the Company's incentive schemes will be held on behalf of the relevant executive director until the required shareholding amount is met.

Chairman and non-executive directors

The fee for the Group's chairman has been set at £175,000 per annum since September 2018 and shall increase by 2.0% to £178,500 for 2020/21. The fees for the non-executive directors will be increased from £44,500 to £45,500, reflecting a 2.2% increase from 2019/20. Additional fees for chairing a Board committee and for being senior independent director shall remain at £10,000. During the year, the Group introduced an additional fee of £10,000 for the role of Designated NED.

Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for directors for the financial years ended 31 December 2019 and 2018.

All £000s	Base salary/ fees ¹		Benefits ¹⁰		Annual bonus (AIS) ²		LTIP		Pension ⁹		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive directors												
Alan Aubrey ³	335	301	9	7	118	70	-	-	36	35	498	413
Mike Townend	279	273	6	8	78	46	-	-	24	23	387	350
Greg Smith	279	273	3	6	78	46	-	-	26	27	386	352
David Baynes ⁴	279	273	23	20	78	46	-	-	28	27	408	366
Non-executive directors												
Douglas Flint	175	50	1 ¹⁰	-	-	-	-	-	-	-	176	50
Jonathan Brooks ⁵	61	62	-	-	-	-	-	-	-	-	61	62
Elaine Sullivan	44	43	1 ¹⁰	2	-	-	-	-	-	-	45	45
David Begg	54	51	-	-	-	-	-	-	-	-	54	51
Caroline Brown ⁶	25	-	-	-	-	-	-	-	-	-	25	-
Aedhmar Hynes ⁷	19	-	8 ¹⁰	-	-	-	-	-	-	-	27	-
Heejae Chae ⁸	53	29	1 ¹⁰	1	-	-	-	-	-	-	54	30

NOTES

1. Base salary/fees represent amounts earned and paid by the Group during the year in question.
2. AIS executive's bonus outturn was 27.9% of maximum for 2019. The first 25,000 will be paid in cash and thereafter 50% paid in cash and 50% deferred in shares over two years.
3. Alan Aubrey's contractual base salary was £423,500 from 1 April 2019. In addition, Alan Aubrey retained board fees in 2019 totalling £86,346 (reduced due to retirement from Avacta in Jan 2019) (2018: £110,000) from portfolio companies in which the Group is a shareholder and that were deducted from his base salary.
4. David Baynes receives an annual car allowance or equivalent thereof of £12,000.
5. Jonathan Brooks stepped down as Chair of the Audit & Risk Committee on 18 September 2019 and the Chair of Remuneration Committee on 25 November 2019.
6. Caroline Brown joined the Board on 1 July 2019 and assumed the role of Chair of the Audit & Risk Committee on 18 September 2019.
7. Aedhmar Hynes joined the Board on 1 August 2019.
8. Heejae Chae assumed the role of Chair of the Remuneration Committee on 25 November 2019.
9. Pension includes payments made to defined contribution schemes on behalf of the directors or the value of a cash equivalent, if applicable.
10. Commuting costs for non-executive directors are reimbursed and are subject to PAYE.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

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

Annual Incentive Scheme

The targets for the 2019 AIS were predominantly based on the annual return on Hard NAV alongside two further leading indicators of underlying business performance. The targets for 2019 and the outturn against these were as follows:

Performance condition (% weighting)	Vesting criteria	Actual performance (% of component)
Return on Hard NAV (60%)	6% return (£73.1m): 25% of maximum opportunity ('threshold') 16% return (£194.8m): 100% of maximum opportunity	Negative 6.1% return (£73.7m): 0% of component
Cash realisations from the portfolio (30%)	Enil to £100m (sliding scale)	£79.5m realisations: 79% of component
Level of net overheads (10%)	Net overheads (before AIS costs) lower than £21m (25%) to £19m (100%)	£20.6m: 40% of component
Total weighted outturn		27.9% of maximum

The Committee members discussed the output of the quantitative targets and considered that this outturn appropriately reflected the overall performance of the business for the period in question, therefore no discretion was applied. The resulting AIS outturn for 2019 for the executive directors was therefore determined as 27.9% of maximum opportunity. In accordance with the Group's Remuneration Policy, all amounts to individuals above an initial minimum amount paid in cash, which for the 2019 AIS is £25,000, will be paid 50% in cash and 50% in shares (deferred over two years using the Group's DBSP).

Long-term incentive scheme

2017 LTIP awards due to vest in March 2020

The 2017 LTIP awards are based on the performance of the Group's Hard NAV (the Group's net assets excluding intangibles and the Oxford Equity Rights asset) for the three financial years ending on 31 December 2019 and Total Shareholder Return ("TSR") from March 2017 to the ordinary vesting date, being 31 March 2020, using a one-month average. Both performance measures are combined into a matrix format as per the vesting table below. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%.

Vesting matrix: estimated 2017 LTIP outturn

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

Performance condition	Target performance	Actual/forecast performance
Hard NAV ¹	8%: £1,568m	£1,142m
(at 31 Dec 2019)	15%: £1,859m	(-4% p.a.)
Annual TSR ²	8%: 171p	71p
(share price)	15%: 201p	(-24% p.a. growth)
Comparative TSR	FTSE 250 +4.4%	IP Group -49%

1. Hard NAV target increased by Committee to reflect £353.6m Touchstone Hard net assets acquired in 2017 and net proceeds of £181.1m from the Group's 2017 placing.
2. TSR performance shown reflects the Group's one-month average share price to 6 March 2020. Actual performance period is the one-month average to 31 March 2020.

The actual performance of the Group in terms of Hard NAV growth was below threshold and, based on the one-month average share price to 6 March 2020, was below the lower TSR target and that of the FTSE 250 TSR performance. On this basis, the 2017 LTIP award is not expected to meet the minimum performance criteria required for vesting. The amounts disclosed above in the single remuneration figure table are based on this performance and resulting expected outcome. Actual vesting will be based on TSR performance to 31 March 2020.

2016 LTIP awards that were due to vest in March 2019

As reported last year, the Hard NAV growth target was not met. TSR measured over the three-year period to 31 March 2019 was negative and therefore the TSR condition was not met. Consequently, none of the 2016 LTIP awards vested.

2019 LTIP awards

The 2019 LTIP awards were made with a face value of 300% of salary for the CEO and 200% of salary for other executive directors, based on the share price at date of grant and vesting subject to performance. Awards are calculated by reference to the salary effective for the 2019/2020 salary year. Any shares that vest shall be subject to a two-year holding period.

The performance conditions that apply to both of these awards will follow the same matrix structure with the same vesting parameters as that set out above for the previous awards. Hard NAV growth will be measured over the three-year period to 31 December 2021 (starting point: £1,217.5m at 31 December 2018). TSR shall be measured from 26 April 2019 to 31 March 2022 with a one-month average starting point of 94.9p (being the 30-day average to 25 April 2019).

The award is subject to an underpin whereby vesting may be reduced by the Committee by up to 50%, taking into account a range of performance factors including relative TSR against the FTSE 250.

Executive director	Type of interest	Basis of award (% salary)	Face value ¹ (000s)	Threshold vesting ²	End of performance period
Alan Aubrey	2019 LTIP	300%	£1,270	25%	31 Dec 2021 (NAV) / 31 Mar 2022 (TSR)
Mike Townend	2019 LTIP	200%	£561	25%	31 Dec 2021 (NAV) / 31 Mar 2022 (TSR)
Greg Smith	2019 LTIP	200%	£561	25%	31 Dec 2021 (NAV) / 31 Mar 2022 (TSR)
David Baynes	2019 LTIP	200%	£561	25%	31 Dec 2021 (NAV) / 31 Mar 2022 (TSR)

1. The number of shares corresponding to the face value is calculated using the share price of 99.10p for all executive directors.

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

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

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

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

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

	% change in base salary 2018 to 2019	% change in bonus 2018 to 2019	% change in benefits (excluding pensions) 2018 to 2019
CEO	2.0%	69.2%	9.8%
UK employees	6.4%	30.0%	8.6%

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Historical executive pay and Group performance

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

The chart below shows the Group's TSR performance against the performance of the FTSE All Share, FTSE Small Cap and FTSE 250 indices over the ten-year period to 31 December 2019. The Directors have selected these indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company was a member during a significant proportion of the period in question and against which total shareholder return of IP Group plc should be measured.

Historical Chief Executive Officer remuneration outcomes

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

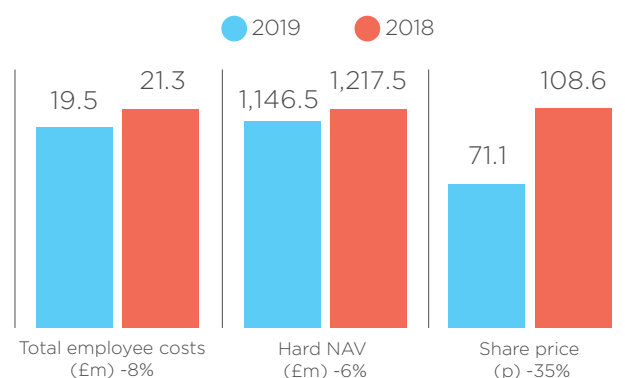
Chief Executive Officer: Alan Aubrey	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single figure of remuneration (£000s)	193	209	3,257	2,231	902	669	265	552	413	498
Annual bonus pay-out (% of maximum)	n/a	n/a	n/a	100%	0%	100%	0%	57%	17%	28%
LTIP vesting (% of maximum)	0%	n/a	81%	100%	100%	57%	0%	0%	0%	0%

LTIP vesting is based on the current expectations of the performance against the 2017 LTIP targets as discussed on page 106.



Relative spend on pay

The chart below shows the total employee costs, change in Hard NAV and change in share price from 2018 to 2019.



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

Total employee pay: total employee costs from note 9 on page 154 including wages and salaries, social security costs, pension and share-based payments.

Change in Hard NAV: change in the Group's net assets excluding goodwill, intangibles and the Oxford Equity Rights asset taken from the statement of financial position on page 34.

Returns to shareholders: since the Group does not currently pay a dividend, returns to shareholders are represented by the change in the Group's share price over the period from 31 December 2018 to 31 December 2019.

Interests in shares

The directors who held office during 2019 had the following beneficial interests in the ordinary shares of the Company:

As at 31 December 2019

As at 31 December 2019		Vested but unexercised options ¹	Total interest in shares	
	Shares owned Number	Number (net of tax)	Number	% of share capital
Current directors				
Alan Aubrey	2,663,538	43,740	2,707,278	0.26%
Mike Townend	1,156,902	26,880	1,183,782	0.11%
Greg Smith	298,351	25,107	323,458	0.03%
David Baynes	262,975	26,880	289,855	0.03%
Elaine Sullivan	-	-	-	-
David Begg	42,391	-	42,391	0.00%
Sir Douglas Flint	18,500	-	18,500	0.00%
Heejae Chae	16,073	-	16,073	0.00%
Caroline Brown	-	-	-	-
Aedhmar Hynes	-	-	-	-

There have been no changes in the interests of the directors set out above between 31 December 2019 and 10 March 2020.

1. Reflects executive directors' interest in vested but unexercised DBSP

2. Share options relating to the deferral of the 2015 AIS award, net of estimated 47% income tax and employees' NICs liability.

Former directors (as at date of leaving)

	Number of shares
(Jonathan Brooks (stepped down on 10 March 2020))	81,826

Directors' shareholdings and share interests (audited information)

The Group's Remuneration Policy contains minimum shareholding requirements for each of its executive directors.

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

This level of shareholding is required to be met within four years of each director's date of appointment. If the guideline is not met by any executive director within this timeframe, or the level of shareholding falls below this level for any other reason, including share price fluctuations, then the Committee will discuss with the relevant executive director a plan to ensure that the guideline can be met within a reasonable timeframe. The Committee will ordinarily require executive directors to retain all shares received under the AIS or LTIP, other than as required to meet tax and NIC liabilities, until the guideline is met.

At the end of the year, Alan Aubrey and Mike Townend continued to meet this requirement. Both Greg Smith and David Baynes have previously met this requirement; however, the reduction in the Group's share price during the year has resulted in this requirement being off targeted levels at 10 March 2020. Both Mr Smith and Mr Baynes are mindful of Committee guidance on this matter and bought shares on the open market during 2018. Both directors have agreed with the Committee that they will, at a minimum, retain all post-tax shares received under the DBSP or LTIP to ensure that minimum levels are met and maintained.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Long Term Incentive Plan

Directors' participations in the Group's LTIP are:

	Number of shares conditionally held at 1 January 2019	Conditional shares notionally awarded in the year	Vested during the year	Lapsed during the year	Potential conditional interest in shares at 31 December 2019	Share price at date of conditional award (p)	Earliest vesting date(s)
Alan Aubrey							
2016 LTIP	664,313	-	-	(664,313)	-	155.80	31-Mar-19
2017 LTIP	857,142	-	-	-	857,142	112.50*	31-Mar-20
2018 LTIP	894,397	-	-	-	894,397	139.20	31-Mar-21
2019 LTIP	-	1,282,038	-	-	1,282,038	99.10	31-Mar-22
	2,415,852	1,282,038	-	(664,313)	3,053,577	-	
Mike Townend							
2016 LTIP	327,342	-	-	(327,342)	-	155.80	31-Mar-19
2017 LTIP	378,571	-	-	-	378,571	112.50*	31-Mar-20
2018 LTIP	395,115	-	-	-	395,115	139.20	31-Mar-21
2019 LTIP	-	566,094	-	-	566,094	99.10	31-Mar-22
	1,101,028	566,094	-	(327,342)	1,339,781	-	
Greg Smith							
2016 LTIP	-	-	-	-	-	-	-
2017 LTIP	306,803	-	-	(306,803)	-	155.80	31-Mar-19
2018 LTIP	378,571	-	-	-	378,571	112.50*	31-Mar-19
2019 LTIP	395,115	-	-	-	395,115	139.20	31-Mar-20
2019 LTIP	-	566,094	-	-	566,094	99.10	31-Mar-21
	1,080,489	566,094	-	(306,803)	1,339,780	-	
David Baynes							
2016 LTIP	-	-	-	-	-	-	-
2017 LTIP	327,342	-	-	(327,342)	-	155.80	31-Mar-19
2018 LTIP	378,571	-	-	-	378,571	112.50*	31-Mar-19
2019 LTIP	395,115	-	-	-	395,115	139.20	31-Mar-20
2019 LTIP	-	566,094	-	-	566,094	99.10	31-Mar-21
	1,101,028	566,094	-	(327,342)	1,339,780	-	

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

Deferred bonus share plan (“DBSP”)

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

	Options held at 1st Jan 2019	Option awarded in the year	Exercised during the Year	Lapsed during the year	Options held at 31 December 2019	Share price at date of award (p)	Earliest vesting dates
Alan Aubrey							
Deferral from 2015 AIS	42,710	-	-	-	42,710	175.60	31-Mar-18
Deferral from 2017 AIS	39,820	-	-	-	39,820	128.20	31-Mar-19
Deferral from 2017 AIS	39,821	-	-	-	39,821	128.20	31-Mar-20
Deferral from 2018 AIS	-	11,282	-	-	11,282	99.10	31-Mar-20
Deferral from 2018 AIS	-	11,282	-	-	11,282	99.10	31-Mar-21
	122,351	22,564	-	-	144,915		
Mike Townend							
Deferral from 2015 AIS	25,981	-	-	-	25,981	175.60	31-Mar-18
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-19
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-21
	75,453	10,698	-	-	86,151		
Greg Smith							
Deferral from 2015 AIS	22,637	-	-	-	22,637	175.60	31-Mar-18
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-19
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-21
	72,109	10,698			82,807		
David Baynes							
Deferral from 2015 AIS	25,981	-	-	-	25,981	175.60	31-Mar-18
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-19
Deferral from 2017 AIS	24,736	-	-	-	24,736	128.20	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-20
Deferral from 2018 AIS	-	5,349	-	-	5,349	99.10	31-Mar-21
	75,453	10,698			86,151		

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

Save as You Earn ("SAYE")

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

	Options held at 1 January 2019	Options awarded in the year	Exercised during the year	Lapsed during the year	Options held at 31 December 2019	Option exercise price (p)	Share price at date of award (p)	Earliest vesting date(s)
Greg Smith								
2017 SAYE	12,631	-	-	12,631	-	114	141.3	31-Aug-20
2019 SAYE	-	34,816	-	-	34,816	51.70	64.60	31-Aug-22
David Baynes								
2017 SAYE	9,473	-	-	9,473	-	114	141.30	31-Aug-20
2019 SAYE	-	34,816	-	-	34,816	51.70	64.60	31-Aug-22
Mike Townend								
2019 SAYE	-	34,816	-	-	34,816	51.70	64.60	31-Aug-22

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

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

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

IPVF co-investment arrangements

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

	Total commitment £000	Limited partnership interest of IPVF	Total capital contributed to 1 January 2019 £000	Capital contributions during the year £000	Total capital contributions at 31 December 2019 £000	Capital amounts repaid during the year £000	Total capital amounts repaid to 31 December 2019 £000
Executive directors							
Alan Aubrey	56	0.18%	55	1	56	15	65
Mike Townend	56	0.18%	55	1	56	15	65
Greg Smith	35	0.11%	35	-	35	11	41
Total	147	0.47%	145	2	147	41	171

Carried interest arrangements

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

	Fund ⁽ⁱ⁾	Carried interest ⁽ⁱⁱ⁾ at 1 January 2019	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme Interest at 31 December 2019 ⁽ⁱⁱⁱ⁾	Accrued value of scheme interest at 31 December 2019 £000
Executive directors							
Alan Aubrey	IPVF	1.81%	-	-	-	1.81%	-
	NETF	1.55%	-	-	-	1.55%	-
Mike Townend	IPVF	1.81%	-	-	-	1.81%	-
	NETF	1.15%	-	-	-	1.15%	-
Greg Smith	IPVF	1.14%	-	-	-	1.14%	-
	NETF	0.85%	-	-	-	0.85%	-

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

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

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

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

During 2019, the final remaining assets in IPVF were disposed of and it is expected that the fund will be wound up in 2020 with no carried interest payments being due to participants.

