Shaping the future of medicine

2017 Annual Report & Accounts

Avacta®

Contents

What is an Affimer?

Affimer® reagents and therapeutics are a class of non-antibody binding proteins that have been engineered for a wide range of applications where antibodies and aptamers have limitations. They can be used to detect difficult targets, can easily be formatted for a wide range of applications and can be easily and cost-effectively manufactured.

Affimer®

Two Affimer scaffolds, based on similar protein conformations, have been developed. The first is of human origin, based on the naturally-occurring human protease inhibitor Stefin A, and is ideal for therapeutic applications. The second is based on a consensus sequence of Cystatin A from a number of plant species and is ideal for use in reagents and diagnostics.

Engineered specificity

A large binding surface obtained through two 9 amino acid loops enables Affimer proteins to bind with high affinity and exquisite selectivity. *In vitro* phage display selection allows for a tailored screening approach to discriminate between closely-related targets.

Rapid development

Selection and characterisation of new custom Affimer binders typically takes just 10-12 weeks using optimised and standardised processes.

Flexible functionalisation

Affimer molecules can be easily modified by genetic or chemical means allowing maximum flexibility to suit many assay formats, including several therapeutics options such as multispecific molecules.

Ease of manufacturing

Affimer binders can be expressed cost-effectively in very high yields in a simple bacterial expression system. This guarantees a consistent, high quality supply.

Small size

At 12-14 kDa, Affimer molecules are around ten times smaller than antibodies – giving several performance advantages, such as allowing better tissue penetration and increased packing density on surfaces.

Our mission is to shape the future of medicine by providing powerful reagents for research and diagnostics, and by developing safe and efficacious medicines based on Avacta's proprietary alternative to antibodies – Affimer technology.

Antibodies dominate therapeutic and other markets worth tens of billions of dollars despite their limitations. Affimer technology has been developed to overcome many of these limitations and provide solutions where antibodies struggle.

Based on a small protein, Affimer reagents can be quickly developed to bind with high specificity and affinity to a wide range of targets to address market opportunities in diagnostics, research, bioprocessing and therapeutics.

Avacta is aiming to build a profitable business in the near term by licensing Affimer reagents to third parties to power their diagnostic and other products.

Avacta is also working to unlock the enormous potential of the Affimer technology as a therapeutic platform by building an in-house therapeutic pipeline focused on immuno-oncology with a view to partnering and licensing these therapeutic assets. The Company's primary goal is to get the first Affimer therapeutics into human clinical trials from 2019.

Avacta is a UK biotechnology company that is developing biotherapeutics and reagents based on its proprietary Affimer technology – an engineered alternative to antibodies.

Since inception in 2006, Avacta's mission has been to develop products and services for the life sciences and healthcare markets. Following the acquisition of the Affimer intellectual property from the University of Leeds and others in 2012, the Company has focused its resources on developing and commercialising this technology.

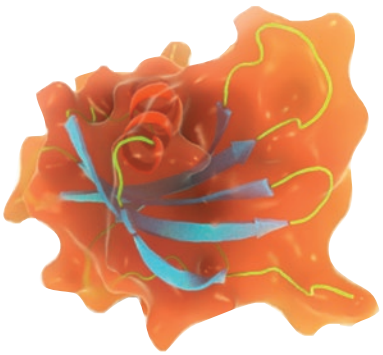
The Company is committed to providing high-quality Affimer reagents for licensing into third-party research and diagnostic products, and to creating new Affimer medicines for development in-house and licensing to large pharma companies.

The Company comprises around 100 employees based at two state-of-the-art laboratories in Wetherby and Cambridge.

Highlights 2016 to 2017

Affimer therapeutics

Significant de-risking of the broader Affimer biotherapeutic opportunity



Discovery programme delivering a pipeline of Affimers to important immuno-oncology targets

glythera

Collaboration established to demonstrate suitability of Affimers as the targeting molecule in drug conjugates: reporting H2 2017

Collaboration signed with **Memorial Sloan Kettering Cancer Center** to show potential of Affimer-based CAR-T therapies: reporting H1 2018

moderna

Partnership expanded to include more drug targets

Excellent progress in lead immuno-oncology programme (PD-L1 inhibitor): programme remains on track to be ready for **first-in-man clinical trials in 2019**

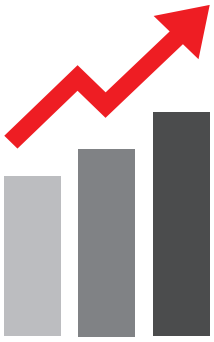
Other highlights

Two new facilities completed in Wetherby and Cambridge totalling around 20,000 sq ft

Affimer®

intellectual property portfolio expanded

Affimer research and diagnostics reagents



Evaluations now beginning to deliver licensing agreements and repeat business that will underpin **medium- and long-term revenue growth**

Strong growth in pipeline of paid-for Affimer technology evaluations with order book up 91% YOY. Focus on licensing opportunities with pharma, biotech, diagnostic and reagents companies

Financial highlights

26% growth in revenue

Cash balances at **£13.17 million**

(2016: £19.52 million)

Loss from continuing operations **£6.37 million**

(2016: £4.65 million)

Net assets at 31 July 2017 **£29.89 million**

(2016: £35.86 million)

Loss per share increased **9.31p**

(2016: 6.86p)

"At Avacta we are passionate about improving people's lives by developing powerful new medicines and by providing scientists worldwide with better research and diagnostic tools to help understand the key processes of life, disease and treatment."

Alastair Smith, Chief Executive Officer

Strategic Report

2017 has been a year of excellent technical and commercial progress for Affimer research and diagnostic reagents, together with substantial de-risking of the Affimer technology as a therapeutic platform.

