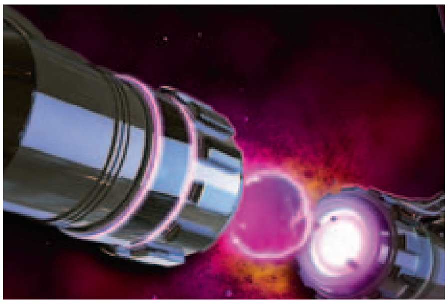


Identify Create **Grow**

IP Group plc
Annual Report and Accounts 2011

IP Group plc develops **intellectual property-based businesses.**

Our strategy is to systematically build outstanding businesses based on intellectual property.

We provide capital to portfolio companies from our balance sheet and also from funds that we manage on behalf of others.

We pioneered the concept of a long-term partnership model with UK universities and we now have arrangements covering twelve of the country's leading universities.

Our aims

- To identify compelling intellectual property-based opportunities in our key target sectors
- To develop these opportunities into a diversified portfolio of robust businesses
- To grow our assets and those we manage on behalf of third parties
- To provide our shareholders with quoted access to potentially high growth technology companies

Discover more about our business model on page 02 ›

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

Contents

IFC **About us**
01 **Highlights**
02 **How we work** Business model
04 **Our portfolio at a glance** Summary by sector
06 **Chairman's statement**

Business review
08 Chief Executive's statement
10 Portfolio review
20 Financial review
24 **Risk management**
26 **Corporate Social Responsibility**

30 **Board of Directors**
32 **Directors' report**
35 **Directors' Remuneration Report**
41 **Corporate Governance**

49 **Independent auditor's report**
50 **Consolidated statement of comprehensive income**
51 **Consolidated statement of financial position**
52 **Consolidated statement of cash flows**
53 **Consolidated statement of changes in equity**
54 **Notes to the consolidated financial statements**
77 **Company balance sheet**
78 **Notes to the financial statements**
IBC **Directors, secretary and advisers to the Group**

Highlights

Operational

Operational
– Net assets increased to £221.6m (2010: £173.1m)
– Successful completion of placing and open offer, realising gross proceeds of £55.0m
– Net cash and deposits at 31 December 2011: £60.5m (2010: £21.5m)
– Adjusted profit before tax of £0.5m (2010: £1.8m), excluding £6.0m reduction in fair value of Oxford Equity Rights asset (2010: £nil)
– Widening of partnership with University of Oxford through strategic stake in Technikos LLP
– Appointment of four new directors to the Board

Portfolio
– Fair value of portfolio: £123.8m (2010: £110.0m)
– More than doubled investment in portfolio companies to £14.3m (2010: £6.9m)
– Portfolio realisations: £3.7m (2010: £2.7m)
– Value of ten largest holdings: £89.0m (2010: £81.3m)
– Group's portfolio companies raised in excess of £90.0m of new capital (2010: £40.0m)
  – Oxford Nanopore Technologies Limited completed £25.0m private financing
  – Tissue Regenix Group plc completed £25.0m placing

Post year-end highlights
– Oxford Nanopore to launch two revolutionary DNA sequencing machines, GridION™ and MinION™ during 2012
– Net increase in the fair value of the Group's holdings in quoted portfolio companies, excluding net investment, of £10.0m since 31 December 2011

Financial

Net assets
£221.6m
2010: £173.1m

Fair value of portfolio
£123.8m
2010: £110.0m

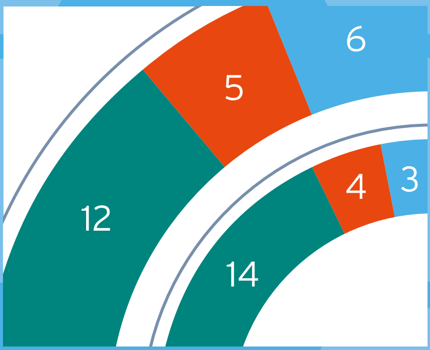
Net cash and deposits
£60.5m
2010: £21.5m

Adjusted profit before tax
£0.5m
2010: £1.8m

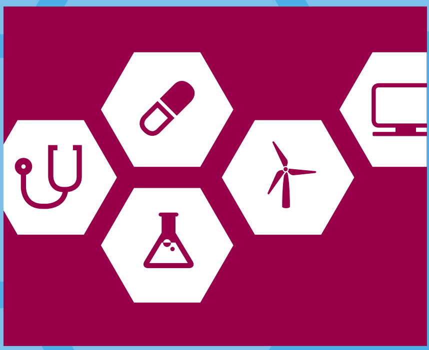
Investment in portfolio
£14.3m
2010: £6.9m

Realisations from portfolio
£3.7m
2010: £2.7m

In this report



Understand our business
02-03 The Group's business model and portfolio at a glance



Portfolio at a glance
04-05 A run down of all businesses in the Group's portfolio, divided by sector

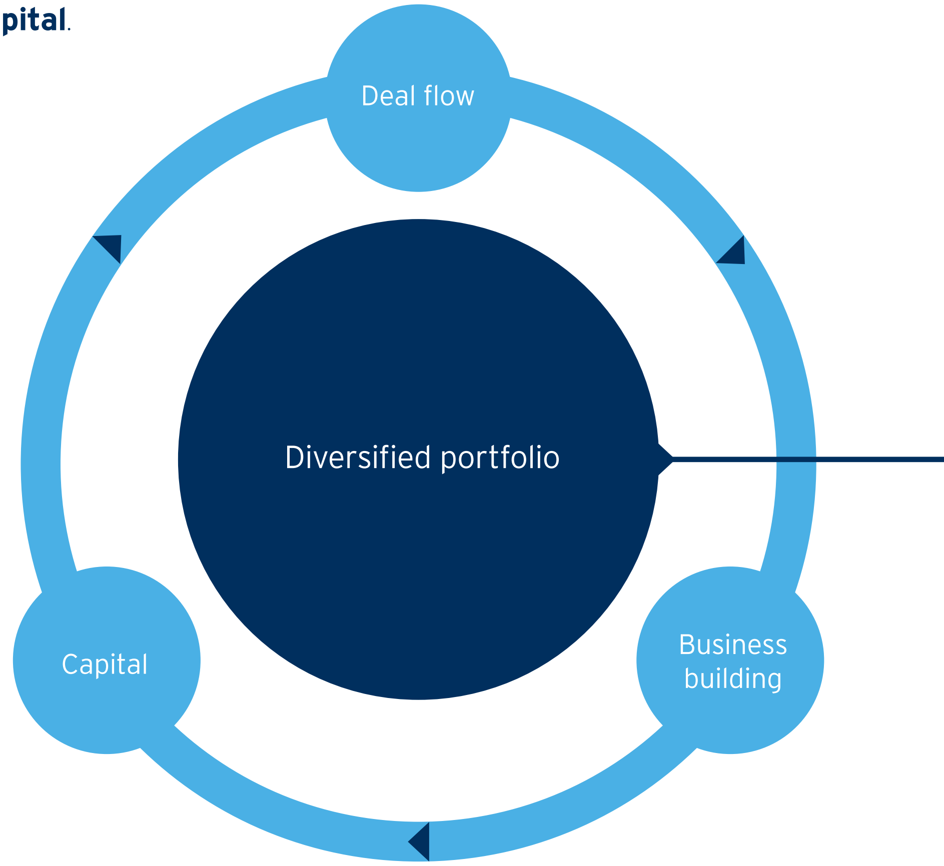
Chief Executive's statement
08-09 Alan Aubrey reviews the Group's operational performance and outlook

How we work
Business model

Business model

Our business model is to form companies based on intellectual property being developed at the UK's leading universities. We grow the value of our equity by taking an active role in helping to build these into outstanding companies.

Our methodology consists of three core components: **deal flow**, **business building** and **capital**.



Deal flow
One of the key differentiators of the IP Group business model is its proprietary deal flow. Over the last ten years, the Group has entered into exclusive long-term partnerships with ten of the UK's major research intensive universities and developed relationships with a number of others. The Group's specialist in-house sourcing team works with our partners to identify promising research and to create and build businesses around this research.

Business building
During the early stages of an opportunity's development, members of the Group's team work closely with its founders to shape its strategic direction and frequently take an interim commercial management role until the business reaches a sufficient stage of maturity and has the resources to widen the leadership team.

IP Group uses its specialist early-stage in-house executive search consultancy, IP Exec, to recruit experienced and high-calibre individuals to lead its developing businesses alongside founders and IP Group team members, who continue to provide strategic guidance in a non-executive capacity. The Group has initiated two innovative programmes to accelerate company growth, working with CEOs and company boards to improve performance.

The Group also provides operational, legal and business support, including company secretarial, to its companies with a view to minimising the most common administrative factors that can contribute to early-stage company failure.

Capital
IP Group provides capital to its portfolio companies from its own balance sheet and also manages a number of venture capital funds including the IP Venture Fund and the Finance for Business North East Technology Fund which, subject to investment guidelines, can provide further additional sources of capital. In addition, the Group works with a wide network of co-investors that can provide further capital alongside the Group.

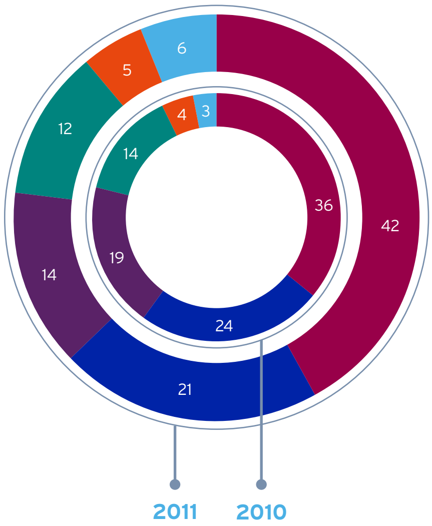
IP Group provides **support and resources** to turn **innovative ideas** into **successful businesses**

Portfolio analysis

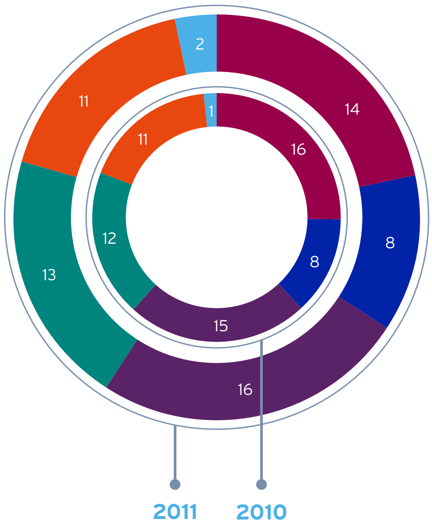
Key:

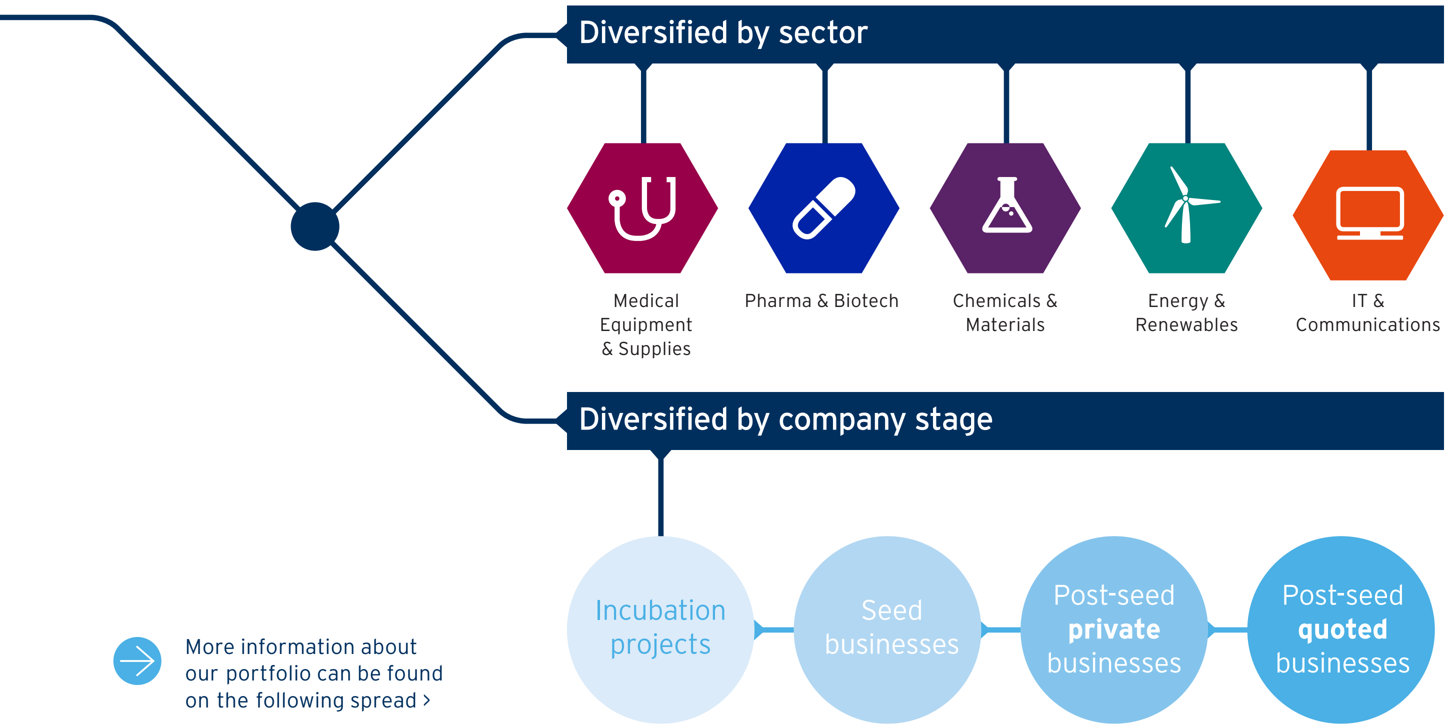
- Medical Equipment & Supplies
- Pharma & Biotech
- Chemicals & Materials
- Energy & Renewables
- IT & Communications
- Multiple sectors

By fair value (%)



By number





More information about our portfolio can be found on the following spread ›

Our portfolio at a glance
Summary by sector

Medical Equipment & Supplies

Fair value

£52.0m

2010: £39.8m

Number of companies

14

2010: 16

Highlights

- The major contributors to the increase in fair value were Oxford Nanopore (£6.4m), which completed a further £25.0m fundraising, and Tissue Regenix (£1.9m) whose share price performed positively. These were partially offset by a decrease in the fair value of the Group's holding in Avacta Group plc (£1.2m).
- Oxford Nanopore announced in February 2012 that it intends to launch two revolutionary DNA sequencing machines, GridION™ and MinION™, during 2012.
- Tissue Regenix announced in April that it had entered into a commercialisation and IP agreement with one of its long-term clinical collaborators which will facilitate its entry into the $1.0bn global tissue heart valve market, and also announced promising follow up results from the ongoing clinical evaluation of its dCELL® Vascular Patch following the receipt of European CE Mark approval in 2010 for its use in vascular repair.
- The Group's holding in Avacta Group saw a fair value reduction during the period of £1.2m. However, Avacta has continued to perform well operationally, announcing underlying revenue growth of 42% for the year to 31 July 2011 and establishing a global network of top-tier distributors including the S&P500 company, Pall Corporation.

More: Page 15 ›

Pharma & Biotech

Fair value

£25.4m

2010: £26.2m

Number of companies

8

2010: 8

Highlights

- The sector saw a limited level of unrealised fair value losses predominantly due to a £1.6m unrealised fair value loss from the share price performance of Proximagen Group. This was counteracted to a degree by Synairgen, whose share price increase contributed £0.4m of fair value gains.
- In October, Photopharmica announced positive results from its Phase 2b clinical trial of antimicrobial photodynamic therapy using PPA 904 in the treatment of chronic leg ulcers and appointed PwC as its global corporate finance adviser.
- Proximagen's share price fell despite the announcement of a number of strategic partnerships to enable it to further develop and commercialise its therapeutics programmes primarily focused on the treatment of central nervous system diseases. These included a partnership with H. Lundbeck A/S, who also made an equity investment of £10.3m into the company, and a collaborative research and development agreement with Altacor Limited.
- Synairgen announced the last subjects in its Phase II trial of inhaled interferon beta in asthma were dosed in December, with the trial results anticipated in March 2012.

More: Page 16 ›

Chemicals & Materials

Fair value

£17.5m

2010: £20.7m

Number of companies

16

2010: 15

Highlights

- The unrealised fair value loss seen by the Chemicals & Materials portfolio was largely as a result of Oxford Advances Surfaces Group's decrease in share price during the year and Revolymer's £5.8m April financing round which completed at a discount to its previous round.
- Green Chemicals raised £0.7m in a placing in October 2011 and announced licences in two application areas during the year – one in the field of fire retardants for textiles with Clariant International Limited and the other in the hair colouration field with Urban Retreats Limited.
- Revolymer completed a £5.8m further financing in April and in late 2011 announced that it had received final approval to market its removable, degradable chewing gum, Rev7™, in Europe, making it the first new gumbase ingredient in over 30 years. In February 2012, Revolymer announced that it had gained additional day-to-day retail distribution in over 450 retail chains in the US, with in excess of 4,000 stores now stocking Rev7.
- Xeros announced it was moving closer to full-scale commercial launch of its polymer-based washing system following highly successful commercial-scale field trials at Jeeves of Belgravia and Watford Launderers & Cleaners.

More: Page 17 ›

IP Group has a portfolio of **64 technology companies** valued at £123.8m, with many experiencing exciting developments during the year.

Energy & Renewables

Fair value

£14.4m

2010: £15.8m

Number of companies

13

2010: 12

Highlights

- The Energy & Renewables sector saw a modest fair value reduction due to AIM-listed Modern Water (£1.7m) and Oxford Catalysts Group (£0.9m), partially offset by GETECH Group (£0.4m).
- While Modern Water saw a reduction in share price during the year, it has continued to develop its leading water technologies, announcing a contract worth £0.5m to build and operate a desalination plant capable of producing 200m^3 of fresh water per day by Oman's Public Authority for Electricity and Water. The company also completed the acquisition of the water quality division of Strategic Diagnostics Inc., including its Microtox® toxicity-testing technology.
- Oxford Catalysts announced a £21.0m placing as well as the successful sale of five commercial scale Fischer-Tropsch reactors during the year, two of which will form the first instalment of reactors towards a commercial synthetic fuels plant.
- GETECH announced Stuart Paton, formerly CEO of Dana Petroleum plc, as its chairman in April and, in November, announced positive annual results to 31 July 2011 including a 63% increase in revenues and pre-tax profits of £0.9m (2010: £0.2m loss).

More: Page 19 ›

IT & Communications

Fair value

£6.4m

2010: £4.4m

Number of companies

11

2010: 11

Highlights

- The modest gain in the Group's portfolio of holdings in IT & Communications companies was assisted by the performance of Tracsis (£0.2m gain), a leading provider of operational planning software to passenger transport industries. Tracsis reported its fourth successive year of revenue growth since its AIM IPO in 2007. Tracsis achieved annual revenues of £4.1m with profit before tax of £1.1m and cash balances at 31 July 2011 of £4.7m.

More: Page 19 ›

Multiple sectors

Fair value

£8.1m

2010: £3.1m

Number of companies

2

2010: 1

Highlights

- Fusion IP plc, in which the Group holds a 26.0% interest, raised £5.0m from new and existing shareholders in November 2011, including £2.3m from the Group. Fusion's portfolio companies, arising from its partnerships with University of Sheffield and Cardiff University, announced a number of commercial and technical milestones in 2011. The positive performance of Fusion's share price resulted in an unrealised fair value gain to the Group of £2.5m.

Chairman's statement

Dr Bruce Smith
Chairman

Successfully building on **strong foundations**

In summary

- Continued progress across the Group and its portfolio companies
- Balance sheet materially strengthened following successful £55m placing
- Fair value of portfolio increased to £123.8m from £110.0m
- Companies across the portfolio raised in excess of £90m of new capital
- Appointment of four new directors to the Board

Last year I described 2010 as being a year of building on the Group's foundations and I am pleased to report that during 2011 we have successfully continued to build IP Group and its portfolio companies, many of which have experienced exciting developments during the year.

Since the Group's formation in 2000, its core strategy has been clear and consistent: to build high-quality businesses based on intellectual property. The successful completion of a significant placing during the year, through which we raised £55m of new capital before expenses, is a strong endorsement of this strategy. We are grateful for the substantial support from our existing shareholders and welcome shareholders who are new to the Group in 2011.

By most measures, the macroeconomic environment during 2011 remained turbulent, both globally and in the UK, and a degree of uncertainty continues to hang over the economy and financial markets. This environment brings both challenges and opportunities for the Group and its portfolio companies.

The Group's portfolio companies were successful in raising approximately £90m of new capital during the year. While financing for early-stage businesses, which inevitably carry a higher risk of failure, continues to be limited, we continue to work closely with portfolio companies to access a variety of capital pools, some of which appear to be showing some level of increasing appetite including, for example, additional funds that may become available as a result of the planned broadening of the UK's Enterprise Investment Scheme, which is welcomed by the Group.

Our partnerships

Our strategy has remained consistent since our first partnership with the University of Oxford's Chemistry Department. Today, we have arrangements with twelve of the UK's leading universities:

IP Group plc partnerships

1 Glasgow
2 York
3 Leeds
4 Bristol
5 Bath
6 Oxford
7 King's College London
8 Queen Mary, London
9 Surrey
10 Southampton

Fusion IP plc partnerships

1 Sheffield
2 Cardiff

"During 2011, we have successfully continued to build IP Group and its portfolio companies, many of which have experienced exciting developments during the year."

Similarly, while trading conditions for small businesses may remain difficult in individual geographies and markets, the challenges addressed by many of the Group's portfolio companies, including healthcare, availability of fresh water, sustainability and increased efficiency, are global in nature and can yield opportunities across many different jurisdictions. During the year, a number of our portfolio companies were successful in selling products and services and forming commercial partnerships not just in the UK and Europe but increasingly in the US, China and the rest of the world. It is our belief that intellectual property is a global asset class and that this trend will continue.

Overall, the financial performance of the Group during the year was satisfactory, with the Group's portfolio of spin-out companies increasing in value to £123.8m (2010: £110.0m) and, largely as a result of the net proceeds from the Group's placing, net assets excluding intangibles and the Oxford Equity Rights asset increasing to £189.1m (2010: £134.6m). Excluding the reduction of £6.0m in the value of the Oxford Equity Rights asset, the Group recorded a modest adjusted profit before tax of £0.5m (2010: £1.8m; £nil reduction in value of Oxford Equity Rights asset).

This year has seen a number of changes to the Board and I am pleased to report the addition of four new members bringing skill sets that we believe will help drive the next phase of the Group's growth. At the non-executive level, we announced the joining of Jonathan Brooks and Mike Humphrey, two individuals with extensive commercial and financial track records. Jonathan, formerly the chief financial officer of ARM Holdings plc, became Chairman of the Group's Audit Committee while Mike, who had served as group chief executive of Croda International plc since 1999, became the Group's Senior Independent Director. Roger Brooke, who had served as a non-executive director for nearly ten years and as Chairman of the Group's Audit Committee since its formation in 2003, announced his retirement.