External appointments for executive directors

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

Any external appointments (i.e. excluding those companies in which the Group is a shareholder) held by executive directors are set out on page 78.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

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

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

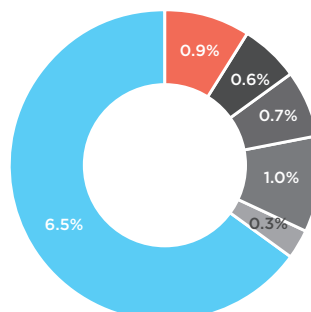
The Committee regularly monitors the position and prior to the making of any share-based award considers the effect of potential vesting of outstanding awards to ensure that the Company remains within these limits. Any awards which are required to be satisfied by market purchased shares are excluded from such calculations. No treasury shares were held or utilised in the year ended 31 December 2019.

As at 31 December 2019, the Company's headroom position, which remains within such guidelines, was as shown in the chart.

LTIP resolution

In May 2019, the Group became aware of a technical issue concerning the administration of its LTIP. Shareholders approved various amendments to the LTIP in 2011 rather than the LTIP rules being renewed in full, however due to an administrative error the documentation reflected 2011 as the LTIP's adoption date rather than the date of amendment. The effect of this was that the LTIP technically expired in 2017. The Group is therefore seeking approval of the LTIP by shareholders, in accordance with the Listing Rules, at the 2020 AGM.

The LTIP rules reflect the Remuneration Policy approved by shareholders at the 2019 AGM, with the maximum award possible under the rules having been reduced to 300% from 400%, such latter maximum having previously been permitted under the Policy only to be used in exceptional circumstances. Existing LTIP awards remain in place however no awards will vest, nor will any further grants be made, until the LTIP is formally approved. As a result, the Committee anticipates that the 2020 LTIP awards set out on page 104 will be made following the 2020 AGM rather than following the release of the Group's annual results, as is usually the case.



- Vested LTIP awards in past 10 years - Executives
- Vested LTIP awards in past 10 years - Other staff
- Outstanding LTIP and awards - Executives
- Outstanding LTIP and Former Touchstone LTIP awards - Other staff (1.0)
- Other Share schemes (Sharesave, DBSP, etc.)
- Additional headroom (to 10%)

Service agreements

The executive directors have service contracts that commenced on the dates set out in the chart on page 115 and contain a contractual notice period of six months by either party. The non-executive directors have letters of appointment that commenced on the dates set out in the chart below, are generally for an initial fixed term of three years, which is reviewed and may be extended for a further three years, and are terminable on three months' notice by either party.

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

Effective dates of service contracts of the Executive Directors

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Present
Alan Aubrey	20 January 2005															
Mike Townend			5 March 2007													
Greg Smith							2 June 2011									
David Baynes										20 March 2014						

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

Elaine Sullivan											30 July 2015					
David Begg													18 October 2017			
Heejae Chae														03 May 2018		
Sir Douglas Flint ¹															17 Sep 2018	
Dr Caroline Brown																1 July 2019
Aedhmar Hynes																1 August 2019

1. Effective as Chair from November 2018

Consideration by the directors of matters relating to directors' remuneration

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

The Remuneration Committee currently comprises the following independent non-executive directors whose backgrounds and experience are summarised on pages 78 to 80.

Heejae Chae (Chair)
Jonathan Brooks (stepped down on 10 March 2020)
Douglas Flint
Elaine Sullivan
David Begg
Caroline Brown
Aedhmar Hynes

Committee meetings are administered and minuted by the Company Secretary. In addition, the Committee received assistance from the CFO, CEO, COO and Head of HR who attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

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

- Consideration of the Group's overall remuneration philosophy to ensure it continues to promote the Group's strategy, including the blend of fixed and short and longer-term variable pay.
- Consideration of the skills and experience of the executive directors and carrying out of benchmarking in order to determine base salaries and total remuneration opportunity for the period 1 April 2019 to 31 March 2020, and giving further consideration to base salaries and total remuneration opportunity with effect from 1 April 2020.
- Review of the Group's approach to non-director remuneration, including base salaries and incentive scheme targets and pay-outs, with focus on those employees earning more than £150,000 or local currency equivalent
- Consideration of LTIP awards and vesting targets for 2019 and 2020 awards and out-turns for the 2016 and 2017 awards.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION STATEMENT CONTINUED

- Consideration of AIS awards and targets for 2019 and 2020 as well as outturns for 2019
- Review and consideration of the further evolution of the application of the Group's Remuneration Policy for non-director employees with particular consideration given to matters related to the UK, US and Australian LTICS and remuneration in the Group's regulated fund management subsidiaries.
- Approval of the Group's DRR, including the updated Remuneration Policy.

Adherence to Corporate Governance Code principles

When considering the proposed operation of the Remuneration policy for the forthcoming year, the Committee took into consideration the following principles set out in the 2018 Corporate Governance Code.

Clarity	• The Company seeks to provide full transparency to shareholders on the operation of the Remuneration policy, including prospective disclosure of our Hard NAV target range under the AIS. The Committee encourages open and frequent dialogue on executive director remuneration with shareholders, including on a formal basis when reviewing the remuneration policy.
Simplicity	• Our ongoing remuneration arrangements for executive directors, including the AIS and LTIP, are simple in nature and well understood by both participants and shareholders. • Our incentive arrangements are cascaded down through the Group to provide alignment and overall simplicity in our approach to remuneration. All employees participate in the AIS (with components based on team and/or individual objectives for non-director employees), with the LTIP extended to senior managerial levels and roles which are expected to have a material financial impact on the Group's outcomes. • The Committee intends to review the Group's remuneration arrangements again in 2020 to ensure that this principle continues to be appropriately met.
Risk	• Under the AIS and LTIP, discretion may be applied where formulaic outturns are not considered reflective of overall business or individual performance or any other reason considered appropriate. • Deferral of a proportion of AIS awards, the LTIP holding period and our shareholding requirement, including post-cessation shareholding requirement, provide a clear link to the ongoing performance of the business and the experience of our shareholders. • Malus and clawback provisions apply to both AIS and LTIP awards.
Predictability	• Our Remuneration Policy contains details of the maximum opportunities and pre-determined target ranges under our AIS and LTIP, with actual outcomes dependent on performance achieved against these targets.
Proportionality	• We operate a performance-based philosophy with a 'lower base/higher variable' approach and a focus on the long term. • Our performance measures and target ranges under the AIS and LTIP, including the use of Hard NAV, are selected based on their alignment to Company strategy. • The Committee's ability to apply discretion ensures appropriate out-turns in the context of long-term Company performance. • The focus on the long term within our remuneration approach, including the delivery of a significant proportion of our incentives in the form of Company shares and the use of an LTICS for non-director employees, provides significant alignment between employees' and executive directors' remuneration outcomes and long-term Company performance.
Alignment to culture	• All employees are entitled to participate in the pension scheme and the SAYE scheme. Executive Director participation in these schemes is on the same terms as for other employees. • Strong individual and Company performance is incentivised and recognised through our AIS and, for our most senior employees, the LTIP. • For 2020, we have introduced employee engagement and culture as a performance measure under the AIS, which explicitly takes into account the engagement of our most valuable asset, our people.

External advisers

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

During the year, the Remuneration Committee continued its review of executive remuneration and took into consideration professional advice from Deloitte LLP in respect of the development of the Group's Remuneration Policy and its application, and reporting under the revised Directors' Remuneration Reporting Regulations. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Fees paid to Deloitte LLP in connection with advice to the Committee in 2019 were £35,320. Deloitte LLP also provided advice to the Group in 2019 in connection with the updating of its LTIP rules, the restructuring of its long term incentive carry scheme and in connection with valuations of certain of its assets including goodwill and unlisted portfolio company holdings.

Statement of shareholder voting

The table below sets out the proxy results of the votes on the Group's Remuneration Report at the Group's 2019 AGM.

	Votes for		Votes against		Total votes cast	Votes withheld
	Number	% of votes cast	Number	% of votes cast		
Remuneration Policy	875,879,024	96.6	30,524,396	3.4	906,403,420	18,335
Remuneration Report	898,843,951	99.2	7,563,470	0.8	906,407,421	14,335

Remuneration disclosure

This report complies with the requirements of the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (July 2018) and the Listing Rules.

REPORT OF THE AUDIT AND RISK COMMITTEE



Dr Caroline Brown
Chair of the Audit
and Risk Committee

Audit and Risk Committee (“ARC” or the “Committee”) responsibilities

The Committee monitors the integrity of the financial statements of the Group, and reviews all proposed annual and half-yearly results announcements to be made by the Group with consideration being given to any significant financial reporting judgements contained in them. The Committee also advises the Board on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee considers internal controls, compliance with legal requirements, accounting standards and the Listing, Disclosure and Transparency Rules of the Financial Conduct Authority, and also reviews any proposed change in accounting policies and any recommendations from the Group's auditor regarding improvements to internal controls and the adequacy of resources within the Group's finance function. Finally, the Committee takes responsibility on behalf of the Board for the review of risk management and controls within the Group, as

well as conducting an annual robust assessment of these.

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

Terms of Reference

In light of the 2018 Corporate Governance Code, the Committee reviewed its terms of reference and these were updated and adopted by the Board in July 2019. The changes also took into account the FRC Guidance on Audit Committees. The Committee will continue to review its terms of reference at least annually and will propose updates where necessary and/or appropriate to reflect current market practice.

Committee membership

I joined the Committee on 1 July 2019 and took over as Committee Chair on 18 September 2019, and would like to thank my predecessor, Jonathan Brooks, for his long service. I would also like to welcome Aedhmar Hynes, who joined the committee on 1 August 2019.

At 31 December 2019, the Committee comprised six independent non-executive directors, with myself as Chair, and now comprises five independent directors following the retirement of Jonathan Brooks from the Board. As the Chair of the Committee, I am deemed by the Board to have recent and relevant financial experience, being a Fellow of the Chartered Institute of Management Accountants and having held senior financial positions in my career. The Board is satisfied that for the year under review, and thereafter, the Audit and Risk Committee as a whole has competence relevant to the sector in which the Company operates.

The Committee met six times during the year, see Board and committee attendance table, page 87. The Group's Chairman, Chief Financial Officer, Group Financial Controller, Company Secretary, outsourced Head of Internal Audit and the external auditor were also invited to attend all of the meetings and did so.

Other members of the Group's management were invited to attend as required for specific subjects. At the end of the March 2019 meeting, and the March 2020 meeting, the Committee met with the auditor without any members of the executive management team being present.

Activities during the year

During 2019 the Committee continued on its journey to formalise and enhance its oversight of matters it is responsible for, in line with increasing regulatory requirements. The key areas of focus were the enhancement of the Group's valuation process through the creation of a Valuation Committee (see below), the launch of the Group's outsourced internal audit function which included the delivery of three control reviews, enhanced coordination with the auditor in respect of the audit of the Group's subsidiary the statutory accounts, and further development of the Group's risk management framework, including embedding operational risk reporting as a 'business as usual' activity, and updating the Group's risk appetite statement.

Valuation portfolio assets

This remains the most material area of judgment in the financials statements, and the key audit risk for the Group. At each reporting date the Audit and Risk Committee discusses with management and the auditor the approach that has been taken in assessing the key estimates in respect of portfolio valuations (see pages 21 to 25, 144 to 145, 150 and 158 to 159).

As in previous years, the Committee has paid significant attention to the valuation of the Group's holding in Oxford Nanopore Technologies Limited, the Group's most valuable portfolio company holding, as well as the valuation of assets which have not completed a funding round within the last year, of those assets which have seen significant positive or negative developments in the year, and on those companies with a heightened funding risk.

During the year, a formal Valuation Committee was constituted comprising the Group CEO, CFO and COO and with the Managing Partners of the Technology and Life Sciences partnerships, the Group Financial Controller, external auditors and myself in attendance. The Audit and Risk Committee views the Valuation Committee as a meaningful development in the formalisation and documentation of management's valuation judgments. observer.

The Group has continued to utilise external valuations specialists where considered appropriate as part of its valuation procedures, with external valuation reports being commissioned on 10 out of the top 20 holdings during the year.

Summary agendas for the Audit & Risk Committee meetings in 2019

	Primarily audit-focused business	Primarily risk-focused business
February 2019	- Review of draft 2018 Annual Report and Accounts - Significant accounting and disclosure judgements - Valuation meeting summary - KPMG FY18 audit update - ARC and Auditor effectiveness review	- Brexit review - Risk Council update, objectives and plan of work for 2019 - Review of annual report risk disclosures - Long-term viability statement review - Internal audit update
March 2019	2018 Annual Report and Accounts: review and recommendation for approval - Significant accounting and disclosure judgements - KPMG FY18 audit report	
May 2019	- Draft Valuation Committee terms of reference - KPMG HY19 update - Auditor effectiveness review	- Risk Council update - Internal audit update - Regulated business update - Cyber and IT update - Review of Group Treasury policy - Review of draft ESG Policy and Ethics Framework
July 2019	- HY19 Report: review of draft report - Portfolio valuations update - KPMG HY19 auditor review update - Review Valuation Committee terms of reference	- Risk Council update - Cyber security maturity assessment: response to internal audit findings - Internal audit update - Review of ARC terms of reference and Board Authorities
September 2019	- HY19 Report: Review and recommendation for approval - Portfolio valuations update - Key accounting judgements and disclosures - KPMG HY19 audit review report	
November 2019	2019 Annual Report and Accounts planning - KPMG FY19 Planning document - Key Performance Indicator review	- Risk Council update - Risk register review - Risk appetite review - Internal audit update - Cyber and IT update - Regulated business update - Review of Group insurance - Discussion of draft Capital Allocation policy - Annual review of Related party transaction policy

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

Regulatory compliance

Ensuring compliance for FCA regulated businesses also represents an important control risk from the perspective of the ARC. Ongoing internal reviews are conducted through the use of a compliance monitoring programme and specialist advisory firms and local advisers are employed to advise on areas of regulation relevant to the Group's operations where required.

Review of Annual Report and Accounts and Half-yearly Report

The Committee carried out a thorough review of the Group's 2019 Annual Report and Accounts and its 2019 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's performance, business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its portfolio companies during the year.

Going concern and viability

On an annual basis the Committee reviews and approves the long-term viability review prepared by management, and satisfies itself that the going concern basis for the preparation of the Group's results remains appropriate.

In advance of year end, the Committee reviewed the Group's proposed approach to viability reporting, including its stress testing scenarios. At the year end, the Committee reviewed a report from management setting out its view of the Group's long-term viability, which in line feedback from the FRC in its thematic review included a description of the factors considered in forming an assessment of the Group's prospects. The report was based on the Group's three-year strategic plan, including forecast investment, realisations, overheads and financing cashflows. The Committee agreed that a three-year time horizon remained appropriate.

Management's assessment included scenarios where adverse impacts across the Group's principal risks set out on page 38 relating to insufficient capital, and macro-economic conditions were considered. Under the severe scenario, a 75% reduction in realisation and a 50% decline in portfolio fair values was considered, with a series of mitigating actions being demonstrated which resulted in the Group remaining viable over the three-year horizon. The Committee agreed to recommend the Viability statement to the Board for approval.

Risk and internal controls

The key elements of the Group's internal control framework and procedures are set out on page 36. The principal risks the Group faces are set out on pages 40 to 48. During the year, the Audit and Risk Committee devoted part of each meeting to items concerning risk and its management.

One important element of the Group's risk management framework is the Risk Council whose permanent members are the Chief Financial Officer, Company Secretary and Group Financial Controller, with other executives and management from across the business attending during the year as necessary. The purpose of the Risk Council is to co-ordinate the review and oversight for the governance, risk and controls at IP Group prior to reporting to the ARC and Board. The Risk Council met six times during the year and reported to the Committee after each meeting.

During 2019, the Committee approved a revised risk appetite statement, developed incorporating input from executive management workshops and Board discussion. The Committee reviewed output from the Risk Council summarising the Group's strategic risk profile, and accepted management's proposal to split the Insufficient Capital principal risk into principal risks in relation to corporate and portfolio company capital, reflecting the difficult fundraising environment, and the creation of a new principal risk in respect of cyber security (see below). The Committee also considered the Group's emerging risks, which are summarised on page 38, including consideration of COVID-19 at its March 2020 meeting. The Committee also reviewed the output of control work carried out during the year by PwC and the Risk Council in assessing the control design and operating effectiveness around the Group's control framework over its principal risks.

Cyber security

The Group has continued its focus on cyber and IT security, with regular updates to the Committee on the steps being taken by the Group to seek to mitigate cyber risks, which included investment in additional security measures and completing the process for UK Cyber Essentials accreditation in early 2019. The Group's IT and cyber security function was the focus of one of the three internal audit reviews carried out during the year; the Committee reviewed the findings of this work and has received regular updates on recommended actions arising from this review. As in prior years, employee awareness and training on cyber security was conducted Group-wide in the year.

Internal audit

2019 was the first year that the Group operated an outsourced internal audit function, delivered by PwC. In its first year, the internal audit function designed a plan of work having considered the Group's principal, strategic and operational risks, which the Committee approved. The internal audit function delivered three internal control reviews which were focussed on the Group's investment process, on IT and cyber security and the Group's finance function. The Committee reviewed the output of these control reviews.

External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In November, the Committee discussed the auditor's plan for the 2019 year-end audit. This included a summary of the proposed audit scope and a summary of what the auditor considered to be the most significant financial reporting risks facing the Group together with the auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the valuation of unquoted investments, notably Oxford Nanopore Technologies Limited, given the proportion that this company represents of the Group's overall Hard NAV. The auditor's plan included enhancements in the approach to the categorisation and testing of unquoted investments, and a detailed audit timetable including completion of the Group's subsidiary statutory account audits, developed in conjunction with management, by the Group in identifying and planning for Brexit-related risks.

Appointment and independence

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

Mandatory audit firm rotation is required after 20 years and a re-tender must be conducted at least every ten years. The Code requires disclosure of the length of tenure of the current audit firm and when a tender was last conducted, as well as advance notice of any re-tendering plans. KPMG LLP have acted as the auditor to the Company since 2014 and the lead audit partner rotates every five years to assure independence. Having completed his five-year tenure, Jonathan Mills has now passed responsibility for the Group's statutory audit to Jonathan Martin for the 2019 year-end onwards. The Committee noted that Jonathan Martin's extensive valuation expertise makes

him an appropriate lead audit partner. The Committee last undertook a comprehensive tender process in 2014 for the audit in relation to the year ended 31 December 2014 and has no plans to re-tender the audit at the present time.