Major steps forward have been taken with the substantial de-risking of the Affimer technology as a therapeutic platform through the excellent results from a large immunogenicity trial on human samples and through the first demonstration of efficacy in an animal model.

The ongoing Affimer drug discovery programme is also delivering a pipeline of valuable Affimer binders to other important immuno-oncology targets that will be developed both in-house and through licensing.

In our lead immuno-oncology programme (a PD-L1 blocker) we are well on the way towards selecting a candidate Affimer to go into detailed pre-clinical studies. This progress keeps the Company on track to be ready to begin first-in-man trials of an Affimer therapeutic in 2019 – a major milestone for the technology and the Company.

The research partnership with Moderna has expanded to include more drug targets and the collaborations with Memorial Sloan Kettering Cancer Center and Glythera continue to progress towards important proof-of-concept data for Affimer-based CAR-T therapy and drug conjugates that will create opportunities to license the Affimer technology for these applications.

The progress in the Group's therapeutic programme is also mirrored by strong commercial progress of the reagents business unit. There has been strong growth in the pipeline of paid-for Affimer technology evaluations for research and diagnostics applications with the order book up 91% YOY, including a growing number of repeat customers. These evaluations are now beginning to deliver licensing agreements and repeat business that will underpin medium- and long-term revenue growth, including the first licence for development agreed with one of the top three global diagnostics companies.

Critical to delivering commercial licence deals for both therapeutic and non-therapeutic applications is data demonstrating the benefits of Affimers compared with antibodies that will support significant licensing terms. The generation of these data in a wide range of application areas is the focus of the Group's activities in the near term.

Outlook

Antibodies have become the dominant technology in markets worth in excess of $100 billion annually and this is despite some significant limitations. The opportunity therefore for a competitive alternative such as the Affimer technology is very large.

Avacta is generating revenues and aims to build a profitable business unit over the medium term in the minimally regulated, low-risk life sciences research tools and diagnostics markets, and to deliver to shareholders a significant upside from its Affimer drug pipeline. The Group has made substantial technical and commercial progress towards these key strategic goals during the past twelve months.

We are very excited by the potential of the Affimer technology and look to the future with confidence of further technical and commercial progress.

Trevor Nicholls
Non-executive Chairman
3 October 2017

Alastair Smith
Chief Executive Officer
3 October 2017

Trevor Nicholls, Non-executive Chairman

Alastair Smith, Chief Executive Officer

Operational Review: Introduction to Avacta

An Affimer molecule is a small protein that is capable of binding to and capturing a target molecule (such as another protein, a peptide or a small molecule) in the same way that an antibody does.

Affimer technology

This ability to capture or bind a target molecule can then be used to detect or quantify it in a diagnostic test or research assay, or to enrich or purify it from a complex mixture, for example. If the target is involved in a disease pathway and the binding by the Affimer molecule activates, alters or blocks its function, then there is potential for the Affimer molecule to provide therapeutic benefit as a drug.

Antibodies are proteins that have evolved as part of the immune system to bind to a target *in vivo*. Over several decades this property of antibodies has been harnessed to develop thousands of reagents for laboratory assays and diagnostic tests, and one third of all drugs in development are now antibodies. This enormous success of antibodies is despite some significant limitations. These limitations are that:

- antibodies are often not specific to the target and cross-react with other targets causing uncertainty in the results that are obtained;
- antibodies are large proteins with complex structures, including special internal bonds and external chemical modifications that are required for correct function, making many of them challenging and costly to manufacture and resulting in batch-to-batch variability;
- antibodies are often generated by immunising an animal and purifying the antibodies from the animal's blood, which means that the time required to develop a new, high-quality antibody can be many months and that the type of target to which an antibody can be raised is limited to those that are not toxic and cause an immune response; many important and commercially valuable targets do not fit these criteria;
- the large size of antibodies is a disadvantage in some applications in which, for example, tissue penetration is important or a high density on a sensor surface is required; and
- many applications require the antibody to be modified to carry a payload or signalling tag and their large size and complex structure makes these modifications more challenging.

In contrast, the small size and simple structure of Affimer molecules means that they are easy to manufacture with simple, low-cost processes that are reliable in their batch-to-batch consistency. Their simplicity also means that modifying an Affimer molecule for a particular application is easily carried out with simple biochemistry.

New Affimer molecules are generated by screening through a pre-existing large library of approximately ten billion Affimer molecules to identify those that bind to the target of interest.

This utilises an industry standard *in vitro* process which does not use animals and therefore it is quick, taking a matter of weeks, and circumvents some limitations arising from the nature of the target. This screening process can also be finely controlled to maximise the specificity and optimise other properties of the Affimer molecules that are pulled out of the library for a particular application.