At the executive level, two members of the existing management team joined the Board. Greg Smith, who had been Group Financial Controller since January 2008, was promoted to Chief Financial Officer and Charles Winward, who as Managing Director of Top Technology Ventures is responsible for the Group's regulated business, became an executive director having been with the Group since 2007. I would like to welcome all of the Board's new members, who I look forward to working alongside, and would also like to express my significant gratitude to Roger for his wise counsel and immense contribution to the Group over the years.

Finally, I believe that it is important each year to recognise the hard work and dedication of the Group's staff and the continued support and contribution from the Group's shareholders, limited partners, portfolio company management teams and university partners. I would like to conclude my statement with an expression of thanks to these teams and individuals, who have all contributed to the Group's growth this year.

Dr Bruce Smith
Chairman

Business review
Chief Executive's statement

Alan Aubrey
Chief Executive Officer

A promising year, as our portfolio companies mature

In summary

- 2011 was a year of significant progress for the Group
- Net assets, excluding intangibles and Oxford Equity Rights asset, increased to £189.1m
- More than doubled investment in portfolio companies to £14.3m from £6.9m
- Cash realisations for the year increased to £3.7m compared to £2.7m in 2010
- Exciting product announcement from Oxford Nanopore Technologies, the Group's most valuable portfolio company

During 2011, IP Group continued to execute its core strategy of building high-quality businesses based on intellectual property. The business model that the Group employs in order to achieve this relies on three core components:

- proprietary access to potentially disruptive, commercialisable intellectual property;
- a rigorous and systematic approach to opportunity appraisal and business building; and
- access to sources of capital to finance businesses as they develop.

Through the application of this business model, the Group seeks to form, or assist in the formation of, spin-out companies based on fundamental innovation, to take a significant minority equity stake in those spin-out companies and then to grow the value of that equity over time through active participation in the development of such spin-out companies.

Capital for the development of portfolio companies from the Group's balance sheet was significantly increased during the year as a result of the successful completion of the Group's placing, which raised £55.0m (before expenses). As discussed with shareholders at the time of the placing, a significant proportion of the funds raised is intended to be employed in maintaining or increasing the Group's equity interest in its most promising portfolio companies, resulting in an increase in the Group's overall level of capital deployment into its portfolio. In line with this intention, the Group has more than doubled its level of investment in 2011 to a total of £14.3m compared to £6.9m in 2010.

Many of the Group's portfolio companies continue to mature and a number have announced significant commercial developments. Oxford Nanopore Technologies Limited, the Group's most valuable portfolio company holding at £33.4m following its most recent financing round in April 2011, announced in February 2012 that it intended to launch two revolutionary DNA sequencing machines during 2012 based on its direct, electrical single-molecule detection platform. Oxford Nanopore intends to launch a high-throughput GridION machine as well as the MinION, a sequencer the size of a USB stick intended for the applied sequencing markets. Photopharmica (Holdings) Limited announced the successful completion of its Phase IIb clinical trial for the use of antimicrobial photodynamic therapy in the treatment of chronic leg ulcers. Tissue Regenix Group plc announced a number of developments in its portfolio

Key Performance Indicators

The KPIs are used by the Board to measure the success of the Group. Our KPIs have been chosen as the best measurement of the Group's performance.

Total equity
£221.6m
2010: £173.1m

Number of new portfolio companies
5
2010: 7

Profit/(loss) attributable to shareholders
£(5.5)m
2010: £1.8m

Purchase of equity and debt investments
£14.3m
2010: £6.9m

Change in fair value of equity and debt investments
£0.9m
2010: £4.0m

Proceeds from sale of equity investments
£3.7m
2010: £2.7m

Cash, cash equivalents and deposits
£60.5m
2010: £21.5m

Share price performance (% change)
157%
2010: (46.5%)

of regenerative medical devices during the year as well as the completion of a £25m placing in December. At 31 December 2011, the Group's portfolio was valued at £123.8m (2010: £110.0m) and a more detailed analysis is provided in the Portfolio review.

Our proprietary access to high-quality intellectual property through unrivalled access to UK universities was broadened during the year through the acquisition of a stake in, and formation of a commercialisation alliance with, Technikos LLP, a specialist medical technology fund that has a long-term commercialisation agreement with the University of Oxford's Institute of Biomedical Engineering. In July, the Group announced its first spin-out under this alliance in the form of Oxyntix Limited. Oxyntix is developing new technologies for energy and process engineering, most notably in the fields of nuclear fusion and sonochemistry, based on the generation of extremely high temperatures and pressures using intense bubble collapse.

The Group continues to work closely with the University of Oxford and Isis Innovation Limited and was pleased to announce in February 2012 that it had backed its first start-up from the Computer Science Department and Isis's Software Incubator. The company, TheySay Limited, is developing "sentiment analysis" software that can be used to help a broad set of organisations generate competitive advantage by understanding emotion expressed in any passage of text. For example, previous academic studies have found that "public mood states" inferred from a sample of social media data can be predictive of changes in stock markets.

The Group has long recognised the importance of access to capital from a wide variety of sources for developing businesses and, in addition to approximately £60m of balance sheet cash at 31 December 2011, the Group currently manages two venture capital funds, the £31m IP Venture Fund and the £25m Finance for Business North East Technology Fund ("NETF"). The former was launched in July 2006, fully funded in August 2007 and, having invested in 25 of the Group's portfolio companies, reaches the end of its five-year "investment period" in August 2012 and will therefore no longer seek new companies in which to invest. The fund has approximately £7m further to deploy into existing portfolio companies and will seek to do so, and then realise its investments, over the next five to six years. NETF is entering its third year of operation, having made investments into over 20 developing technology companies in the North East of England to date. As was intended when the Group won the mandate to manage the fund in 2010, NETF and the Group have now co-invested in four opportunities, including the Group's first spin-out from Durham University, Durham Graphene Sciences Limited, which is developing production technology for generating large-scale commercial quantities of graphene. Graphene is the strongest material currently known to science, and better at conducting electricity than copper, and UK research institutions are at the forefront of discovery in this area of materials science.

Outlook

Despite challenging economic conditions and volatility in the UK's financial markets in the second half of the year, 2011 was an encouraging year for the Group. The significant new capital raised through the Group's placing has strengthened the balance sheet and the directors will seek to accelerate the growth of the portfolio through increased deployment of capital in the most promising companies as they mature.

Clearly, uncertainty in the economic climate presents challenges and none more so than in the funding and trading environment for early-stage developing businesses such as many of those in the Group's portfolio. However, against this backdrop, a number of these companies are launching products, generating revenues and taking advantage of the opportunities presented by the commercialisation of disruptive technologies. We believe the announcement following the year end that Oxford Nanopore, the Group's most valuable portfolio company, intends to launch products later in 2012 is a pivotal moment for both Oxford Nanopore and the Group and we look forward to updating shareholders on the company's progress later in the year.

The directors believe that, as a result of its diverse and developing portfolio, strong cash position and proprietary access to a significant proportion of the UK's leading scientific innovation, the Group has a number of competitive advantages and is accordingly well-placed to deliver significant value for shareholders over the medium to long term.

Alan Aubrey
Chief Executive Officer

Business review continued
Portfolio review

"Of the 64 companies in the Group's portfolio, 72% of the fair value resides in the ten most valuable companies."

Our portfolio: a strong pipeline of IP opportunities

Group portfolio in brief

Fair value of portfolio

£123.8m

2010: £110.0m

Number of portfolio companies

64

2010: 63

Investment in portfolio

£14.3m

2010: £6.9m

Realisations from portfolio

£3.7m

2010: £2.7m

Number of new portfolio companies

5

2010: 7

Overview

At 31 December 2011, the value of the Group's portfolio had increased to £123.8m from £110.0m in 2010, as a result of the net investment and fair value movements set out below. The portfolio comprised holdings in 64 businesses (2010: 63). During the year the Group made total investments of £14.3m, increased from £6.9m in 2010, and realised a total of £3.7m cash proceeds (2010: £2.7m).

The Group's three largest portfolio companies by value, accounting for almost half of the total portfolio value, have seen significant developments during the year and, in the case of Oxford Nanopore, further developments in the early part of 2012.

University of Oxford spin-out, Oxford Nanopore, the developer of revolutionary technology for direct electrical detection and analysis of single molecules, announced the completion of a £25m further financing in April 2011. The round resulted in an unrealised fair value uplift of £6.4m, valuing the Group's 21.5% undiluted beneficial stake in the company at £33.4m at year end.

Following the period end, Oxford Nanopore has made further significant progress and at February's Advances in Genome Biology and Technology ("AGBT") conference in Florida, US, the company presented for the first time DNA sequence data using its novel nanopore "strand sequencing" technique and proprietary high performance electronic devices GridION and MinION. The modular, scalable GridION technology platform consists of a network device (a node) designed for use with a consumable cartridge. Nodes may be clustered in a similar way to computing devices and the "Run Until…" informatics workflow allows the analysis of data in real time as the experiment happens. The miniaturised MinION device is the size of a USB memory stick, designed for portable analysis of single molecules, and is expected to retail at less than $900.

Oxford Nanopore's sequencing platform has numerous potential applications, including screening genetic material, prenatal screening for genetic defects and diagnostic tests aimed at identifying genetic mutations that have applicability in agricultural, environmental and medical markets. Oxford Nanopore intends to commercialise GridION and MinION directly to customers for DNA "strand sequencing" during 2012.

Photopharmica (Holdings) Limited ("Photopharmica"), which is developing photosensitiser-based topical antimicrobial treatments for a variety of therapeutic areas, announced positive clinical trial results in October 2011. The active part of the 48-patient arm of the Phase IIb study, being a randomised, placebo-controlled trial of antimicrobial photodynamic therapy using PPA 904 in the treatment of chronic leg ulcers, successfully met its primary endpoint with statistical significance ($p<0.0001$). Antimicrobial photodynamic therapy using PPA 904 was shown to produce a substantial and significant reduction in bacterial load in chronic leg ulcers.

Significantly fewer PPA 904-treated patients experienced bacterial load levels above the cited threshold for prevention of healing than placebo-treated patients ($p=0.0354$), encouraging the pursuit of a wound healing claim in a pivotal regulatory trial.

Business review continued
Portfolio review continued

Performance summary

	2011 £m	2010 £m
Unrealised gains on the revaluation of investments	13.6	13.8
Unrealised losses on the revaluation of investments	(12.7)	(9.8)
Net fair value gains	0.9	4.0
Profits on disposals of equity investments	2.3	0.6
Change in fair value of limited partnership investments	0.6	0.2
Net portfolio gain	3.8	4.8

Cash investment analysis by company stage 2011

	2011 £m	2010 £m
Incubation projects	0.1	0.4
Seed businesses	2.1	1.5
Post-seed private businesses	5.8	2.9
Post-seed quoted businesses	6.3	2.1
Total	14.3	6.9
Proceeds from sales of equity investments	3.7	2.7

Overview continued

Furthermore, significantly fewer PPA 904-treated patients experienced very high bacterial load levels compared with placebo-treated patients (p=0.0026), suggesting that PPA 904 may reduce the risk of development of clinical infection. All bacterial species investigated were substantially and significantly reduced, including MRSA. A prevention of infection claim in a diabetic foot ulcer indication may also be pursued by conducting further clinical trials based on these findings. Following the release of the trial data, the Company engaged PwC (previously "PricewaterhouseCoopers") as their global corporate finance adviser.

In December, Tissue Regenix Group plc ("Tissue Regenix"), a regenerative medical devices spin-out company from the University of Leeds, announced that it had completed a £25.0m placing. The placing proceeds are expected to enable Tissue Regenix to progress its key programmes through a range of key value inflection points, including funding the development of further applications of its CE-marked vascular patch, developing the porcine heart valve product, progressing the existing meniscus project towards CE approval and to initiate a ligament development programme targeted at anterior cruciate ligament repair.

Performance summary

A summary of the gains and losses across the portfolio are shown in the table above.

Unrealised gains on the revaluation of investments principally comprised £6.4m as a result of Oxford Nanopore's April financing round and from share price increases of Fusion IP plc (£2.5m) and Tissue Regenix Group plc (£1.9m).

Unrealised losses on the revaluation of investments included reductions in the share prices of certain of the Group's quoted companies, including Oxford Advanced Surfaces Group plc (£4.2m), Modern Water plc (£1.7m), Proximagen Group plc (£1.6m) and Avacta Group plc (£1.2m).

The Group's holdings in unquoted companies experienced a net fair value increase of £6.2m, while those companies quoted on either AIM or PLUS Markets saw a net decrease in fair value of £5.3m. While the Group believes that the performance of the underlying businesses of many of its quoted portfolio companies has been satisfactory in the year, the share price performance in a number of cases has been disappointing. The companies' share prices may have been affected by the general poor performance of the UK's AIM market, which has seen a decline of c.26% in 2011. The performance of the Group's portfolio companies, and indeed that of AIM, has been positive during the first two months of 2012, with the Group's quoted portfolio having increased in value by £10.0m from the year end to 2 March 2012 (excluding net investment of £2.5m).

Investments and realisations

As envisaged in the June 2011 placing and open offer prospectus, the Group has increased its rate of capital deployment into its portfolio during 2011, with a total of £14.3m being invested across 42 new and existing projects (2010: £6.9m; 31) shown in the table above.

"Incubation opportunities" comprise businesses or pre-incorporation projects that are generally at a very early stage of development and typically involve investments of less than £0.1m from the Group. "Seed businesses" are those that have typically received capital of up to £0.5m in total, primarily from the Group, in order to continue to progress towards agreed commercial and technology milestones and to enable the recruitment of management teams and early commercial engagement. "Post-seed businesses" are those that have received some level of further funding from co-investors external to the Group, with total funding received generally in excess of £0.5m. Of these, "post-seed quoted businesses" consist of those whose shares are quoted on either AIM or PLUS Markets.

The Group has continued to mature its post-seed businesses with a number announcing further financings supported by the Group and/or IP Venture Fund ("IPVF"), the dedicated follow-on venture capital fund managed by the Group. IPVF invested a total of £2.4m into Group portfolio businesses during the year (2010: £2.0m).

Portfolio update

Retroscreen Virology

● Medical Equipment & Supplies

Retroscreen, alongside researchers at the University of Southampton and the University of Oxford, announced in January they had discovered a series of peptides that could lead to the development of a universal vaccine for influenza, one that gives people immunity against all strains of the disease, including seasonal, avian and swine flu. Retroscreen carries out human viral challenge studies in its purpose-built quarantine facility (pictured) in London.

"Since the year end, the Group's quoted portfolio companies have seen a net increase in fair value of £10.0m."

Fusion IP plc ("Fusion"), the university IP commercialisation company in which the Group held a 26.0% interest at 31 December 2011, raised £5.0m from new and existing shareholders in November 2011, including £2.3m from the Group. Fusion's portfolio, arising from its exclusive agreements with the University of Sheffield and Cardiff University, reached a number of commercial and technical milestones in 2011. This had a positive impact on the Company's share price resulting in an unrealised fair value gain to the Group of £2.5m.

The Group's pipeline of commercialisable intellectual property opportunities remains strong. Five new opportunities received initial incubation or seed funding during the year (2010: seven), while four existing incubation projects progressed to seed stage (2010: two).

The five new opportunities included:

- Arkivum Limited (University of Southampton): Arkivum provides a completely transparent data archiving service that guarantees 100% data integrity;
- Durham Graphene Science Limited ("DGS") (Durham University): DGS develops new methodologies to produce graphene on a reasonable scale and to incorporate it into advanced composites. DGS was founded on research developed by Dr Karl Coleman who won the 2011 Royal Society of Chemistry's "Chemistry World Entrepreneur of the Year". The Group provided seed capital alongside its NETF managed fund; and
- Oxyntix Limited (University of Oxford): Oxyntix is developing new technologies for energy and process engineering, most notably in the fields of nuclear fusion and sonochemistry, based on the generation of extremely high temperatures and pressures using intense bubble collapse.

The average level of capital deployed per company increased from £220,000 to £340,000 in 2011. It is expected that this trend will continue in 2012.

The Group realised £3.7m of cash proceeds from its portfolio during the year, an increase from £2.7m during 2010. The most significant contributor to this figure was the realisation in July 2011 of the Group's entire holding in portfolio company Amantys Limited, with the £2.9m cash proceeds representing a multiple of 5.7 times the Group's original investment of £0.5m made in July 2010. The sale resulted in a realised fair value gain to the Group of £2.4m.

Business review continued
Portfolio review continued

Portfolio analysis – by stage of company maturity

At 31 December 2011, the Group's portfolio fair value of £123.8m was distributed across stages of company maturity as follows:

	As at 31 December 2011				As at 31 December 2010			
	Fair value		Number		Fair value		Number	
Company stage	£m	%		%	£m	%		%
Incubation opportunities	**0.2**	**–**	**6**	**9%**	0.4	1%	10	16%
Seed businesses	**5.3**	**4%**	**14**	**22%**	3.3	3%	10	16%
Post-seed private businesses	**68.3**	**55%**	**29**	**46%**	56.3	51%	28	44%
Post-seed quoted businesses	**50.0**	**41%**	**15**	**23%**	50.0	45%	15	24%
All portfolio businesses	**123.8**	**100%**	**64**	**100%**	110.0	100%	63	100%

Of the 64 companies in the Group's portfolio, 72% of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £89.0m (2010: £81.3m).

Portfolio analysis – by sector

The Group's portfolio consists of five key sectors, as depicted in the following table:

	As at 31 December 2011				As at 31 December 2010			
	Fair value		Number		Fair value		Number	
Sector	£m	%		%	£m	%		%
Medical Equipment & Supplies	**52.0**	**42%**	**14**	**22%**	39.8	36%	16	25%
Pharma & Biotech	**25.4**	**21%**	**8**	**13%**	26.2	24%	8	13%
Chemicals & Materials	**17.5**	**14%**	**16**	**25%**	20.7	19%	15	24%
Energy & Renewables	**14.4**	**12%**	**13**	**20%**	15.8	14%	12	19%
IT & Communications	**6.4**	**5%**	**11**	**17%**	4.4	4%	11	17%
Multiple sectors	**8.1**	**6%**	**2**	**3%**	3.1	3%	1	2%
	123.8	**100%**	**64**	**100%**	110.0	100%	63	100%

A more detailed analysis of each sector is set out on pages 15 to 19.

Medical Equipment & Supplies

	Group stake at 31 December 2011 %(i)	Fair value of Group holding at 31 December 2010 £m	Year to 31 December 2011: Net investment/ (divestment) £m	Year to 31 December 2011: Fair value movement £m	Year to 31 December 2011: Fair value of Group holding at 31 December 2011 £m
Oxford Nanopore Technologies Limited Single molecule detection and analysis using nanopore technology	**21.5%**	25.6	1.4	6.4	**33.4**
Tissue Regenix Group plc Regenerative dCELL® tissue implants	**13.8%**	8.2	2.5	1.9	**12.6**
Avacta Group plc Specialist detection and analysis technologies and services	**21.4%**	2.9	0.5	(1.2)	**2.2**
Other companies		3.1	1.2	(0.5)	**3.8**
Total		39.8	5.6	6.6	**52.0**

(i) Stake represents undiluted beneficial equity interest excluding debt.

Companies in the Group's portfolio of Medical Equipment & Supplies, or "med tech" companies, saw the most significant increase in fair value during the period (31%). The major contributors to this increase were Oxford Nanopore (£6.4m) who, as described above, completed a further £25.0m fundraising at a premium to its previous financing round, and Tissue Regenix Group plc (£1.9m) whose share price performed positively during the year. These were offset to a limited degree by a decrease in the fair value of the Group's holding in Avacta Group plc (£1.2m).

In addition to its £25.0m placing announced in December, Tissue Regenix, announced in April that it had entered into a commercialisation and IP agreement with one of its long-term clinical collaborators, the Pontifical Catholic University of Parana ("PUCPR") and Cardioprotese Ltda (representing Professor Francisco da Costa), both based in Brazil, which will facilitate Tissue Regenix's entry into the $1.0bn global tissue heart valve market. Under the terms of the agreement Tissue Regenix obtains exclusive worldwide commercialisation rights (excluding Brazil) to all data generated from over eight years' clinical use of decellularised (using Tissue Regenix's dCELL methods) human donor heart valves as heart valve replacements. The deal involves royalties but no upfront or milestone payments. In May, Tissue Regenix also announced promising follow-up results in relation to an ongoing clinical evaluation of its dCELL Vascular Patch following the receipt of European CE Mark approval in 2010 for its use in vascular repair.

The Group's holding in Avacta Group plc ("Avacta"), which develops detection and analysis technology and services aimed at the pharmaceutical, healthcare, security and industrial sectors, saw a fair value reduction during the period of £1.2m. From an operational perspective, however, Avacta has continued to perform strongly announcing underlying revenue growth of 42% to £2.4m for the year to 31 July 2011 and an established global network of top-tier distributors including Pall Corporation, Isogen Life Sciences, Cold Spring Biotech and DKSH. In January 2012, Avacta completed a £5.1m placing and acquired Aptuscan Limited ("Aptuscan"). Avacta plans to use the proceeds from the placing to drive faster growth in recurring revenue from proprietary reagents and consumables, including the development of the intellectual property acquired with Aptuscan.

Portfolio update

Oxford Nanopore Technologies

● Medical Equipment & Supplies

The presentation of nanopore DNA sequencing data and unveiling of Oxford Nanopore's miniature USB DNA sequencer, MinION™ (pictured), in February generated huge interest in the scientific community. The company intends to commercialise the core GridION™ platform and the MinION in 2012.

Business review continued
Portfolio review continued

Pharma & Biotech

	Group stake at 31 December 2011 %[i]	Fair value of Group holding at 31 December 2010 £m	Year to 31 December 2011: Net investment/ (divestment) £m	Fair value movement £m	Fair value of Group holding at 31 December 2011 £m
Photopharmica (Holdings) Limited Wound treatment using light (photodynamic therapy or "PDT")	**49.9%**	13.0	–	–	**13.0**
Proximagen Group plc Treatments for neurodegenerative disorders such as Parkinson's disease	**7.6%**	7.2	–	(1.6)	**5.6**
Synairgen plc Developing new drugs for respiratory diseases	**10.8%**	1.6	0.3	0.4	**2.3**
Other companies		4.4	1.0	(0.9)	**4.5**
Total		26.2	1.3	(2.1)	**25.4**

(i) Stake represents undiluted beneficial equity interest excluding debt.

The Group's Pharma & Biotech portfolio experienced a limited level of unrealised fair value losses during 2011 predominantly due to a £1.6m unrealised fair value loss arising from the negative share price performance of Proximagen Group plc ("Proximagen"). This was counteracted to a degree by Synairgen plc ("Synairgen"), whose share price increase contributed £0.4m of fair value gains.

Proximagen, a spin-out from King's College London, announced a number of formal strategic partnerships in 2011 to enable it to better develop and commercialise its therapeutics programmes primarily focused on the treatment of central nervous system diseases, although it saw disappointing share price performance during the period.