Non-audit work

The Audit Committee approves all fees paid to the auditor for non-audit work. In addition to the review of the Group's half-yearly results, in 2019 the Group's auditor, KPMG LLP once again carried out limited non-audit engagement covering the review of the Group's historic gross investment track record and compliance reporting for the Group's debt facilities with the EIB. Given the natural overlap between this work and the financial audit of the Group's results, the Committee judged KPMG the most effective party to perform this work. In other matters, the Committee prefers to engage other firms to perform consulting engagements to ensure that the independence of the auditor is not compromised and during 2019 engaged the services of BDO (tax), PwC (internal audit, risk and governance), Deloitte (valuations), Duff & Phelps (valuations) and CFGI (US valuations). An analysis of audit and non-audit fees paid to KPMG is provided in note 6 to the financial statements on page 153.

Auditor independence

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

Auditor effectiveness

In order to assess the effectiveness of the external audit process, the Committee asked detailed questions of key members of management and each Committee member individually via a survey, the results of which were collated and reviewed by my predecessor and the CFO. These results were reviewed in conjunction with KPMG's reports to the Committee. The Committee concurred with management's view that there had been appropriate focus and challenge of the primary areas of audit risk and the Committee concluded that the substantive and detailed approach taken by the auditor was entirely appropriate and effective. As in the previous year, the vast majority of the Group's assets were reviewed as part of the audit, and once again there was particular emphasis on the valuation of unquoted investments. KPMG utilised specialist corporate finance staff to support its audit work on selected portfolio valuations and, overall, the auditor's risk-based approach drew on both his knowledge of the business and the wider economic and business environment.

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

Dr Caroline Brown
Chair of the Audit and Risk Committee

10 March 2020

DIRECTORS' REPORT

Report of the Directors

The directors present their report together with the audited financial statements for IP Group plc and its subsidiaries for the year ended 31 December 2019.

Corporate governance statement

Information that fulfils the requirements of the Corporate governance statement can be found in the Corporate Governance Statement on pages 82 to 91 and is incorporated into this directors' report by reference.

Results and dividends

During the period, the Group made an overall loss after taxation for the year ended 31 December 2019 of £78.9m (2018: £293.8m loss). The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The names of directors who currently hold office or did so during 2019 are as follows:

Executive Directors

Alan Aubrey
David Baynes
Greg Smith
Mike Townend

Non-executive directors

Sir Douglas Flint (Chairman)
Professor David Begg
Jonathan Brooks (resigned from the Board with effect from 10 March 2020)
Dr Caroline Brown (appointed with effect from 1 July 2019)
Aedhmar Hynes (appointed with effect from 1 August 2019)
Heejae Chae
Dr Elaine Sullivan

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 98.

Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described on pages 36 to 49 and in the Corporate Governance report on page 82. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

Significant events affecting the Group

Details of the important events affecting the Group and future development of the business are described on pages 38 to 39 of the Strategic Report.

Branches of the Group outside of the UK

The Group has branches in the US, Australia and Hong Kong.

Significant agreements

The Group has entered into various agreements to form partnerships or collaborations with nine universities in Australasia which contain certain change of control provisions. In addition, various entities within the Group have entered into agreements to act as general partner and investment manager to two limited partnerships.

Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 22 to the consolidated financial statements. There are no specific restrictions on

the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the "Articles") and prevailing legislation.

At the last Annual General Meeting of the Company held on 28 May 2019 (the "2019 AGM"), authority was given to the directors pursuant to the relevant provisions of the Companies Act 2006 to allot shares and grant rights over securities in the Company up to a maximum amount equivalent to approximately one-third of the issued ordinary share capital on 17 April 2019 at any time up to the earlier of the conclusion of the next Annual General Meeting ("AGM") of the Company and 1 August 2020. In addition, at the 2019 AGM, the directors were also given authority effective for the same period as the aforementioned authority to allot shares and grant rights over securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 17 April 2019 in connection with an offer by way of a fully pre-emptive rights issue. The directors propose to renew both of these authorities at the Company's next AGM to be held on 18 June 2020. The authorities being sought are in accordance with guidance issued by the Investment Association.

A further special resolution passed at the 2019 AGM granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006, both: (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 17 April 2019 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 17 April 2019, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 1 August 2020. The directors will seek to renew these authorities for a similar period at the next AGM to be held on 18 June 2020.

On 25 November 2019 the High Court of England and Wales sanctioned the Group's application for its capital reduction. Following the capital reduction, the issued share capital of the Company comprises 1,059,144,595 shares.

Under Part 18, Chapter 5 of the Companies Act 2006, the Company has the power to purchase its own shares. At the 2019 AGM, a special resolution was passed which granted the directors authority to make market purchases of the Company's shares pursuant to these provisions of the Companies Act 2006 up to a maximum of approximately 10% of the Company's issued share capital on 17 April 2019 provided that the authority granted set a minimum and maximum price at which purchases can be made and is exercisable at any time up to the earlier of the conclusion of the next AGM and 1 August 2020. This authority has not been used during the year. The directors will seek to renew the authority within similar parameters and for a similar period at the next AGM to be held on 18 June 2020.

Articles of Association

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

Substantial shareholders

As at 31 December 2019, the following shareholders held interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its directors) are aware, no other person held or was beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Asset Management Limited	19.8
Railway Pension Trustee Company Limited	15.3
Lansdowne Partners	10.4
Imperial College of Science Technology and Medicine	5.2
Baillie Gifford	4.4

As at 10 March 2020, the Company has been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its Directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Asset Management Limited	16.5
Railway Pension Trustee Company Limited	15.3
Lansdowne Partners	10.4
Imperial College of Science Technology and Medicine	5.2
Baillie Gifford	4.5

Corporate and social responsibility

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including details of its greenhouse gas emissions, are included in the Sustainability section on pages 50 to 53.

Directors' indemnity and liability insurance

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

Regulation

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

Post balance sheet events

Material events occurring since the balance sheet date are disclosed in the Strategic Report and in note 30 to the Group's financial statements.

DIRECTORS' REPORT CONTINUED

Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties, and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board has raised a concern that it may include activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 28 May 2019 and as at previous AGMs, the shareholders passed a resolution on a precautionary basis to authorise the Group to incur political expenditure (as defined in Section 365 of CA 2006) not exceeding £50,000 in total at any time from 28 May 2019 up to the conclusion of the 2020 AGM. The Board intends to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's 2020 AGM, to be held on 18 June 2020, which the Group might otherwise be prohibited from making or incurring under the terms of CA 2006.

Political donations

The Group did not make any political donations during 2019.

Disclosure of information to auditor

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

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

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

Going concern

The directors confirm that they have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements. A viability statement, as required by the Code, can be found on page 49.

Appointment of auditor

A resolution to reappoint KPMG LLP, together with a resolution to authorise the directors to determine their remuneration, will be proposed at the AGM to be held on 18 June 2020.

On behalf of the Board



Angela Leach
Company Secretary

10 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report (which includes a s172 statement), Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

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

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

ON BEHALF OF THE BOARD



Sir Douglas Flint
Chairman

10 March 2020

OUR FINANCIALS

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF IP GROUP PLC

1. Our opinion is unmodified

We have audited the financial statements of IP Group plc ("the Company") for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company balance sheet, the company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 13 May 2014. The period of total uninterrupted engagement is for the six financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

We were first appointed as auditor by the shareholders on 13 May 2014. The period of total uninterrupted engagement is for the six financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	£10.4m (2018:£13.9m)
group financial statements as a whole	0.8% (2018: 1%) of Total Assets
Coverage	100% (2018:100%) of Total Assets
Key audit matters	vs 2018
Recurring risks (Group and Parent)	Valuation of unquoted investments ◀▶
(Parent)	Recoverability of investment in subsidiary undertaking ▶▶
Event driven	Brexit uncertainties ▶▶

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit. <i>Refer to page 118 for Audit Committee Report), pages 140 to 147 (for accounting policy) and pages 155 to 159 (financial disclosures).</i>	Unprecedented levels of uncertainty	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:
	All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of unquoted investments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.	Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
	In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	Sensitivity analysis: When addressing valuation of unquoted investments and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, consider adjustments to discount rates for the level of remaining uncertainty.
	Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	Assessing transparency: As well as assessing individual disclosures as part of our procedures on the valuation of unquoted investments we considered Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. Our findings: As reported under valuation of unquoted investments, we found the resulting estimates and related disclosures of valuation of unquoted investments and disclosures in relation to going concern to be balanced (2018 finding: balanced). However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF IP GROUP PLC

	The risk	Our response
Valuation of unquoted investments. (£927.9 million; 2018: £995.0 million) <i>Refer to page 118 (Audit Committee Report), page 140 (accounting policy) and page 157 (financial disclosures).</i>	Subjective Valuation 89% (2018: 72%) of the Group's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value which is estimated by the directors based on methods established in accordance with International Private Equity and Venture Capital Valuations Guidelines by using measurements of value such as recent funding and discounted cash flows. Where recent funding rounds are used, due to the relatively low number of investors involved in funding rounds, there is a risk that recent funding round prices on which fair value is based are not sufficiently at arm's length to ensure an independent fair value. Whether it remains appropriate to use the price of the recent funding rounds depends on the specific circumstances of the investment, the involvement of new investors, the stability of the external environment and the period since the last funding round occurred. There are a number of assumptions made by the directors when using alternative valuation methods such as discounted cash flows, including the probability of achieving milestones and the discount rate used. There is a concentration risk within the unquoted valuation of Oxford Nanopore Technologies (ONT), of which the Group's stake is valued at £263.8m (2018: £274.1m), comprising 25% of total investments (2018: 24%). The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group.	Our procedures included: Our sector experience: For a sample of investments, selected using a combination of specific item and statistical sampling, assessing and challenging the reasonableness of the valuation approach used and considering these against the latest IPEV guidelines; - For investments valued using a recent funding round as an appropriate basis for the measurement of the fair value, including ONT, we evaluate the independence of the funding round on which this valuation is based (e.g. presence of new external investors) and corroborate the price to signed Share Subscription Agreements; - For those valued based on a funding round aged greater than 12 months, we corroborate judgements through discussions with the investment team and independent support, such as investee board minutes; - For those valued using alternative valuation methods, such as a discounted cash flows, we corroborate the underlying information back to independent support, such as signed license agreements; - For those investments initially valued by directors and challenged and reviewed by external experts engaged by directors, we corroborate the observable inputs to the valuations to underlying information; - Challenging the internal investment manager on key judgements affecting investee companies valuations, such as events since the last funding round, probability of achieving milestone achievements and discount rate used where applicable. We compared key underlying financial data inputs to external sources such as signed legal documentation, the investee company audited accounts and management information. We challenged the assumptions included in the valuation based on the plans of investee companies. in relation to the unquoted financial investments to be balanced (2018 finding: balanced) with proportionate disclosures of the related assumptions and sensitivities (2018 finding: proportionate disclosures). - Assessment of experts: Assessing the expertise and experience of the Group's external valuation experts used in the corroboration of management's valuation; - Our valuation expertise: We utilised a KPMG valuation specialist to assist us in assessing and challenging the appropriateness of the valuation methodology. This included assessing the information used in the valuation model, in the context of our own industry knowledge and external data; - Assessing transparency: We consider the appropriateness, in accordance with relevant accounting standards, of the disclosures related to unquoted investment; - Assessing existence : We carried out a site visit to the ONT manufacturing site in Oxfordshire to confirm existence of their operation; - Our findings: We found the resulting valuations in relation to the unquoted financial investments to be balanced (2018 finding: balanced) with proportionate disclosures of the related assumptions and sensitivities (2018 finding: proportionate disclosures).

In the prior year, the recoverability of goodwill was identified as a key audit matter. However given the size of Goodwill as at 31 December 2019 (£0.4m) we have not assessed this as one of the most significant risks in our current year audit and therefore it is not separately identified in our report this year.

	The risk	Our response
Recoverability of investment in subsidiary undertakings (Parent). (£960 million; 2018: £1,036 million) Refer to page 118 (Audit Committee Report), page 140 (accounting policy) and page 157 (financial disclosures).	Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of unquoted investments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. Sensitivity analysis: When addressing valuation of unquoted investments and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, consider adjustments to discount rates for the level of remaining uncertainty. Assessing transparency: As well as assessing individual disclosures as part of our procedures on the valuation of unquoted investments we considered Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. Our findings: As reported under valuation of unquoted investments, we found the resulting estimates and related disclosures of valuation of unquoted investments and disclosures in relation to going concern to be balanced (2018 finding: balanced). However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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

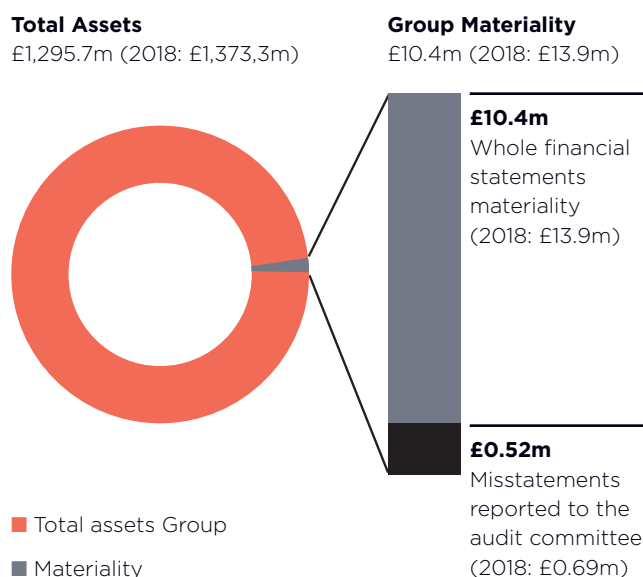
The materiality for the Group financial statements as a whole was set at £10.4 m (2018: £13.9m), determined with reference to a benchmark of Group total assets, of which it represents 0.8% (2018: 1%).

Materiality for the parent company financial statements as a whole was set at £7.7m (2018: £12.8m), determined with reference to a benchmark of total assets, of which it represents 0.8% (2018: 1%). The scope of our work accounted for 100% of the Group revenue (2018: 100%), 100% of Group profit before tax

(2018: 100%) and 100% of the Group's total assets

(2018: 100%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £520,000 (2018: £692,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.



INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF IP GROUP PLC

4. We have nothing to report on going concern

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

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 125 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement page 49 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Corporate governance disclosures We are required to report to you if:

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

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

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF IP GROUP PLC

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 125, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the group's regulatory and legal correspondence and discussion with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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

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

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

Jonathan Martin (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square London
E14 5GL

10 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	2018 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	(70.6)	(50.4)
Gain on disposal of equity investments	16	16.1	2.0
Gain on deconsolidation of subsidiary	17	10.6	—
Change in fair value of limited and limited liability partnership interests	25	(0.7)	2.3
Revenue from services and other income		8.6	9.9
		(36.0)	(36.2)
Administrative expenses			
Carried interest plan release		1.3	1.1
Share-based payment charge	24	(2.3)	(1.9)
Goodwill impairment	12	—	(203.2)
Amortisation of intangible assets	13	(0.3)	(9.9)
Other administrative expenses	8	(39.1)	(41.8)
		(40.4)	(255.7)
Operating loss	7	(76.4)	(291.9)
Finance income		1.2	1.2
Finance costs		(3.6)	(3.0)
Loss before taxation		(78.8)	(293.7)
Taxation	10	(0.1)	(0.1)
Loss for the year		(78.9)	(293.8)
Other comprehensive income			
Exchange differences on translating foreign operations		0.1	(0.1)
Total comprehensive loss for the year		(78.8)	(293.9)
Attributable to:			
Equity holders of the parent		(75.4)	(293.8)
Non-controlling interest		(3.4)	(0.1)
		(78.8)	(293.9)
Loss per share			
Basic (p)	11	(7.12)	(27.71)
Diluted (p)	11	(7.12)	(27.71)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 £m	2018 £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	12	0.4	0.4
Acquired intangible assets	13	—	0.3
Property, plant and equipment		1.1	1.5
Portfolio:			
Equity investments	15	1,021.9	1,095.1
Debt investments	15	23.7	33.1
Limited and limited liability partnership interests	25	21.4	17.3
Total non-current assets		1,068.5	1,147.7
Current assets			
Trade and other receivables	18	5.0	6.6
Receivable on sale of debt and equity investments	16,19	27.3	—
Deposits		73.0	90.0
Cash and cash equivalents		121.9	129.0
Total current assets		227.2	225.6
Total assets		1,295.7	1,373.3
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Called up share capital	22	21.2	21.2
Share premium account		99.7	684.7
Merger reserve		—	372.6
Retained earnings		1,020.5	135.8
Total equity attributable to equity holders		1,141.4	1,214.3
Non-controlling interest		0.5	3.9
Total equity		1,141.9	1,218.2
Current liabilities			
Trade and other payables	20	26.0	16.5
EIB debt facility	21	15.4	15.4
Non-current liabilities			
EIB debt facility	21	67.1	82.4
Carried interest plan liability		5.5	6.8
Loans from limited partners of consolidated funds	21	26.0	23.0
Revenue share liability	15	13.8	11.0
Total equity and liabilities		1,295.7	1,373.3

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 136 to 139 were approved by the Board of Directors and authorised for issue on 10 March 2020 and were signed on its behalf by:



Greg Smith

Chief Financial Officer



Alan Aubrey

Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	2018 £m
Operating activities			
Operating loss for the period		(76.4)	(291.9)
Adjusted for:			
Change in fair value of equity and debt investments	15	70.6	50.4
Change in fair value of limited and limited liability partnership interests	25	0.7	(2.3)
Gain on disposal of equity investments	16	(16.1)	(2.0)
Gain on deconsolidation of subsidiary	17	(10.6)	—
Depreciation of property, plant and equipment		1.2	1.2
Amortisation of intangible non-current assets	13	0.3	9.9
Goodwill impairment	12	—	203.2
Long term incentive carry scheme release		(1.3)	(1.1)
Fees settled in the form of equity		—	(0.3)
Share-based payment charge		2.3	1.9
Changes in working capital			
Decrease in trade and other receivables		1.6	1.5
Decrease in trade and other payables		9.5	(3.6)
Increase loans from limited partners of consolidated funds		3.0	9.9
Other operating cash flows			
Net interest paid		(2.1)	(1.7)
Net cash outflow from operating activities		(17.3)	(24.9)
Investing activities			
Purchase of property, plant and equipment		(0.7)	(0.6)
Purchase of equity and debt investments	15	(64.7)	(100.9)
Investment in limited and limited liability partnership funds	25	(6.8)	(4.8)
Distribution from limited partnership funds	25	2.0	0.8
Net cash flow from deposits		17.0	5.0
Cash disposed via deconsolidation of subsidiary	17	(2.5)	—
Proceeds from sale of equity and debt investments	16	79.5	29.5
Net cash inflow/(outflow) from investing activities		23.8	(71.0)
Financing activities			
Proceeds from the issue of share capital by consolidated portfolio company	17	2.9	—
Lease principal payment		(1.2)	—
Repayment of EIB facility	21	(15.3)	(6.3)
Net cash outflow from financing activities		(13.6)	(6.3)
Net decrease in cash and cash equivalents		(7.1)	(102.2)
Cash and cash equivalents at the beginning of the year		129.0	231.3
Effect of foreign exchange rate changes		—	(0.1)
Cash and cash equivalents at the end of the year		121.9	129.0

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Attributable to equity holders of the parent

	Share capital £m	Share premium ⁽ⁱ⁾ £m	Merger reserve ⁽ⁱⁱ⁾ £m	Retained earnings ⁽ⁱⁱⁱ⁾ £m	Total £m	Non- controlling interest ^(iv) £m	Total equity £m
At 1 January 2018	21.1	683.1	508.6	291.7	1,504.5	4.0	1,508.5
Comprehensive income	—	—	—	(293.8)	(293.8)	(0.1)	(293.9)
IFRS 3 charge – equity settled	0.1	1.6	—	—	1.7	—	1.7
Transfer between reserves on impairment of subsidiaries	—	—	(136.0)	136.0	—	—	—
Equity-settled share-based payments	—	—	—	1.9	1.9	—	1.9
At 1 January 2019	21.2	684.7	372.6	135.8	1,214.3	3.9	1,218.2
Capital reduction ^(v)	—	(585.0)	(372.6)	957.6	—	—	—
Comprehensive income	—	—	—	(75.4)	(75.4)	(3.4)	(78.8)
Purchase of treasury stock ^(vi)	—	—	—	(0.2)	(0.2)	—	(0.2)
Equity-settled share-based payments	—	—	—	2.3	2.3	—	2.3
Currency translation	—	—	—	0.4	0.4	—	0.4
At 31 December 2019	21.2	99.7	—	1,020.5	1,141.4	0.5	1,141.9

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

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

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

^(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.