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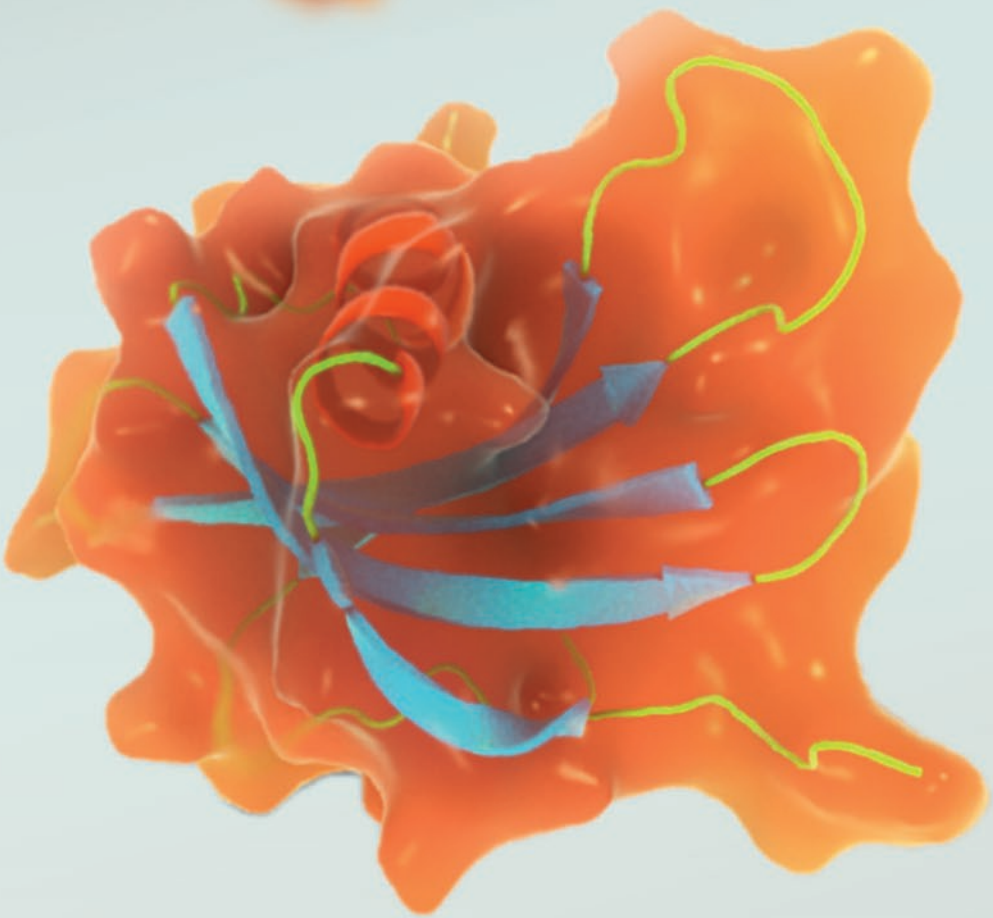

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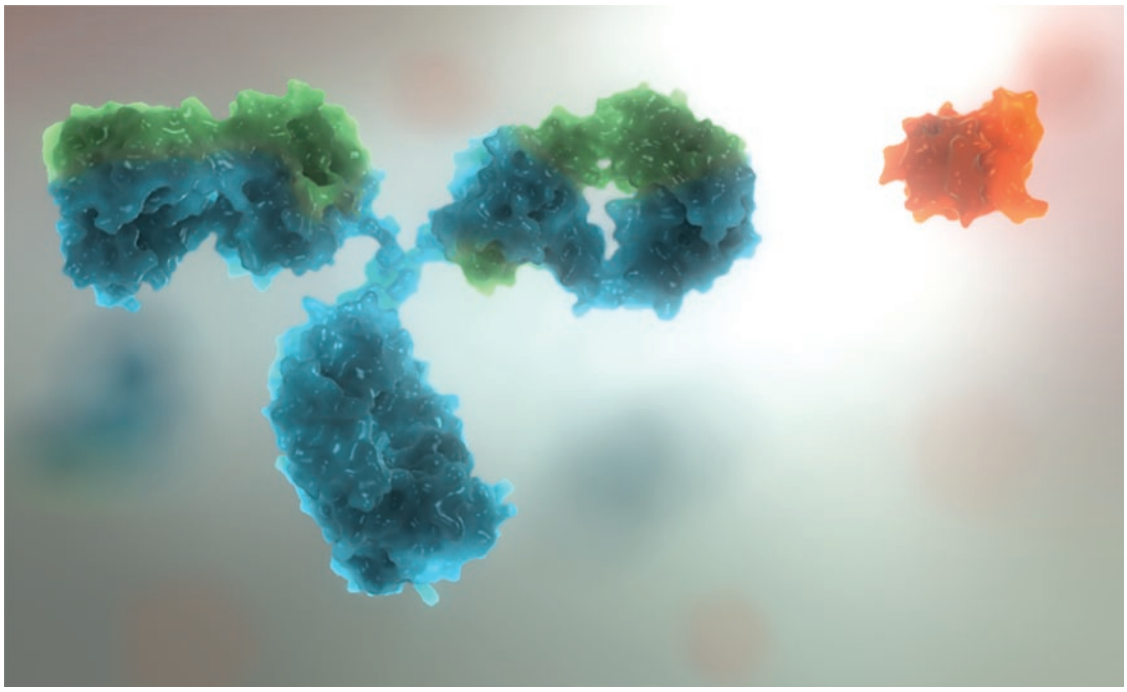
Affimer molecules are ten times smaller than antibodies and very stable, being resistant to extremes of pH and temperature, which makes them better suited to some applications where harsh conditions are experienced or where their small size leads to better sample penetration or a higher density of binding sites on a surface. Their small size and the ease with which they can be modified means that the amount of time a therapeutic Affimer molecule stays in the bloodstream can be tailored to suit different therapeutics regimes.

Despite the limitations outlined on the previous page, antibodies have become the dominant technology in markets worth in excess of $100 billion annually.

Therefore, the opportunity for an alternative such as the Affimer technology is very large with the potential to generate near-term revenue from minimally regulated, low-risk life sciences research tools and diagnostics applications, as well as potentially generating much higher rewards from therapeutics but with associated greater development risk.

Affimer business model and strategy

Avacta is addressing both therapeutic and non-therapeutic opportunities for Affimer technology. The Group is focused on building a profitable business through licensing of Affimer reagents to research tools and diagnostics developers to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and licensing.