In September, Proximagen signed a strategic partnership agreement with H. Lundbeck A/S, the international pharmaceutical company and a world leader in treating central nervous system ("CNS") disorders, who also made an equity investment of £10.3m into the company, while in November the company signed a collaborative research and development agreement with Altacor Limited, a speciality ophthalmic pharmaceutical company.

Synairgen plc, the University of Southampton spin-out that focuses on respiratory drug discovery and development, made further positive progress with its Phase II trial of inhaled interferon beta ("IFN-beta") in asthma in the year. Its last subjects were dosed in December, with the results anticipated in March 2012. Positive results from pre-clinical study completed in November 2011 showed that aerosolised IFN-beta reduced virus-induced pneumonia, suggesting that inhaled IFN-beta may have potential in two further areas: (i) as a broad spectrum antiviral for use in patients admitted to hospital with suspected viral lung infections; and (ii) as a post-exposure prophylactic defence against a lethal virus threat to the lungs.

As described above, Photopharmica announced positive results in October from its Phase IIb randomised, placebo-controlled trial of antimicrobial photodynamic therapy using PPA 904 in the treatment of chronic leg ulcers and appointed PwC as its global corporate finance adviser.

"Proximagen announced a number of formal strategic partnerships in 2011 to enable it to better develop and commercialise its therapeutics programmes."

Chemicals & Materials

	Group stake at 31 December 2011 %(i)	Fair value of Group holding at 31 December 2010 £m	Net investment/ (divestment) £m	Fair value movement £m	Fair value of Group holding at 31 December 2011 £m
			Year to 31 December 2011		
Green Chemicals plc Environmentally friendly textiles and bleaching chemicals	**24.5%**	3.2	0.2	(0.2)	**3.2**
Revolymer Limited Novel polymers e.g. "Removable chewing gum"	**11.1%**	3.0	0.7	(0.8)	**2.9**
Oxford Advanced Surfaces Group plc Surface modification technologies applicable to a broad range of materials	**14.6%**	6.3	–	(4.2)	**2.1**
Ilika plc High-throughput materials discovery	**9.2%**	1.9	–	(0.4)	**1.5**
Surrey Nanosystems Limited Low temperature carbon nanotube growth	**22.5%**	1.4	0.1	–	**1.5**
Xeros Limited "Virtually waterless" washing machines	**21.0%**	1.2	0.2	–	**1.4**
Other companies		3.7	0.9	0.3	**4.9**
Total		20.7	2.1	(5.3)	**17.5**

(i) Stake represents undiluted beneficial equity interest excluding debt.

Portfolio update

Xeros

● Chemicals & Materials

Building off the success of large Xeros machines in commercial laundry field trials (pictured), Xeros has been awarded a £250,000 grant for research and development by the Technology Strategy Board to accelerate the development of a domestic laundry machine. Xeros will use the grant to design a washing system of comparable size, appearance and cost to conventional front loading machines.

Business review continued
Portfolio review continued

Chemicals & Materials continued

The unrealised fair value loss seen by the Chemicals & Materials portfolio was largely as a result of Oxford Advances Surfaces Group plc's ("OAS") decrease in share price during the year and Revolymer Limited's ("Revolymer") £5.8m April financing round which completed at a discount to its previous round.

Green Chemicals plc ("Green Chemicals"), a spin-out from the University of Leeds that is developing "cleaner, greener, safer" solutions for a range of applications in the textile, health and beauty and personal care markets, raised £0.7m in a placing in October 2011 and announced licences in two application areas during the year. In the field of fire retardants for textiles, Green Chemicals signed an exclusive, worldwide licence agreement with Clariant International Limited, a global leader in the field of speciality chemicals, which provides for royalties on sales. In the hair colouration field, Green Chemicals concluded a licence agreement with Urban Retreats Limited ("UR"), the operator of high-end hair treatment centres and beauty spas. The 18-month licence covers the Company's proprietary hair colouration and colour removal systems and has resulted in a range of hair colorant products being trialled and launched at UR's spa in Harrods of Knightsbridge.

Revolymer completed a £5.8m further financing in April and in late 2011 announced that it had received final approval to market its removable, degradable chewing gum, Rev7™, in Europe, making it the first new gumbase ingredient in over 30 years. In February 2012, Revolymer announced that it had gained additional day-to-day retail distribution in over 450 retail chains in the US, with in excess of 4,000 stores now stocking Rev7. Revolymer hopes to launch Rev7 in the UK during 2012 and considering that 50% of gum finds its way onto UK streets and at a cost of over £150m a year for local councils to remove, Revolymer's technology could help to solve a very costly and challenging problem. Other applications for Revolymer's technology currently under evaluation are in the medicated chewing gum, household products, personal care and coatings and adhesives sectors of the FMCG industry.

Xeros Limited ("Xeros"), which is developing polymer-based "virtually waterless" laundry cleaning systems harnessing over 30 years of research from the University of Leeds, successfully completed the second tranche of its 2010 financing led by the Entrepreneurs Fund, raising a further £1.9m. Xeros also announced in December that it was moving closer to full-scale commercial launch of its washing system following highly successful commercial-scale field trials at Jeeves of Belgravia and Watford Launderers and Cleaners Limited.

> "In late 2011 Revolymer announced that it had received final approval to market its removable, degradable chewing gum, Rev7, in Europe, making it the first new gumbase ingredient in over 30 years."

Energy & Renewables

	Group stake at 31 December 2011 %(i)	Fair value of Group holding at 31 December 2010 £m	Year to 31 December 2011 Net investment/ (divestment) £m	Fair value movement £m	Fair value of Group holding at 31 December 2011 £m
Modern Water plc					
Technologies to address the world's water crisis	**20.9%**	8.3	(0.8)	(1.7)	**5.8**
Oxford Catalysts Group plc					
Speciality catalysts for the generation of clean fuels	**5.0%**	3.4	(0.1)	(0.9)	**2.4**
Sustainable Resource Solutions Limited					
Integrated resource management	**43.6%**	1.5	0.3	–	**1.8**
GETECH Group plc					
Gravity and magnetic data analysis for the oil and gas industry	**24.2%**	0.9	0.1	0.4	**1.4**
Other companies		1.7	0.6	0.7	**3.0**
Total		15.8	0.1	(1.5)	**14.4**

(i) Stake represents undiluted beneficial equity interest excluding debt.

The Energy & Renewables sector experienced a modest reduction in fair value as a result of decreases in the share prices of AIM-listed Modern Water plc ("MW") and Oxford Catalysts Group plc ("OCG"), which were partially offset by an increase in GETECH Group plc's ("GETECH") share price.

While MW's share price performance has been disappointing in the year, it has continued to develop its leading water technologies focused on addressing the scarcity of fresh water and the monitoring of water quality. MW announced in June that it had been awarded a contract, worth £0.5m, to build and operate a desalination plant by Oman's Public Authority for Electricity and Water. The plant, to be built at Al Naghdah in the Al Wusta region of Oman, will be capable of producing 200m^3 of fresh water per day. The high quality fresh water produced by the plant will be supplied to the local community. The plant is the only one to use manipulated osmosis in the huge Middle East market, where annual expenditure on water and wastewater technology is expected to rise to above $50bn by 2016. In November, MW completed the acquisition of the water quality division of Strategic Diagnostics Inc. ("SDIX"), including its Microtox® toxicity testing technology. Microtox is a leading worldwide brand in water toxicity monitoring and the acquisition will further enhance Modern Water's offering in this key marketplace.

OCG is a spin-out from the University of Oxford that designs and develops technology for the smaller scale production of clean synthetic fuels from conventional fossil fuels and renewable sources such as biowaste. The company announced a placing raising £21.0m (before expenses) in February 2011 as well as the successful sale of five commercial-scale Fischer-Tropsch ("FT") reactors during the year, two of which will form the first instalment of reactors towards a commercial synthetic fuels plant. In January 2012 the Company also announced that it had received an order for a full-scale FT unit from a diversified energy company.

GETECH, the oil services business specialising in the provision of exploration data and petroleum systems studies and evaluations, announced Stuart Paton, formerly chief executive officer of Dana Petroleum plc, as its chairman in April. In November, the company announced positive annual results for the year ended 31 July 2011, including a 63% increase in revenues to £5.3m and pre-tax profits of £0.9m (compared to a loss of £0.2m in 2010).

IT & Communications

At 31 December 2011, the Group's portfolio of holdings in IT & Communications companies was valued at £6.4m (2010: £4.4m) and recorded a fair value gain of £0.6m (2010: £0.1m loss).

The most valuable business in the IT & Communications portfolio, Tracsis plc (fair value 2011: £2.0m; 2010: £1.8m), a leading provider of operational planning software to passenger transport industries, reported its fourth successive year of revenue growth since its AIM IPO in 2007. Tracsis reported record annual revenues of £4.1m with profit before tax of £1.1m and cash balances at 31 July 2011 of £4.7m.

"The most valuable business in the IT & Communications portfolio, Tracsis plc, reported its fourth successive year of revenue growth since its AIM IPO in 2007."

Business review
Financial review

Greg Smith
Chief Financial Officer

The Group continues to benefit from a **strong financial position**

In summary

- Adjusted profit before tax of £0.5m (2010: £1.8m), excluding £6.0m reduction in fair value of Oxford Equity Rights asset (2010: £nil)
- The Group continued to benefit from a strong financial position with cash and deposits of £60.5m and a diversified portfolio of holdings in 64 companies
- The Group continued to have no borrowings or foreign currency deposits
- The Group allocated a total of £14.3m across 42 portfolio companies during the period
- Continued allocation of capital to certain early-stage therapeutic programmes through Modern Biosciences plc

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

	2011 £m	2010 £m
Net portfolio gains	**3.8**	4.8
Other income	**2.1**	2.2
Change in fair value of Oxford Equity Rights asset	**(6.0)**	–
Administrative expenses – Modern Biosciences	**(0.4)**	(0.5)
Administrative expenses – all other businesses	**(5.6)**	(4.9)
Finance income	**0.6**	0.2
(Loss)/gain and total comprehensive income for the period	**(5.5)**	1.8

Overall the Group recorded a loss after tax of £5.5m for the period; however, as anticipated in the Group's 2010 annual report, this result includes a £6.0m reduction in the fair value of the Group's contract with the University of Oxford's Chemistry Department. Excluding this non-cash fair value reduction, the Group recorded an adjusted profit of £0.5m compared to £1.8m in 2010, largely reflecting lower net portfolio gains in the year.

Net portfolio gains consist primarily of realised and unrealised fair value gains and losses from the Group's equity and debt holdings in spin-out businesses as well as changes in the fair value of its limited and limited liability partnership interests. A detailed analysis of fair value gains and losses is provided in the Portfolio review on pages 10 to 19.

"Cash at 31 December 2011 increased to £60.5m predominately due to net proceeds of £53.3m from the Group's placing and open offer."

Other income for the year decreased to £2.1m (2010: £2.2m) primarily as a result of lower venture capital fund management fees (£1.5m; 2010: £1.7m) as the Group's oldest managed venture capital fund, Top Technology Ventures IV LP ("TTVIV"), ceased active operation in May 2011. In accordance with TTVIV's constitutional documents, the Group is seeking to realise the fund's remaining holdings and hopes to achieve this during 2012. The Group's second oldest fund, IP Venture Fund, which completed its second close in August 2007, will reach the conclusion of its five-year "investment period" in August 2012 having invested in 25 of the Group's portfolio companies to date. As a result, it is expected that venture capital fund management income will see limited further reduction in 2012 and beyond. The Group continues to receive management fees and has the potential to generate performance fees from successful investment performance of both this fund and The North East Technology Fund LP ("NETF"), whose "investment period" is currently anticipated to continue until the end of 2014.

The Group continues to allocate limited capital to the evaluation and development of certain early-stage therapeutic programmes through its subsidiary, Modern Biosciences plc, and these development costs are expensed to the income statement as they are incurred. The Group intends to continue such activities to a limited degree in the future through Modern Biosciences plc and may also seek to do so through Union Life Sciences Limited, a similar business in which it took a majority stake during the period.

The Group's administrative expenses, excluding those relating to Modern Biosciences, have increased during the period to £5.6m (2010: £4.9m), predominantly due to an increased IFRS 2 share-based payments charge totalling £0.7m (2010: £0.3m) relating to the Group's Long Term Incentive Plan awards. This non-cash charge reflects the fair value of services received from employees, measured by reference to the fair value of the share-based payments at the date of award, but has no net impact on the Group's total equity or "net assets". The LTIP awards made in 2008 expired during the year without vesting and new 2011 awards were made to directors and staff in October. The 2010 and 2011 LTIP awards are subject to vesting conditions until 2013 and 2014 and charges relating to these awards will be recognised in the statement of comprehensive income until this time. Further information on the Group's LTIP is set out in the Directors' Remuneration Report on pages 35 to 40.

As a result of the Group's June 2011 placing, the additional cash and deposits on balance sheet have led to an increase in the interest received during the year to £0.6m (2010: £0.2m). It is expected that the Group's future finance income will fluctuate broadly in line with cash held on balance sheet and future interest rate changes.

Statement of financial position

At 31 December 2011, the Group continued to benefit from a strong financial position with cash and deposits of £60.5m (2010: £21.5m), no borrowings and a diversified portfolio of holdings in 64 private and publicly listed technology companies.

Business review continued
Financial review continued

Financial highlights

Net assets
£221.6m
2010: £173.1m

Fair value of investment portfolio
£123.8m
2010: £110.0m

Net cash and deposits
£60.5m
2010: £21.5m

Statement of financial position continued
The value of the Group's holdings in portfolio companies increased during the year to £123.8m as at 31 December 2011 following net fair value gains of £3.2m and net investment of £10.6m (2010: £110.0m; £4.6m net fair value gain; £4.1m net investment). The Portfolio review on pages 10 to 19 contains a detailed description of the Group's portfolio of equity and debt investments, including key developments and movements during the year.

The Group's Statement of financial position includes goodwill of £18.4m (2010: £18.4m) and an equity rights asset of £13.9m (2010: £19.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £16.3m; 2010: £16.3m) and Top Technology Ventures (venture capital fund management business, £2.1m; 2010: £2.1m). The equity rights asset represents amounts paid to the University of Oxford in 2000 and 2001 giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company or of any licensing income emanating from the University of Oxford's Chemistry Department until 2015.

As anticipated in the Group's 2010 Annual Report, as the date of expiry (November 2015) of the contract underpinning the Oxford Equity Rights Asset draws closer, the value to the Group of the corresponding asset under IFRS reduces and it will have been written off by way of fair value reduction or impairment through the statement of comprehensive income by the expiry date. Based on the directors' calculations, and as described more fully in note 14 to the Group's financial statements, the fair value of the contract at 31 December 2011 has reduced by £6.0m.

The directors expect the Group's long-standing contractual and non-contractual relationships with the University of Oxford to remain successful and mutually valuable. As at 31 December 2011, the fair value of the Group's holdings in Oxford Chemistry spin-out companies totals £40.3m and, based on having invested £7.8m and realised £7.5m to date, value totalling £40.0m has been derived by the Group from the contract since its inception.

In January 2011, the Group broadened its relationship with the University of Oxford through the acquisition of a 16% strategic stake and alliance with Technikos, a specialist limited liability partnership fund with a long-term commercialisation agreement with the University of Oxford's Institute of Biomedical Engineering ("IBME"). The Group's capital interest in the partnership is included within the Interests in Limited Partnerships balance.

"In January 2011, the Group broadened its relationship with the University of Oxford through the acquisition of a 16% strategic stake and alliance with Technikos."

Adjusted profit before tax

£0.5m

2010: £1.8m

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

Cash and short-term deposits ("Cash")

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

	2011 £m	2010 £m
Net cash used in operating activities	(3.0)	(2.5)
Net cash used in investing activities	(11.3)	(4.1)
Issued share capital	53.3	–
Movement during period	39.0	(6.6)

Cash, cash equivalents and deposits increased by £39.0m during the year to stand at £60.5m at 31 December 2011 (2010: £6.6m decrease; £21.5m balance) predominantly due to net proceeds of £53.3m from the Group's placing and open offer, offset to some degree by increased net capital deployment into the Group's portfolio.

The Group's net cash used in investing activities increased during 2011, predominantly as a result of an increased net investment as anticipated at the time of the Group's placing in June 2011. As described in detail in the Portfolio review on pages 10 to 19, the Group allocated a total of £14.3m across 42 portfolio companies during the period (2010: £6.9m; 31).

A further £0.4m was committed to IP Venture Fund (2010: £0.2m), which in turn invested £2.4m across 16 portfolio companies. The Group made realisations of £3.7m during the period (2010: £2.7m) and received £0.1m from the University of Leeds as partial repayment of the Group's other financial asset, further details of which are provided in note 17 to the Group's financial statements. Overall, net cash used in investing activities increased to £11.3m (2010: £4.1m).

Despite a slight increase in interest received during the period of £0.1m compared to 2010, cash used in operating activities increased to £3.0m (2010: £2.5m) primarily as a result of higher administrative costs and the net £0.3m impact of changes in working capital balances.

It remains the Group's policy to place cash which 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 and in low-risk treasury funds rated "AA" 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. The Group continued to have no borrowings or foreign currency deposits.

Taxation

Since the Group's activities are mainly trading in nature, the directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE") on chargeable gains arising on the disposal of qualifying holdings and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity stakes which meet the qualifying criteria.

Greg Smith
Chief Financial Officer

Risk management

As described in the Corporate Governance section on pages 41 to 48 the operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are reviewed by the Board on an annual basis and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out as follows:

Risk and description	Impact	Mitigation
The Group's portfolio companies are generally early-stage and as a result they can have an increased risk of failure		
The following risks are typically associated with early-stage companies: – **may not be able to secure later rounds of funding;** – **may not be able to source or retain appropriately skilled staff;** – **competing technologies may enter the market; and** – **technology can be materially unproven and may fail.**	– Lack of funding and/or an inability to attract or retain appropriately skilled personnel may restrict their ability to fund ongoing research and the development and commercialisation of their IP. – Could, in some cases, result in a portfolio company being forced to sell off its assets or cease their development. – Competing technologies may adversely affect portfolio companies' ability to commercialise their IP. – The failure of portfolio companies to adequately protect their IP could potentially have an adverse effect on their performance or prospects.	– Group staff have significant experience in sourcing, developing and growing early-stage technology companies to significant value. – Group has developed systematic opportunity evaluation and business building methodologies. – Group employs an in-house executive search function that specialises in sourcing high quality management suited to early-stage technology companies. – Group's methodology seeks to employ a capital efficient process by deploying low levels of initial capital to enable identification and mitigation of potential failures at the earliest possible stage.
It can be difficult for early-stage companies to attract capital		
As the Group's operations, and the operations of the majority of its portfolio companies, are based in the UK, the financial and operational performance of the Group and particularly the ability of its portfolio companies to attract development capital is influenced by the general economic climate and trading conditions in the UK.	– UK's recent recession and subsequent limited growth have had (and may continue to have) an adverse effect on trading conditions in the UK, particularly for smaller businesses. – Environment may contribute to a shortage of potential capital providers for early-stage technology businesses such as those that the Group creates. – Group's portfolio companies may take longer, or find it more difficult, to secure funding to finance their ongoing and future development and the commercialisation of their IP.	– Group has significant balance sheet and managed funds capital to deploy in attractive portfolio opportunities. – Group operates a capital markets function which carries out fundraising mandates for portfolio companies. – Group maintains close relationships with co-investors that focus on companies at differing stages of development.
It can be difficult to generate value or realise cash proceeds from early-stage companies		
The Group has a portfolio of equity and debt interests in technology companies and there is a high risk that certain of the Group's current and future investments in portfolio companies may fail.	– Portfolio company failure directly impacts the Group's value and profitability. – Failure of companies within the Group's portfolio may make it more difficult for other spin-out companies within the portfolio to raise additional capital. – At any time, a large proportion of the Group's portfolio value may be accounted for by one, or very few, technology companies which could exacerbate the impact of one or more such company failures. – Cash realisations from the Group's portfolio through trade sales and IPOs could vary significantly from year to year.	– Group has developed a portfolio of company holdings across different sectors to reduce the potential impact of a single company failure or sector demise. – Maintenance of adequate cash balances to ensure irregular realisations do not limit its ability to operate. – Members of the Group's senior team often serve as non-executive directors or advisers to portfolio companies enabling identification and remedy of critical issues at an early stage. – However, it is management's expectation that there will always be a limited number of companies that dominate the Group's portfolio in this way.

There are **policies** and processes in place that are designed to enable the business to manage and mitigate its **corporate**, **operational** and **financial** risks.

Risk and description	Impact	Mitigation
Termination of university partnerships and other collaborative relationships with universities and research intensive institutions		
The Group's business, results of operations and prospects are at least partially dependent on competitive advantage gained from access to proprietary opportunity flow through partnerships and other collaborative arrangements with research intensive institutions and commercial partners, such as Fusion IP and Technikos.	– 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.	– Members of the Group's senior team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive. – Group sources a limited number of opportunities through non-exclusive relationships. – Group's track record in IP commercialisation can make the Group a partner of choice for other institutions, acting as a barrier to entry to competitors. – Group continues to source new and innovative collaborations.
Loss of key personnel from the Group		
The area in which the Group operates is a specialised area and the Group therefore requires highly qualified and experienced employees. There is a risk that the Group's employees could be approached and solicited by competitors of the Group or other technology-based companies or organisations.	– Loss of key employees of the Group could have an adverse effect on the Group's business, financial condition, results of operations and/or prospects.	– Group carries out regular market comparisons for staff and executive remuneration. – Group seeks to offer a balanced incentive package considering the mix of salary, benefits, performance-based long-term incentives and "softer" benefits such as flexible working or salary sacrifice arrangements. – All senior executives are shareholders in the business. – Group encourages staff development and inclusion through coaching and mentoring.
Changes in legislation and government policy		
There may be unforeseen changes in government policy or legislation (including taxation legislation) or other changes to the terms upon which public monies are made available to universities and research institutions or their ownership of resulting intellectual property.	– Changes could result in universities and research institutions no longer being able to own, exploit or protect intellectual property. – Changes in government policy or legislation may make it unattractive for research academics to participate in the commercialisation of the IP that they create. – Changes of this nature could represent a fundamental risk to the Group being able to carry on its business. – 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.	– University partners are incentivised to protect their IP for exploitation as the partnership agreements share returns between universities, academic founders and the Group. – Client service team members work locally at partner universities to assist with management of their IP and negotiation of research contracts to ensure that any IP is not unduly compromised. – The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes. – Group utilises professional advisers as appropriate to support its monitoring of, and response to, changes in tax or other legislation.

In addition, through its normal operations the Group is exposed to a number of financial risks, comprising liquidity, market and credit risks. Further quantitative information is set out in note 2 to the Group's financial statements.

Corporate Social Responsibility

Policy statement

IP Group aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders.

The Group is committed to growing the business while ensuring a safe environment for employees as well as minimising the overall impact on the environment.