^(v) In 2019 Group effected a reduction of capital and cancellation of share premium account, which was count approved on 17th December 2019, resulting in the reduction in the share premium and merger reserves, and a corresponding increase in retained earnings. For further details see page 75.

^(vi) Reflects purchase of IP Group equity to settle exercise of options in respect of the Group's Defined Benefit Share Plan.

^(vii) Reflects currency translation differences on reserves non-GBP functional currency subsidiaries.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

The Annual Report and Accounts of IP Group plc ("IP Group" or the "Company") and its subsidiary companies (together, the "Group") are for the year ended 31 December 2019. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs").

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

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

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2019

The following new standards have been applied in these financial statements:

IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and replaces IAS 17 Leases. IFRS 16 requires all operating leases in excess of one year, where the Group is the lessee, to be included on the Group's statement of financial position, and recognised as a right-of-use ("ROU") asset and a related lease liability representing the obligation to make lease payments. The ROU asset will be amortised on a straight-line basis with the lease liability being amortised using the effective interest method. Optional exemptions are available under IFRS 16 for short-term leases (lease terms less than 12 months) and for small-value leases.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 23.

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

No new standards, interpretations and amendments not yet effective are expected to have a material effect on the Group's future financial statements.

Basis of consolidation

(i) Business combinations

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

1. Accounting policies *continued*

(ii) Subsidiaries

Where the Group has control over an entity, it is classified as a subsidiary. Typically, the Group owns a non-controlling interest in its portfolio companies; however, in certain circumstances, the Group takes a controlling interest and hence treats the portfolio company as a subsidiary. As per IFRS 10, an entity is classed as under the control of the Group when all three of the following elements are present: power over the entity; exposure to variable returns from the entity; and the ability of the Group to use its power to affect those variable returns.

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

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

In assessing the IFRS 10 control criteria in respect of the Group's private portfolio companies, direction of the relevant activities of the company is usually considered to be exercised by the company's board, therefore the key control consideration is whether the Group currently has a majority of board seats on a given company's board, or is able to obtain a majority of board seats via the exercise of its voting rights. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

(iii) Associates

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

As permitted under IAS 28, the Group elects to hold such investments at fair value through profit and loss in accordance with IFRS 9. This treatment is specified by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by a venture capital organisation or similar entity to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IFRS 9 Financial Instruments. Therefore, No associates are presented on the consolidated statement of financial position.

Changes in fair value of associates are recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

(iv) Limited Partnerships and Limited Liability Partnerships (“Limited Partnerships”)

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

Name	Interest in limited partnership %
IPG Cayman LP	87.0
IP Venture Fund II LP (“IPVFII”)	33.3
IP Venture Fund LP (“IPVF”)	10.0
The North East Technology Fund LP (“NETF”)	—

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

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

In the case of IPG Cayman LP and IPVFII, the Group has power over the entity as fund manager, and Group’s significant stake in these funds creates an exposure to variable returns from those interests, and the Group can use its power to affect those variable returns. As such, IPG Cayman LP and IPVFII meet the criteria in IFRS 10 Consolidated Financial Statements and are consequently consolidated.

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

Similarly, the lack of a stake in NETF indicates the Group’s role as an agent for the limited partner. As a result, the directors consider that the Group does not have the power to govern the operations of these limited partnerships so as to obtain benefits from their activities and accordingly do not meet the definition of a subsidiary under IFRS 10 Consolidated Financial Statements. However, the Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group’s accounting treatment for the interest in IPVF is consistent with that of associates as described earlier in this report, i.e. in accordance with IFRS 9 Financial Instruments and designated as at fair value through profit or loss on initial recognition.

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

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

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

The Group has an 18.0% interest in the total capital commitments of Technikos, a fund with an exclusive pipeline agreement with Oxford University’s Institute of Biomedical Engineering.

The Group has an 8.3% interest in the total capital commitments of Apollo Therapeutics LLP (“Apollo”), a £40.0m venture between AstraZeneca, GlaxoSmithKline, Johnson & Johnson and the technology transfer offices of Imperial College London (via IP2IPO Innovations Limited), University College London (via UCL Business plc) and the University of Cambridge (via Cambridge Enterprise Limited). The venture supports the translation of academic therapeutic science into innovative new medicines by combining the skills of the university academics with industry expertise at an early stage.

Investments in these Limited and Limited Liability Partnerships are recognised at fair value through profit and loss in accordance with IFRS 9.

1. Accounting policies *continued*

(v) Non-controlling interests

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

Portfolio return and revenue

Change in fair value

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

Revenue from services and other income

All revenue from services is generated primarily from within the United Kingdom and is stated exclusive of value added tax, with further revenue generated in the Group's Australian and US operations. Revenue is recognised when the Group satisfies its performance obligations, in line with IFRS 15. Revenue from services and other income comprises:

Advisory fees

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

Fund management services

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

Licence and royalty income

The Group's IP licenses typically constitute separate performance obligations, being separate from other promised goods or services. Revenue is recognised in line with the performance obligations included in the license, which can include sales-based, usage-based or milestone-based royalties.

Dividends

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

Intangible assets

Goodwill

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

Other intangible assets

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

Impairment of intangible assets (including goodwill)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

Financial assets

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

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

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

(i) At fair value through profit or loss

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

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

Fair value hierarchy

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

Level 1 – Quoted prices in active markets.

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

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

Previously, the Group's policy was to classify equity investments in unquoted spin-out companies as Level 3a where prices had been determined from recent investments in the last twelve months, and as Level 3b where prices had been determined from recent investments in more than twelve months and other valuation techniques. The Group has amended this policy to reflect revised IPEV guidelines which specify that the Price of a Recent Investment represents one of a number of inputs used to arrive at fair value, and now uses a single classification for all Level 3 equity investments. Comparative information had been represented accordingly for consistency.

Equity investments

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2018).

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

Valuation techniques used

The fair value of unlisted securities is established using appropriate valuation techniques in line with IPEV guidelines. The selection of appropriate valuation techniques is considered on an individual basis in light of the nature, facts and circumstances of the investment and in the expected view of market participants. The Group selects valuation techniques which make maximum use of market-based inputs. Techniques are applied consistently from period to period, except where a change would result in better estimates of fair value. Multiple valuation techniques may be used so that the results of one technique may be used as a cross check/corroboration of an alternative technique.

1. Accounting policies *continued*

Valuation techniques used include:

- Quoted investments: the fair values of quoted investments are based on bid prices in an active market at the reporting date.
- Milestone approach: an assessment is made as to whether there is an indication of change in fair value based on a consideration of the relevant milestones typically agreed at the time of making the investment decision.
- Scenario analysis: a forward-looking method that considers one or more possible future scenarios. These methods include simplified scenario analysis and relative value scenario analysis, which tie to the fully diluted ("post-money") equity value, as well as full scenario analysis via the use of the probability-weighted expected return method (PWERM).
- Current value method: the estimation and allocation of the equity value to the various equity interests in a business as though the business were to be sold on the Measurement Date.
- Discounted cash flows: deriving the value of a business by calculating the present value of expected future cash flows.
- Multiples: the application of an appropriate multiple to a performance measure (such as earnings or revenue) of the Investee Company in order to derive a value for the business.

The fair value indicated by a recent transaction is used to calibrate inputs used with valuation techniques including those noted above. At each measurement date, an assessment is made as to whether changes or events subsequent to the relevant transaction would imply a change in the investment's fair value. The Price of a Recent Investment is not considered a standalone valuation technique (see further considerations below). Where the current fair value of an investment is unchanged from the price of a recent financing, the group refers to the valuation basis as 'Recent Financing'.

Price of recent investment as an input in assessing fair value

The Group considers that fair value estimates which are based primarily on observable market data will be of greater reliability than those based on assumptions. Given the nature of the Group's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, in many cases the most appropriate approach to fair value is a valuation technique which is based on market data such as the price of a recent investment, and market participant assumptions as to potential outcomes.

Calibrating such scenarios or milestones may result in a fair value equal to price of recent investment for a limited period of time. Often qualitative milestones provide a directional indication of the movement of fair value.

In applying a calibrated scenario or milestone approach to determine fair value consideration is given to performance against milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment. Factors that the Group considers include, inter alia, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

Where the Group considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment.

Where a deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Group may consider increasing the carrying value of the investment; however, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a market participant may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

Debt investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

(ii) At amortised cost

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

Deposits

Deposits comprise longer-term deposits held with financial institutions with an original maturity of greater than three months and, in line with IAS 7 are not included within cash and cash equivalents. Cash flows related to amounts held on deposit are presented within investing activities in the consolidated statement of cash flows.

Cash and cash equivalents

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

Financial liabilities

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

Non-current liabilities are composed of loans from Limited Partners of consolidated funds, outstanding amounts drawn down from a debt facility provided by the European Investment Bank, carried interest plans liabilities, and revenue share liabilities arising as a result of the Group's former Technology Pipeline Agreement with University College London.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method.

The Group consolidates the assets of two managed funds in which it has a significant economic interest, specifically co-investment fund IP Venture Fund II LP and IPG Cayman LP. The latter was created in late 2018 to facilitate third-party investment into the Group's US portfolio. Loans from third parties of consolidated funds represent third-party loans into these partnerships. These loans are repayable only upon these funds generating sufficient realisations to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities.

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

The Group provides for liabilities in respect of revenue sharing obligations arising under the former Technology Pipeline Agreement with Imperial College London. Under this agreement, the Group received founder equity in spin out companies from Imperial College, and following a sale of such founder equity, a pre-specified 'revenue share' (typically 50%) is payable to Imperial College and other third parties. The liability for this revenue-share, based on fair value, is recognised as part of the movement in fair value through profit or loss (see note 15 for further details).

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value. Non-current liabilities are recognised initially at fair value net of transaction costs incurred, and subsequently at amortised cost.

Share capital

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

Top Technology Ventures Limited, Parkwalk Advisors Ltd and Touchstone Investment Management Limited, are Group subsidiaries which are subject to external capital requirements imposed by the Financial Conduct Authority ("FCA") and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in their respective financial statements.

1. Accounting policies *continued*

Employee benefits

(i) Pension obligations

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

(ii) Share-based payments

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

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

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

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

Deferred tax

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

Leases

Following the adoption of IFRS 16 all operating leases in excess of one year, where the Group is the lessee, are included on the Group's statement of financial position, and recognised as a right-of-use ("ROU") asset and a related lease liability representing the obligation to make lease payments. The ROU asset is amortised on a straight-line basis with the lease liability being amortised using the effective interest method. Short-term leases (lease terms less than 12 months) and small-value leases are exempt from IFRS 16 and are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Financial risk management

As set out in the principal risks and uncertainties section on pages 39 to 48, 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 (13 companies) and investments which are not traded on an active market.

The net portfolio loss in 2019 of £43.9m represents a 4.4% reduction against the opening balance (2018: net loss of £48.4m, a 4.3% reduction) 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.

	2019			2018		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity and debt investments and investments in limited partnerships	1.2	9.5	10.7	1.3	10.1	11.4

(ii) Interest rate risk

The Group holds three EIB debt facilities with the overall balance as at 31 December 2019 amounting to £82.7m (2018: £97.8m) with £20.1m being subject to variable rate interest (2018: £24.0m) and £62.6m (2018: £73.8m) being subject to fixed rate interest of 3.2%.

The variable rate consists of two elements. A facility of £30m which bears interest at a fixed rate of 1.98% with an additional variable spread equal to the six-month GBP LIBOR rate as at the first date of each six-month interest period. The average floating interest rate (including the fixed element) for 2019 was 2.9% (2018: 2.69%). The second facility of £8.1m is based on a floating interest rate including LIBOR and the average interest in the year was 3.64% (2018: 3.42%). There are no hedging instruments in place to cover against interest rate fluctuation as exposure is deemed insignificant.

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

2. Financial risk management continued

(iii) Concentrations of risk

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

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

	2019				2018			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
Financial assets								
Equity investments	—	—	1,021.9	1,021.9	—	—	1,095.1	1,095.1
Debt investments	—	—	23.7	23.7	—	—	33.1	33.1
Limited and limited liability partnership interests	—	—	21.4	21.4	—	—	17.3	17.3
Deposits	73.0	—	—	73.0	90.0	—	—	90.0
Cash and cash equivalents	—	121.9	—	121.9	—	129.0	—	129.0
Trade receivables	—	—	1.4	1.4	—	—	4.3	4.3
Other receivables	—	—	3.6	3.6	—	—	1.5	1.5
Receivable on sale of debt and equity investments	—	—	27.3	27.3	—	—	—	—
	73.0	121.9	1,099.3	1,294.2	90.0	129.0	1,151.3	1,370.3
Financial liabilities								
Trade payables	—	—	(1.5)	(1.4)	—	—	(1.7)	(1.7)
Other accruals and deferred income	—	—	(24.5)	(24.5)	—	—	(14.7)	(14.7)
EIB debt facility	(62.6)	(19.9)	—	(82.5)	(73.8)	(24.0)	—	(97.8)
Carried interest plan liability	—	—	(5.5)	(5.5)	—	—	(6.8)	(6.8)
Revenue share liability	—	—	(13.7)	(13.7)	—	—	(11.0)	(11.0)
Loans from limited partners of consolidated funds	—	—	(26.1)	(26.0)	—	—	(23.0)	(23.0)
	(62.6)	(19.9)	(71.3)	(153.8)	(73.8)	(24.0)	(57.2)	(155.0)

At 31 December 2019, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £1.6m (2018: £1.0m) 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 opposite. All other financial assets are unrated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Financial risk management continued

Credit rating	2019 £m	2018 £m
P1	176.1	64.1
P2	—	134.7
AAAMMF *	13.2	14.1
Other	5.6	6.1
Total deposits and cash and cash equivalents	194.9	219.0

*The Group holds £13.2m (2018: £14.1m) with JP Morgan GBP liquidity fund, which has a AAAMMF credit rating with Fitch

The Group holds £3.1m (2018 £6.1m) with Arbuthnot Latham, a private bank with no debt in issue and, accordingly, on which a credit rating is not applicable. Bloomberg assess Arbuthnot Latham's 1-year default probability at 0.1127% (2018: 0.0457%).

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 fixed term deposits in excess of 3 months at 31 December 2019 was the greater of 25% of total group cash or £50.0m (2018: 25%, £50.0m). In addition, no single institution may hold greater than 50% of total cash or £50m. (2018: 50%, £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 and debt investments

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

- Consideration of whether a funding round is sufficiently arm's length to be representative of fair value
- The relevance of the price of recent investment as an input to fair value
- In the case of companies with complex capital structures, the appropriate methodology for assigning value to different classes of equity based on their differential economic rights
- Where using valuation methods such as discounted cash flows, inputs including the probability of achieving milestones and the discount rate used.
- Debt investments typically represent convertible debt, in such cases judgment is exercised in respect of the estimated equity value received on conversion of the loan.

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

4. Revenue from services

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

5. Operating segments

For both the year ended 31 December 2019 and the year ended 31 December 2018, the Group's revenue and loss before taxation were derived largely from its principal activities within the UK.

For management reporting purposes, the Group is currently organised into two operating segments:

- the commercialisation of intellectual property via the formation of long-term partner relationships with universities;
- the management of venture capital funds focusing on early-stage UK technology companies;

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

These activities are described in further detail in the strategic report on pages 4 to 11.