Team Profile: Joanne Sunderland, Services Operations Manager

Professional background

Jo has 17 years' experience working for a large CRO within the pharmaceutical industry, helping bring protein-based drug products from discovery through to market release. This included ten years' practical experience in the QC of drug products, working in a highly regulated environment.

Previous to this, Jo worked in partnership with clients from leading pharmaceutical companies to ensure their regulatory, scientific and business requirements were met. Through these experiences she has gained a good understanding of customer expectations within the biotechnology field.

For much of her career, Jo has been responsible for managing individuals and developing teams through a changing environment, requiring the design and implementation of new processes in response to business needs.

Jo's role within the Company

At Avacta Jo's role is multi-faceted. She is responsible for the quality and scientific output of the Affimer Production and Validation Teams. Utilising her past regulatory knowledge, she has a pivotal involvement within Avacta's Quality Management System. She is focusing on maximising the success of the projects by fine-tuning processes, exploiting the scientific knowledge of the Avacta scientists and building on the experience gained with the diverse Affimer applications.

She is hoping to use her management experience to strengthen the scientific teams and to ensure the required structure and processes are in place to support growth at Avacta.

Jo also oversees the customer interface and ensures an enhanced customer experience, providing a tailored scope, communication throughout the lifespan of the project and provision of custom-made Affimers, all within an agreed timeframe.

Why are you excited by Affimer technology?

"Whilst the key advantages of Affimers and their applications, such as specificity, stability, ability to modify functional groups, reduced size and cell/tissue permeability, are notable, other significant benefits of the Affimers' properties are associated with their manufacture. Expression in E.coli is simple and the subsequent purification is quick and effective, which offers time advantages over the production of other recognition molecules."

"The relative simplicity of the Affimer molecules, in terms of ease and control of their manufacturing process, makes them ideal therapeutics without the challenges that can be associated with post-transitional modifications of many protein-based biopharmaceuticals."

Affimer Research and Diagnostics Reagents

Non-therapeutic Affimer technology is being delivered through licensing to third-party research tools and diagnostic test developers.

Avacta has chosen to focus initially on three large application areas where Affimers have clear technical benefits over antibodies as research and diagnostics reagents. Those are: immunoassays, separations and rapid diagnostics.

The Group has also adopted a licensing business model and in order to secure licensing deals for Affimer reagents to build a longer term royalty-based revenue stream we provide custom Affimers on a fee-for-service basis to allow the potential licensee to evaluate Affimers specific to their target in their application.

In addition, the Group undertakes in-house R&D to generate technical marketing data demonstrating the benefits of Affimer reagents in various applications to support business development activities.

During the reporting period, significant progress has been made both in building the pipeline of evaluations, which is reflected in an increase in custom Affimer order book of 91% YOY, and in generating the data packs that support business development.

The following are examples of the evaluations that are ongoing:

- A large North American bioprocessing company is evaluating Affimer reagents that will allow them to separate therapeutic products from complex biological samples without cross-reacting against similar products in the samples. Affimers have been generated that are specific to the products of interest and do not cross-react with other products. These Affimers have been assessed at small scale by the partner who is now scaling up the process for further evaluation.
- A global consumer test developer is evaluating Affimer reagents for point-of-care testing to make an existing consumer test more specific, sensitive and user friendly in the read-out format. Affimers have been identified that bind the target requested by the third party that convert the assay into the more user-friendly format. The evaluation of the Affimer reagents in the rapid diagnostic is ongoing.

Importantly, this pipeline of evaluations, which has been building for over a year, is now beginning to deliver licensing agreements and repeat business that will underpin medium- and long-term revenue growth. A major milestone was achieved during the reporting period in that the first licence for development was agreed with one of the top three global diagnostics companies. This followed successful evaluation of multiple Affimers that were developed to capture a particular marker of disease in blood whilst not cross-reacting with other markers to which existing antibodies do cross-react. This work should lead to a wider relationship with this larger global diagnostics company as well as the potential commercial exploitation of the licensed Affimers.