IP Group endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships.

Our commitment to the environment and sustainability
Climate change and increased environmental damage are commonly accepted to be very real threats in both the present and the future. Sustainability forms a core component of our business philosophy and we firmly recognise our responsibility to ensure that our business continues to operate in a sustainable manner.

Sustainability features prominently in our opportunity selection agenda and we actively pursue opportunities that have the potential to improve the environment we live in and benefit society's wellbeing on a global scale. In healthcare, the Group has established companies seeking to develop diagnostics and therapeutics across a wide range of disease areas including cancer, wound care, liver diseases, asthma and Alzheimer's disease. The Group has also formed and invested in a number of companies that are pioneering the development of both clean technologies and research in the water, energy, waste management and construction sectors.

The direct environmental impact of the Group and its subsidiary companies is relatively low. The business operates from a small number of offices and employs fewer than 40 people, with the majority of our work being office based. The Group does, however, remain committed to ensuring that the environmental impacts of the business operations are minimised and reduced wherever possible. While the Board as a whole has primary responsibility for environmental issues, it has allocated day-to-day responsibility for the review of environmental and social issues to the Chief Financial Officer, Greg Smith.

The Group has an Environmental Policy, which is monitored and discussed at Board level and reviewed at least annually. This policy is communicated to all new staff upon induction into the business.

Measuring our direct impact on the environment
The Group operates out of three main office locations in the UK and during 2011 employed an average of 34 people (2010: 33). As a result, the Group's directors have always considered that the direct environmental impact of the Group's business is relatively low. In 2011, however, the directors determined that it would be appropriate to seek to quantify this impact so as to understand the issue more fully and enable ongoing monitoring of the Group's environmental performance. Accordingly, in the year ended 31 December 2011, the Group employed the services of a specialist adviser, the Edinburgh Centre for Carbon Management ("ECCM"), to evaluate and quantify greenhouse gas ("GHG") emissions associated with the Group's operations.

ECCM calculated our emissions by multiplying data provided for particular activities by Defra emission factors. For example, an emission factor is used to convert litres of petrol consumed into the amount of CO_2 emitted from a vehicle's exhaust. ECCM's assessment methodology follows the reporting principles and guidelines provided by the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol").

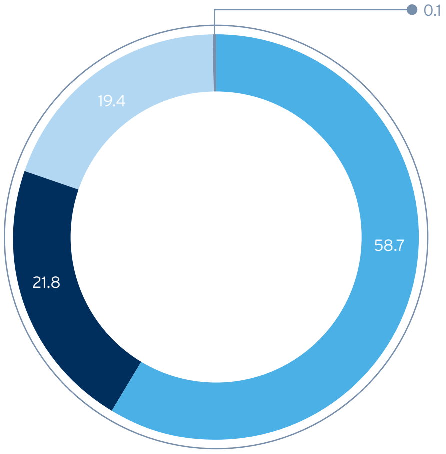
"The Group's average level of GHG emissions at 4.7t/Co_2e per employee is at the lower end of the expected range for a group carrying out similar activities to IP Group."

Breakdown of emissions

for the year ended 31 December 2011

Key:
- Premises
- Business travel
- Company owned vehicles
- Other

By source (%)



The results from the Group's different operational activities, including refrigerant gas losses, premises fossil fuel consumption, electricity consumption, business travel, commuting and waste disposal, have been calculated to provide an estimate of carbon-related emissions for the activities of the Group for the year ended 31 December 2011, resulting in a quantification of the Group's annual carbon footprint. ECCM's report covers the six Kyoto gases, expressed in carbon dioxide equivalents, or CO_2e. In the year to 31 December 2011, ECCM calculated that the GHG emissions arising from the operations associated with IP Group gave rise to 160 tonnes of CO_2e.

The chart above depicts the Group's emissions by activity. The largest source of emissions was from premises activities, predominantly as a result of electricity consumption. The second largest source of emissions arose from business travel, predominantly flights. ECCM also calculated the Group's average level of GHG emissions at 4.7 t/CO_2e per employee, which is at the lower end of the range expected by ECCM for a group carrying out similar activities to the Group (expected range 4 to 8 tonnes CO_2e per employee).

In addition, ECCM gathered information on the Group's waste usage in 2011. Across its three offices, estimated total waste of 4.6 tonnes was identified during the year, comprising 3.7 tonnes of landfill waste and 0.9 tonnes of recycled waste.

Now that ECCM has completed its initial report on the GHG impact of the Group's activities, the directors intend to work towards quantifiable targets and initiatives to further reduce our environmental impact.

Minimising our direct impact on the environment

In addition to the GHG analysis set out above, we are committed to:

- promoting resource efficiency and the management of waste generated from our business operations according to the principles of the Waste Management Hierarchy. We prioritise the management of our waste in the following order: prevention, preparing for reuse, recycling, other recovery and, finally, disposal. Recycling facilities and waste awareness materials are present in all of our office locations;
- maximising the use of public transport for business travel and minimising business airline travel;
- working in partnership with our staff, suppliers, landlords and their agents to promote improved energy performance and energy efficiency; and
- wherever appropriate, making use of recycled and recyclable consumables and materials, including promotional and marketing documentation.

Understanding the indirect environmental impacts of our business activities

As described above, the Group's day-to-day operational activities have a limited impact on the environment. We do, however, recognise that the more significant impact occurs indirectly, through the investment decisions we make and the operation of the companies we choose to invest in. The Group therefore considers it important to establish and invest in businesses that comply with existing applicable environmental, ethical and social legislation. It is also important that these businesses can demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these businesses can operate to specific industry standards, striving for best practice.

Major investment themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. A case study has been included overleaf to highlight how a number of the Group's portfolio companies are linked to the global environmental and sustainability agenda.

Further qualitative and quantitative details of the Group's investments in companies in Medical Equipment & Supplies, Pharma & Biotech, Energy & Renewables and Chemicals & Materials sectors are detailed in the Portfolio review, on pages 10 to 19.

Corporate Social Responsibility continued

"IP Group seeks to conduct all of its operating and business activities in a socially responsible manner while maintaining integrity and professionalism."

Case study: Revise Limited

Revise was formed by sustainability experts with the simple aim of utilising best available technologies which will allow people and businesses to better understand the concept of sustainability from a technical, operational and business perspective.

Businesses are increasingly recognising that being more sustainable involves a lot more than simply improving environmental performance or being "green"; it is an enhanced operating process. Where organisations can embed sustainability considerations within their operational ethos, a range of valuable benefits can be realised, including improved resource efficiency, more effective procurement practices, social inclusion and improved stakeholder engagement, cost reduction and, in some cases, revenue enhancement.

Revise launched the world's first cloud-based Virtual Sustainability Expert in 2011. This pioneering sustainability software, delivered through cloud computing technology and powered by cutting-edge knowledge management software, will empower and enable the user to independently monitor and improve the sustainability performance of their organisation. Revise is a subsidiary of Sustainable Resource Solutions Limited, in which the Group has a 43.6% undiluted beneficial holding.

More case studies can be found on our website: **www.ipgroupplc.com** ›

Our business ethics and social responsibility

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and, in all such activities, for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses.

Employment policies

Copies of the Group's policies in relation to equal opportunities and diversity, health and safety and anti-corruption and bribery can be found on the Group's website, www.ipgroupplc.com/csr/company-policies.

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

The Group is committed to growing the business while **ensuring a safe environment for employees** as well as **minimising the overall impact on the environment.**

It is the Group's policy to conduct all of our business in an honest and ethical manner. We take a zero tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter bribery. 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.

The Group's management and employees are fundamental to our success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coaches and mentors. Effective communication with all staff was reviewed during 2010 and resulted in the implementation of frequent all-staff update meetings.

Health and safety

Promotion of health and safety at work is an essential responsibility of staff and management at all levels. The Chief Executive 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, which is summarised on this page, is to enable all members of the Group's staff to go about their everyday business at work in the expectation that they can do so safely and without risk to their health. High standards of health and safety are applied to staff and subcontractors and we endeavour to ensure that the health, safety and welfare of our employees, visitors, customers, contractors' staff and the general public are not compromised.

The key policy objectives of our health and safety policy are:

- to prevent accidents and cases of work-related ill health and provide adequate control of health and safety risks arising from work activities;
- to provide adequate training to ensure employees are competent to do their work;
- to engage and consult with employees on day-to-day health and safety conditions and provide advice and supervision on occupational health;
- to implement emergency procedures, for example, evacuation in case of fire or other significant incident; and
- to maintain safe and healthy working conditions, provide and maintain plant, equipment and machinery and ensure safe storage/use of substances.

During the year to 31 December 2011, no reportable accidents occurred under UK Health and Safety regulations.

Community investment

Our employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations.

IP Group and its members of staff have a long history of supporting charities and remain committed to making charitable donations. The Group aims to donate 1% of the previous year's realised profits(i) to one or more charities which have a particular relevance to IP Group's activities or to members of our team. The charities are selected each year by the Group's charitable donations committee which consists of representatives from senior management and our wider team. Members of staff are also encouraged to supplement the donations made by IP Group through "give as you earn" salary sacrifice donations and fundraising challenges.

The Group has supported two charities during 2011, Young Enterprise, which works with young people between the ages of 4 and 25 to inspire and equip them to succeed through enterprise, and Sands' Why17 campaign, which is focused on raising awareness and asks the question of '"why do 17 babies die every day in the UK?". Further details of the activities of these charities are set out on the Group's website at http://www.ipgroupplc.com/csr/community.

In line with its stated policy, the Group made donations of £9,000 to each of the 2011 charities and this amount was supplemented by a total of £7,177 generated by staff through "donate a day" salary sacrifice and sponsorship of the Lyke Wake Walk challenge. Staff donations more than doubled the target of £3,000 set at the start of the year.

(i) "Realised profits" is defined as the lower of profit after tax or portfolio realisations. The Group's directors reserve the right to limit any donation in a year of exceptional profits or realisations or the case of other exceptional circumstances.

Board of Directors

Dr Bruce Smith, CBE (aged 72)
Non-executive Chairman ■
Bruce is chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering. He was the chairman and majority shareholder of Smith System Engineering Limited until 1997. Bruce is a fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology ("IET") and the Institute of Physics. Bruce became a director of IP Group in September 2002.

Alan Aubrey, FCA (aged 50)
Chief Executive Officer
Alan co-founded Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience in helping them raise money and prepare for sale or flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive on 1 January 2006, and has overall responsibility for the operational management of the Group. Alan is also chairman of the Department for Business, Innovation & Skills ("BIS") audit and risk committee.

Greg Smith, ACA (aged 33)
Chief Financial Officer
Greg joined IP Group in January 2008 and was appointed Chief Financial Officer in June 2011. Previously Greg spent three years at Tarchon Capital Management, a multi-billion Dollar fund of hedge funds business where he had day-to-day responsibility for building and managing the operations and accounting team as well as external operational due diligence on investee hedge funds. Prior to Tarchon, Greg spent four years in KPMG's London Financial Services practice working with asset management, insurance and banking clients. Greg is a Chartered Accountant and holds a degree in mathematics from the University of Warwick.

Dr Alison Fielding (aged 47)
Chief Operating Officer
Alison co-founded Techtran Group Limited and was its chief operating officer when it was acquired by IP Group in January 2005. Previously, she spent five years at McKinsey & Co where she consulted primarily to the pharmaceutical and health care sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions. Alison holds an MBA from Manchester Business School, a PhD in organic chemistry and a first-class degree in chemistry from the University of Glasgow.

Mike Townend (aged 49)
Chief Investment Officer
Mike was formerly managing director within the European Equities business of Lehman Brothers with responsibility for equity sales to hedge funds. Mike has over 17 years of experience in all aspects of equity capital markets. Mike was appointed a director of IP Group in March 2007.

Charles Winward (aged 42)
Managing Director, Top Technology
Charles joined IP Group in April 2007 to manage investments in Top Technology Ventures, the Group's venture capital fund management subsidiary. Previously Charles was vice president technology infrastructure at JPMorgan Chase & Co, where he worked in a variety of roles in London, New York and Brussels, and investment manager at Axiomlab, an AIM-listed early-stage investment specialist. Charles is a CFA charterholder, has an MBA from the University of California at Berkeley and a bachelor's degree in mechanical engineering from the University of Bristol. Charles was appointed to the IP Group Board in 2011.

Mike Humphrey (aged 60)
Senior Independent Director ■ ■ ■

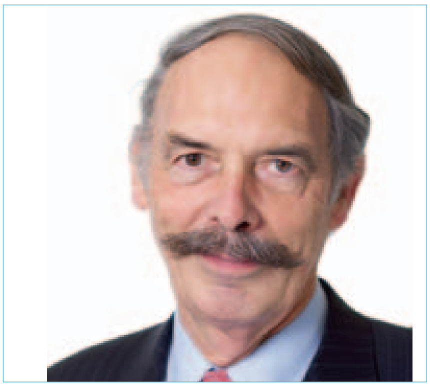
Mike Humphrey is the former CEO of Croda International plc. He was appointed to the board of Croda in 1995 and became group chief executive at the beginning of 1999. He joined Croda in 1969 as a management trainee and was appointed managing director of Croda Singapore in 1988, Croda Application Chemicals in 1990 and Croda Chemicals in 1991. He retired from Croda at the end of 2011. Mike joined IP Group's Board in 2011.

Professor Graham Richards, CBE (aged 72)
Non-executive Director ■

Graham was the scientific founder of Oxford Molecular Group plc and was for 20 years a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham was chairman of chemistry in the University of Oxford until 30 June 2006. Graham became a Non-executive Director of IP Group in December 2001 and has previously held the positions of Chairman and Senior Non-executive Director.

Key

- ■ Audit Committee
- ■ Remuneration Committee
- ■ Nomination Committee



Francis Carpenter (aged 69)
Non-executive Director ■ ■ ■

Francis was chief executive officer of the European Investment Fund, holding that role for nearly six years until he stepped down at the end of February 2008. Francis joined the European Investment Bank in 1975 and held a variety of roles including secretary general, director of credit risk management and director of lending in the UK, Ireland, North Sea and Portugal. Francis became a director of IP Group in April 2008.

Jonathan Brooks, FCMA (aged 56)
Non-executive Director ■ ■ ■

Jonathan was the chief financial officer of ARM Holdings plc from 1995 until 2002 where he was responsible for finance, investor relations, legal and IT and where he managed the dual-listed IPO process of ARM on the London Stock Exchange and Nasdaq in 1998. He is a non-executive director of Aveva Group Plc, a provider of engineering data and design IT systems, and chairman of Nasdaq-listed Xyratex Ltd, a provider of data storage systems. He joined IP Group's Board in 2011 and is also Chairman of the Group's Audit Committee.

Directors' report

Report of the directors
The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2011.

Principal activities
The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the Company's financial statements. The business of the Group is: (i) the commercialisation and exploitation of intellectual property via the formation of long-term partnerships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

Results and dividends
During the period the Group made an overall loss after taxation for the year ended 31 December 2011 of £5.5m (2010: £1.8m profit). The directors do not recommend the payment of a dividend (2010: £nil).

Directors
The names of directors who held office during 2011 are as follows:

Executive Directors
Alan Aubrey
Alison Fielding
Mike Townend
Greg Smith (appointed 2 June 2011)
Charles Winward (appointed 14 October 2011)

Non-executive Directors
Bruce Smith (Chairman)
Graham Richards
Roger Brooke (retired 31 August 2011)
Francis Carpenter
Jonathan Brooks (appointed 30 August 2011)
Mike Humphrey (appointed 14 October 2011)

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on pages 35 to 40.

Business review
The information that fulfils the requirements of the Business review, as required by the Companies Act 2006 and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's statement on pages 6 to 7;
- Business review on pages 8 to 23, which includes a review of the Group's external environment, key strategic aims, main trends and factors likely to affect the future development, performance and position of the Group's business;
- Risk management on pages 24 to 25;
- Corporate social responsibility on pages 26 to 29, which includes information about environmental matters, employees and social and community issues;
- Corporate governance report on pages 41 to 48 including details of the Company's rules relating to the appointment and replacement of directors; and
- details of the principal operating subsidiaries are set out on note 2 to the Company's financial statements.

Business review continued

Key Performance Indicators and a description of principal risks and uncertainties facing the Group are set out below:

Key Performance Indicator	2011	2010
Total equity ("net assets") (£m)	**221.6**	173.1
(Loss)/profit attributable to equity holders (£m)	**(5.5)**	1.8
Change in fair value of equity and debt investments (£m)	**0.9**	4.0
Cash, cash equivalents and deposits (£m)	**60.5**	21.5
Proceeds from sale of equity investments (£m)	**3.7**	2.7
Purchase of equity and debt investments (£m)	**14.3**	6.9
Number of new portfolio companies (number)	**5**	7
IP Group plc share price performance (% change)	**157**	(46)

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 24 to 25 and in the Corporate Governance Report on pages 41 to 48. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

Significant agreements

The Group has entered into various agreements to form partnerships with ten UK universities, granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to three limited partnerships, as detailed in note 1, Basis of consolidation (iii), to the consolidated financial statements. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

There are a number of other agreements that may alter or terminate upon a change of control of the Group following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

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 19 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 ("AGM") of the Company, held on 3 May 2011, authority was given to the directors pursuant to the relevant provisions of the Companies Act 2006 to allot unissued relevant securities in the Company up to a maximum amount equivalent to approximately one-third of the total ordinary share capital in issue on 25 March 2011 at any time up to the earlier of the conclusion of the next AGM of the Company and 2 August 2012. Further, the directors were given authority effective for the same period to allot relevant securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 25 March 2011 in connection with an offer by way of a fully pre-emptive rights issue. No shares have been issued pursuant to either authority during the year. The directors propose to renew these authorities at the Company's next AGM to be held on 2 May 2012. The authorities being sought are in accordance with guidance issued by the Association of British Insurers.

A further special resolution passed at the 2011 Annual General Meeting 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 26 March 2010 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately five per cent of the aggregate nominal value of the shares in issue on 25 March 2011, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 2 August 2012. Neither of these authorities have been used during the year. The directors will seek to renew these authorities for a similar period at the next AGM.

Under the Companies Act 2006, the Company has the power to purchase its own shares in accordance with Part 18, Chapter 5 of the Companies Act 2006. At the 2011 Annual General Meeting, 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 ten per cent of the Company's issued share capital on 25 March 2011 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 2 August 2012. 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.

Directors' report continued

Articles of Association
The Articles may be amended by a special resolution of the shareholders. As at the date of this report the Articles include a qualifying third party indemnity provision ("QTPIP") within the meaning of Section 234 of the Companies Act 2006.

Substantial shareholders
As at 5 March 2012, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

Shareholder	%
Invesco Limited	20.0
Lansdowne Partners	16.3
Bailie Gifford & Co	11.1
Sand Aire Limited	8.2
Oppenheimer Funds Inc. (Massachusetts Mutual Life Insurance Company)	6.8
Henderson Global Investors	4.5
Legal & General Investment Management ("LGIM")	3.6

Payment of trade payables
It is the Group's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment and to adhere to those terms. The Group's average trade payable payment period at 31 December 2011 was 17 days (2010: 24 days). The Company had trade payables of £0.2m at 31 December 2011 (2010: £0.3m).

Charitable and political donations
During 2011, the Group made charitable donations totalling £18,000 to two charities (2010: £nil). Further detail on these charities is included in the Corporate Social Responsibility section on pages 26 to 29. The Group did not make any political donations in either year.

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 Company's Articles of Association 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.

Post-balance sheet events
In February 2012, Oxford Nanopore Technologies Limited announced its intention to launch two revolutionary DNA sequencing machines, GridION and MinION during 2012.

There has been a net increase in the fair value of the Group's holdings in quoted portfolio companies of £10.0m from the year end to 2 March 2012 (excluding net investment of £2.5m).

Financial statements
Information regarding the Group and Company financial statements, including applicable accounting standards and going concern, is set out in the Corporate Governance Report on pages 41 to 48.

Disclosure of information to auditor
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of its audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

Appointment of auditor
BDO LLP offers itself for re-appointment as auditor and an appropriate resolution will be put to the shareholders at the AGM.

ON BEHALF OF THE BOARD

Alan Aubrey
Chief Executive Officer
5 March 2012

Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with requirements of the Companies Act 2006.

The Company's remuneration policy is the responsibility of the Board of Directors. The Remuneration Committee provides recommendations to the Board of Directors on the Group's remuneration policy. At 31 December 2011, the Remuneration Committee consists exclusively of non-executive directors that the Group considers to be independent, is chaired by Francis Carpenter and also comprises Mike Humphrey and Jonathan Brooks. Changes to the composition of the committee during the year are discussed in the Corporate Governance section on pages 41 to 48. The Remuneration Committee formally met on four occasions in the year.

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. During the year the Remuneration Committee continued its review of the executive and non-executive director remuneration and took professional advice from Deloitte LLP in this regard. During 2010, the committee also sought advice from Hay Group in respect of remuneration policy, typical levels of remuneration for the industry and sector and on the mix of salary and long-term incentives. In addition to this, Graham Richards, the Senior Independent Director during 2011, held a number of discussions with some of the Group's major shareholders on executive remuneration. This consultation resulted in the Group utilising independent remuneration consultants, Deloitte LLP, to assist in the development of the Group's 2011 LTIP scheme. Further information on the scheme is detailed below.

In its meeting held in March 2011, the Remuneration Committee reviewed the levels of fixed annual remuneration paid to each of the directors, with particular focus on the fact that voluntary salary/annual fee sacrifices, averaging 10% across all directors, were still in place for each director, having commenced on 1 December 2008. The committee noted that these voluntary arrangements had now subsisted for over two years and that market research had shown directors' fixed remuneration to be significantly below median levels for the Group's peer group. In light of this, the Remuneration Committee resolved that, with effect from 1 January 2011, each of the executive directors' annual salary and the non-executive directors' annual fixed fee should be reinstated to the level it was prior to the implementation of the voluntary salary/fee sacrifice scheme and there be approved a further 5% salary or annual fee (as appropriate) increase consistent with the increase which had been applied across all of the Group's employees in March 2011. No director was reimbursed the amounts sacrificed during the voluntary sacrifice period. In addition, the salary of Dr Alison Fielding was raised to a level consistent with that of Michael Townend to reflect their similar levels of contribution to the Group.

Remuneration policy

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. In advising the Group's Board on executive remuneration packages of individual directors, the Remuneration Committee takes account the levels of experience, performance and responsibility of each director and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole seeking always to treat directors and members of staff equitably (for example, through the application of consistent annual "inflationary" increases or inclusion within long-term incentive schemes).

The nature of the Group's business is such that the value of the underlying investments can fluctuate from year to year and the Remuneration Committee considers that a bias towards long-term incentives rather than annual bonuses should provide a better correlation between performance and reward. Providing such incentives in the form of conditional awards of ordinary shares rather than cash will also minimise the cash of retaining, incentivising and rewarding the directors and the Group's employees.

a) Executive remuneration

The committee aims to ensure that the remuneration of Executive Directors is competitive, takes into account individual performance and provides a package which is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary that is not performance related, an entitlement to private medical insurance, permanent health insurance, life assurance and pension contributions to individual money purchase schemes and a Long Term Incentive Plan that is performance related. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the Long Term Incentive Plan are detailed below.