	University partnership business £m	Venture capital fund management £m	Consolidated £m
Year ended 31 December 2019			
STATEMENT OF COMPREHENSIVE INCOME			
Portfolio return and revenue			
Change in fair value of equity and debt investments	(70.6)	—	(70.6)
Gain on disposal of equity investments	16.1	—	16.1
Gain on deconsolidation of subsidiary	10.6	—	10.6
Change in fair value of limited and limited liability partnership interests	(0.7)	—	(0.7)
Revenue from services and other income	3.1	5.5	8.6
	(41.5)	5.5	(36.0)
Administrative expenses			
Carried interest plan release	1.3	—	1.3
Share-based payment charge	(2.3)	—	(2.3)
Amortisation of intangible assets	(0.3)	—	(0.3)
Administrative expenses	(35.0)	(4.1)	(39.1)
Operating loss	(77.8)	1.4	(76.4)
Finance income	1.1	0.1	1.2
Finance costs	(3.6)	—	(3.6)
Loss before taxation	(80.3)	1.5	(78.8)
Taxation	(0.1)	—	(0.1)
Loss for the year	(80.4)	1.5	(78.9)
STATEMENT OF FINANCIAL POSITION			
Assets	1,276.0	19.7	1,295.7
Liabilities	(146.2)	(7.6)	(153.8)
Net assets	1,129.8	12.1	1,141.9
Other segment items			
Capital expenditure	0.5	0.2	0.7
Depreciation	(1.1)	(0.1)	(1.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Operating segments continued

Year ended 31 December 2019	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME BY GEOGRAPHY			
Portfolio return and revenue	(47.2)	11.2	(36.0)
Administrative expenses	(29.4)	(11.0)	(40.4)
Operating (loss)/profit	(76.6)	0.2	(76.4)
Net interest	(2.4)	—	(2.4)
(Loss)/profit before taxation	(79.0)	0.2	(78.8)
Taxation	—	(0.1)	(0.1)
(Loss)/profit for the year	(79.0)	0.1	(78.9)

Year ended 31 December 2019	UK £m	Non-UK £m	Consolidated £m
STATEMENT OF FINANCIAL POSITION BY GEOGRAPHY			
Current assets	220.2	7.0	227.2
Non-current assets	1,001.3	67.2	1,068.5
Current liabilities	(40.0)	(1.4)	(41.4)
Non-current liabilities	(103.0)	(9.4)	(112.4)
Total equity	1,078.5	63.4	1,141.9

Year ended 31 December 2018	University partnership business £m	Venture capital fund management £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME			
Portfolio return and revenue			
Change in fair value of equity and debt investments	(50.4)	—	(50.4)
Gain on disposal of equity investments	2.0	—	2.0
Gain on deconsolidation of subsidiary	—	—	—
Change in fair value of limited and limited liability partnership interests	2.3	—	2.3
Revenue from services and other income	3.4	6.5	9.9
	(42.7)	6.5	(36.2)
Administrative expenses			
Carried interest plan charge	1.1	—	1.1
Share-based payment charge	(1.9)	—	(1.9)
Amortisation of intangible assets	(9.2)	(0.7)	(9.9)
Goodwill impairment	(201.1)	(2.1)	(203.2)
Administrative expenses	(34.3)	(7.5)	(41.8)
Operating loss	(288.1)	(3.8)	(291.9)
Finance income	1.2	—	1.2
Finance costs	(3.0)	—	(3.0)
Loss before taxation	(289.9)	(3.8)	(293.7)
Taxation	(0.1)	—	(0.1)
Loss for the year	(290.0)	(3.8)	(293.8)

5. Operating segments *continued*

Year ended 31 December 2018	University partnership business £m	Venture capital fund management £m	Consolidated £m
STATEMENT OF FINANCIAL POSITION			
Assets	1,351.0	22.3	1,373.3
Liabilities	(145.2)	(9.9)	(155.1)
Net assets	1,205.8	12.4	1,218.2
Other segment items			
Capital expenditure	0.6	—	0.6
Depreciation	(1.2)	—	(1.2)

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

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

6. Auditor's remuneration

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

	2019 £'000s	2018 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	130	129
The audit of the Company's subsidiaries, pursuant to legislation	203	115
Total fees for audit services	333	244
Audit-related assurance services	40	32
Total assurance services	373	276
All other services	9	9
Total non-assurance services	9	9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Operating loss

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

	2019 £m	2018 £m
Amortisation of intangible assets	(0.3)	(9.9)
Goodwill impairment	—	(203.2)
Depreciation of tangible assets	(1.2)	(1.2)
Employee costs (see note 9)	(19.6)	(21.3)
Operating leases (see note 23)	—	(1.1)
Gain on deconsolidation of subsidiary (see note 17)	10.6	—

8. Other administrative expenses

Other administrative expenses comprise:

	2019 £m	2018 £m
Employee costs (see note 9)	19.6	21.3
IFRS 3 charge in respect of acquisition of subsidiary ¹	2.5	3.3
Professional services	5.0	7.5
Consolidated portfolio costs	5.4	2.6
Depreciation of tangible assets	1.2	1.2
Other expenses	5.4	5.9
	39.1	41.8

¹ Costs of £2.5m (2018: £3.3m) were recognised in relation to contingent consideration payable to the sellers of Parkwalk Advisors Limited deemed under IFRS 3 to be a payment for post-acquisition services.

9. Employee costs

Employee costs (including executive directors) comprise:

	2019 £m	2018 £m
Salaries	13.0	14.9
Defined contribution pension cost	1.1	1.3
Share-based payment charge (see note 24)	2.3	1.9
Other bonuses accrued in the year	2.0	1.4
Social security	1.2	1.8
	19.6	21.3

The average monthly number of persons (including executive directors) employed by the Group during the year was 130, all of whom were involved in management and administration activities (2018: 167). Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 98 to 117.

10. Taxation

	2019 £m	2018 £m
Current tax		
UK corporation tax on losses for the year	—	—
Foreign tax	0.1	0.1
	0.1	0.1
Deferred tax	—	—
Total tax	0.1	0.1

The Group primarily seeks to generate capital gains from its holdings in spin-out companies over the longer-term but has historically made annual net operating losses from its operations from a UK tax perspective. Capital gains achieved by the Group would ordinarily be taxed upon realisation of such holdings. The directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE").

10. Taxation *continued*

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

	2019 £m	2018 £m
Loss before tax	(78.8)	(293.7)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(15.0)	(55.8)
Expenses not deductible for tax purposes	4.0	0.2
Income not taxable	(3.3)	—
Amortisation on goodwill arising on consolidation	0.1	40.5
Non-taxable income on deconsolidation of Mobilion	(2.0)	—
Fair value movement on investments qualifying for SSE	9.5	8.8
Movement on share-based payments	0.4	0.3
Movement in tax losses arising not recognised	6.3	6.1
Rate change on foreign tax	0.1	—
Total tax charge	0.1	0.1

At 31 December 2019, deductible temporary differences and unused tax losses, for which no deferred tax asset has been recognised, totalled £285.4m (2018: £228.3m). An analysis is shown below:

	2019		2018	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Accelerated capital allowances	(0.7)	(0.1)	—	—
Share-based payment costs and other temporary differences	(13.8)	(2.3)	4.6	0.8
Unused tax losses	(270.9)	(46.1)	223.7	38.0
	(285.4)	(48.5)	228.3	38.8

At 31 December 2019, deductible temporary differences and unused tax losses, for which a deferred tax asset/(liability) has been recognised, totalled £nil (2018: £nil). An analysis is shown below:

	2019		2018	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Temporary timing differences	6.1	1.0	8.1	1.4
Unused tax losses	(6.1)	(1.0)	(8.1)	(1.4)
	—	—	—	—

11. Loss per share

	2019 £m	2018 £m
Loss		
Loss for the purposes of basic and dilutive earnings per share	(75.4)	(293.8)

	2019 Number of shares	2018 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,059,144,595	1,058,678,987
Effect of dilutive potential ordinary shares:		
Options or contingently issuable shares	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,059,144,595	1,058,678,987

No adjustment has been made to the basic loss per share in the year ended 31 December 2019, as the exercise of share options would have the effect of reducing the loss per ordinary share, and therefore is not dilutive.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. Goodwill

	2019 £m	2018 £m
At 1 January	0.4	202.5
Recognised on buyout of minority interest in US platform	—	1.1
Impairment of goodwill	—	(203.2)
At 31 December	0.4	0.4

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

	2019 £m	2018 £m
Parkwalk Advisors CGU	0.4	0.4
	0.4	0.4

13. Intangible assets

	£m
Cost	
At 1 January 2019	30.6
Additions acquired through business combinations	—
At 31 December 2019	30.6
Accumulated amortisation	
At 1 January 2019	30.3
Charge for the year	0.3
At 31 December 2019	30.6
Net book value	
At 31 December 2019	—
At 31 December 2018	0.3

The intangible assets represent contracts with customers and other contractual arrangements with UK universities acquired through acquisition of subsidiaries. The individual contractual arrangements are amortised in a straight line over the remainder of their terms with the expense being presented directly on the primary statements.

14. Categorisation of financial instruments

	At fair value through profit or loss £m	Amortised cost £m	Total £m
Financial assets			
At 31 December 2019			
Equity investments	1,021.9	—	1,021.9
Debt investments	23.7	—	23.7
Other financial assets	—	—	—
Limited and limited liability partnership interests	21.4	—	21.4
Trade and other receivables	—	5.0	5.0
Receivable on sale of debt and equity investments	—	27.3	27.3
Deposits	—	73.0	73.0
Cash and cash equivalents	—	121.9	121.9
Total	1,067.0	227.2	1,294.2
At 31 December 2018			
Equity investments	1,095.1	—	1,095.1
Debt investments	33.1	—	33.1
Limited and limited liability partnership interests	17.3	—	17.3
Trade and other receivables	—	5.8	5.8
Deposits	—	90.0	90.0
Cash and cash equivalents	—	129.0	129.0
Total	1,145.5	224.8	1,370.3

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

In light of the credit ratings applicable to the Group's cash and cash equivalent and deposits, (see note 2 for further details), and given the nature of the Group's other significant receivable balance balances in respect of amounts receivable on sale of debt and equity investments which have either been received post year end or are bank guaranteed, we estimate expected credit losses on the Group's receivables to be under £0.1m and therefore not disclosed further (2018: less than £0.1m), similarly we have not presented an analysis of credit ratings of trade and other receivable and receivables on sale of debt and equity investments.

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2018: all net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Net investment portfolio

Note 1 includes a description of the fair value hierarchy used.

	Level 1	Level 3		Total £m
	Equity investments in quoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in unquoted spin-out companies £m	
At 1 January 2019	133.2	33.1	961.9	1,128.2
Investments during the year	6.3	22.2	36.2	64.7
Transaction-based reclassifications during the year	—	(10.3)	10.3	—
Other transfers between hierarchy levels during the year	—	(1.0)	1.0	—
Disposals	(9.0)	(0.1)	(81.6)	(90.7)
Fair value of investment in Mobilion recognised on deconsolidation	—	—	11.2	11.2
Change in revenue share ⁽ⁱ⁾	(0.6)	—	3.4	2.8
Change in fair value in the year ⁽ⁱⁱ⁾	(12.4)	(20.2)	(38.0)	(70.6)
At 31 December 2019	117.5	23.7	904.4	1,045.6
At 1 January 2018	225.0	42.3	832.5	1,099.8
Investments during the year	11.2	17.5	72.2	100.9
Transaction-based reclassifications during the year	4.7	(17.0)	12.3	—
Disposals	(7.9)	(8.0)	(11.6)	(27.5)
Fees settled via equity	—	—	0.2	0.2
Change in revenue share ⁽ⁱ⁾	—	—	5.2	5.2
Change in fair value in the year ⁽ⁱⁱ⁾	(99.8)	(1.7)	51.1	(50.4)
At 31 December 2018	133.2	33.1	961.9	1,128.2

⁽ⁱ⁾ For description of revenue share arrangement see description below.

⁽ⁱⁱ⁾ The change in fair value in the year includes a loss of £1.4m (2018: gain of £3.1m) in exchange differences on translating foreign currency investments. The total unrealised change in fair value in respect of Level 3 investments was a loss of £53.1m (2018: gain of £49.4m).

Previously, the Group's policy was to classify equity investments in unquoted spin-out companies as Level 3a where prices had been determined from recent investments in the last twelve months, and as Level 3b where prices had been determined from recent investments in more than twelve months and other valuation techniques. The Group has amended this policy to reflect revised IPEV guidelines which specify that the Price of a Recent Investment represents one of a number of inputs used to arrive at fair value, and now uses a single classification for all Level 3 equity investments. Comparative information had been represented accordingly for consistency.

Unquoted equity and debt investment are measured in accordance with IPEV guidelines with reference to the most appropriate information available at the time of measurement. In addition to recent financing transactions, significant unobservable inputs used in the fair value measurement include (inter alia) portfolio-company specific milestone analysis, estimated clinical trial success rates, exit ranges, scenario probabilities and discount factors. Where relevant, multiple valuation approaches may be used in arriving at an estimate of fair value for an individual asset. Such inputs are typically portfolio-company specific and therefore cannot be aggregated for the purposes of portfolio-level sensitivity analysis. For Level 3 companies where a DCF approach has been used, a 1% increase/decrease in the discount rate used would equate to a £11.8m increase/decrease in fair value.

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

Transfers between level 3 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 (2018: £nil). Transfers between level 1 and level 3 would occur when a quoted investment's market becomes inactive, or the portfolio company elects to delist. There have been no such instances in the current period (2018: no such instances).

15. Net investment portfolio *continued*

Transfers between level 3 debt and level 3 equity occur upon conversion of convertible debt into equity.

Within level 3 equity investments, the distribution by total portfolio company holding value is as follows: investments >£10m: £684.2m (2018: £700.3m), investments £5m-£10m: £104.9m (£147.4m), investments £1.5m-£5m: £88.0m (2018: £90.6m), investments < £1.5m: £27.2m (2018: £23.6m).

Within level 3 debt investments, the distribution by total portfolio company holding value is as follows: investments >£10m: £6.3m (2018: £10.5m), investments £5m-£10m: £2.0m (£7.5m), investments £1.5m-£5m: £11.8m (2018: £10.7), investments < £1.5m: £3.6m (2018: £4.4m).

Under the Group's former Technology Pipeline Agreement with Imperial College London, the Group received founder equity in spin out companies from Imperial College. Following a sale of such founder equity stakes, a pre-specified 'revenue share' (typically 50%) is payable to Imperial College and other third parties. As at 31 December 2019, equity investments which were subject to revenue sharing obligations totalled £13.8m (2018: £11.0m). A corresponding non-current liability is recognised in respect of these revenue sharing obligations.

	2019 £m	2018 £m
Change in fair value in the year		
Fair value gains	86.3	103.3
Fair value losses	(156.9)	(153.7)
	(70.6)	(50.4)

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

16. Gain on disposal of equity investments

	2019 £m	2018 £m
Disposal proceeds	79.5	29.5
Amounts receivable on sale of debt and equity investments (see note 19)	27.3	—
Carrying value of investments	(90.7)	(27.5)
Profit on disposal	16.1	2.0

17. Gain on deconsolidation of subsidiary

During the first half of 2019, MOBILion completed a first close of its Series A investment of £2.9m which did not result in a loss of control by IP Group, and accordingly the proceeds of this issue of equity are disclosed within financing activities in the Group consolidated cash flows

Following a second close of the Series A fundraise, IP Group lost control of the board of MOBILion, resulting in its deconsolidation as a subsidiary and recognition as a portfolio company.

As part of this transaction, net assets including £2.5m of cash were deconsolidated from the Group consolidated statement of financial position, this movement is disclosed within investing activities in the Group consolidated statement of cash flows. The transaction resulted in a gain on deconsolidation of £10.6m, calculated as follows:

	2019 £m	2018 £m
Fair value of equity investment recognised	11.2	—
Fair value of subsidiary net assets disposed:		
Cash	2.5	—
Other net liabilities	(3.1)	—
	10.6	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Trade and other receivables

	2019 £m	2018 £m
Trade debtors	1.5	4.3
Prepayments	0.6	0.8
Right of use asset	2.1	—
Other receivables	0.9	1.5
	5.0	6.6

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

19. Receivable on sale of debt and equity investments

	2019 £m	2018 £m
Deferred consideration	5.3	—
Short-term receivables	22.0	—
	27.3	—

Deferred consideration relates to amounts receivable in respect of the sale of Dukosi Limited (£5.0m) and Process Systems Enterprise Limited (£0.3m).

Short-term receivables relates to £22.0m receivable in respect of shares in Oxford Nanopore Technologies Limited sold on 31 December 2019 and for which payment was received in February 2020.

20. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	1.4	1.7
Social security expenses	0.5	0.7
Bonus accrual	2.1	2.1
Lease liability	2.1	—
Payable to Imperial College and other third parties under revenue share obligations	11.2	1.7
Current tax payable	0.1	0.1
Other accruals and deferred income	8.6	10.2
	26.0	16.5

Amounts payable to Imperial College and other third parties under revenue share obligations include £9.7m payable in respect of the disposal proceeds of Process Systems Enterprise Limited, which were settled in January 2020.

21. Borrowings

	2019 £m	2018 £m
Non-current liabilities		
Loans drawn down from the Limited Partners of consolidated funds	26.1	23.0
EIB debt facility	67.1	82.4
	93.1	105.4
Current liabilities		
EIB debt facility	15.4	15.4
	15.4	15.4

Loans drawn down from the Limited Partners of consolidated funds

The loans from Limited Partners of consolidated funds are interest free and repayable only upon the applicable funds generating sufficient returns to repay the Limited Partners. Management anticipates that the funds will generate the required returns and consequently recognises the full associated liabilities. The classification of these loans as non-current reflects the forecast timing of returns and subsequent repayment of loans, which is not anticipated to occur within one year.

EIB debt facility

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

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

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

The Touchstone loans contain a debt covenant requiring that the ratio of the total fair value of investments plus cash and qualifying liquidity to debt should at no time fall below 4:1. The loan also stipulates that on any date, the aggregate of all amounts scheduled for payment to the EIB in the following six months should be kept in a separate bank account.

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

	2019 £m	2018 £m
The maturity profile of the borrowings was as follows:		
Due within 6 months	7.7	7.7
Due 6 to 12 months	7.7	7.7
Due 1 to 5 years	64.2	61.7
Due after 5 years	3.1	21.0
Total ⁽¹⁾	82.7	98.1

	2019 £m	2018 £m
A reconciliation in the movement in debt is as follows:		
At 1 January	98.1	104.4
Repayment of debt	(15.4)	(6.3)
At 31 December ⁽¹⁾	82.7	98.1

There were no non-cash movements in debt.