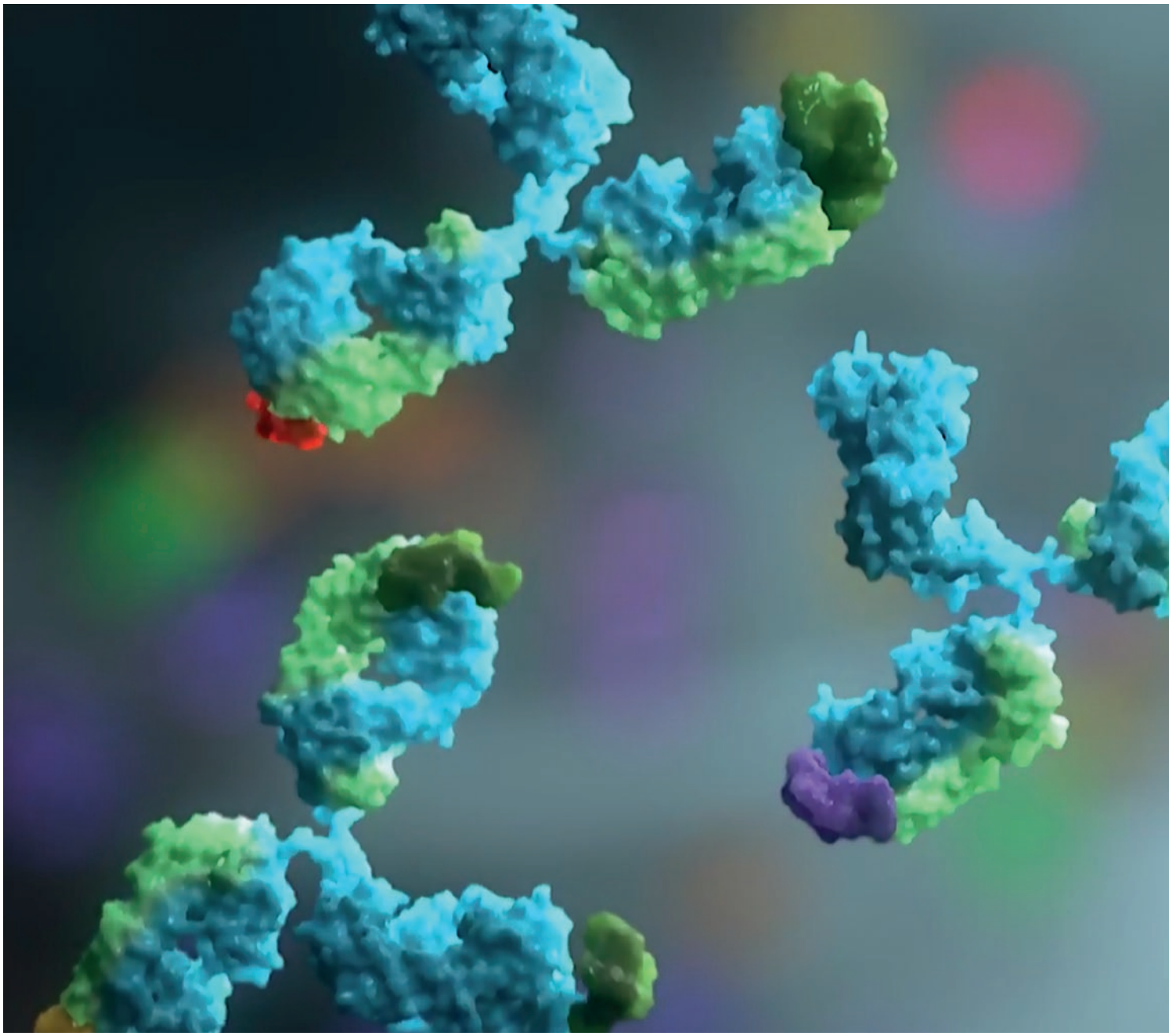
More than ten Affimer R&D licences have been agreed following successful custom Affimer projects. These allow the third party to use the Affimers generated for in-house R&D in assays to support clinical studies for example, or enable new R&D experiments to be carried out, and repeat business is being generated.

Further evidence of the rapidly building momentum can be seen in the number of recent scientific publications from third parties using Affimers: seven in the past twelve months, double the number in the previous twelve months. These scientific papers include a wide range of imaging applications, biosensors and diagnostics and they have a very positive contribution to building awareness of the Affimer technology across the life sciences market.

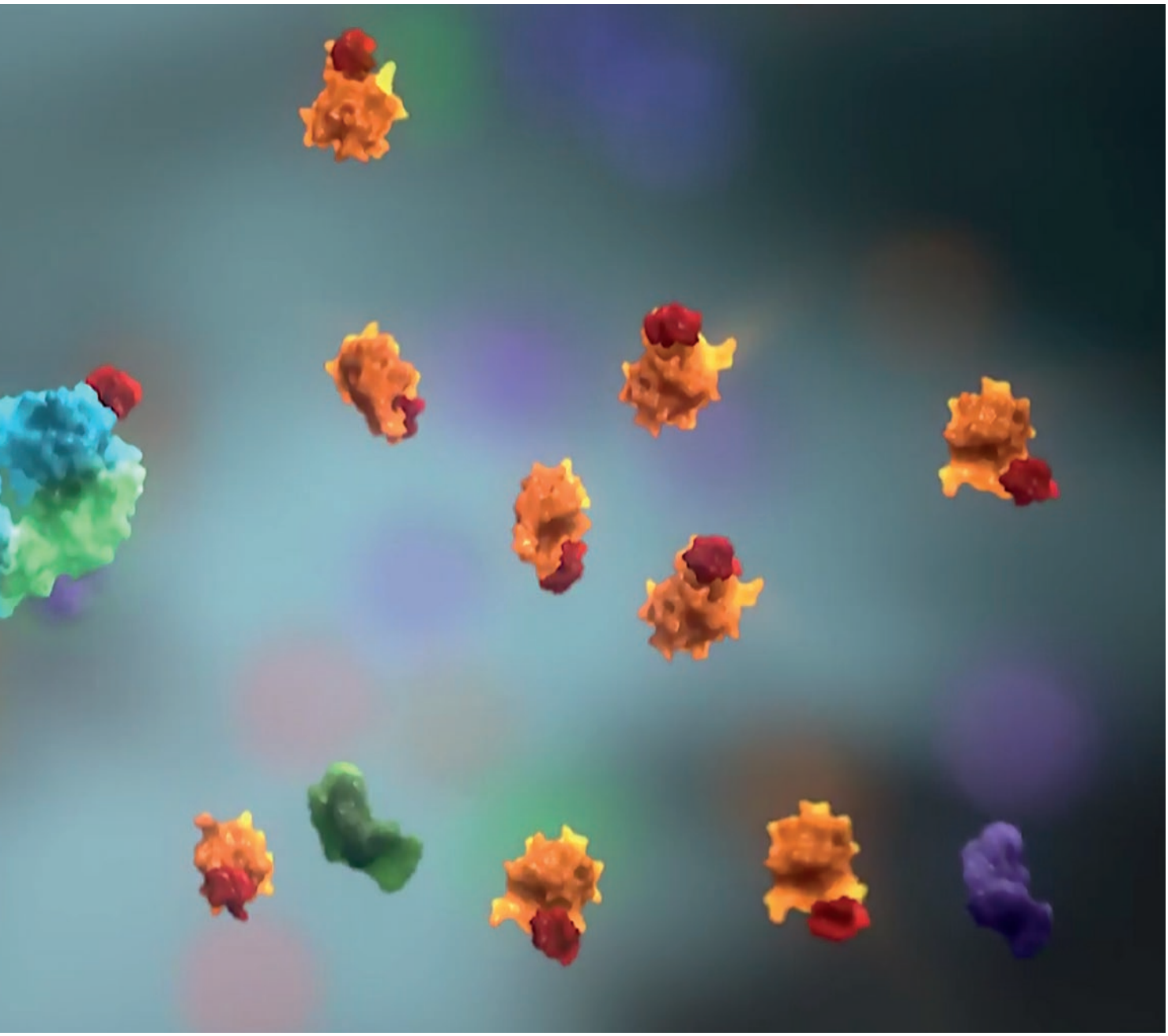
With clear commercial traction established and momentum building, the key objectives for the Affimer reagents business unit in order to build a profitable revenue stream are:

- conversion of evaluations into licence deals that will ultimately lead to royalty revenue;
- growing the evaluations pipeline and repeat custom Affimer business; and
- generation of technical marketing data supporting the business development efforts and opening up new applications outside of the three initial focus areas.

Affimer Publications



Adoption of the Affimer technology by the scientific community has grown, leading to a strong rise in the number of published scientific articles citing Affimer proteins.



Over the past year seven scientific journal articles have been published that make use of Affimer technology, increasing the total number of published papers citing Affimer proteins to twenty-one.

The range of research published over the past year highlights the broad potential of Affimer binders, which have been generated for a variety of different targets and used across a number of research techniques.

These include their use as crystallisation chaperones for protein structure determination, as the capture reagent in biosensors for diagnostic assays and as detection reagents in imaging applications.

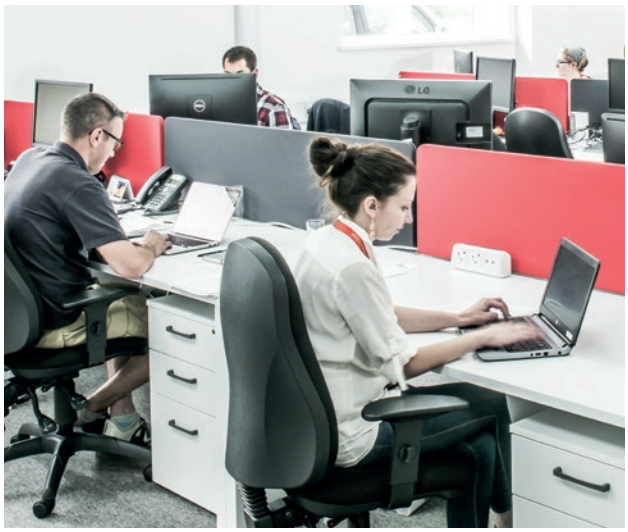
Two of the most recent publications, 'Ubiquitin linkage-specific Affimers reveal insights into K6-linked ubiquitin signalling' and 'Mechanism and regulation of the Lys6-selective deubiquitinase USP30' from David Komander's laboratory at the University of Cambridge, have been published in the highest impact journals, *Molecular Cell* and *Nature Structural & Molecular Biology*, indicating the high quality and innovative nature of this work. These articles described the use of Affimer binders to the atypical K6 and K33 diubiquitin linkages, targets that have previously proven difficult to hit with antibody technology. New insights into the structure and function of these polyubiquitin chains were revealed in these studies, with the Affimer binders used as crystallisation chaperones and protein detection reagents in confocal microscopy and western blotting.

The broad utility of Affimer binders as research and diagnostic reagents was validated in an eLife published paper, 'Affimer proteins are versatile and renewable affinity reagents'. Here the authors from the University of Leeds in collaboration with Avacta Life Sciences generated Affimer binders to twelve different targets and compared their performance with antibodies across seven different case studies, including the modulation of ion channels, affinity-fluorescence in fixed cells, super-resolution microscopy, targeting a small organic molecule, distinguishing between homologous protein domains to decipher protein function and the inhibition of extracellular proteins. This study shows across a wide range of applications that Affimer technology has high target specificity, intracellular activity, small size and wide target range confirming that they are comparable to or better than antibodies.

Researchers from the Southern Medical University, Guangzhou, China, published *Development of an Affimer-antibody combined immunological diagnosis kit for glypican-3*, confirming the potential of Affimer binders as key reagents within diagnostic assays. Affimer binders to the liver cancer biomarker, glypican-3, were incorporated into an ELISA immunoassay which, compared to the commercially available antibody-based ELISA kits, offered improved sensitivity, specificity and a wider linear detection range.

Being able to generate Affimer binders to difficult and unusual targets, including non-immunogenic and non-natural molecules, has seen the Affimer technology employed in two published studies this year, *Interfacing native and non-native peptides: using Affimers to recognise α-helix mimicking foldamers* and *Antibody mimetics for the detection of small organic compounds using a quartz crystal microbalance*. In each of these cases the development of antibodies to these targets would likely have proven challenging and time-intensive, whereas the rapid generation of new Affimer binders allowed the timely progression of these research fields in novel ways.

Finally, two recent publications further demonstrate the utility of Affimer binders in biosensing applications, highlighting their advantages in target specificity and sensitivity. The study *Comparison of the specificity and affinity of surface immobilised Affimer binders using the quartz crystal microbalance* from the Nanoscience Centre at the University of Cambridge demonstrates the specificity of Affimer binders in being able to distinguish between different target antibody subtypes, IgG2a and IgG2b, which show over 80% sequence similarity. Publication of *Ultraefficient cap-exchange protocol to compact biofunctional quantum dots for sensitive ratiometric biosensing and cell imaging* from the University of Leeds used Affimer binders conjugated to quantum dots to allow the highly sensitive detection of a SUMO target protein to 10 pM concentrations.