The Company aims to attract, retain and motivate high calibre executive directors and to align their remuneration with the interests of shareholders. It is the view of the committee that this is best achieved by setting appropriate levels of fixed remuneration and variable remuneration (which during 2011 was predominantly in the form of conditional awards of shares under the Group's Long Term Incentive Plan) on the following criteria:

- the achievement of individual objectives, which are consistent with the strategy of the Group;
- the achievement of the Group's primary financial targets;
- the creation of long-term shareholder value; and
- maintenance of the Group's strong governance and risk management frameworks.

It is on this basis that the Remuneration Committee determined that growth in asset value and total shareholder return ("TSR") were appropriate performance measures for long-term incentives.

Directors' Remuneration Report continued

Remuneration policy continued

a) Executive remuneration continued

Bonuses

Whilst the Company has always had an annual discretionary cash bonus scheme in place, no cash bonuses have been paid to directors since the Company's shares became traded on the Main Market of the London Stock Exchange. Other than in exceptional circumstances, the Committee does not currently envisage the payment of cash bonuses to its directors.

Exceptional performance is evaluated in the context of the achievements of both the individuals and the Group. The Group's performance is measured against TSR and its net asset value excluding intangible assets and the Oxford Equity Rights asset ("Hard NAV"). The individual's performance is measured against their professional objectives, management of risk and contribution to achievement of the Group's strategy.

Carried interest

The Group allocates carried interest in funds managed by the Group to executive directors and other key staff based on the level of involvement and contribution of the relevant members of the team to the management of the fund. Details of allocations made to the executive directors are set out below.

Pensions

The executive directors are entitled to a contribution of annual base salary, which is capped at 10% and paid directly into personal money purchase pension plans.

Share options

It is the policy of the Group not to issue new options over ordinary shares in the Company. No new options over shares were issued during the years ended 31 December 2011 or 31 December 2010.

b) Non-executive remuneration

Each of the non-executive directors receives a fixed fee for service, which covers preparation for and attendance at meetings of the full Board and all committees thereof. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending these meetings. Non-executive directors are not entitled to participate in any of the Group's incentive schemes, including the Long Term Incentive Plan. The executive directors are responsible for setting the level of non-executive remuneration.

c) Long Term Incentive Plan ("LTIP")

The LTIP and employee share ownership trust were adopted by shareholders at the Annual General Meeting in 2007. Following extensive consultation in respect of certain changes which were proposed to be made with the Group's ten largest shareholders as well as the proxy advisory groups, RREV and PIRC, in advance of the general meeting, certain amendments to the rules of the LTIP were approved by shareholders at the Company's general meeting held on 21 June 2011. All employees, including executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards under the LTIP take the form of provisional awards of ordinary shares of 2 pence each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards and these will be set taking into consideration the guidance of the Group's institutional investors from time to time.

The 2011 LTIP awards will ordinarily vest on 31 March 2014, to the extent that the performance conditions have been met. As noted above, Deloitte LLP provided independent external advice to the Remuneration Committee on the appropriate performance conditions to attach to the 2011 LTIP awards based on their experience of current market practice. The awards are based on the performance of the Group's Hard NAV and TSR. Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as follows:

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

Remuneration policy continued

c) Long Term Incentive Plan ("LTIP") continued

The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE small-cap index, which can reduce the awards by up to 50%. The 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 2011 to 31 December 2013 and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2014, using an industry-standard average price period at the beginning and end of the performance period. Since the three-month average bid price of the Group's shares to 6 October 2011 (47p) was lower than the placing price (50p), the Remuneration Committee determined that the starting point for the TSR target relating to the 2011 awards should be adjusted upwards to the placing price of 50p. 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 2010 LTIP awards will ordinarily vest on 31 March 2013, to the extent that the performance conditions have been met. 50% of the awards are based on the performance of Group's Hard NAV and 50% are based on the Group's share price performance. The portion subject to Hard NAV performance shall vest in full in the event of Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this time period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012, whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale is applied for performance between these vesting targets.

For the 2008 awards, the performance conditions were based on the Group's TSR. The 2008 awards lapsed during the year with no awards vesting.

Further details relating to the LTIP awards that have been made to the executive directors are detailed below.

d) Service contracts

Alan Aubrey and Dr Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months by either party. Each of the executive directors have service contracts which commenced on 5 March 2007 in the case of Mike Townend, on 2 June 2011 in the case of Greg Smith and on 14 August 2011 in the case of Charles Winward and each contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Each of the non-executive directors have letters of appointment which commenced on 10 August 2004 in the case of Graham Richards, on 3 September 2007 in the case of Bruce Smith, on 3 April 2008 in the case of Francis Carpenter, on 30 August 2011 in the case of Jonathan Brooks and on 14 October 2011 in the case of Mike Humphrey. In line with best practice as promulgated by the Code, the Company adopted the policy of annual re-election by shareholders of the full Board with effect from the 2011 AGM and these letters of appointment have been amended accordingly. The non-executive letters of appointment are terminable on three months' notice by either party.

Executive directors may accept other outside non-executive appointments. 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 limited circumstances where the executive directors receive such fees directly, such sums are deducted from their base salary. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

Directors' Remuneration Report continued

Directors' emoluments (audited)

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, was as follows:

	Base salary £000	Fees £000	Benefits(viii) £000	Total (exc. pension) 2011 £000	Pension £000	Total (inc. pension) 2011(v) £000	Total (exc. pension) 2010 £000	Pension £000	Total (inc. pension) 2010(v) £000
Executive									
Alan Aubrey (i)	**181**	**–**	**5**	**186**	**23**	**209**	174	19	193
Alison Fielding	**208**	**–**	**4**	**212**	**21**	**233**	194	18	212
Mike Townend	**208**	**–**	**5**	**213**	**21**	**234**	183	18	201
Greg Smith (ii)	**76**	**–**	**1**	**77**	**8**	**85**	–	–	–
Charles Winward (iii,iv)	**27**	**–**	**1**	**28**	**3**	**31**	–	–	–
Non-executive									
Bruce Smith	**–**	**60**	**–**	**60**	**–**	**60**	41	–	41
Graham Richards	**–**	**36**	**–**	**36**	**–**	**36**	32	–	32
Roger Brooke(vi)	**–**	**22**	**–**	**22**	**–**	**22**	23	–	23
Francis Carpenter	**–**	**36**	**–**	**36**	**–**	**36**	32	–	32
Jonathan Brooks(vii)	**–**	**13**	**–**	**13**	**–**	**13**	–	–	–
Mike Humphrey(iv)	**–**	**9**	**–**	**9**	**–**	**9**	–	–	–
Total	**700**	**176**	**16**	**892**	**76**	**968**	679	55	734

(i) In addition to the above, during the period Alan Aubrey retained fees totalling £52,083 in respect of non-executive director services provided to companies in which the Group is a shareholder and which were deducted from the base salary during the year (2010: £27,500).

(ii) Greg Smith was appointed as a director of the Group on 2 June 2011.

(iii) In addition to the amounts listed above, Charles Winward retained fees totalling £2,500 in respect of non-executive director services provided to a company in which the Group is a shareholder and which were deducted from his base salary during the period in which he was also a director of the Group.

(iv) Charles Winward and Mike Humphrey were appointed as directors of the Group on 14 October 2011.

(v) Including those non-executive director fees retained by him and deducted from this base salary, Alan Aubrey was the highest paid director during the year (2010: Alan Aubrey). Excluding these fees, Mike Townend was the highest paid director (2010: Alison Fielding).

(vi) Roger Brooke resigned as a director of the Group on 31 August 2011.

(vii) Jonathan Brooks was appointed as a director of the Group on 31 August 2011.

(viii) Benefits represent the provision of private medical insurance, life assurance and income protection.

Directors' long-term incentives (audited)

a) Long Term Incentive Plan

The directors' participations in the Group's Long Term Incentive Plan are as follows:

	Number of shares conditionally held at 1 January 2011 or date of appointment(i)	Conditional shares notionally awarded in the year	Potential conditional interest in shares at 31 December 2011	Share price at date of conditional award(ii) (p)	Amount charged against profit in the year £000	Earliest vesting date(s)
Executive Directors						
Alan Aubrey	2,556,818	879,654	**3,436,472**	36	133	31 March 2013/14
Alison Fielding	2,090,909	670,213	**2,761,122**	36	108	31 March 2013/14
Mike Townend	2,090,909	670,213	**2,761,122**	36	108	31 March 2013/14
Greg Smith(iii)	575,758	414,894	**990,652**	36	40	31 March 2013/14
Charles Winward(iv)	1,155,900	–	**1,155,900**	36	47	31 March 2013/14
Total	8,470,294	2,634,974	**11,105,268**		436	

(i) Directors appointed during the year reflect shares notionally held at date of appointment.

(ii) Represents weighted average share price at date of conditional awards.

(iii) Greg Smith was appointed a director of the Group on 2 June 2011.

(iv) Charles Winward was appointed a director of the Group on 14 October 2011. His 2011 LTIP award was made prior to his appointment to the Board in October.

Directors' long-term incentives (audited) continued

a) Long Term Incentive Plan continued

No conditionally awarded shares vested during the year.

The fair value charge recognised in the Consolidated statement of comprehensive income in respect of LTIP share awards granted to directors was £434,742 (2010: £198,200).

The performance criteria relating to the Long Term Incentive Plan award is set out on pages 36 to 37.

Co-investment and carried interest schemes (audited)

In addition to the directors' remuneration arrangements, the Group also operates co-investment and carried interest schemes relating to certain venture capital funds that are under its management. Under the co-investment scheme, 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 the partnership alongside the Group. Carried interest commonly provides a preferential return to participants once the partnership has returned all funds contributed by limited partners together with a pre-agreed rate of return. The carried interest and co-investment schemes will generally contain forfeiture provisions in respect of leavers over the investment period of the partnership.

a) Co-investment scheme

The executive directors' commitments to 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 2011 or date of appointment, if later(i) £000	Capital contributions during the year(i) £000	**Total capital contributions at 31 December 2011 £000**
Executive directors					
Alan Aubrey	56	0.18%	30	7	**37**
Alison Fielding	56	0.18%	30	7	**37**
Mike Townend	56	0.18%	30	7	**37**
Greg Smith(i)	35	0.11%	12	4	**16**
Charles Winward(i)	56	0.18%	35	2	**37**
Total	259	0.83%	137	27	**164**

(i) Information for directors appointed during the year is presented from the date of their appointment. Greg Smith was appointed to the Board on 2 June 2011 and Charles Winward was appointed to the Board on 14 October 2011.

b) Carried interest scheme

The director's interests in carried interest schemes are set out below:

	Scheme(i)	Scheme interest(ii) at 1 January 2011 or date of appointment if later(iii)	Awarded during the year	Transferred during the year	Lapsed during the year	**Scheme interest at 31 December 2011**	**Accrued value(iv) of scheme interest at 31 December 2011**
Executive directors							
Alan Aubrey	IPVF	1.81%	–	–	–	**1.81%**	**–**
	NETF	1.55%	–	–	–	**1.55%**	**–**
Alison Fielding	IPVF	1.81%	–	–	–	**1.81%**	**–**
	NETF	1.15%	–	–	–	**1.15%**	**–**
Mike Townend	IPVF	1.81%	–	–	–	**1.81%**	**–**
	NETF	1.15%	–	–	–	**1.15%**	**–**
Greg Smith(iii)	IPVF	1.14%	–	–	–	**1.14%**	**–**
	NETF	0.85%	–	–	–	**0.85%**	**–**
Charles Winward(iii)	IPVF	1.81%	–	–	–	**1.81%**	**–**
	NETF	0.45%	–	–	–	**0.45%**	**–**

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

(ii) Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits.

(iii) Information for directors appointed during the year is presented from the date of their appointment. Greg Smith was appointed to the Board on 2 June 2011 and Charles Winward was appointed to the Board on 14 October 2011. Directors that were appointed during the year reflect their interests at date of appointment as their opening position.

(iv) Accrued value of scheme interests is calculated based upon the current value of the limited partnership in excess of the capital contributed together with the hurdle rate of return.

Note: 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.

Directors' Remuneration Report continued

Directors' interests in ordinary shares (unaudited)

The directors who held office at 31 December 2011 had the following beneficial interests in the ordinary shares of the Company:

	31 December 2011 Number of shares	1 January 2011(i) Number of shares
Alan Aubrey	**1,312,170**	1,112,170
Alison Fielding	**494,630**	394,630
Mike Townend	**304,340**	204,340
Greg Smith	**19,407**	9,407
Charles Winward	**5,935**	5,935
Bruce Smith	**236,592**	216,592
Graham Richards	**29,250**	9,250
Francis Carpenter	**239,151**	169,151
Jonathan Brooks	**60,000**	–
Mike Humphrey	**80,000**	–

(i) Or date of appointment if later.

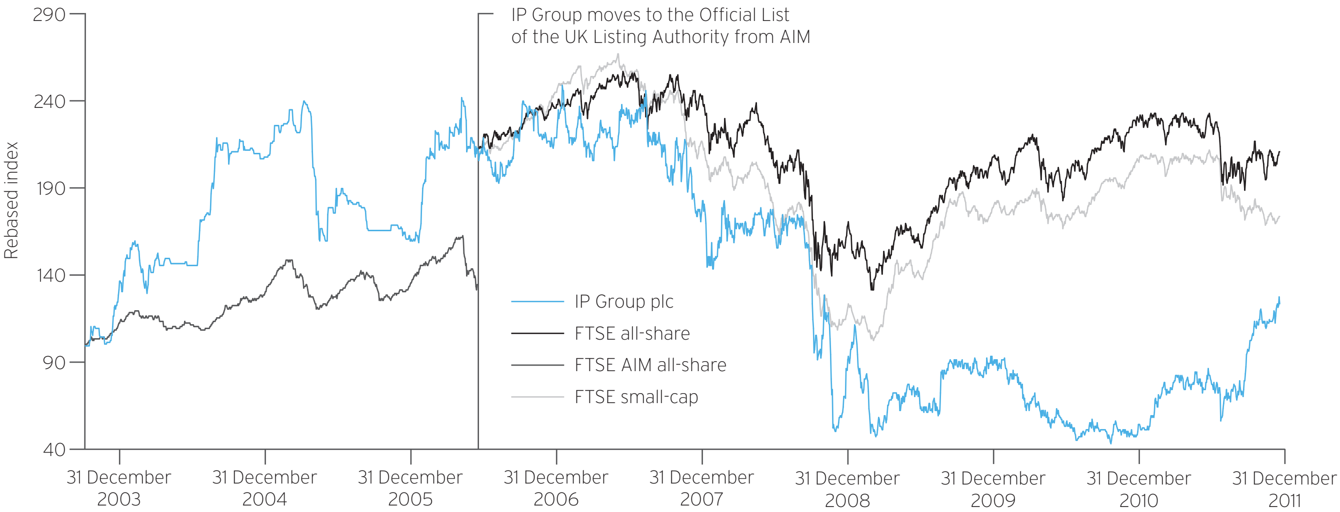
There has been no change in the interests set out above between 31 December 2011 and 5 March 2012.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2011 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of spin-out companies in which the Group also has an equity interest in. Details of these interests are disclosed in note 23 of the financial statements.

During both the year under review and the previous year, executive directors were remunerated through fixed pay packages which included base salary, pension and medical contributions. A variable element, the LTIP, was utilised in both 2010 and 2011 in respect of executive directors and employees. The performance criteria attached to these schemes are considered to best align directors' and employees' remuneration interests with the interests of shareholders. Should the LTIP performance criteria be met, the conditional shares will vest on 31 March 2013 and 31 March 2014 respectively. The Remuneration Committee encourages the executive directors to hold any conditional shares which vest as aforementioned for a further period following vesting, subject to the need to finance associated tax liabilities.

Performance graph (unaudited)

The chart below shows the shareholder return performance for the period 15 October 2003 when the Group listed on AIM to 31 December 2011 alongside the performance of the FTSE AIM all-share, FTSE all-share and FTSE small-cap indices. For ease of comparison, these figures have been rebased such that the Group's share price is equal to the FTSE AIM all-share at 15 October 2003 and FTSE all-share and FTSE small-cap indices at 19 June 2006, the date at which the Group joined the Official List of the UK Listing Authority. The directors have selected the FTSE AIM all-share, FTSE all-share and FTSE small-cap indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which total shareholder return of IP Group plc should be measured.



ON BEHALF OF THE BOARD

Francis Carpenter
Chairman of the Remuneration Committee
5 March 2012

Corporate Governance

The Company is committed to high standards of corporate governance across the Group. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

This statement, together with the Remuneration Report of the Directors (set on pages 35 to 40), describes how the Company has applied the principles of good corporate governance set out in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code"). Throughout the year ended 31 December 2011, the Group has been in compliance with all relevant provisions of the Code and has applied the principles of the Code in the manner described in this report.

The Board

Role of the Board

UK company law requires directors to act in a way they consider, in good faith, would promote the success of the Company for the benefit of shareholders as a whole. In doing so, the directors must have regard (among other things) to:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with its university partners, its suppliers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Group.

In addition to their statutory duties, the directors must ensure that the Board focuses effectively on all its accountabilities. The Board is responsible to shareholders for the overall management of the Group, providing entrepreneurial leadership within a framework of controls for assessing and managing risk, setting the Group's strategic aims, maintaining the 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 strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management, setting values and standards in governance matters, monitoring policies and performance on corporate social responsibility.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors. The Board is collectively responsible for the success of the Group. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for constructively challenging proposals on strategy, scrutinising the performance of management, determining levels of remuneration and for succession planning for the executive directors. 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.

The Board manages these matters at its regular meetings. At each Board meeting, it receives reports and presentations from each of the executive directors responsible for the Group's operating businesses and key central functions. 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. The Board reviews strategic issues on a regular basis and exercises control over the performance of the Group by agreeing budgetary targets and monitoring performance against those targets. Certain matters are reserved for approval by the Board and the Board has overall responsibility for the Group's system of internal controls and risk management, as described on pages 24 and 25. Any decisions made by the Board on policies and strategy to be adopted by the Group or changes to current policies and strategy are made following presentation by the executive directors and a detailed process of review and challenge by the Board. Once made, the executive directors are fully empowered to implement those decisions.

The powers of the Board are set out in a formal schedule of matters reserved for its decision. These matters are significant to the Group as a whole due to their strategic, financial or reputational implications. The schedule of matters reserved for the Board is reviewed and updated regularly and includes, but is not restricted to, the following:

- approval of the annual report, interim statement and the quarterly interim management statements;
- maintenance of a system of internal control and risk management;
- strategic acquisitions by the Group;
- major portfolio capital allocation decisions, being those in excess of £1.5m;
- major disposals from the Group's portfolio;
- approval of and monitoring of the Group's strategic plans and of the annual budget;
- accounting policies and procedures or any matter having a material impact on future financial performance of the Group;
- considering and, where appropriate, approving director's conflicts of interest;
- board appointments and removals and Board remuneration;
- approval of terms of reference and membership of Board committees;
- approval of the division of responsibility between the Chairman and Chief Executive;
- appointment of the auditors and determination of the audit fee;
- approval of all circulars, prospectuses and other documents issued to shareholders governed by the FSA's Listing Rules, Disclosure Rules or Transparency Rules or the City Code on Takeovers and Mergers;
- major changes in employee share schemes; and
- litigation.

Corporate Governance continued

The Board continued

Board size and composition

During 2011, the Nomination Committee undertook a detailed review of the composition of the Board to ensure that both the Board and its committees had the appropriate range and balance of skills, experience, knowledge and independence. Giving consideration to the feedback received from various shareholders and the proxy advisory groups in advance of the Company's AGM in 2011, together with the proposed retirement of Roger Brooke from the Board and as chairman of the Audit Committee, the Board decided in May 2011 to expedite the search for a new non-executive director with recent and relevant financial experience to replace Mr Brooke on the Board and as chair of the Audit Committee. In addition, the Board resolved to continue its search for one further additional independent non-executive director.

The search for new non-executive director candidates and the ultimate appointment of Jonathan Brooks and Mike Humphrey was conducted against objective criteria with due regard to the benefits of diversity on the Board, including gender. Both male and female candidates were included on a shortlist which had been drawn up by Stuart Thompson, head of the internal executive recruitment function within IP Group, IP Exec, against a detailed candidate specification prepared following a number of in-depth discussions with the Chief Executive and the Nomination Committee as to the relevant objective criteria to apply and the specific technical skills and knowledge which were required for the roles. All of these candidates were interviewed by some or all of the executive directors at that time and by the Chairman and, following the preferred candidates being identified, each was given the opportunity to meet with the other non-executive directors. The decision was taken by the Nomination Committee, led by the Chairman, following discussion with the Chief Executive not to retain an external search consultancy nor to openly advertise either of the roles as it was considered that IP Exec possessed all the necessary skills to conduct an objective search for the best candidates together with the additional benefit of an in-depth knowledge of the business of the Group and how it operates.

Following the recruitment process outlined above, the Nomination Committee recommended Jonathan Brooks and Mike Humphrey for appointment by the Board, considering that each of them possessed critical skills of value to the Board and relevant to the Company's challenges. Having served as the chief financial officer of ARM Holdings plc from 1995 to 2002, Mr Brooks brings strong financial, investor relations and plc experience to the Board and possesses the requisite recent and relevant financial experience which enabled him to succeed Roger Brooke as the Chairman of the Audit Committee in September 2011. Mike Humphrey was group chief executive of Croda International plc from 1999 until his retirement from the company at the end of 2011. Mr Humphrey brings to the Board a strong track record of building businesses and creating value for shareholders, two important objectives of the Group. The individual biographies of each of the new non-executive directors are set out on pages 30 to 31.

Following further recommendations from the Nomination Committee following its detailed review of the Board's composition throughout the year, the Board resolved in May 2011 to promote internally Greg Smith to the Board as Chief Financial Officer and, in October 2011, to promote internally Charles Winward, Managing Director of Top Technology Ventures Limited, the Group's venture capital fund management subsidiary, to the Board as an Executive Director. Both of these appointments further augment the existing skill set of the executive directors and serve to strengthen certain areas identified by the Board on the financial side and also in respect of the Group's regulated activities. The individual biographies of Greg Smith and Charles Winward are set out on page 30.

In addition to the new appointments detailed above, the roles of Dr Alison Fielding and Michael Townend were altered during 2011 to reflect various minor changes to their day-to-day working and responsibilities. Dr Alison Fielding moved from the Group's Chief Technology Officer to the Group's Chief Operating Officer and Michael Townend moved from Director of Capital Markets to the Group's Chief Investment Officer. Each of their revised job specifications were circulated and approved by the Board.