⁽¹⁾ These are gross amounts repayable and exclude costs of £0.2m (2018: £0.3m) incurred on obtaining the loans and amortised over the life of the loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. Share capital

Issued and fully paid:	2019		2018	
	Number	£m	Number	£m
Ordinary shares of 2p each				
At 1 January	1,059,144,595	21.2	1,057,383,601	21.1
Issued in respect of post-acquisition services	—	—	1,519,849	0.1
Issued under employee share plans	—	—	241,145	—
At 31 December	1,059,144,595	21.2	1,059,144,595	21.2

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.

23. Operating lease arrangements

The Group leases office premises. Information about leases for which the Group is a lessee is presented below.

Right of use asset	2019 £m
At 1 January 2019	2.7
Additions	0.5
Depreciation charge for the year	(1.1)
At 31 December 2019	2.1

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

Lease Liabilities

Maturity analysis - contractual undiscounted cash flows	2019 £m
Within one year	1.3
In the second to fifth years inclusive	0.9
More than five years	—
Total undiscounted lease liabilities at 31 December 2019	2.2

Statement of financial position	2019 £m
Current	1.2
Non-current	0.9
At 31 December 2019	2.1

Statement of comprehensive income	2019 £m
Interest on lease liabilities	0.1

Amounts recognised in the statement of cash flows	2019 £m
Total cash outflow for leases	1.2

23. Operating lease arrangements *continued*

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

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

	2018 £m
Within one year	1.8
In the second to fifth years inclusive	3.4
	5.2

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

24. Share-based payments

In 2019, the Group continued to incentivise employees through its LTIP and AIS. Both are described in more detail in the Directors' Remuneration Report on pages 98 to 117.

Deferred Bonus Share Plan ("DBSP")

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

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

	Number of options 2019	Weighted -average exercise price 2019	Number of options 2018	Weighted -average exercise price 2018
At 1 January	605,641	—	394,494	—
AIS deferral shares award during the year	192,106	—	468,901	—
Exercised during the year	(63,370)	—	(241,145)	—
Lapsed during the year	(271,937)	—	(16,609)	—
At 31 December	462,440	—	605,641	—
Exercisable at 31 December	114,028	—	153,349	—

The options outstanding at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted-average remaining contractual life of 0.5 years (2018: 0.6 years).

The weighted average share price at the date of exercise for share options exercised in 2019 was 98.6p (2018: 127p).

As the 2019 AIS financial performance targets were met and as the number of DBSP options to be granted in order to defer such elements of the AIS payments as are required under our remuneration policy are based on a percentage of employees' salary, the share-based payments line includes the associated share-based payments expense incurred in 2019.

Long term Incentive Plan ("LTIP")

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report on pages 98 to 117.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. Share-based payments continued

The 2019 LTIP awards were made on 26 April 2019. The awards will ordinarily vest on 31 March 2022, 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 2019 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 2019 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 2019 to 31 December 2021, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2022, 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 2018 LTIP awards were made on 10 May 2018. The awards will ordinarily vest on 31 March 2021, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and TSR ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2018 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2018 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2018 to 31 December 2020, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2021, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2017 LTIP awards were made on 29 August 2017. The awards will ordinarily vest on 31 March 2020, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and TSR ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2017 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2017 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2017 to 31 December 2019, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2020, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

The 2016 LTIP awards did not meet the threshold performance target and lapsed on 31 March 2019.

24. Share-based payments *continued*

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

	Number of options 2019	Weighted- average exercise price 2019	Number of options 2018	Weighted- average exercise price 2018
At 1 January	12,376,238	—	9,066,117	—
Lapsed during the year	(2,971,286)	—	(1,262,697)	—
Forfeited during the year	(764,103)	—	(452,484)	—
Vested during the year	—	—	—	—
Notionally awarded during the year	7,018,906	—	5,025,302	—
At 31 December	15,659,755	—	12,376,238	—
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2019 had an exercise price in the range of £nil (2018: £nil) and a weighted-average remaining contractual life of 1.4 years (2018: 1.3 years).

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

	2019	2018
Share price at date of award	£0.991	£1.355
Exercise price	£nil	£nil
Fair value at grant date	£0.34	£0.57
Expected volatility (median of historical 50-day moving average)	37%	36%
Expected life (years)	3.0	3.0
Expected dividend yield	0%	0%
Risk-free interest rate	1.0%	1.0%

Former Touchstone LTIP

Also in 2017, as a result of the combination with Touchstone, award holders under existing Touchstone long term incentive share schemes were entitled to receive 2.2178 new IP Group shares in exchange for each Touchstone share, an exchange ratio set out in the offer document for the acquisition (the “exchange ratio”).

2016 schemes:

It was proposed that, given the short period of time since grant, awards would not become exercisable in connection with the Offer and therefore that no progress towards meeting performance targets had been made. Instead award holders were offered the opportunity to release their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group and the exercise price was set at 3.33 pence divided by the exchange ratio. The vesting dates on the replacement awards remained the same as the original award, being 1 December 2020, 1 December 2021 and 1 December 2022. The replacement awards are subject to performance conditions adjusted from those attaching to the original Touchstone award as follows: a) the Net Asset Value (“NAV”) condition will be adjusted to reflect Touchstone’s portfolio being part of the enlarged group following the acquisition and b) the Total Shareholder Return (“TSR”) condition will be adjusted so that TSR shall be measured by reference to the performance of IP Group shares over the performance period with the starting share price for such purpose being adjusted by dividing the existing starting share price of 290 pence by the exchange ratio detailed above. The TTO specific targets remain the same.

	Number of options 2019	Weighted- average exercise price 2019	Number of options 2018	Weighted- average exercise price 2018
At 1 January	1,146,810	—	2,875,606	—
Forfeited during the year	(406,754)	—	(1,728,796)	—
At 31 December	740,056	—	1,146,810	—
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2019 had an exercise price of £1.366 (2018: £1.366) and a weighted-average remaining contractual life of 1.9 years (2018: 2.9 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. Share-based payments continued

2006 schemes:

Holders of 2006 Touchstone awards were offered the opportunity to release each of their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group. The exercise period and time-based vesting provisions for the replacement awards remained the same as the original Touchstone awards but the shareholder return performance condition will be updated by reference to the exchange ratio. Awards under the 2006 scheme were exercisable to some extent at the time of the grant of replacement awards, subject to meeting the applicable vesting conditions.

	Number of options 2019	Weighted- average exercise price 2019	Number of options 2018	Weighted- average exercise price 2018
At 1 January	1,278,834	—	1,808,001	—
Forfeited during the year	(200,735)	—	(529,167)	—
At 31 December	1,078,099	2.13	1,278,834	2.14
Exercisable at 31 December	1,078,099	2.13	1,278,834	2.14

The options outstanding at 31 December 2019 had an exercise price of £2.13 (2018: £2.14) and a weighted-average remaining contractual life of 4.9 years (2018: 5.9 years).

The fair value charge recognised in the statement of comprehensive income during the year in respect of all share-based payments, including the DBSP, LTIP and Former Fusion IP LTIP, was £2.3m (2018: £1.9m).

25. Limited and Limited Liability Partnership interests

	£m
At 1 January 2018	11.0
Additions during the year	4.8
Realisations in the year	(0.8)
Change in fair value during the year	2.3
At 1 January 2019	17.3
Additions during the year	6.8
Realisations in the year	(2.0)
Change in fair value during the year	(0.7)
At 31 December 2019	21.4

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.

26. 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:

	2019 £m	2018 £m
Statement of comprehensive income		
Revenue from services	0.1	0.5
Statement of financial position		
Investment in Limited Partnerships	5.6	5.8
Amounts due from related parties	—	1.2

26. Related party transactions continued**b) Key management transactions**

The following key management held shares in the following spin-out companies as at 31 December 2019:

Director/ PDMR	Company name	Number of shares held at 1 January 2019	Number of shares acquired/ (disposed of) in the period	Number of shares held at 31 December 2019	%
Alan Aubrey	Accelercomm Limited	638	—	638	0.24%
	Alesi Surgical Limited	18	—	18	0.14%
	Amaethon Limited – A Shares	104	—	104	3.12%
	Amaethon Limited – B Shares	11,966	—	11,966	1.04%
	Amaethon Limited – Ordinary shares	21	—	21	0.32%
	Avacta Group plc	191,334	—	191,334	<0.1%
	Boxarr Limited	1,732	—	1,732	0.24%
	Capsant Neurotechnologies Limited	11,631	—	11,631	0.81%
	Crysalin Limited	1,447	—	1,447	0.13%
	Deep Matter Group plc	2,172,809	—	2,172,809	0.30%
	Ditto AI Limited – Ordinary Shares	72,092,028	1,025,820,000	1,097,912,028	12.41%
	Ditto AI Limited – B Shares	98,876,568	—	98,876,568	1.12%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	15	—	15	0.87%
	Getech Group plc ²	15,000	—	15,000	<0.1%
	hVivo plc	37,160	—	37,160	<0.1%
	Ilika plc ²	14,476	—	14,476	<0.1%
	Istesso Limited	1,185,150	—	1,185,150	1.05%
	Itaconix plc	88,890	—	88,890	<0.1%
	Karus Therapeutics Limited	223	—	223	<0.1%
	Microbiotica Limited	10,000	—	10,000	<0.1%
	Mirriad Advertising plc	33,333	—	33,333	<0.1%
	Modern Water plc	519,269	—	519,269	0.42%
	Oxbotica Limited	16	13	29	<0.1%
	Oxford Advanced Surfaces Limited	1	—	1	<0.1%
	Oxford Nanopore Technologies Limited	101,208	(8,483)	92,725	0.31%
	Perachem Holdings plc	108,350	—	108,350	0.29%
	Salunda Limited	53,639	—	53,639	<0.1%
	Structure Vision Limited	212	(212)	0	0.00%
	Surrey Nanosystems Limited	453	—	453	0.22%
	Tissue Regenix Group plc	2,389,259	—	2,389,259	0.20%
	Ultraleap Holdings Limited ¹	1,224	—	1,224	<0.1%
	Xeros Technology Group plc	22,847	—	22,847	<0.1%
Mike Townend	Amaethon Limited – A Shares	104	—	104	3.12%
	Amaethon Limited – B Shares	11,966	—	11,966	1.04%
	Amaethon Limited – Ordinary shares	21	—	21	0.32%
	Applied Graphene Materials plc	22,619	—	22,619	<0.1%
	Avacta Group plc	20,001	—	20,001	<0.1%
	Capsant Neurotechnologies Limited	11,282	—	11,282	0.79%
	Creavo Technologies Limited	117	—	117	<0.1%
	Crysalin Limited	1,286	—	1,286	0.11%
	Deep Matter Group plc	932,944	—	932,944	0.13%
	Ditto AI Limited	613,048	—	613,048	<0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	14	—	14	0.81%
	Getech Group plc ²	20,000	—	20,000	<0.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. Related party transactions continued

Director/ PDMR	Company name	Number of shares held at 1 January 2019	Number of shares acquired/ (disposed of) in the period	Number of shares held at 31 December 2019	%
Mike Townend continued	Istesso Limited	1,185,150	—	1,185,150	1.05%
	Ilika plc ²	10,000	—	10,000	<0.1%
	Itaconix plc	64,940	—	64,940	<0.1%
	Mirriad Advertising plc	25,000	—	25,000	<0.1%
	Modern Water plc	575,000	—	575,000	0.46%
	Oxbotica Limited	—	26	26	<0.1%
	Oxford Advanced Surfaces Limited	1	—	1	<0.1%
	Oxford Nanopore Technologies Limited	30,967	(2,316)	28,651	<0.1%
	Perachem Holdings plc	113,222	—	113,222	0.30%
	Structure Vision Limited	212	(212)	0	0.00%
	Surrey Nanosystems Limited	404	—	404	0.20%
	Tissue Regenix Group plc	1,950,862	—	1,950,862	0.17%
	Ultraleap Holdings Limited ¹	1,224	—	1,224	<0.1%
	Xeros Technology Group plc	35,499	—	35,499	<0.1%
Greg Smith	Alesi Surgical Limited	2	—	2	<0.1%
	Avacta Group plc	3,904	—	3,904	<0.1%
	Capsant Neurotechnologies Limited	896	—	896	<0.1%
	Crysalin Limited	149	—	149	<0.1%
	Ditto AI Limited	144,246	—	144,246	<0.1%
	Diurnal Group plc	15,000	—	15,000	<0.1%
	EmDot Limited	4	—	4	0.23%
	Getech Group plc ²	8,000	—	8,000	<0.1%
	hVivo plc	61,340	—	61,340	<0.1%
	Istesso Limited	313,425	—	313,425	0.28%
	Itaconix plc	4,500	—	4,500	<0.1%
	Perachem Holdings plc	4,830	—	4,830	<0.1%
	Mirriad Advertising plc	16,667	—	16,667	<0.1%
	Modern Water plc	7,250	—	7,250	<0.1%
	Oxbotica Limited	8	—	8	<0.1%
	Oxford Nanopore Technologies Limited	1,581	(44)	1,537	<0.1%
	Surrey Nanosystems Limited	88	—	88	<0.1%
	Tissue Regenix Group plc	50,000	—	50,000	<0.1%
	Xeros Technology Group plc	1,392	—	1,392	<0.1%
David Baynes	Alesi Surgical Limited	4	—	4	<0.1%
	Arkivum Limited	377	—	377	<0.1%
	Creavo Technologies Limited	46	—	46	<0.1%
	Diurnal Group plc	73,000	—	73,000	<0.1%
	Mirriad Advertising plc	16,667	—	16,667	<0.1%
	Oxford Nanopore Technologies Limited	174	—	174	<0.1%
	Ultrahaptics Holdings Limited ¹	2,600	—	2,600	<0.1%
	Zeetta Networks Limited	424	—	424	0.13%
Mark Reilly	Actual Experience plc	65,500	—	65,500	0.14%
	Ceres Power Holdings plc	5,697	—	5,697	<0.1%
	Diurnal Group plc	7,500	—	7,500	<0.1%
	Mirriad Advertising plc	33,333	33,333	66,666	<0.1%
	Oxbotica Limited	8	—	8	<0.1%
	Ultraleap Holdings Limited ¹	1,700	—	1,700	<0.1%
	Wave Optics Limited	308	—	308	<0.1%

26. Related party transactions continued

Director/ PDMR	Company name	Number of shares held at 1 January 2019	Number of shares acquired/ (disposed of) in the period	Number of shares held at 31 December 2019	%
Sam Williams	Accelercomm Limited	127	—	127	<0.1%
	Alesi Surgical Limited	1	—	1	<0.1%
	Avacta Group plc	19,537	—	19,537	<0.1%
	Creavo Medical Technologies Limited	23	—	23	<0.1%
	Diurnal Group plc	52,248	—	52,248	<0.1%
	Genomics plc	333	—	333	<0.1%
	Istesso Limited	7,048,368	—	7,048,368	8.89%
	Microbiotica Limited	7,000	—	7,000	<0.1%
	Mirriad Advertising plc	3,333	—	3,333	<0.1%
	Oxehealth Limited	—	27	27	<0.1%
	Oxford Nanopore Technologies Limited	340	—	340	<0.1%
	Topivert Limited	—	1,000	1,000	<0.1%
	Ultraleap Holdings Limited ¹	558	—	558	<0.1%

¹ Previously called Ultrahaptics Holdings Limited

² No longer a portfolio company at the balance sheet date

ii) Key management personnel compensation

Key management personnel compensation comprised the following:

	2019 £m	2018 £m
Short-term employee benefits ⁽ⁱ⁾	2,776	2,402
Post-employment benefits ⁽ⁱⁱ⁾	93	114
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments ⁽ⁱⁱⁱ⁾	1,195	1,089
Total	4,064	3,605

⁽ⁱ⁾ Represents key management personnel's base salaries, benefits including cash in lieu of pension where relevant, and the cash-settled element of the Annual Incentive Scheme.

⁽ⁱⁱ⁾ Represents employer contributions to defined contribution pension and life assurance plans

⁽ⁱⁱⁱ⁾ Represents the accounting charge for share-based payments, reflecting LTIP and DBSP options currently in issue as part of these schemes. See note 24 for a detailed description of these schemes.

c) Portfolio companies

i) Services

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

	2019 £m	2018 £m
Statement of comprehensive income		
Revenue from services	0.5	4.3
Statement of financial position		
Trade receivables	0.2	0.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. Related party transactions continued

ii) Investments

The Group makes investments in the equity and debt of unquoted and quoted investments where it does not have control but may be able to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the Venture Capital Organisation exception as permitted by IAS 28 and not recognised these companies as associates, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

	2019 £m	2018 £m
Statement of comprehensive income		
Net portfolio losses	(54.2)	(20.5)

	2019 £m	2018 £m
Statement of financial position		
Equity and debt investments	532.7	618.1

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:

	2019 £m	2018 £m
Statement of financial position		
Intercompany balances with other Group companies	1.5	3.6

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

27. 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 2019, the Group's strategy, which was unchanged from 2018, 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 21.

28. Capital commitments

Commitments to Limited Partnerships

Pursuant to the terms of their Limited Partnership agreements, the Group has committed to invest the following amounts into Limited Partnerships as at 31 December 2019:

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
IP Venture Fund	2006	3.1	3.1	—
IP Venture Fund II LP	2013	10.0	7.6	2.4
UCL Technology Fund LP	2016	24.8	10.2	14.6
Apollo Therapeutics LLP	2016	3.3	1.0	2.3
Total		41.2	21.9	19.3

29. Alternative performance measures (“APM”)

IP Group management believes that the alternative performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the business’ performance between financial periods and provide more detail concerning the elements of performance which the managers of the Group are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the directors. These measures are not defined by IFRS and therefore may not be directly comparable with other companies’ APMs, including those in the Group’s industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. Consequently, APMs are used by the directors and management for performance analysis, planning, reporting and incentive-setting purposes.