Affimer Therapeutics

Avacta is developing the therapeutic potential of Affimer technology in order to service the growing demand for the next generation of biotherapeutics.

Avacta has chosen to focus its investment in therapeutics in the area of immuno-oncology (IO) due to the intense commercial interest in IO assets at the present time and because certain technical benefits of the Affimer technology make it highly competitive as an IO therapeutic platform.

IO harnesses the power of the patient's own immune system to attack the cancer. The approach relies on the fact that tumour cells have certain proteins on their surface that can be used for targeting therapies, or can be blocked or stimulated to create an immune attack.

The two key technical benefits of the Affimer technology compared with antibodies that will allow the Company to develop differentiated and commercially valuable medicines in the IO space are:

- Affimer proteins are easily connected together to form dimers, trimers and higher order multimers and, crucially, these multimers are still easy to produce and process; and
- Affimer proteins are small, robust and easily produced by cells and tissues.

Avacta's therapeutic development strategy is based around delivering three medium-term objectives:

- Progress the first Affimer into the clinic to demonstrate safety and tolerability in man.
- Build a pipeline of commercially valuable therapeutic Affimers for partnering.
- Secure further partnering/licensing deals.

In order to meet the first objective and progress an Affimer into the clinic as quickly as possible, the Company decided to select a drug target that was relatively well known and therefore presented lower risk in terms of the target biology. The immune checkpoint PD-L1 was selected for this purpose.

Partnering/licensing deals will be secured based on having Affimer proteins with beneficial clinical effects and having substantial data packs to support the valuations of those assets. The strategy to build the pipeline is to leverage the key technical benefits of Affimers listed above to create assets that are differentiated from antibody and other technologies.

The strategy may be summarised as follows:

- Since Affimers are good for creating multimers, the Company has chosen to focus its in-house development programmes in two areas that require multimers: T-cell recruitment and agonism.
- Since Affimers are small, robust and easily produced by cells and tissues, the Company has worked to secure collaborations in gene delivery, CAR-T and drug conjugates where these properties are key benefits. In order to keep resources focused on in-house programme milestones, Affimer proteins that are being developed for the in-house programme are being used where possible for these collaborations.

AVA-004 PD-L1 programme update

There has been excellent progress during the reporting period in the lead immuno-oncology programme – a PD-L1 inhibitor. PD-L1 (Programmed Death Ligand 1) is an immune-checkpoint protein that appears on the surface of a tumour cell to 'fool' the immune system into 'thinking' that the tumour cell is a healthy cell and should be left alone. By blocking the PD-L1 on the surface of a tumour cell, the cell cannot 'hide' from the immune system. which will then attack it as an aberrant cell.

The Group has now generated multiple Affimer PD-L1 inhibitors and formatted them to create therapeutic molecules that remain in the bloodstream for long enough to have a therapeutic effect.

During the reporting period, the efficacy of an Affimer PD-L1 inhibitor was demonstrated in an animal model showing a reduction in tumour growth rate comparable with the benchmarking antibody that was used in the study. This is the first time that the efficacy of an Affimer has been demonstrated *in vivo* and as such is a major technical milestone for the technology. It shows that the Affimer remained functional *in vivo*, and was available in the serum for long enough to have a clinical effect and that it had the desired clinical effect.

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The study also went on to show that the biological effect of the Affimer antagonist was observed as expected, i.e. there was an increase in certain immune system cells in the environment of the tumour comparable again with the biological effects of the benchmarking antibody.

A lead Affimer inhibitor of PD-L1 has now been selected for further development during 2018. This includes further *in vivo* studies and manufacturing development with the objective of being ready for the first-in-man clinical trial beginning in 2019.

Affimer technology development update

Excellent progress has been made in expanding the pre-clinical dataset that demonstrates the performance benefits of Affimer technology and answers key questions that significantly de-risk the broader Affimer biotherapeutic opportunity.

A second major development milestone for the technology was achieved during the reporting period with the excellent results of the first major immunogenicity trial on human samples. This trial, which used human peripheral blood mononuclear cells in a standard industry trial format, showed that the basic Affimer technology was not immunogenic, i.e. did not produce an unwanted immune response from human cells. This is a significant de-risking of the Affimer platform in the eyes of potential large pharma partners and collaborators.

As mentioned previously, the first animal efficacy data for an Affimer was generated which showed that the Affimer therapeutics (in this case a PD-L1 inhibitor) had the pharmacokinetic profile (time spent in the bloodstream) and was functional *in vivo* to produce a clinical effect of reducing the tumour growth rate in a CT26 syngeneic tumour model. This was the first demonstration of an Affimer having a clinical effect in an animal and is another major step in de-risking the technology from the perspective of potential licensees. The Affimers for this study were generated, characterised, put into an animal model and the data analysed in only nine months.

This very rapid timescale from discovery to animal efficacy data is a major advantage of the technology compared with antibodies and other non-antibody technologies.

A range of different formats (ways of combining Affimer molecules with each other and with other proteins) has been produced and the production yields of several important therapeutic Affimer formats have been confirmed.

The serum half-life (time spent by the molecule in the bloodstream after injection) is a critical factor in the success of a therapeutic. Small proteins like Affimers are below the renal cut-off and are therefore cleared from the bloodstream by the kidneys into the urine very quickly. In many therapeutic applications in which the drug is delivered systemically (by injection), the result of this is that the drug does not spend enough time in the bloodstream for a clinically relevant dose to reach the site of action. The serum half-life must therefore be extended in some way and it is essential to demonstrate that this can be done with a new platform technology such as Affimer proteins.