At the end of 2011, the Board comprises five executive directors (being the Chief Executive, the Chief Operating Officer, the Chief Financial Officer, the Chief Investment Officer and the Managing Director of Top Technology Ventures Limited), the Chairman and four independent Non-executive Directors. The biographies of all of the directors, including those specifically referenced above, are provided on pages 30 to 31. Notwithstanding the fact that Professor Graham Richards has served on the Board for over nine years, following his performance evaluation by the Chairman, he is still considered to remain independent in both character and judgement given no relationships or circumstances existed through 2011 nor currently exist which are likely to affect the application of his decision-making and judgement in his role as a director of the Company.

Whilst the size of the Board at ten directors in total is above average for a board of a company in the All Share Index, the Board believes that each of the executive directors represents a specific and important function of the Group's business and makes a positive contribution to the Board's effectiveness. Together with the Chairman and the four independent non-executive directors, it is believed that there is now an appropriate combination of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision taking. The Nomination Committee will, however, continue to review the Board's size as part of its succession planning.

In accordance with the Code, the Company is currently deemed a "smaller company" since it has been below the FTSE 350 throughout the year immediately prior to the reporting year.

The Company's Articles, adopted at the Company's 2010 Annual General Meeting held on 27 April 2010, give the directors power to appoint and replace directors. All directors are required under the Articles to submit themselves for re-election by the shareholders at the Company's Annual General Meeting following their first appointment and thereafter at each Annual General Meeting in respect of which they have held office for the two preceding Annual General Meetings and did not retire at either of them. In addition, each director who has held office with the Company for a continuous period of nine years or more must retire and offer themselves up for re-election at every Annual General Meeting. Notwithstanding the requirements of the Articles and whilst not technically required under the Code by reason of the Company being a "smaller company", the Company has adopted the principle of annual re-election by its shareholders of the full Board with effect from its 2011 Annual General Meeting and, accordingly, all of the directors will offer themselves up for re-election at the Annual General Meeting of the Company to be held on 2 May 2012.

The Board continued

Chairman and Chief Executive

Bruce Smith is the Chairman. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board, its conduct of the Group's affairs and strategy and in ensuring effective communication with shareholders. The Chairman facilitates the full and effective contribution of non-executive directors at Board and committee meetings, ensures that they are kept well informed and ensures a constructive relationship between the executive directors and non-executive directors. The Chairman also ensures that the membership of the Board is appropriate to the needs of the business and that the Board committees carry out their duties, including reporting back to the Board. The role of the Chief Executive is to lead the delivery of the strategy and the executive management of the Group and its operating businesses. He is responsible, amongst other things, for the development and implementation of strategy and processes which enable the Group to meet the requirements of shareholders, for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board and for providing the appropriate environment to recruit, engage, retain and develop the personnel needed to deliver the Group's strategy.

Senior Independent Director

Professor Graham Richards was the Senior Independent Director during 2011. Given the appointment of the new non-executive directors in the second half of 2011, the non-executive directors and the Chairman agreed between themselves that Mike Humphrey should succeed Professor Richards as the Senior Independent Director. A key responsibility of the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman where necessary and takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new chairman is considered.

Non-executive directors

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution and constructive challenge at Board and committee meetings. The Code sets out the circumstances that should be relevant to the Board in determining whether each non-executive director is independent. The Board considers non-executive director independence on an annual basis as part of each non-executive directors' performance evaluation. Having undertaken this review, the Board has concluded that each non-executive director (other than the Chairman for whom this is not relevant under the Code) is independent.

In a limited number of cases, non-executive directors have made de minimis investments in spin-out companies formed under the university partnerships. Such investments were made on arm's length terms, on comparable terms to other third party angel investors participating in the same financing rounds and always represented minority participations in the relevant financing rounds. The Board does not therefore consider that such personal investments act in any way to influence the non-executive directors' oversight of the Board. All potential conflicts are disclosed at the beginning of each Board meeting and the relevant Non-executive Director may be required by the Board to abstain from voting on the matter in question. Details of these investments are set out in note 23 to the financial statements.

The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. Directors have direct access to the impartial advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

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

Whilst the Board retains overall responsibility for the Company, the day-to-day management of the business is conducted by the executive directors. The Board delegates specific responsibilities to certain committees whom assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management. The three principal Board committees (Audit, Remuneration and Nominations) 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. These are available on request from the Company Secretary or are available at the Corporate Governance section of the Group's website at www.ipgroupplc.com.

Board meetings and decisions

The Board had eleven scheduled Board meetings in 2011. In addition, there was one additional Board meeting held to consider and approve the Group's placing and open offer which was completed in June 2011.

The schedule of Board and committee meetings each year is determined before the commencement of that year and all directors or if appropriate, all committee members, are expected to attend each meeting. All directors are provided with an agenda and full set of supporting papers and relevant information in advance of each Board meeting and, if a director is unable to attend a meeting due to exceptional circumstances, he or she will still receive the supporting papers and will usually discuss any matters he or she wishes to raise with the Chairman in advance of the meeting. The Chairman, Chief Executive, Chief Financial Officer and Company Secretary 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. Each Board member also receives monthly management accounts including a review and analysis of performance against budget and other forecasts. Additional information is provided as appropriate or if requested.

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

Corporate Governance continued

The Board continued

Board meetings and decisions continued

Meeting attendance for 2011 is set out in the table below. In 2011, all directors committed an appropriate amount of time to fulfil their duties and responsibilities to the Board.

An output of an evaluation of the number of Board meetings to be held in 2012 which was carried out by the Board at the end of November 2011 following the appointment of the two new non-executive directors to the Board and by reference to the number and content of the Board meetings held in 2011 was that the number of scheduled Board meetings be reduced to eight in 2012. It was further agreed that one of these eight meetings should be a full strategy day and two should be offsite at either the Company's offices in Leeds or Newcastle or at the location of one of the Group's partner universities in order to encourage further interaction with the Group's stakeholders.

Board and committee attendance

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

	Board		Audit		Remuneration		Nomination	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Alan Aubrey	11	12	–	–	–	–	–	–
Alison Fielding	11	12	–	–	–	–	–	–
Mike Townend	9	12	–	–	–	–	–	–
Greg Smith	7	7	–	–	–	–	–	–
Charles Winward	2	2	–	–	–	–	–	–
Graham Richards	11	12	2	2	4	4	4	4
Roger Brooke(i)	9	9	2	2	3	3	3	3
Bruce Smith	11	12	2	2	4	4	4	4
Francis Carpenter	12	12	2	2	–	–	–	–
Jonathan Brooks(ii)	2	3	–	–	–	–	–	–
Mike Humphrey(iii)	1	2	–	–	–	–	–	–

(i) Roger Brooke resigned from the Board and all committees on 31 August 2011.

(ii) Jonathan Brooks was appointed to the Board on 30 August 2011. He was unable to attend the Board meeting on 27 September 2011 due to business commitments made prior to his appointment.

(iii) Mike Humphrey was appointed to the Board on 14 October 2011. He was unable to attend the Board meeting on 1 November 2011 due to business commitments made prior to his appointment.

Directors' conflicts of interest

With effect from 1 October 2008, a director has had a duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty was in addition to the existing and 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 is interested. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect. Shareholders approved amendments to the Company's Articles of Association at the Annual General Meeting held on 28 April 2009 which included provisions giving the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed before 1 October 2008. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. The directors are subject to an 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 will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Where potential conflicts of interest have arisen, such as when a non-executive director is also a director of a spin-out company, a director has a relationship with an academic institution with whom the Company has a partnership agreement or there are previous relationships between a director and the Company or predecessor companies, the director does not participate in any decisions relating to that relationship.

Induction, awareness and development

A formal and comprehensive induction process is in place for new directors. The programme is tailored to the needs of each individual director and agreed with him or her so that he or she can gain a better understanding of the Group and its businesses. The programme for the two new non-executive directors who were appointed in 2011 involved a presentation by the Chief Executive including an overview of the Group, its businesses, functions and strategic aims and site visits to the Group's offices in Leeds and Newcastle and to a number of the Group's portfolio companies, which included meeting with such companies' management and a presentation from them on their businesses.

In order to ensure that directors continue to further their understanding of the issues facing the Group, the non-executive directors are encouraged to continue to visit the Group's offices other than the main corporate office in London, its portfolio companies and its partner universities and, as referred to above, two of the Group's Board meetings will be offsite to facilitate this through 2012.

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.

The Board continued

Performance evaluation

The Code recommends that an evaluation of the effectiveness and performance of the Board, its committees and the individual directors is conducted annually. In compliance with this, the Board conducted an internal review of its committees' performance and effectiveness in November 2011 and a further internal review of its own performance and that of its individual directors in February 2012 and relating to each of their performances for the time they have been in office in 2011. As a result of the number of changes which were made to the Board through 2011 and as further described above, the Board considered the merits of using an external facilitator to either undertake or assist in the annual evaluation of the Board, its committees and its individual directors and concluded that, given the brevity of the tenure of some of the new Board appointees, it would undertake an internal performance review in respect of 2011 and would then engage an external facilitator to undertake the evaluation exercise in respect of 2012. Regarding the evaluation of the Chairman, the other non-executive directors, led by the Senior Independent Director, completed a questionnaire appraising the Chairman's performance, the results of which were collated by the Company Secretary, and then met in the absence of the Chairman to discuss and analyse the results, following which the Senior Independent Director provided feedback to the Chairman. The performance of the other non-executive directors and the Chief Executive was reviewed by the Chairman and the performance of the other executive directors was reviewed by the Chief Executive, in each case following the submission of individual appraisal forms from the relevant director. In addition to the aforementioned annual reviews, the performance of executive directors is reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the executive director under review.

The main outcomes of the November 2011 review of the performance of the Board and its committees and actions taken were as follows:

- a reduction in the number of scheduled Board meetings per annum but an amendment to the schedule so as to build in a full day for a strategic review on an annual basis and meetings either onsite at the Group's offices in Leeds or Newcastle or at its partner universities so as to facilitate a further enhanced awareness of the non-executive directors of the Group's business and their exposure to the Group's portfolio companies and their management;
- a streamlining of the papers provided to the Board ahead of the scheduled Board meetings so as to clarify further those matters for discussion, decision and information; and
- the reconstitution of all of the Board's committees so as to include the two new independent non-executive directors.

The main outcome of the February 2012 review was that the Board, its committees and its individual directors would benefit from an externally facilitated review in late 2012 or in early 2013, following a suitable integration period for the new directors appointed to the Board in 2011.

Committees of the Board

Audit Committee

The Audit Committee, which has written terms of reference, was established in October 2003. The Committee currently comprises Jonathan Brooks (Chairman), Francis Carpenter and Mike Humphrey. The composition of the committee was considered by the Board during 2011 and, following the retirement of its previous Chairman, Roger Brooke, it was reconstituted with these three members, all of whom the Board considers have the relevant skills and independence to discharge their duties as members of the committee. The Auditor, Chief Executive, Chief Financial Officer and other members of management attend the meetings by invitation. The Audit Committee also meets with the auditor in the absence of executive directors and management. The Audit Committee examines and reviews internal controls, together with accounting policies and practices, the form and context of financial reports and statements and general matters raised by the auditor. It reviews the interim financial information and annual accounts before they are submitted to the Board and makes recommendations to the Board in connection with their submission. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditor, reviews their independence and objectivity and monitors the scope and results of the audit. The Audit Committee is also responsible for agreeing the level of audit fees and monitoring the provision of non-audit services provided by the Group's auditor. The Audit Committee assesses the likely impact on the auditor's independence and objectivity before awarding them any material contract for additional services. The Board has identified Jonathan Brooks as having the recent and relevant financial experience as required by the Code and the Board considers that collectively the members have the requisite skills and attributes to enable the committee to properly discharge its responsibilities.

During the year, the Audit Committee:

- considered the effectiveness of the internal control environment of the Group;
- reviewed and recommended to the Board the approval and publication of the half-yearly and annual financial statements of the Group;
- oversaw the Group's relations with its external auditor, including reviewing and monitoring the scope and results of the audit and half-yearly review;
- sanctioned and recommended to the Board the appointment of BDO LLP, the Group's auditor, as reporting accountant in connection with the Group's placing and open offer completed in June 2011 for which additional fees of £87,000 were payable. The Audit Committee considered that the nature of this work is such that it is not unusual for the Group's auditor to carry out, the work itself was carried out by a separate corporate finance team within BDO LLP and the nature of the work and the level of the fees involved were not considered by the Audit Committee to be sufficiently material so as to impair the independence of BDO LLP as the Group's auditor;
- assessed the independence and objectivity of BDO LLP as the Group's auditor, including consideration of the nature and quantum of non-audit fees (including the reporting accountant fees) in relation to the Group audit fee;
- recommended to the Board the re-appointment of BDO LLP as the Group's auditor and the approval of their remuneration for the year;

Corporate Governance continued

Committees of the Board continued

Audit Committee continued

– met with the external auditor twice during the year in the absence of management to discuss any issues or concerns from either the committee or the auditor; and

– in accordance with the Code, reviewed the need to establish an internal audit function, but continued to believe that in a Group of this size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function. It will continue to review the requirement for such a function on an annual basis.

The Audit Committee met twice during 2011.

Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. Prior to Roger Brooke's retirement in August 2011, the Remuneration Committee comprised Graham Richards (Chairman), Bruce Smith and Roger Brooke. Following the appointment of Jonathan Brooks and Mike Humphrey in the second half of 2011, the Board resolved to amend the constitution of the Remuneration Committee and this now comprises Francis Carpenter (Chairman), Jonathan Brooks and Mike Humphrey. The Remuneration Committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre without paying more than is necessary. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive directors' individual remuneration packages are fixed by the Committee or the Board. It is the Group's policy to take into account the pay and employment conditions of employees throughout the Group when determining directors' remuneration. Full details of the directors' remuneration are set out in the Remuneration Report on pages 35 to 40.

The Remuneration Committee met four times during 2011.

Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. It considers the appointment of both executive and non-executive directors. Until August 2011, it comprised Bruce Smith (Chairman), Graham Richards and Roger Brooke. Following Roger Brooke's retirement and the appointment of the two additional non-executive directors, it was agreed that the Committee be reconstituted as follows: Bruce Smith (Chairman), Francis Carpenter, Professor Graham Richards, Jonathan Brooks and Mike Humprey. The Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. The Nomination Committee met four times during 2011 to consider the various new appointments of executive and non-executive directors to the Board as further detailed above. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments and is responsible for ongoing succession planning.

Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for Directors on the Code ("Turnbull'). The Group's internal controls, which were Group-wide, were in place during the whole of 2011 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2011.

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 these financial statements were approved, are as follows:

Control environment and procedures

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

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2011.

Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks. Specifically, all decisions relating to strategic partnerships and acquisitions entered into by the Group are reserved for the Board's review and approved. The Board formally reviews the performance of university partnerships and equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate. The Board maintains an up to date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 24 and 25.

Information and financial reporting systems

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

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. Risks are formally reviewed by the Board on an annual basis and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur, the overall impact on the Group may be compounded. A summary of the key risks affecting the Group and the steps taken to manage these is set out on pages 24 to 25.

Relations with stakeholders

The Company is committed to having a dialogue with shareholders as it believes that it is essential to ensure a greater understanding of and confidence amongst its shareholders in the medium and longer-term strategy of the Group and in the Board's ability to oversee its implementation. It is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer, Chief Investment Officer, Chief Financial Officer and the Chief Operating Officer. The Board's primary contact with the limited partners and advisory boards of its managed funds is through the Managing Director of Top Technology and the Chief Executive Officer. The Senior Independent Director and other directors, as appropriate, make themselves available for contact with major shareholders and other stakeholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the structure of the executive directors' remuneration, including on vesting conditions to attach to any vesting awards.

The Company uses the Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held at 2.00pm on 2 May 2012 at IP Group plc, 24 Cornhill, London EC3V 3ND, is enclosed with this report. In line with the Code, the notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and the explanatory notes thereto are included with the Notice. 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 is published on the Group's website (detailed below) after the meeting and 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 includes an overview of the activities of the Group, details of its portfolio companies and its key university partnership agreements and details of all recent Group and portfolio announcements.

Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board is concerned 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 3 May 2011, 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 3 May 2011 up to the conclusion of the 2012 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 AGM, to be held on 2 May 2012, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

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.

Corporate Governance continued

Directors' responsibilities statement

The directors are responsible for preparing the annual report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). 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 Company and of the profit or loss for the Group for that period.

In preparing the Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a director's report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

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

ON BEHALF OF THE BOARD

Bruce Smith
Chairman
5 March 2012

Alan Aubrey
Chief Executive Officer

Independent auditor's report
To the members of IP Group plc

We have audited the financial statements of IP Group plc for the year ended 31 December 2011 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 and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Report set out on pages 41 to 48 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 47, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
5 March 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income
For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Portfolio return and revenue			
Change in fair value of equity and debt investments	15	**0.9**	4.0
Profit on disposal of equity investments		**2.3**	0.6
Change in fair value of Limited Partnership interests		**0.6**	0.2
Revenue from services	4	**2.1**	2.2
		5.9	7.0
Administrative expenses			
Research and development costs		**(0.2)**	(0.4)
Share-based payment charge	21	**(0.7)**	(0.3)
Change in fair value of Oxford Equity Rights asset		**(6.0)**	–
Other administrative expenses		**(5.1)**	(4.7)
		(12.0)	(5.4)
Operating (loss)/profit	7	**(6.1)**	1.6
Finance income – interest receivable		**0.6**	0.2
(Loss)/profit before taxation		**(5.5)**	1.8
Taxation	9	**–**	–
(Loss)/profit and total comprehensive income for the year attributable to owners of the parent		**(5.5)**	1.8
Basic (loss)/earnings per ordinary share (p)	10	**(1.76)**	0.69
Diluted (loss)/earnings per ordinary share (p)	10	**(1.76)**	0.69

Consolidated statement of financial position
As at 31 December 2011

	Note	2011 £m	2010 £m
ASSETS			
Non-current assets			
Intangible assets:			
– goodwill	11	**18.4**	18.4
Property, plant and equipment	12	**0.2**	0.3
Equity rights and related contract costs	14	**14.1**	20.1
Portfolio:			
– equity investments	15	**120.4**	106.3
– debt investments	15	**3.4**	3.7
Other financial asset	17	**0.7**	0.8
Interest in Limited Partnerships	22	**3.3**	1.9
Total non-current assets		**160.5**	151.5
Current assets			
Trade and other receivables	16	**1.2**	0.8
Deposits		**50.0**	7.5
Cash and cash equivalents		**10.5**	14.0
Total current assets		**61.7**	22.3
Total assets		**222.2**	173.8
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	19	**7.3**	5.1
Share premium account		**150.4**	99.3
Merger reserve		**12.8**	12.8
Retained earnings		**51.1**	55.9
Total equity attributable to owners of the parent		**221.6**	173.1
Current liabilities			
Trade and other payables	18	**0.6**	0.7
Total equity and liabilities		**222.2**	173.8

Registered number: 4204490

The financial statements on pages 50 to 76 were approved by the Board of Directors and authorised for issue on 5 March 2012 and were signed on its behalf by:

Bruce Smith
Chairman

Alan Aubrey
Chief Executive Officer

Consolidated statement of cash flows
For the year ended 31 December 2011

	2011 £m	2010 £m
Operating activities		
(Loss)/profit before taxation	**(5.5)**	1.8
Adjusted for:		
Finance income – interest receivable	**(0.6)**	(0.2)
Change in fair value of equity and debt investments	**(0.9)**	(4.0)
Change in fair value of Limited Partnership interests	**(0.6)**	(0.2)
Depreciation of property, plant and equipment	**0.1**	0.1
Profit on disposal of equity investments	**(2.3)**	(0.6)
Change in fair value of Oxford Equity Rights asset	**6.0**	–
Share-based payment charge	**0.7**	0.3
Changes in working capital		
Increase in trade and other receivables	**(0.1)**	–
(Decrease)/increase in trade and other payables	**(0.1)**	0.1
Other operating cash flows		
Interest received	**0.3**	0.2
Net cash outflow from operating activities	**(3.0)**	(2.5)
Investing activities		
Purchase of equity and debt investments	**(14.3)**	(6.9)
Acquisition of Limited Partnership interests	**(0.8)**	(0.2)
Proceeds from sale of equity investments	**3.7**	2.7
Repayments of borrowings	**0.1**	0.3
Net cash outflow from investing activities	**(11.3)**	(4.1)
Financing activities		
Proceeds from the issue of share capital	**53.3**	–
Net cash flow (to)/from deposits	**(42.5)**	7.5
Net cash inflow from financing activities	**10.8**	7.5
Net (decrease)/increase in cash and cash equivalents	**(3.5)**	0.9
Cash and cash equivalents at the beginning of the year	**14.0**	13.1
Cash and cash equivalents at the end of the year	**10.5**	14.0

Consolidated statement of changes in equity
For the year ended 31 December 2011

	Attributable to owners of the parent				
	Share capital £m	Share premium(i) £m	Merger reserve(ii) £m	Retained earnings(iii) £m	Total equity £m
At 1 January 2010	5.1	99.3	12.8	53.8	171.0
Profit and total comprehensive income for the year	–	–	–	1.8	1.8
Share-based payment charge	–	–	–	0.3	0.3
At 1 January 2011	5.1	99.3	12.8	55.9	173.1
Loss and total comprehensive income for the year	–	–	–	(5.5)	(5.5)
Issue of equity	2.2	51.1	–	–	53.3
Share-based payment charge	–	–	–	0.7	0.7
At 31 December 2011	**7.3**	**150.4**	**12.8**	**51.1**	**221.6**

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

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

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

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The annual report and accounts of IP Group plc ("the Group") are for the year ended 31 December 2011. 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 IFRS").

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 application in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effects are disclosed in note 3.

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2011

No new standards, interpretations and amendments effective for the first time from 1 January 2011 have had a material effect on the Group's financial statements.

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

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

- IFRS 9 Financial Instruments: IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components (classification and measurement; impairment; and hedge accounting) and it is considered unlikely that the new standard will be endorsed until all of these components are in their final form. While the current standard is largely incomplete, its eventual adoption may result in changes to the classification and measurement of the Group's financial instruments, including any impairment thereof.
- IFRS 10: Consolidated Financial Statements: establishes principles for the preparation and presentation of consolidated financial statements when a reporting entity controls one or more investees. The standard was published to deal with divergence in practice when applying IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The standard's eventual adoption is unlikely to result in changes to the preparation and presentation of the Group's financial subsidiaries, associates or Limited Partnerships.
- IFRS 13: Fair Value Measurement: establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. It does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is required or permitted. The standard's adoption may result in changes to the valuation of the Group's assets. IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

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

Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group until the date control ceases.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the transaction are expensed in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

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

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

1. Accounting policies continued

Basis of consolidation continued

(iii) Limited partnerships and limited liability partnerships ("Limited Partnerships")

Limited partnerships

Group entities act as general partner and investment manager to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund ("IPVF")	10.0
Top Technology Ventures IV LP ("TTVIV")	1.0
The North East Technology Fund L.P. ("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 the case of IPVF and TTVIV, the directors consider that the minority limited partnership interests do not create an exposure of such significance that it indicates that the Group acts as anything other than agent for the other limited partners in the arrangement. Where appropriate the directors also refer to the guidance set out in SIC12 "Consolidation – Special Purpose Entities", for example where there is a narrow and well-defined scope of limited partnership operation. As a result, the directors consider that the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities and accordingly none meet the definition of a subsidiary under IAS 27 Consolidated and Separate Financial Statements.