APM	Reference for reconciliation	Definition and purpose	Calculation		
				2019 £m	2018 £m
Hard NAV	Primary statements	Hard NAV is defined as the total equity of the Group less intangible assets. Excluding intangible assets highlights the Group’s assets that management can be reasonably expected to influence in the short term and therefore reflects the short-term resources available to drive future performance. Additionally, excluding intangible assets allows better comparison with the Group’s competitors, many of which operate under fund structures and therefore would not include intangible assets. The measure shows tangible assets managed by the Group. It is used as a performance metric for directors and employees as a part of annual incentives in the Group.	Total equity	1,141.9	1,218.2
			<i>Excluding:</i>		
			Goodwill	0.4	0.4
			Other intangible assets	—	0.3
			Hard NAV	1,141.5	1,217.5
Hard NAV per share	Primary statements Note 22	Hard NAV per share is defined as Hard NAV, as defined above, divided by the number of shares in issue. The measure shows tangible assets managed by the Group per share in issue. It is a useful measure to compare to the Group’s share price.	Hard NAV	£1,141.5m	£1,217.5m
			Shares in issue	1,059,144,595	1,059,144,595
			Hard NAV per share	107.8p	115.0p
Return on Hard NAV	Primary statements, Note 8	Return on Hard NAV is defined as the total comprehensive income or loss for the year excluding charges which do not impact on Hard NAV, specifically amortisation of intangible assets, share-based payment charges and the charge in respect of consideration deemed to represent post-acquisition services under IFRS 3 which is anticipated to be a non-recurring item. Return on Hard NAV is defined as the total comprehensive income or loss for the year excluding charges which do not impact on Hard NAV, specifically amortisation of intangible assets, share-based payment charges and the charge in respect of consideration deemed to represent post-acquisition services under IFRS 3. The measure shows a summary of the income statement gains and losses which directly impact Hard NAV.	Total comprehensive income	(78.8)	(293.9)
			<i>Excluding:</i>		
			Amortisation of intangible assets	0.3	9.9
			Goodwill impairment	—	203.2
			Share-based payment charge	2.3	1.9
			IFRS 3 charge in respect of acquisition of subsidiary (note 8)	2.5	3.3
			Return on Hard NAV	(73.7)	(75.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. Alternative performance measures (“APM”) continued

			Calculation		
APM	Reference for reconciliation	Definition and purpose		2019 £m	2018 £m
Net portfolio gains/(losses)	Note 15	Net portfolio gains are defined as the movement in the value of holdings in the portfolio due to share price movements or impairments in value, gains or losses on realisation of investments and gains or losses on disposals of subsidiaries. The measure shows a summary of the income statement gains and losses which are directly attributable to the portfolio, which is a headline measure for the Group's performance. This is a key driver of the Return on Hard NAV which is a performance metric for directors' and employees' incentives.	Change in fair value of equity and debt investments	(70.6)	(50.4)
			Gain on disposal of equity investments	16.1	2.0
			Gain on deconsolidation of subsidiary	10.6	—
			Net portfolio (losses)/gains	(43.9)	(48.4)
Net overheads	Financial review: note 8	Net overheads are defined as the Group's core overheads less operating income. The measure reflects the Group's controllable net operating "cash-equivalent" central cost base and is used as a performance metric in the Group's annual incentive scheme. Core overheads exclude items such as share-based payments, amortisation of intangibles and consolidated portfolio company costs	Other income	8.6	9.9
			Other administrative expenses (see statement of comprehensive income)	(39.1)	(41.8)
			Excluding: Administrative expenses – consolidated portfolio companies	5.4	2.6
			IFRS 3 charge in respect of acquisition of subsidiary (note 8)	2.5	3.3
			Net overheads	(22.6)	(26.0)
Cash and deposits	Primary statements	Cash is defined as cash and cash equivalents plus deposits. The measures gives a view of the Group's liquid resources on a short-term timeframe. The Group's Treasury Policy has a maximum maturity limit of 13 months for deposits.	Cash and cash equivalents	121.9	129.0
			Deposits	73.0	90.0
			Cash	194.9	219.0

The selection of the modified retrospective approach for adoption of IFRS 16 in which prior year comparative information is not restated has not resulted in any inconsistencies in the Group's APMs.

30. Post balance sheet events

As of the reporting date, the Group has completed realisations of £55.4m in respect of the 2019 disposal of shares in Oxford Nanopore Technologies Limited, and other disposals including in Ceres Power Holdings plc.

As of the reporting date, realised and unrealised fair value gains in respect of the Group's quoted portfolio totalled £20m, largely in respect of Ceres Power Holdings plc, which has seen a overall fair value gain of £25m since 31 December 2019.

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2019

	Note	2019 £m	2018 £m
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	3	331.6	398.7
Equity and debt investments	4	0.8	9.5
Other investments	5	2.0	2.0
Current assets			
Loans to subsidiary undertakings	6	627.9	637.5
Trade and other receivables		—	—
Total assets		962.3	1,047.7
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	7	21.2	21.2
Share premium account	7	100.0	684.7
Merger reserve	7	—	372.6
Retained earnings	7	814.2	(63.7)
Total equity		935.4	1,014.8
Current liabilities			
Trade and other payables		2.6	0.1
EIB debt facility		6.3	6.0
Non-current liabilities			
EIB debt facility		18.0	23.9
Deferred and contingent consideration payable on acquisition		—	2.9
Total liabilities		26.9	32.9
Total equity and liabilities		962.3	1,047.7

Registered number: 4204490

The accompanying notes form an integral part of the financial statements. The financial statements on pages 173 to 174 were approved by the Board of Directors and authorised for issue on 10 March 2020 and were signed on its behalf by:


Greg Smith

Chief Financial Officer


Alan Aubrey

Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2019

	Attributable to equity holders of the parent				Total £m
	Share capital £m	Share premium ⁽ⁱ⁾ £m	Merger reserve ⁽ⁱⁱ⁾ £m	Retained earnings ⁽ⁱⁱⁱ⁾ £m	
At 1 January 2018	21.1	683.1	508.6	36.1	1,248.9
Comprehensive income	—	—	—	(235.8)	(235.8)
Transfer between reserves on impairment of subsidiaries	—	—	(136.0)	136.0	—
Issue of equity	0.1	1.6	—	—	1.7
At 1 January 2019	21.2	684.7	372.6	(63.7)	1,014.8
Comprehensive income	—	—	—	(79.4)	(79.4)
Capital reduction ^(iv)	—	(584.7)	(372.6)	957.3	—
At 31 December 2019	21.2	100.0	—	814.2	935.4

⁽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) In 2019 Group effected a reduction of capital and cancellation of share premium account, which was count approved on 17th December 2019, resulting in the reduction in the share premium and merger reserves, and a corresponding increase in retained earnings. For further details see page 75.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a cash flow statement and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of compensation of key management personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures: IFRS 2 Share Based Payments in respect of group settled share-based payments; and certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Subsidiary investments

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment. The Company tests the investment balances for impairment annually or whenever there is an indication that the value of carrying amount may not be recoverable.

Equity and debt Investments

Investments are held at fair value through profit and loss vision for impairment in value and are held for long-term investment purposes.

The valuation methods applied are the same as those at the Group level; details of which can be found in note 1 to the Group's financial accounts on pages 146 to 147.

Intercompany loans

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

Financial instruments

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

2. Significant accounting estimates

(i) Valuation of subsidiary investments

The Company tests the investment balances for impairment annually or whenever there is an indication that the value of carrying amount may not be recoverable. In light of the fact that the majority of the assets in the Company's subsidiaries are recorded at fair value, subsidiary net assets are taken as an approximation of their minimum recoverable amount. If the carrying value of an investment in a subsidiary is in excess of the minimum recoverable amount, the value of the investment is impaired.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

3. Investments in subsidiary undertakings

	£m
At 1 January 2019	398.7
Impairment of subsidiary undertakings in the year	(67.1)
At 31 December 2019	331.6

Details of the Company's subsidiary undertakings as at 31 December 2019 are detailed in note 9 to the Company financial statements.

4. Equity and debt investments

	£m
At 1 January 2019	9.5
Fair value gains in the year	(8.7)
At 31 December 2019	0.8

Details of the Company's associated undertakings and significant holdings as at 31 December 2019 are detailed in note 10 to the Company financial statements.

5. Other investments

	£m
At 1 January 2019	2.0
Fair value gain during the year	-
At 31 December 2019	2.0

6. Loans to subsidiary undertakings

	£m
At 1 January 2019	637.5
Net advancement of loans to subsidiary undertakings during the year	(9.6)
At 31 December 2019	627.9

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

The Company does not consider that any change in fair value of financial assets in the year is attributable to expected credit losses (2018: £nil). We have not presented an analysis of credit ratings in respect of subsidiary undertakings.

7. Share capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m
At 1 January 2019	21.2	684.7	372.6	(63.7)
Loss for the year	-	-	-	(79.4)
Capital reduction	-	(584.7)	(372.6)	957.3
At 31 December 2019	21.2	100.0	-	814.2

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 18 to the consolidated financial statements. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity.

8. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £79.4m (2018: £235.8m) mainly due to the impairment of subsidiary undertakings.

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

9. Directors' emoluments, employee information and share-based payments

The remuneration of the directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 98 to 117.

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

The Company had no employees during 2019 or 2018.

10. Details of subsidiary undertakings

Name of subsidiary undertakings	Proportion of ownership interest % ⁽ⁱ⁾	Proportion of voting power held % ⁽ⁱ⁾	Proportion of nominal value held %	Held by Parent/ Group
IP2IPO Limited	100.0	100.0	100.0	Direct
IP2IPO Carry Partner Limited	100.0	100.0	100.0	Indirect
IP2IPO Americas Limited	100.0	100.0	100.0	Indirect
IP2IPO FI Limited	100.0	100.0	100.0	Indirect
IP2IPO US Partners Limited	100.0	100.0	100.0	Indirect
IP Group Inc.	100.0	100.0	100.0	Indirect
Top Technology Ventures Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Direct
Fusion IP Sheffield Limited	100.0	100.0	100.0	Indirect
Fusion IP Cardiff Limited	100.0	100.0	100.0	Indirect
IP Venture Fund (GP) Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Indirect
IP Venture Fund II (GP) LLP ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Indirect
IP Ventures (Scotland) Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Indirect
North East Technology (GP) Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Indirect
IP2IPO Portfolio (GP) Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Indirect
IP Capital Limited ⁽ⁱⁱ⁾	100.0	100.0	100.0	Indirect
IP2IPO Asia-Pacific Limited	100.0	100.0	100.0	Direct
IP2IPO Australia Pty Limited	100.0	100.0	100.0	Indirect
IP Group Greater China Limited	100.0	100.0	100.0	Indirect
IP2IPO Australia HP Pty Limited	100.0	100.0	100.0	Indirect
IP2IPO Australia Management Pty Limited	100.0	100.0	100.0	Indirect
IP Assist Services Limited	100.0	100.0	100.0	Direct
Parkwalk Advisors Limited	100.0	100.0	100.0	Direct
Touchstone Innovations Limited	100.0	100.0	100.0	Indirect
Touchstone Innovations Investment Management Limited	100.0	100.0	100.0	Indirect
IP2IPO Innovations Limited	100.0	100.0	100.0	Indirect
Touchstone Innovations Investments Limited	100.0	100.0	100.0	Indirect
Innovations Limited Partner Limited	100.0	100.0	100.0	Indirect
IP2IPO Company Maker Limited	100.0	100.0	100.0	Indirect
Imperial Innovations Sàrl	100.0	100.0	100.0	Indirect
Touchstone Innovations Businesses LLP	100.0	100.0	100.0	Indirect
IP2IPO Innovations 1 LLP	100.0	100.0	100.0	Indirect
IP2IPO Cayman Limited	100.0	100.0	100.0	Indirect
IPG USA (LP) Limited	100.0	100.0	100.0	Indirect
IP Group Holdco Inc	100.0	100.0	100.0	Indirect
IPG USA (GP) LLC	100.0	100.0	100.0	Indirect
IPG USA Plan LLC	100.0	100.0	100.0	Indirect
IPG Cayman LP	89.0	89.0	89.0	Indirect
IP University Holdings LLC	100.0	100.0	100.0	Indirect
Fed Impact LLC	100.0	100.0	100.0	Indirect
IPG USA SCO LP	100.0	100.0	100.0	Indirect
FedImpact LLC	100.0	100.0	100.0	Indirect
IP2IPO Nominees Limited ⁽ⁱⁱ⁾	100.0	100.0	100.0	Direct
IP2IPO Services Limited ⁽ⁱⁱ⁾	100.0	100.0	100.0	Direct
LifeUK (IP2IPO) Limited ⁽ⁱⁱ⁾	100.0	100.0	100.0	Direct
IP Industry Partners Limited ⁽ⁱⁱⁱ⁾	100.0	100.0	100.0	Direct
Union Life Sciences Limited – Ordinary shares	95.0	95.0	95.0	Indirect
Union Life Sciences Limited – Preference shares ^(ix)	100.0	100.0	100.0	Direct
Union Life Sciences Limited – Total	95.0	95.0	99.9	Indirect
Biofusion Licensing (Sheffield) Limited ^{(ii),(vi)}	100.0	100.0	100.0	Indirect
Fusion IP Nottingham Limited ^{(ii),(vi)}	100.0	100.0	100.0	Indirect
Fusion IP Two Limited ^{(ii),(vi)}	100.0	100.0	100.0	Indirect
Asterion Limited	66.8	66.8	66.5	Indirect

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

10. Details of subsidiary undertakings continued

Name of subsidiary undertakings	Proportion of ownership interest % ⁽ⁱ⁾	Proportion of voting power held % ⁽ⁱ⁾	Proportion of nominal value held %	Held by Parent/Group
PH Therapeutics Limited	60.0	60.0	60.0	Indirect
Extraject Technologies Limited	60.0	60.0	60.0	Indirect
Stratium Limited	52.9	52.9	52.9	Indirect
IP Venture Fund II L.P. ^(vii)	33.3	33.3	33.3	Indirect

⁽ⁱ⁾ All holdings are via Ordinary Shares unless separate classes are specified in the table.

⁽ⁱⁱ⁾ Dormant/non-trading company.

⁽ⁱⁱⁱ⁾ Company/limited liability partnership engaged in fund management activity.

^(iv) Acquired as part of the Fusion IP plc acquisition.

^(v) As detailed in note 1 to the Group financial statements, though less than 33.3% of beneficial and nominal interest is held by the Group, the Group's position as fund manager to IP Venture Fund II L.P. means the Group fulfils the control criteria set out in IFRS 10 and the fund is thus consolidated.

^(vi) Not consolidated due to immateriality.

^(vii) Shares which have no economic or voting rights attributed to them.

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

IP Group Inc: 1105 North Market Street, Suite 1800, Wilmington, DE 19801, USA.

IP Ventures (Scotland) Limited: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ.

IP Assist Services Limited: Nexus, Discovery Way, Leeds, West Yorkshire, LS2 3AA.

MOBILion Systems Inc.: 1105 N. Market St, Suite 1800, Wilmington, DE 19801, USA.

Asterion Limited: Nexus, Discovery Way, Leeds, West Yorkshire, LS2 3AA.

PH Therapeutics Limited: Discovery Way, Leeds, West Yorkshire, LS2 3AA.

Extraject Technologies Limited: Discovery Way, Leeds, West Yorkshire, LS2 3AA.

Stratium Limited: C/O Uhy Hacker Young Lanyon House, Mission Court, Newport, NP20 2DW.

Parkwalk Advisors Ltd: Warwick House, 25 Buckingham Palace Road, London, SW1W 0PP.

Imperial Innovations Sarl: 17 Boulevard Prince Henri, Luxembourg, L1724.

IP2IPO Australia Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia.

IP Group Greater China Limited: 6/F Alexandra House, 18 Chater Road, Central Hong Kong.

IP2IPO Australia HP Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia.

IP2IPO Australia Management Pty Limited: Level 11, 1 Margaret Street, Sydney, NSW, 2000, Australia.

IP2IPO Cayman Limited: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

IP Group Holdco Inc: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA.

IPG USA (GP) LLC: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

IPG USA Plan LLC: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA.

IPG Cayman LP: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

IP University Holdings LLC: Corporation Trust Center, 1209 Orange street, New Castle, DE 19801, USA.

Fed Impact LLC: 251 Little Falls Drive, Wilmington, New Castle, DE 19808, USA.

IPG USA SCO LP: 13 Queens Road, Aberdeen, AB15 4YL.

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

All companies above undertake the activity of commercialising intellectual property unless stated otherwise. All companies are consolidated into the Group's financial performance and position following the acquisition method bar those specified which are omitted due being immaterial.

11. Details of significant holdings and associated undertakings

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
IP Venture Fund ⁽ⁱⁱ⁾	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	10.0%	Group
8Power Limited	Future Business Centre, King's Hedges Road, Cambridge, United Kingdom, CB4 2HY	23.5%	Group
Absynth Biologics Limited:	Biohub at Alderley Park, Macclesfield, Cheshire, SK10 4TG	39.9%	Group
A ordinary shares		37.4%	Group
B ordinary shares		100.0%	Group
Ordinary shares		43.3%	Group
Accelercomm Limited:	2 Venture Road, Southampton Science Park, Chilworth, Southampton, SO16 7NP	39.0%	Group
A ordinary shares		40.0%	Group
Ordinary shares		38.4%	Group
Actual Experience plc	Quay House, The Ambury, Bath, Somerset, BA1 1UA	21.4%	Group
Alesi Surgical Limited:	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	28.7%	Group
B shares		100.0%	Group
Ordinary shares		57.0%	Group
Preferred B shares		9.7%	Group
Preferred ordinary shares		40.3%	Group
Amaethon Limited:	Heslington Hall, Heslington, York, North Yorkshire, YO10 5DD	27.6%	Group
A ordinary shares		52.9%	Group
B ordinary shares		27.6%	Group
Ordinary shares		0.0%	Group
Anacail Limited:	First Floor, South Suite, Telford Pavilion West Of Scotland Science Park, Maryhill Road, Glasgow, Scotland, G20 0XA	39.7%	Group
A shares		40.7%	Group
Ordinary shares		38.8%	Group
AnywhereHPLC Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	50.0%	Group
Apcintex Limited:	C/o Medicxi, 25 Great Pulteney Street, London, England, W1F 9LT	31.9%	Group
A preference shares		47.5%	Group
B ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Aperio Pharma Limited	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	46.1%	Group
Aptatek Biosciences, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	40.1%	Group
Aqdot Limited:	Lab 1 Iconix 2 Iconix Park, London Road, Cambridge, CB22 3EG	45.6%	Group
EIS shares		0.0%	Group
Ordinary shares		0.0%	Group
Preferred shares		79.7%	Group
Arkivum Limited	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	33.7%	Group
Art of Xen Limited:	NHS Liaison Unit, 4th Floor, Mckenzie House, 30-36 Newport Road, Cardiff, CF24 0DE	83.5%	Group
A preference shares		100.0%	Group
B preference shares		100.0%	Group
Asterion Limited	The Innovation Centre, 217 Portobello, Sheffield, England, S1 4DP	66.8%	Group

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
Autifony Therapeutics Limited:	Stevenage Bioscience Catalyst, Gunnels Wood Road, Stevenage, Hertfordshire, England, SG1 2FX	27.6%	Group
Ordinary shares		2.9%	Group
A preference shares		38.4%	Group
A2 preference shares		0.0%	Group
A3 preference shares		35.5%	Group
Azuri Technologies Limited:	St. John's Innovation Centre, Cowley Road, Cambridge, CB4 0WS	31.7%	Group
A preference shares		29.5%	Group
Ordinary shares		37.4%	Group
Boxarr Limited	65 London Road, St. Albans, Hertfordshire, AL1 1LJ	45.4%	Group
Bramble Energy Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	24.2%	Group
Cagen Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	22.5%	Group
Calcico Therapeutics Limited:	Oxford Science Park, Magdalen Centre, Robert Robinson Avenue, Oxford, OX4 4GA	41.5%	Group
A shares		50.0%	Group
Ordinary shares		0.0%	Group
Seed preference shares		33.3%	Group
Capsant Neurotechnologies Limited	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	50.0%	Group
Cardian Limited:	30 Broad Street Broad Street, Great Cambourne, Cambridge, England, CB23 6HJ	34.5%	Group
A preferred shares		100.0%	Group
Ordinary shares		13.6%	Group
C-Capture Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	37%	Group
A preference shares		37%	Group
A preference (NV) shares		100.0%	Group
Ordinary shares		36.7%	Group
Cell Medica Limited:	1 Canal Side Studios, 8-14 St Pancras Way, London, NW1 0QG	24.6%	Group
A pref (Rank 1) shares		15.0%	Group
A pref (Rank 2) shares		100.0%	Group
B preference shares		30.0%	Group
C preference shares		22.8%	Group
BCM preference shares		0.0%	Group
Ordinary shares		29.7%	Group
Celltron Networks Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	30.0%	Group
Chip Diagnostics, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808	47.0%	Group
Chromosol Limited	The Walbrook Building 25 Walbrook, London, EC4N 8AF	34.6%	Group
Clarity Vision Technologies, Inc.	1 Righter Parkway, Wilmington, Delaware, DE 19803	51.2%	Group
Creavo Medical Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	37.8%	Group
A shares		100.0%	Group
Ordinary shares		38.2%	Group
Z shares		0.0%	Group

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
Crysalin Limited:	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	28.5%	Group
A shares		0.0%	Group
B shares		0.0%	Group
C shares		0.0%	Group
D shares		0.0%	Group
Ordinary shares		30.6%	Group
Cynash, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808	75.6%	Group
Deep Matter Group plc:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	27.8%	Group
OAS ordinary shares		0.0%	Group
Ordinary shares		27.8%	Group
Defenition Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	49.5%	Group
B ordinary shares		100.0%	Group
Ordinary shares		48.5%	Group
Diurnal Group plc	Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	40.1%	Group
Dynamic Vision Systems Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	21.5%	Group
Econic Technologies Limited:	Block 19s Alderley Park, Macclesfield, Cheshire, England, SK10 4TG	49.7%	Group
A ordinary shares		86.3%	Group
A preference shares		41.2%	Group
B preference shares		50.0%	Group
C preference shares		42.9%	Group
Ordinary shares		6.9%	Group
Edgetic Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	55.8%	Group
Ordinary shares		55.8%	Group
B ordinary shares		100.0%	Group
Enachip, Inc.	PHS Corporate Services, Inc., 1313 N Market Street, STE, 5100, Wilmington, New Castle, DE, 19801	46.7%	Group
Enterprise Therapeutics Limited:	Sussex Innovation Centre Science Park Square, Falmer, Brighton, England, BN1 9SB	27.9%	Group
Ordinary shares		0.0%	Group
Series A shares		47.6%	Group
Series B shares		16.4%	Group
Epsilon-3 Bio Limited:	Moneta Building Babraham Research Campus, Babraham, Cambridge, Cambridgeshire, CB22 3AT	22.6%	Group
A preferred shares			
Ordinary shares		28.1%	Group
Exyn Technologies, Inc.	203 NE Front Street STE 101, Milford, Kent, DE, 19963	46.6%	Group
FaultCurrent Limited:	The Maltings East Tyndall Street, Cardiff Bay, Cardiff, CF24 5EZ	37.5%	Group
A shares		35.8%	Group
Ordinary shares		35.7%	Group

NOTES TO THE COMPANY

FINANCIAL STATEMENTS CONTINUED

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
Featurespace Limited:	Broers Building 2nd Floor, 21 J Thomson Avenue, Cambridge, CB3 0FA	27.5%	Group
A preference shares		33%	Group
B preference shares		64.6%	Group
C preference shares		63.6%	Group
D preference shares		39.6%	Group
E preference shares		8.6%	Group
F preference shares		11.7%	Group
Ordinary shares		0.0%	Group
X ordinary shares		4.1%	Group
First Light Fusion Limited:	Unit 10 Mead Road, Yarnton, Kidlington, Oxfordshire, OX5 1QU	35.9%	Group
Ordinary shares		37.5%	Group
A ordinary shares		0.0%	Group
Fluid Pharma Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	40.3%	Group
Ordinary shares		39.6%	Group
B ordinary shares		87.1%	Group
Garrison Technology Limited:	117 Waterloo Road, London, England, SE1 8UL	23.4%	Group
A preference shares		94.9%	Group
A1 preference shares		25.0%	Group
A2 preference shares		32.9%	Group
B preference shares		14.0%	Group
Ordinary shares		0.0%	Group
Gripable Limited	52 Princes Gate, Exhibition Road, London, SW7 2PG	38.9%	Group
Helio Display Materials Limited	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	21.3%	Group
I2L Research Limited:	Capital Business Park, Wentloog, Cardiff, CF3 2PX	31.0%	Group
A ordinary shares		84.0%	Group
B ordinary shares		13.3%	Group
Ordinary shares		0.0%	Group
Ibex Innovations Limited	Explorer 2 - Netpark Thomas Wright Way, Sedgefield, Stockton-on-Tees, TS21 3FF	38.5%	Group
Ieso Digital Health Limited:	The Stable Block The Grange, 20 Market Street, Swavesey, Cambridge, CB24 4QG	85.1%	Group
A preference shares		46.9%	Group
A ordinary shares		85.1%	Group
B ordinary shares		0.0%	Group
Ordinary shares		18.7%	Group
Iksuda Therapeutics Limited:	The Biosphere, Draymans Way, Newcastle Helix, Newcastle upon Tyne, NE4 5BX	55.1%	Group
A Ordinary shares		50.0%	Group
Ordinary shares		56.5%	Group
Impression Technologies Limited:	Unit E, Lyons Park, 46 Sayer Drive, Coventry, CV5 9PF	55.9%	Group
Ordinary shares		47.6%	Group
Series A shares		62.5%	Group
Series B shares		50.0%	Group

11. Details of significant holdings and associated undertakings *continued*

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
Inivata Limited:	The Portway Granta Park, Great Abington, Cambridge, CB21 6GS	28.1%	Group
A preference shares		37.5%	Group
Ordinary shares		0.0%	Group
Series A shares		31.7%	Group
Series B shares		26.0%	Group
Instrumems, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	43.4%	Group
Ionix Advanced Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	34.4%	Group
B ordinary shares		100.0%	Group
Ordinary shares		34.3%	Group
Ipalk SAS	112 rue des hautes variennes, 45200, Amilly France	23.5%	Group
IR Pharma Limited	1st Floor Sir Alexander Fleming Building, Imperial College London Exhibition Road, London, SW7 2AZ	28.0%	Group
Istesso Limited:	The Walbrook Building, 25 Walbrook, London, EC4N 8AF	44.9%	Parent
A shares		75.6%	Parent
Ordinary shares		42.7%	Parent
Kira Biotech Pty Limited		100%	Group
Lorem Pharmaceuticals, Inc.	Renaissance Centre, 405 North King Street, Suite 500, Wilmington, New Castle, DE, 19801	34.6%	Group
Lumiode, Inc.	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	49.7%	Group
Magnomatics Limited:	Park House, Bernard Road, Sheffield, S2 5BQ	44.5%	Group
A shares		52.1%	Group
B shares		100.0%	Group
C shares		100.0%	Group
Ordinary shares		24.8%	Group
Medaphor Group plc	The Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ	25.8%	Group
Microbiotica Limited:	Biodata Innovation Centre Wellcome Genome Campus, Hinxton, Cambridge, Cambridgeshire, CB10 1DR	26.9%	Group
Seed shares		39.8%	Group
Ordinary shares		0.0%	Group
Mission Therapeutics Limited:	Babraham Hall, Babraham, Cambridge, CB22 3AT	20.2%	Group
A preference shares		22.5%	Group
B preference shares		22.5%	Group
C preference shares		22.5%	Group
Ordinary shares		0.0%	Group
Mixergy Limited	30 Upper High Street, Thame, Oxfordshire, OX9 3EZ	27.9%	Group
MOBILion Systems, Inc.	4 Hillman Drive, Suite 130, Chadds Ford, PA 19317	52.6%	Group
A preferred stock		42.8%	Group
Common stock		100.0%	Group
Nascient Limited:	30 Broad Street, Great Cambourne, Cambridge, Cambridgeshire, CB23 6HJ	70.5%	Group
A shares		0%	Group
Ordinary shares		25%	Group
Preferred shares		100%	Group

NOTES TO THE COMPANY

FINANCIAL STATEMENTS CONTINUED

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
NGenics Global Limited	The Catalyst Baird Lane, Heslington, York, North Yorkshire, YO10 5GA	30.7%	Group
Optimeos Life Sciences, Inc	251 Little Falls Drive, Wilmington, Delaware, 19808	41.8%	Group
Oxehealth Limited	Sadler Building Heatley Road, Oxford Science Park, Oxford, Oxfordshire, OX4 4GE	34.6%	Group
Oxford Biotrans Limited:	30 Upper High Street, Thame, Oxfordshire, OX9 3EZ	42.3%	Group
Ordinary shares		13.7%	Group
Seed preferred shares		70.4%	Group
OxSyBio Limited:	The Walbrook Building, 25 Walbrook, London, C4N 8AF	43.9%	Group
A shares		100.0%	Group
Ordinary shares		45.8%	Group
Preference shares		40.0%	Group
Oxular Limited:	Magdalen Centre, Robert Robinson Avenue, Oxford, OX4 4GA	27.0%	Group
A preferred shares		44.1%	Group
Ordinary shares		0.0%	Group
Perachem Holdings plc:	55 Drury Lane, London, WC2B 5RZ	46.2%	Group
Convertible preferred shares		0.0%	Group
Ordinary shares		46.2%	Group
Perlemax Limited	The Sheffield Bioincubator, 40 Leavy Greave Road, Sheffield, S3 7RD	34.5%	Group
Perpetuum Limited:	2 Venture, Southampton Science Park, Chilworth, Southampton, SO16 7NP	22.0%	Group
Ordinary shares		33.1%	Group
Series B shares		13.4%	Group
Series C shares		30.4%	Group
Series C1 shares		0.0%	Group
Preference shares		0.0%	Group
PH Therapeutics Limited	The Innovation Centre, 217 Portobello, Sheffield, S1 4DP	60.0%	Group
Polar OLED Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	35.0%	Group
A shares		55.9%	Group
Ordinary shares		32.7%	Group
Process Systems Enterprise Limited	5th Floor East, 26-28 Hammersmith Grove, London, W6 7HA	23.3%	Group
Quantima Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, United Kingdom, LS2 9DF	33.3%	Group
Quantum Motion Technologies Limited:	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	20.3%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		21.2%	Group
Reinifer Limited:	Mindspace Whitechapel, 114 Whitechapel High Street, London, E1 7PT	23.1%	Group
Seed Preference shares		73.3%	Group
Ordinary shares		0.0%	Group
Relitect Limited	1 West Regent Street, Glasgow, Scotland, G1 2AP	33.4%	Group

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽¹⁾	Held by Parent/Group
Riotech Pharmaceuticals Limited	49 Arrivato Plaza, Hall Street, St Helens, United Kingdom, WA10 1GH	20.3%	Group
Riptron Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, West Yorkshire, LS2 9DF	33.3%	Group
Saw DX Limited	11 The Square University Avenue, Glasgow, G12 8QQ	35.0%	Group
Seren Photonics Limited:	37b UK Technology Centre Pencoed Technology Park, Pencoed, Bridgend, Mid Glamorgan, CF35 5HZ	26.8%	Group
A Ordinary shares		49.1%	Group
B Ordinary shares		0.0%	Group
Silicon Microgravity Limited:	Clarendon House, Clarendon Road, Cambridge, CB2 8FH	27.7%	Group
A Ordinary shares		0.0%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
B Preference shares		47.2%	Group
Seed Preferred shares		71.9%	Group
Spinetic Energy Limited	The Old Post Office, 41-43 Market Place, Chippenham, Wiltshire, England, SN15 3HR	29.6%	Group
Stratium Limited	15th Floor Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB	57.1%	Group
Surrey NanoSystems Limited:	The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF	21.4%	Group
A Ordinary shares		17.4%	Group
A2 Ordinary shares		9.1%	Group
Ordinary shares		34.5%	Group
Sweetgen Limited	52 Princes Gate, Exhibition Road, London, England, SW7 2PG	25.0%	Group
Telectica Limited:	49 Burnham Road, St. Albans, Hertfordshire, AL1 4QN	26.4%	Group
Ordinary shares		0.0%	Group
A Ordinary shares		0.0%	Group
Seed Preferred shares		90.5%	Group
Therapeutic Frontiers Limited	Gowran House, 56 Broad Street, Chipping Sodbury, Bristol, BS37 6AG	25.8%	Group
Topivert Limited:	265 Strand, London, WC2R 1BH	29.4%	Group
A Ordinary shares		100.0%	Group
A Preference shares		0.0%	Group
B1 Preferred shares		34.0%	Group
B2 Preferred shares		37.1%	Group
Ordinary shares		2.3%	Group
Ubiquigent Limited	Dundee University Incubator Dundee Technopole, James Lindsay Place, Dundee, DD1 5JJ	39.3%	Group
Ultrahaptics Holdings Ltd:	The West Wing, Glass Wharf, Bristol, BS2 0EL	27.7%	Group
B Ordinary shares		0.0%	Group
Ordinary shares		48.4%	Group
C Preference shares		1.8%	Group
Preference shares		26.6%	Group
Uniformity Labs, Inc.	41400 Christy Street, Fremont, CA 94538, USA	25.8%	Group
Uniphy Limited	Leeds Innovation Centre, 103 Clarendon Road, Leeds, LS2 9DF	39.1%	Group
A shares		16.0%	Group
Ordinary shares		39.1%	Group

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

11. Details of significant holdings and associated undertakings continued

Name of undertaking	Registered address	Proportion of nominal value held % ⁽ⁱ⁾	Held by Parent/Group
Wave Optics Limited:	Wave Optics Ltd, Milton Park Innovation Centre 99 Park Drive, Milton Park, Milton, Abingdon, Oxfordshire, England, OX14 4RY	20.1%	Group
A Ordinary shares		5.8%	Group
B Ordinary shares		39.3%	Group
B1 Ordinary shares		25.9%	Group
C1 Ordinary shares		5.8%	Group
C2 Ordinary shares		0.0%	Group
Ordinary shares		0.0%	Group
Yoyo Wallet Limited:	78 2nd Floor, Whitfield Street, London, England, W1T 4EZ	39.6%	Group
Ordinary shares		10.0%	Group
Series 1 Seed shares		31.9%	Group
Series 2 Seed shares		77.7%	Group
Series A Preferred shares		83.8%	Group
Series B Preferred shares		33.3%	Group
Series B2 Preferred shares		33.3%	Group
Zeetta Networks Limited	The Walbrook Building, 25 Walbrook, London, United Kingdom, EC4N 8AF	26.6%	Group
Ordinary shares		12.3%	Group
Preference shares		33.9%	Group

⁽ⁱ⁾ All holdings are via Ordinary Shares unless separate classes are specified in the table.

⁽ⁱⁱ⁾ A fund in which the Group is a limited partner. Proportion of nominal value stated is equivalent to capital contributed to the partnership in question.

All companies above are incorporated in the United Kingdom with the exception of Aptatek Biosciences, Inc., Chip Diagnostics, Inc., Clarity Vision Technologies, Inc., Cynash, Inc., Enachip, Inc., Exyn Technologies, Inc., Instrumems, Inc., Lorem Pharmaceuticals, Inc., Lumiode, Inc., MOBILion Systems, Inc., Optimeos Life Sciences, Inc. and Uniformity Labs, Inc. which were incorporated in Delaware, USA, Ipalk SAS which was incorporated in France and Kira Biotech Pty Limited which was incorporated in Australia. The significant influence noted above has been determined in line with IAS 28 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

SHAREHOLDER NOTES

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SHAREHOLDER NOTES

COMPANY INFORMATION

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04204490

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Alan John Aubrey
(Chief Executive Officer)

Michael Charles Nettleton Townend
(Chief Investment Officer)

Gregory Simon Smith
(Chief Financial Officer)

David Graham Baynes
(Chief Operating Officer)

Jonathan Brooks
(Non-executive Director)
(resigned from the Board on
10 March 2020)

Dr Caroline Anne Brown
(Non-executive Director)

Heejae Richard Chae
(Non-executive Director)

Aedhmar Hynes
(Non-executive Director)

Dr Elaine Sullivan
(Non-executive Director)

Professor David Knox Houston Begg
(Senior Independent Director)

Company secretary

Angela Leach

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