The Group does have the power to exercise significant influence over its limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

Limited liability partnerships

The Group has a 16.3% interest in the total capital commitments of Technikos LLP ("Technikos"). The general partner and investment manager of Technikos are parties external to the Group.

Portfolio return and revenue

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. 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.

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

Advisory fees: Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded.

Fund management services: Fiduciary fund management fees are generally earned as a fixed percentage of total funds under management and are recognised as the related services are provided.

Property, plant and equipment

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

Fixtures and fittings – Over three to five years
Computer equipment – Over three to five years

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

Notes to the consolidated financial statements continued

1. Accounting policies continued

Intangible assets

(i) 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.

(ii) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the statement of comprehensive income over their expected useful economic lives and is included within "Other administrative expenses".

Impairment of intangible assets (including goodwill)

Goodwill is not subject to amortisation but is tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (i.e. CGUs).

Financial assets

In respect of regular way purchases or sales, the Group uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's financial assets are categorised as held to maturity or available for sale.

(i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

This category includes equity investments, debt investments, equity rights 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.

The fair values of quoted investments are based on bid prices in an active market at the reporting date.

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

Cost

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

Price of recent investment

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

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

1. Accounting policies continued

Financial assets continued

(i) At fair value through profit or loss continued

Price of recent investment continued

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. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Group. However, any adjustment is, by its very nature, subjective. Where a deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Group may consider increasing the carrying value of the investment. However, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

Factors which 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.

Other valuation techniques

If there is no readily ascertainable value from following the "price of recent investment" methodology, or there is objective evidence that a deterioration in fair value has occurred since a relevant transaction, the Group considers alternative methodologies in the IPEVCV Guidelines, such as Discounted Cash Flows ("DCF") or price-earnings multiples. DCF involves estimating the fair value of a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business. Given the difficulty of producing reliable cash flow forecasts for seed, start-up and early-stage companies as described above, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment.

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

No reliable estimate

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

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

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.

Equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

In return for the non-refundable, non-interest-bearing advance totalling £20.1m, the Group has the right to receive from the university the following over its 15-year term:

- 50% of the university's equity shares in any spin-out company created based on intellectual property created by academics that are considered to be part of the chemistry department (i.e. equity instruments in unlisted companies); and
- 50% of the university's share of any cash payments received by the university from parties who have licensed intellectual property created by academics that are considered to be part of the chemistry department.

The contract expires on 23 November 2015.

Since the arrangement gives the Group contractual rights only to the receipt of shares in unlisted spin-out companies or cash it is considered to be a derivative financial asset and is classified as a held for trading financial instrument with changes in fair value recognised within profit or loss in the statement of comprehensive income.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Financial assets continued

Debt investments

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt investments is established by calculating the present value of expected future cash flows associated with the instrument.

Deposits

Deposits comprise longer-term deposits held with financial institutions with an original maturity of greater than three months.

Cash and cash equivalents

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

Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value.

Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The objective of the Group is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Group considers its capital to comprise its share capital, share premium, merger reserve and retained earnings.

Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial Services Authority ("FSA") 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 the financial statements of Top Technology Ventures Limited.

Contract costs

Contract costs comprise related costs to secure university partnership arrangements and these costs are amortised over the life of the respective partnership.

Operating segments

An operating segment is a group of assets and operations which are identified on the basis of internal reports that are regularly reviewed by the Board, which analyse components of the Group in order to allocate resources to the segment and to assess its performance.

Employee benefits

(i) Pension obligations

The Group operates a stakeholder pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Group in an independently administered fund. At present the Group does not make contributions to this scheme but does make contributions 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. 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 difference between the fair value of the employee services received in respect of the shares granted and the price payable is recognised as an expense over the appropriate performance and vesting period. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

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

Deferred tax

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

Leases

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

2. Financial risk management

As set out in the Risk management section on pages 24 to 25, 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 capital markets and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

The Group holds investments which are publicly traded on the AIM or PLUS Markets and investments which are not traded on an active market.

The net increase in fair value of the Group's equity investments during 2011 of £0.9m represents a 1% change against the opening balance (2010: net increase of £4.6m, 5%) 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:

	2011			2010		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	**0.5**	**0.8**	**1.3**	0.5	0.6	1.1

(ii) Interest rate risk

As the Group has no significant borrowings it has only a limited interest rate risk. The primary impact to the Group is the impact on income and operating cash flow as a result of the interest-bearing deposits and cash and cash equivalents held by the Group.

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:

	2011				2010			
	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 rights	**–**	**–**	**13.9**	**13.9**	–	–	19.9	19.9
Equity investments	**–**	**–**	**120.4**	**120.4**	–	–	106.3	106.3
Debt investments	**2.8**	**–**	**0.6**	**3.4**	1.4	–	2.3	3.7
Deposits	**50.0**	**–**	**–**	**50.0**	7.5	–	–	7.5
Cash and cash equivalents	**–**	**10.5**	**–**	**10.5**	–	14.0	–	14.0
Other financial assets	**–**	**–**	**0.7**	**0.7**	–	–	0.8	0.8
Trade receivables	**–**	**–**	**0.3**	**0.3**	–	–	0.2	0.2
Other receivables	**–**	**–**	**0.9**	**0.9**	–	–	0.6	0.6
	52.8	**10.5**	**136.8**	**200.1**	8.9	14.0	130.1	153.0
Financial liabilities								
Trade payables	**–**	**–**	**0.1**	**0.1**	–	–	0.1	0.1
Other accruals and deferred income	**–**	**–**	**0.5**	**0.5**	–	–	0.6	0.6
	–	**–**	**0.6**	**0.6**	–	–	0.7	0.7

At 31 December 2011, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.1m (2010: £0.1m) higher/lower as a result of higher interest received on floating rate cash deposits.

(b) Liquidity risk

The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

Notes to the consolidated financial statements continued

2. Financial risk management continued

(c) Credit risk

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by making short-term deposits with counterparties, or by investing in treasury funds with an "AA" credit rating or above managed by institutions. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3bn and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2011 £m	2010 £m
P1	**52.9**	18.9
P2	**5.0**	–
AA	**2.6**	2.6
Total deposits and cash and cash equivalents	**60.5**	21.5

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks, including defining maximum counterparty exposure limits for term deposits based on their perceived financial strength at the commencement of the deposit. The maximum single counterparty limit for deposits at 31 December 2011 was £10m.

The Group's exposure to credit risk on debt investments is managed in a similar way to equity price risk, as described above, 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 that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are discussed below.

(i) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value-in-use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

(ii) Equity rights

On initial recognition, the equity rights arrangement was considered in substance to be a derivative financial asset. This conclusion was reached after considering that the asset's value changes in response to a change in an "underlying", being the number and value of spin-out companies created, the net investment was considered to be smaller than would be expected for other contracts with a similar response to changes in market factors and it is to be settled at a future date.

As the asset is not quoted on an active market the fair value is determined using valuation techniques, including discounted cash flows. The asset has historically been held at cost since no reliable estimate of fair value could be reached. At 31 December 2011 the information available to the directors and the time remaining in the contract produced a sufficiently accurate estimate of fair value at balance sheet date. In the discounted cash flow model the directors considered the historic asset performance, the spin-out pipeline and available economic data to estimate the unobservable inputs. Those inputs include the average spin-out rate and the projected cash flows on IPO or trade sale from anticipated spin-out opportunities. The discount rate used for valuing the equity rights asset is determined based on the Group's cost of capital.

(iii) Valuation of unquoted equity investments

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

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

4. Revenue from services

All revenue from services is derived from the provision of advisory and venture capital fund management services.

5. Operating segments

For both the year ended 31 December 2011 and the year ended 31 December 2010 the Group's revenue and loss/profit before taxation was derived entirely from its principal activity within the UK and accordingly no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partnerships with universities; (ii) management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Business review on pages 8 to 23.

Year ended 31 December 2011	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Change in fair value of equity and debt investments	0.9	–	–	0.9
Profit on disposal of equity investments	2.3	–	–	2.3
Change in fair value of limited partnership interests	0.6	–	–	0.6
Revenue from advisory services	0.6	–	–	0.6
Revenue from fund management services	–	1.5	–	1.5
Change in fair value of Oxford Equity Rights asset	(6.0)	–	–	(6.0)
Administrative expenses	(4.9)	(0.7)	(0.4)	(6.0)
Operating (loss)/profit	(6.5)	0.8	(0.4)	(6.1)
Finance income – interest receivable	0.6	–	–	0.6
(Loss)/profit before taxation	(5.9)	0.8	(0.4)	(5.5)
Taxation	–	–	–	–
(Loss)/profit and total comprehensive income for the year	(5.9)	0.8	(0.4)	(5.5)
STATEMENT OF FINANCIAL POSITION				
Assets	217.4	4.7	0.1	222.2
Liabilities	(0.4)	(0.1)	(0.1)	(0.6)
Net assets	217.0	4.6	–	221.6
Other segment items				
Capital expenditure	–	–	–	–
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	–	–	–

Notes to the consolidated financial statements continued

5. Operating segments continued

Year ended 31 December 2010	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
STATEMENT OF COMPREHENSIVE INCOME				
Portfolio return and revenue				
Loss on disposal of equity investments	4.0	–	–	4.0
Change in fair value of limited partnership interests	0.6	–	–	0.6
Revenue from advisory services	0.2	–	–	0.2
Revenue from fund management services	0.4	0.1	–	0.5
Administrative expenses	–	1.7	–	1.7
Change in fair value of equity and debt investments	(4.3)	(0.6)	(0.5)	(5.4)
Operating profit	0.9	1.2	(0.5)	1.6
Finance income – interest receivable	0.2	–	–	0.2
Loss before taxation	1.1	1.2	(0.5)	1.8
Taxation	–	–	–	–
Loss and total comprehensive income for the year	1.1	1.2	(0.5)	1.8
STATEMENT OF FINANCIAL POSITION				
Assets	168.2	5.5	0.1	173.8
Liabilities	(0.5)	(0.1)	(0.1)	(0.7)
Net assets	167.7	5.4	–	173.1
Other segment items				
Capital expenditure	–	–	–	–
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	–	–	–

6. Auditor's remuneration

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

	2011 £000	2010 £000
Audit services		
– Fees payable to Company auditor for the audit of parent and consolidated accounts	**64**	63
Non-audit services		
Fees payable to Company auditor and its associates for other services:		
– Auditing of accounts of subsidiaries pursuant to legislation	**39**	44
– Other services supplied under legislation	**17**	17
– Other taxation services		
Corporation tax compliance	**38**	39
Corporation tax advisory	**–**	1
Other tax advisory	**38**	55
– All other services	**87**	–
	283	219

7. Profit/(loss) from operations

Profit/(loss) from operations has been arrived at after charging:

	2011 £000	2010 £000
Amortisation of intangible assets	**–**	–
Depreciation of tangible assets	**0.1**	0.1
Employee costs (see note 8)	**3.6**	3.1
Operating leases – property	**0.4**	0.4
Profit on disposal of equity investments	**2.3**	0.6

8. Employee costs

Employee costs (including directors) comprise:

	2011 £000	2010 £000
Salaries	**2.5**	2.4
Defined contribution pension cost	**0.1**	0.1
Share-based payment charge (see note 21)	**0.7**	0.3
Social security	**0.3**	0.3
	3.6	3.1

The average monthly number of persons (including executive directors) employed by the Group during the year was 34, all of whom were involved in management and administration activities (2010: 33). Details of directors' remuneration can be found in the Directors' Remuneration Report on pages 35 to 40.

9. Taxation

	2011 £000	2010 £000
Current tax	**–**	–
Deferred tax	**–**	–

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

	2011 £000	2010 £000
(Loss)/profit before tax	**(5.5)**	1.8
Tax at the UK corporation tax rate of 26% (2010: 27%)	**(1.4)**	0.5
Non-taxable income	**(0.3)**	(1.2)
Movement in tax losses arising not recognised	**1.7**	0.8
Other adjustments	**–**	(0.1)
Tax credit	**–**	–

Notes to the consolidated financial statements continued

9. Taxation continued

At 31 December 2011, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £35.2m (2010: £27.5m). An analysis is shown below:

	2011		2010 With rate change and prior year adjustment		2010	
	Amount £m	**Deferred tax £m**	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share-based payment costs	**–**	**–**			–	–
Unused tax losses	**35.2**	**8.8**	28.7	7.2	27.5	7.4
	35.2	**8.8**	28.7	7.2	27.5	7.4

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

10. Earnings per share

Earnings

	2011 £m	2010 £m
Earnings for the purposes of basic and dilutive earnings per share	**(5.5)**	1.8

Number of shares

	2011 Number of shares	2010 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**313,325,308**	255,763,664
Effect of dilutive potential ordinary shares:		
Long Term Incentive Plan	**–**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**313,325,308**	255,763,664

The Group has only one class of potentially dilutive ordinary share. These are contingently issuable shares arising under the Group Long Term Incentive Plan ("LTIP"). As the Group made a loss for the year the potentially dilutive shares outstanding at the period end are not considered when calculating the diluted earnings per share.

Had the Group made a profit in the year the number of potentially dilutive shares outstanding at the period end that would have been considered when calculating the diluted earnings per share is 8,527,902 (2010: nil).

11. Goodwill

	£m
At 1 January 2010	18.4
At 1 January 2011	18.4
At 31 December 2011	**18.4**

The recoverable amount of the above goodwill has been determined from value-in-use calculations on cash flow projections from formally approved budgets in respect of the relevant cash-generating unit, covering the remaining life of the related funds under management or university partnerships.

The goodwill allocated to each CGU is summarised in the following table:

	2011 £m	2010 £m
University partnership CGU	**16.3**	16.3
Fund management CGU	**2.1**	2.1
	18.4	18.4

11. Goodwill continued

Impairment review of venture capital fund management CGU

The following key assumptions have been used to determine value in use:

	2011	2010
Discount rate	**8-10%**	8-10%
Number of funds under management	**3**	3
Management fee	**1-3.5%**	1-3.5%
Cost inflation	**4%**	4%

The assumptions above reflect past experience. All reasonably possible changes to key assumptions do not result in the recoverable amount being less than the carrying value of goodwill.

Impairment review of the university partnership CGU

The directors consider that for each of the key variables which would be relevant in determining a value in use for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2011	2010
Number of spin-out companies per year	**2-10**	2-10
Initial equity stake acquired by the Group under the university partnership	**12-30%**	12-30%
Proportion of spin-out companies failing	**20-40%**	20-40%
Dilution rates prior to exit as a result of financing for spin-out companies	**35-60%**	35-60%
Proportion of IPO exits	**30-45%**	30-50%
IPO exit valuations	**£20m-40m**	£20m-40m
Proportion of disposal exits	**30-50%**	30-50%
Disposal valuations	**£10m-30m**	£10m-30m
Discount rate	**8-12%**	8-12%

These key variable ranges result in a wide range of value-in-use estimates for the university partnership CGU. None of these estimates of value in use is considered more appropriate or relevant than any other, however none indicate that an impairment of the goodwill allocated to the CGU is required.

12. Property, plant and equipment

	Total £m
Cost	
At 1 January 2011	0.8
Additions	–
At 31 December 2011	**0.8**
Accumulated depreciation	
At 1 January 2011	0.5
Charge for the year	0.1
At 31 December 2011	**0.6**
Net book value	
At 31 December 2011	**0.2**
At 31 December 2010	0.3

Notes to the consolidated financial statements continued

12. Property, plant and equipment continued

	Total £m
Cost	
At 1 January 2010	0.8
Additions	–
At 31 December 2010	0.8
Accumulated depreciation	
At 1 January 2010	0.4
Charge for the year	0.1
At 31 December 2010	0.5
Net book value	
At 31 December 2010	0.3
At 31 December 2009	0.4

13. Categorisation of financial instruments

Financial assets	At fair value through profit or loss Held for trading £m	At fair value through profit or loss Designated upon initial recognition £m	Loans and receivables £m	Total £m
At 31 December 2011				
Equity rights	**13.9**	**–**	**–**	**13.9**
Equity investments	**–**	**120.4**	**–**	**120.4**
Debt investments	**–**	**3.4**	**–**	**3.4**
Other financial assets	**0.7**	**–**	**–**	**0.7**
Investment in limited partnerships	**–**	**3.3**	**–**	**3.3**
Trade and other receivables	**–**	**–**	**1.2**	**1.2**
Deposits	**–**	**–**	**50.0**	**50.0**
Cash and cash equivalents	**–**	**–**	**10.5**	**10.5**
Total	**14.6**	**127.1**	**61.7**	**203.4**
At 31 December 2010				
Equity rights	19.9	–	–	19.9
Equity investments	–	106.3	–	106.3
Debt investments	–	3.7	–	3.7
Other financial assets	0.8	–	–	0.8
Investment in limited partnerships	–	1.9	–	1.9
Trade and other receivables	–	–	0.8	0.8
Deposits	–	–	7.5	7.5
Cash and cash equivalents	–	–	14.0	14.0
Total	20.7	111.9	22.3	154.9

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

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2010: £nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2010: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

14. Equity rights and related contract costs

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2011 and 31 December 2011	**19.9**	**0.5**	**20.4**
Aggregate amortisation and change in fair value of contract costs			
At 1 January 2011	–	(0.3)	(0.3)
Change in fair value during the year	(6.0)	–	(6.0)
At 31 December 2011	**(6.0)**	**(0.3)**	**(6.3)**
Net book value			
At 31 December 2011	**13.9**	**0.2**	**14.1**
At 31 December 2010	19.9	0.2	20.1

	Equity rights £m	Contract costs £m	Total £m
Cost			
At 1 January 2010 and 31 December 2010	19.9	0.5	20.4
Aggregate amortisation and change in fair value of contract costs			
At 1 January 2010	–	(0.3)	(0.3)
Change in fair value during the year	–	–	–
At 31 December 2010	–	(0.3)	(0.3)
Net book value			
At 31 December 2010	19.9	0.2	20.1
At 31 December 2009	19.9	0.2	20.1

Carrying amount of equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

In return for the non-refundable, non-interest-bearing advance totalling £20.1m, the Group has the right to receive from the university the following over its 15-year term:

- 50% of the university's equity shares in any spin-out company created based on intellectual property created by academics that are considered to be part of the chemistry department (i.e. equity instruments in unlisted companies); and
- 50% of the university's share of any cash payments received by the university from parties who have licensed intellectual property created by academics that are considered to be part of the chemistry department.

The contract expires on 23 November 2015.

The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2011	2010
Number of spin-out companies per year from University of Oxford chemistry department	**1-3**	1-3
Initial equity stake acquired by the Group under the equity rights contract	**20-25%**	20-25%
Proportion of spin-out companies failing	**20-30%**	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	**35-60%**	35-60%
Proportion of IPO exits	**30-40%**	30-40%
IPO exit valuations	**£30m-50m**	£30m-50m
Proportion of disposal exits	**30-50%**	30-50%
Disposal valuations	**£20m-40m**	£20m-40m
Discount rate	**8-10%**	8-10%

Notes to the consolidated financial statements continued

14. Equity rights and related contract costs continued

Carrying amount of equity rights continued

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement, from £7m to £22m using a range of reasonably possible variables, with the number of spin-outs being the variable giving rise to the widest variation in estimated fair values. In order to calculate a more accurate valuation figure given the multitude of reliable scenarios generated when altering the discounted cash flows ("DCF") variables, a probability weighting expected return method is utilised. Having applied probabilities to the various possible scenarios, the method returned an estimated asset value of £14m at 31 December 2011.

A secondary factor considered by management in assessing the fair value of the Oxford Equity Rights Asset is the economic value received to date from the arrangement. Based on the fair value of the Group's holdings in Oxford Chemistry spin-out companies, plus cash realised to date, less cash invested to date, a total of £40.0m value has been considered to have been derived by the Group as at 31 December 2011. If a similar level of return were observed over the remaining life of the contract on a straight-line basis, this would also suggest an estimated value at 31 December 2011 of £14m.

15. Investment portfolio

Group	Level 1 Equity investments in quoted spin-out companies £m	Level 2 Equity investments in unquoted spin-out companies £m	Level 2 Unquoted debt investments in spin-out companies £m	Level 3 Equity investments in unquoted spin-out companies £m	Total £m
At 1 January 2011	49.0	34.2	3.7	23.1	110.0
Investments during the year	6.3	6.5	1.5	–	14.3
Reclassifications during the year	1.0	0.3	(1.2)	(0.1)	–
Transfers between hierarchy levels during the year	–	0.8	(0.4)	(0.4)	–
Disposals	(1.0)	(0.4)	–	–	(1.4)
Change in fair value in the year	(5.3)	6.5	(0.2)	(0.1)	0.9
At 31 December 2011	**50.0**	**47.9**	**3.4**	**22.5**	**123.8**
At 1 January 2010	40.7	30.0	2.3	28.3	101.3
Investments during the year	1.5	3.3	1.6	0.6	7.0
Reclassifications during the year	–	(0.5)	0.5	–	–
Transfers between hierarchy levels during the year	5.4	(1.4)	(0.6)	(3.4)	–
Disposals	(1.9)	–	–	(0.3)	(2.2)
Change in fair value in the year	3.4	2.8	(0.1)	(2.1)	4.0
Equity allocated to staff	(0.1)	–	–	–	(0.1)
At 31 December 2010	49.0	34.2	3.7	23.1	110.0

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. Investments in 27 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions. However, 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 net increase in fair value for the year of £0.9m (2010: £4.0m) includes a net increase of £6.3m (2010: £1.9m) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

Change in fair value in the year

	2011 £m	2010 £m
Fair value gains	**13.6**	13.8
Fair value losses	**(12.7)**	(9.8)
	0.9	4.0

The Company's interests in subsidiary undertakings are listed in note 2 of the Company's financial statements on page 78.

16. Trade and other receivables

	2011 £m	2010 £m
Trade debtors	**0.3**	0.2
Prepayments	**0.2**	0.2
Other receivables	**0.7**	0.4
	1.2	0.8

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

17. Other financial asset

Other financial asset comprises a zero-cost forward contract giving the Group the right to receive sale proceeds when the University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £0.7m following receipt of sale proceeds totalling £0.1m during 2011 (2010: £0.8m receivable; £0.3m sale proceeds). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the statement of comprehensive income. Fair value is determined by discounting expected cash flows at prevailing market rates of interest and accordingly, the Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

18. Trade and other payables

	2011 £m	2010 £m
Trade payables	**0.2**	0.3
Social security expenses	**0.1**	0.1
Other accruals and deferred income	**0.3**	0.3
	0.6	0.7

19. Share capital

	2011 £m	2010 £m
Issued and fully paid:		
365,763,664 ordinary shares of 2p each (2010: 255,763,664 ordinary shares of 2p each)	**7.3**	5.1

In June 2011 the Group issued 110,000,000 new ordinary shares with a par value of 2p through a placing and open offer at an issue price of 50p per share realising net proceeds of £53.3m. The Company has one class of 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.

20. Operating lease arrangements

	2011 £m	2010 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	**0.4**	0.4

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

	2011 £m	2010 £m
Within one year	**0.3**	0.3
In the second to fifth years inclusive	**1.2**	0.1
	1.5	0.4

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

Notes to the consolidated financial statements continued

21. Share-based payments

Long Term Incentive Plan ("LTIP") awards

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 impose 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 set out on pages 35 to 40.

The 2011 LTIP awards will ordinarily vest on 31 March 2014, to the extent that the performance conditions have been met. As noted above, Deloitte LLP provided independent external advice to the Remuneration Committee on the appropriate performance conditions to attach to the 2011 LTIP awards based on their experience of current market practice. The awards are based on the performance of the Group's Hard NAV and 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 on pages 35 to 40. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE small-cap index, which can reduce the awards by up to 50%. The 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 2011 to 31 December 2013 and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2014, 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 2010 LTIP awards will ordinarily vest on 31 March 2013, to the extent that the performance conditions have been met. 50% of the awards are based on the performance of the Group's Hard NAV and 50% are based on the Group's share price performance. The portion subject to Hard NAV performance shall vest in full in the event of Hard NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this time period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012, whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale is applied for performance between these vesting targets.

For the 2008 awards, the performance conditions were based on the Group's TSR. The 2008 awards lapsed during the year with no awards vesting.

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

	2011	2010
At 1 January	**13,079,059**	3,483,009
Lapsed during the year	**(826,293)**	(2,656,716)
Notionally awarded during the year	**4,803,037**	12,252,766
At 31 December	**17,055,803**	13,079,059

The fair value of awards made during each of the following years has been calculated using a Monte-Carlo pricing model with the following key assumptions:

	2011	2010
Share price at date of award	**£0.54**	£0.29-0.32
Exercise price	**£nil**	£nil
Fair value at grant date	**£0.17**	£0.03-0.05
Expected volatility (median of historical 50-day moving average)	**35%**	33%
Expected life (years)	**2.50**	2.45-2.50
Expected dividend yield	**0%**	0%
Risk-free interest rate	**1.0%**	0.8-0.9%

The fair value charge recognised in the statement of comprehensive income during the year in respect of LTIP share awards was £0.7m (2010: £0.3m).

22. Interests in limited partnerships

	£m
At 1 January 2010	1.5
Additions during the year	0.2
Change in fair value during the year	0.2
At 1 January 2011	1.9
Additions during the year	0.8
Change in fair value during the year	0.6
At 31 December 2011	**3.3**

The Group considers interests in Limited Partnerships to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

23. Related party transactions

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

a) Limited partnerships

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

Statement of comprehensive income	2011 £m	2010 £m
Revenue from services	**1.5**	1.7

Statement of financial position	2011 £m	2010 £m
Interest in Limited Partnerships	**2.1**	1.9
Amounts due from related parties	**–**	–

b) Key management transactions

The key management had investments in the following spin-out companies as at 31 December 2011:

Director	Company name	Number of shares held at 1 January 2011 or date of appointment if later	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2011	%
Alan Aubrey	Activotec SPP Limited [(i)]	1,500	–	**1,500**	0.9%
	Amaethon Limited – A ordinary shares	104	–	**104**	3.1%
	Amaethon Limited – B ordinary shares	11,966	–	**11,966**	1.0%
	Amaethon Limited – ordinary shares	21	–	**21**	0.3%
	Avacta Group plc	13,276,113	–	**13,276,113**	0.8%
	Capsant Neurotechnologies Limited	11,631	–	**11,631**	0.8%
	Chamelic Limited	26	–	**26**	0.4%
	Crysalin Limited	1,447	–	**1,447**	0.2%
	Dispersia Limited [(ii)]	416	–	**416**	1.0%
	EmDot Limited	15	–	**15**	0.9%
	Evocutis plc	767,310	–	**767,310**	0.4%
	GETECH Group plc	15,000	–	**15,000**	<0.1%
	Green Chemicals plc	108,350	–	**108,350**	1.1%
	Icona Solutions Limited	1,674	–	**1,674**	0.6%
	Ilika plc	117,500	–	**117,500**	0.3%
	Karus Therapeutics Limited	223	–	**223**	0.7%
	Mode Diagnostics Limited	1,863	–	**1,863**	0.8%
	Modern Biosciences plc	1,185,150	–	**1,185,150**	2.1%
	Modern Water plc	575,000	(55,731)	**519,269**	0.9%

Notes to the consolidated financial statements continued

23. Related party transactions continued
b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2011 or date of appointment if later	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2011	%
Alan Aubrey continued	Overlay Media Limited	32	–	**32**	1.2%
	Oxford Advanced Surfaces Group plc	2,172,809	–	**2,172,809**	1.1%
	Oxford Catalysts Group plc	207,399	(85,290)	**122,109**	0.1%
	Oxford Nanopore Technologies Limited	11,442	–	**11,442**	0.7%
	Oxford RF Sensors Limited	53,639	–	**53,639**	0.8%
	Oxtox Limited	25,363	–	**25,363**	0.3%
	Pharminox Limited	685	–	**685**	0.3%
	Photopharmica (Holdings) Limited	37,020	–	**37,020**	1.0%
	Plexus Planning Limited	1,732	–	**1,732**	0.8%
	Retroscreen Virology Limited	1,858	–	**1,858**	0.2%
	Revolymer Limited	2,963	–	**2,963**	0.3%
	Structure Vision Limited	212	–	**212**	1.0%
	Surrey Nanosystems Limited	393	–	**393**	0.5%
	Sustainable Resource Solutions Limited	25	–	**25**	1.1%
	Tissue Regenix Group plc	2,389,259	–	**2,389,259**	0.4%
	Tracsis plc	203,400	–	**203,400**	0.8%
	Xeros Limited	241	–	**241**	0.2%
Alison Fielding	Activotec SPP Limited (i)	300	–	**300**	0.2%
	Amaethon Limited – A ordinary shares	105	–	**105**	3.2%
	Amaethon Limited – B ordinary shares	12,049	–	**12,049**	1.0%
	Amaethon Limited – ordinary shares	21	–	**21**	0.3%
	Avacta Group plc	7,664,105	–	**7,664,105**	0.5%
	Capsant Neurotechnologies Limited	7,847	–	**7,847**	0.5%
	Chamelic Limited	21	–	**21**	0.3%
	Crysalin Limited	1,447	–	**1,447**	0.2%
	Dispersia Limited (ii)	342	–	**342**	0.8%
	EmDot Limited	14	–	**14**	0.8%
	Evocutis plc	354,770	–	**354,770**	0.2%
	Green Chemicals plc	126,181	–	**126,181**	1.3%
	Icona Solutions Limited	1,419	–	**1,419**	0.5%
	Ilika plc	32,800	–	**32,800**	<0.1%
	Karus Therapeutics Limited	43	–	**43**	0.1%
	Mode Diagnostics Limited	1,632	–	**1,632**	0.7%
	Modern Biosciences plc	1,057,343	–	**1,057,343**	1.9%
	Modern Water plc	221,000	(21,420)	**199,580**	0.3%
	Overlay Media Limited	28	–	**28**	1.1%
	Oxford Advanced Surfaces Group plc	611,042	–	**611,042**	0.3%
	Oxford Catalysts Group plc	68,547	(28,190)	**40,357**	<0.1%
	Oxford Nanopore Technologies Limited	5,721	–	**5,721**	0.3%
	Oxford RF Sensors Limited	15,085	–	**15,085**	0.2%
	Oxtox Limited	16,601	–	**16,601**	0.2%
	Pharminox Limited	274	–	**274**	0.1%
	Photopharmica (Holdings) Limited	27,350	–	**27,350**	0.7%
	Plexus Planning Limited	480	–	**480**	0.2%

23. Related party transactions continued
b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2011 or date of appointment if later	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2011	%
Alison Fielding continued	Retroscreen Virology Limited	1,216	–	**1,216**	0.1%
	Revolymer Limited	1,198	–	**1,198**	0.1%
	Structure Vision Limited	195	–	**195**	0.9%
	Surrey Nanosystems Limited	323	–	**323**	0.4%
	Sustainable Resource Solutions Limited	25	–	**25**	1.1%
	Tissue Regenix Group plc	2,279,660	–	**2,279,660**	0.3%
	Tracsis plc	197,750	–	**197,750**	0.8%
	Xeros Limited	197	–	**197**	0.2%
Mike Townend	Amaethon Limited – A ordinary shares	104	–	**104**	3.1%
	Amaethon Limited – B ordinary shares	11,966	–	**11,966**	1.0%
	Amaethon Limited – ordinary shares	21	–	**21**	0.3%
	Capsant Neurotechnologies Limited	11,282	–	**11,282**	0.8%
	Chamelic Limited	23	–	**23**	0.3%
	Crysalin Limited	1,286	–	**1,286**	0.2%
	Dispersia Limited (ii)	370	–	**370**	0.9%
	EmDot Limited	14	–	**14**	0.8%
	Green Chemicals plc	113,222	–	**113,222**	1.1%
	Icona Solutions Limited	1,515	–	**1,515**	0.6%
	Mode Diagnostics Limited	1,756	–	**1,756**	0.8%
	Modern Biosciences plc	1,185,150	–	**1,185,150**	2.1%
	Modern Water plc	575,000	–	**575,000**	1.0%
	Overlay Media Limited	29	–	**29**	1.1%
	Oxford Advanced Surfaces Group plc	932,994	–	**932,994**	0.5%
	Oxford Nanopore Technologies Limited	3,490	–	**3,490**	0.2%
	Oxtox Limited	25,363	–	**25,363**	0.3%
	Photopharmica (Holdings) Limited	37,020	–	**37,020**	1.0%
	Retroscreen Virology Limited	1,858	–	**1,858**	0.2%
	Revolymer Limited	1,198	–	**1,198**	0.1%
	Structure Vision Limited	212	–	**212**	1.0%
	Surrey Nanosystems Limited	350	–	**350**	0.4%
	Sustainable Resource Solutions Limited	25	–	**25**	1.1%
	Tissue Regenix Group plc	1,950,862	–	**1,950,862**	0.3%
	Tracsis plc	84,750	–	**84,750**	0.4%
	Xeros Limited	213	–	**213**	0.2%
Greg Smith (iii)	Avacta Group plc	390,407	–	**390,407**	<0.1%
	Capsant Neurotechnologies Limited	895	–	**895**	<0.1%
	Chamelic Limited	3	–	**3**	<0.1%
	Crysalin Limited	149	–	**149**	<0.1%
	Dispersia Limited (ii)	43	–	**43**	0.1%
	EmDot Limited	4	–	**4**	0.2%
	Encos Limited	5,671	–	**5,671**	0.3%
	GETECH Group plc	8,000	–	**8,000**	<0.1%
	Green Chemicals plc	1,500	–	**1,500**	<0.1%

Notes to the consolidated financial statements continued

23. Related party transactions continued

b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2011 or date of appointment if later	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2011	%
Greg Smith (iii) continued	Icona Solutions Limited	148	–	**148**	0.1%
	Mode Diagnostics Limited	192	–	**192**	<0.1%
	Modern Biosciences plc	313,425	–	**313,425**	0.6%
	Modern Water plc	7,250	–	**7,250**	<0.1%
	Overlay Media Limited	7	–	**7**	0.3%
	Oxford Catalysts Group plc	2,559	–	**2,559**	<0.1%
	Oxford Nanopore Technologies Limited	150	–	**150**	<0.1%
	Retroscreen Virology Limited	3,067	–	**3,067**	0.3%
	Revolymer Limited	150	–	**150**	<0.1%
	Sustainable Resource Solutions Limited	8	–	**8**	0.4%
	Surrey Nanosystems Limited	76	–	**76**	0.1%
	Tissue Regenix Group plc	175,358	–	**175,358**	<0.1%
	Xeros Limited	33	–	**33**	<0.1%
Charles Winward (iv)	Amaethon Limited – A ordinary shares	15	–	**15**	0.5%
	Amaethon Limited – B ordinary shares	1,766	–	**1,766**	0.2%
	Amaethon Limited – ordinary shares	3	–	**3**	<0.1%
	Capsant Neurotechnologies Limited	2,264	–	**2,264**	0.2%
	Chamelic Limited	3	–	**3**	<0.1%
	Crysalin Limited	189	–	**189**	<0.1%
	Dispersia Limited (ii)	54	–	**54**	0.1%
	EmDot Limited	5	–	**5**	0.3%
	Encos Limited	6,530	–	**6,530**	0.3%
	Icona Solutions Limited	376	–	**376**	0.1%
	Mode Diagnostics Limited	244	–	**244**	0.1%
	Modern Biosciences plc	360,914	–	**360,914**	0.7%
	Modern Water plc	37,800	–	**37,800**	0.1%
	Overlay Media Limited	8	–	**8**	0.3%
	Oxford Advanced Surfaces Group plc	156,213	–	**156,213**	0.1%
	Oxford Nanopore Technologies Limited	150	–	**150**	<0.1%
	Oxtox Limited	3,742	–	**3,742**	<0.1%
	Photopharmica (Holdings) Limited	3,590	–	**3,590**	0.1%
	Retroscreen Virology Limited	3,304	–	**3,304**	0.3%
	Revolymer Limited	150	–	**150**	<0.1%
	Structure Vision Limited	26	–	**26**	0.1%
	Sustainable Resource Solutions Limited	9	–	**9**	0.4%
	Surrey Nanosystems Limited	87	–	**87**	0.1%
	Tracsis plc	56,500	–	**56,500**	0.2%
	Tissue Regenix Group plc	482,236	–	**482,236**	0.1%
	Xeros Limited	39	–	**39**	<0.1%
Graham Richards	GETECH Group plc	30,000	–	**30,000**	0.1%
	Summit Corporation plc	662,958	–	**662,958**	0.1%
	Tissue Regenix Group plc	150,000	–	**150,000**	<0.1%

23. Related party transactions continued
b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2011 or date of appointment if later	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2011	%
Bruce Smith	Capsant Neurotechnologies Limited	20,724	–	**20,724**	1.4%
	Evocutis plc	152,410	–	**152,410**	<0.1%
	GETECH Group plc	15,000	–	**15,000**	<0.1%
	iQur Limited	2,000	–	**2,000**	0.8%
	Nanotecture Group plc	50,000	–	**50,000**	0.5%
	Oxford Catalysts Group plc	10,000	–	**10,000**	<0.1%
	Synairgen plc	200,000	–	**200,000**	0.3%

(i) Company in administration.
(ii) Company in liquidation.
(iii) Greg Smith was appointed to the Board on 2 June 2011.
(iv) Charles Winward was appointed to the Board on 14 October 2011.

Compensation to key management comprises that paid to executive and non-executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 35 to 40 and these amounts are included within the employee costs set out in note 8.

c) Portfolio companies
The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. The following amounts have been included in respect of these fees:

Statement of comprehensive income	2011 £m	2010 £m
Revenue from services	**0.6**	0.5

Statement of financial position	2011 £m	2010 £m
Trade receivables	**0.3**	0.2

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

Trade receivables

	2011 £m	2010 £m
Intercompany balances with other Group companies	**6.8**	6.5

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

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

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the 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 2011, the Group's strategy, which was unchanged from 2010, 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.

Notes to the consolidated financial statements continued

25. Capital commitments

Partnership	Year of commencement of partnership	Original commitment (£m)	Invested to date (£m)	**Remaining commitment (£m)**
University of Southampton (i)	2002	5.0	3.6	**1.4**
King's College London (ii)	2003	5.0	1.8	**3.2**
University of York – CNAP (iii)	2003	0.8	0.2	**0.6**
University of Leeds (iv)	2005	4.2	0.2	**4.0**
University of Bristol (v)	2005	5.0	1.0	**4.0**
University of Surrey (vi)	2006	5.0	0.5	**4.5**
University of York (iii)	2006	5.0	0.1	**4.9**
Queen Mary, University of London (vii)	2006	5.0	0.7	**4.3**
University of Bath (viii)	2006	5.0	0.2	**4.8**
University of Glasgow (ix)	2006	5.0	1.1	**3.9**
		45.0	9.4	**35.6**

(i) Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies. The basis for investment is subject to review during 2012.

(ii) Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Group agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of this agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2010. Under the revised agreement, the Group has agreed to target investing the remaining commitment of £3.2m over a three-year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

(iii) In 2003 the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York; the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006 the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with York was amended during the year so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of York's proceeds from out-licensing has been removed from the agreement.

(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right with associated contractual commitment to invest up to £5.0m in University of Leeds spin-out companies. This agreement was varied in March 2011 so as to provide for a more detailed process by which the Group and the University of Leeds' commercialisation services team evaluate commercialisation opportunities and to remove the Group's entitlement to a share of out-licensing income generated by the University of Leeds except in certain specific circumstances where the Group is involved in the relevant out-licensing opportunity. Under the terms of the variation agreement, subject to quality and quantity of the investment opportunities, the Group, Techtran the University of Leeds have agreed to target annual investments of at least £0.7m in aggregate and, subject to earlier termination or the parties otherwise agreeing alternative target, to review this target on 30 April 2017.

(v) In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.

(vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ("Surrey"), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property.

(vii) In July 2006, the Group entered into an agreement with Queen Mary, University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies.

(viii) In September 2006, the Group entered into an agreement with the University of Bath ("Bath") to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies. The agreement with Bath was amended during the year so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by Bath from the commercialisation of its intellectual property in the event the Group and its employees have not been actively involved in developing the relevant opportunity.

(ix) In October 2006, the Group entered into an agreement with the University of Glasgow ("Glasgow") to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies.

Company balance sheet
As at 31 December 2011

	Note	2011 £'m	2010 £'m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	**25.3**	25.3
Investment in associated undertakings	3	**14.8**	9.8
Other investments	4	**0.4**	2.9
Loans to subsidiary undertakings	5	**123.8**	72.6
Total assets		**164.3**	110.6
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	6	**7.3**	5.1
Share premium account	6	**150.4**	99.3
Profit and loss reserve	6	**(6.2)**	(6.6)
Merger reserve	6	**12.8**	12.8
Total equity shareholders' funds and liabilities		**164.3**	110.6

Registered number: 4204490

The financial statements on pages 77 to 80 were approved by the Board of Directors and authorised for issue on 5 March 2012 and were signed on its behalf by:

Bruce Smith
Chairman

Alan Aubrey
Chief Executive Officer

Notes to the financial statements

1. Accounting policies

The financial statements of the parent company have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. A summary of the more important accounting policies which have been applied consistently throughout the year are set out below.

Investments

Investments are stated at historic cost less any provision for impairment in value and are held for long-term investment purposes.

Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

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.

Impairment

If there is an indication that an asset might be impaired, the Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows ("DCF") attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

Financial instruments

Currently the Company does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the Company.

2. Investments in subsidiary undertakings

	£m
At 1 January 2011	25.3
Additions	–
Impairment	–
Disposals	–
At 31 December 2011	**25.3**

Details of the Company's subsidiary undertakings at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VI Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VII Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VIII Limited [(i)]	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited [(i),(v)]	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited [(i),(vi)]	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited [(iii)]	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd [(i),(iii)]	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited [(i),(iii)]	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited [(i),(iii)]	Scotland	100.0	100.0	Acquisition
North East Technology (GP) Limited [(i),(ii)]	England and Wales	100.0	100.0	Acquisition

2. Investments in subsidiary undertakings continued

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited (i),(ii)	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited (i),(ii)	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited (i),(ii)	England and Wales	100.0	100.0	Acquisition
Techtran Limited (i),(ii)	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc (iv)	England and Wales	54.3	69.0	Acquisition
PIMCO 2501 Limited (i),(iv)	England and Wales	54.3	69.0	Acquisition
PIMCO 2664 Limited (i),(iv)	England and Wales	54.3	69.0	Acquisition
Rimcazole Limited (i),(iv)	England and Wales	54.3	69.0	Acquisition
Modern Biosciences Nominees Limited (i),(ii)	England and Wales	54.3	69.0	Acquisition
MBS Secretarial Limited (i),(ii)	England and Wales	54.3	69.0	Acquisition
MBS Director Limited (i),(ii)	England and Wales	54.3	69.0	Acquisition
IP2IPO Nominees Limited (ii)	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited (ii)	England and Wales	100.0	100.0	Acquisition
LifeUK (IP2IPO) Limited (ii)	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited (ii)	England and Wales	100.0	100.0	Acquisition
Union Life Sciences Limited	England and Wales	80.0	80.0	Acquisition

(i) Company held indirectly.
(ii) Dormant company.
(iii) Company engaged in fund management activity.
(iv) Company engaged in in-licensing of drugable intellectual property activity.
(v) Company operates a branch in Luxembourg.
(vi) Company limited by guarantee.

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

3. Investment in associated undertakings

	£m
At 1 January 2011	9.8
Additions	5.2
Impairment	–
Disposals	(0.2)
At 31 December 2011	**14.8**

At 31 December 2011 the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets (liabilities) £000	Profit/(loss) before tax £000	Date of financial statements
Photopharmica (Holdings) Limited	49.9%	11,935	–	31 July 2011
Modern Water plc	20.9%	38,081	(3,627)	31 December 2010
Fusion IP plc	26.0%	272,320	1,046	31 July 2011

All companies are incorporated in England and Wales.

No profit/(loss) information is presented in respect of companies that have filed abbreviated accounts.

Notes to the financial statements continued

4. Other investments

	£m
At 1 January 2011	2.9
Additions	0.4
Impairment	–
Disposals	(2.9)
At 31 December 2011	**0.4**

5. Loans to subsidiary undertakings

	£m
At 1 January 2011	72.6
Advances during the year	51.2
At 31 December 2011	**123.8**

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

6. Share capital and reserves

	Share capital £m	Merger reserve £m	Share premium £m	Profit and loss reserve £m
At 1 January 2011	5.1	12.8	99.3	(6.6)
Profit for the year	–	–	–	0.4
Issue of equity	2.2	–	51.1	–
At 31 December 2011	**7.3**	**12.8**	**150.4**	**(6.2)**

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 19 to the consolidated financial statements on page 69. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity on page 53.

7. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the year was £0.4m (2010: £0.1m loss).

Details of auditor's remuneration are disclosed in note 6 to the consolidated financial statements.

8. Directors' emoluments, employee information and share-based payments

The remuneration of the directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 35 to 40. 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 2011 or 2010.

Directors, secretary and advisers to the Group

Company registration number
4204490

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24 Cornhill
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(Non-executive Chairman)

Alan John Aubrey
(Chief Executive Officer)

Dr Alison Margaret Fielding
(Chief Operating Officer)

Michael Charles Nettleton Townend
(Chief Investment Officer)

Gregory Simon Smith
(Chief Financial Officer)

Charles Stephen Winward
(Managing Director,
Top Technology Ventures)

Professor William Graham Richards, CBE
(Non-executive Director)

Francis Adam Wakefield Carpenter
(Non-executive Director)

Jonathan Brooks
(Non-executive Director)

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