The Group has shown that by formatting Affimer proteins (attaching them to a larger protein such as the Fc region of an antibody) an acceptable serum half-life can be obtained. It is also highly beneficial to be able to tailor the half-life within a range and in order to do this the therapeutic Affimer is 'piggy-backed' on a large protein in the blood (serum albumin) but attached only weakly so that it drops off the serum albumin when the therapeutic Affimer engages with its target. The serum half-life extension produced by this 'piggy-backing' can be tailored by controlling how tightly it binds to the serum albumin. The Group has therefore initiated a programme to generate serum albumin binding Affimers and has successfully generated a range of Affimers with different affinities for this target, which are now going into pharmacokinetic studies to measure the effects on serum half-life.

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Pipeline update

Avacta has an ongoing drug discovery programme delivering a pipeline of Affimer proteins that bind to other important IO targets. The pipeline development strategy is based on the key technical benefits of Affimer technology as described previously and focuses on T-cell recruitment and agonism.

CD3e (T-cell targeting) and CD19 (tumour targeting) are the primary T-cell recruitment programmes and are in the early discovery phase. Selections are also beginning with other tumour targets (CD22, 5T4) to facilitate the development of dual targeting T-cell recruiters in the longer term.

Affimer selections have begun with two agonist targets (CD27 and GITR) and Affimer binders have been generated to a second immune checkpoint (LAG3) which can be combined with PD-L1 in a bispecific format.

A number of other Affimer binders to other IO targets have been generated to demonstrate the speed and broad applicability of the Affimer platform.

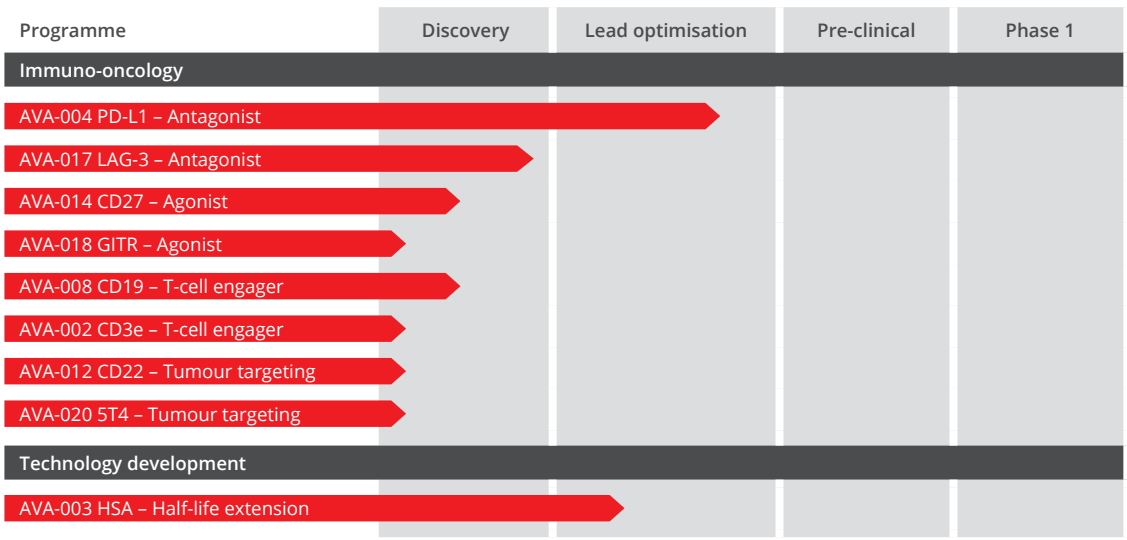
Partnerships update

In 2015 Avacta entered into a collaboration, licensing and option agreement with Moderna Therapeutics.

Under the terms of the agreement, Moderna made an upfront payment of $500,000 which provides them with exclusive access to Affimer molecules that bind certain targets. This may be extended to include additional targets by a further payment. Moderna is also making certain payments to Avacta for research services to deliver pre-clinical development milestones.

Moderna has the option to enter into exclusive licence agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.

The Group is limited by confidentiality in what it can say about the progress within the Moderna collaboration but the programme is progressing well and, during the reporting period, expanded to include more drug targets.



Team Profile: Dominique Blanchard, Director of Immunology

Professional background

Dominique is an immunologist by training, with over 15 years' experience in leading innovative scientific projects, from target identification to candidate optimisation and IND enabling studies. His career has allowed him the opportunity to work on systems spanning small molecules (DNAX/Schering-Plough, Exelixis), monoclonal antibodies (Genentech), and cell engineering (Cellectis). His most memorable professional achievements include the characterisation of the mechanism of action and selection of biomarkers for the first Exelixis multi-specific kinase inhibitor entering into the clinic, moving two antibodies into preclinical development at Genentech, and structuring the Cellectis cell line engineering platform. Prior to joining Avacta, Dominique was assisting several start-up companies in structuring their R&D strategy, where he found his most exciting clients were working on the development of antibodies and nano-carriers.

Dominique's role within the Company

As the Director of Immunology at Avacta, Dominique has an overall responsibility for the identification, selection and prioritisation of immuno-oncology projects. This involves a focus to ensure that Affimer technology forms the next major protein-binding platform to develop an immuno-oncological drug candidate. To achieve these goals, Dominique is bringing his enthusiasm for new technologies, his experience in moving drug candidates from bench to bedside, and his ability to analyse projects beyond science.

Why are you excited by Affimer technology?

"When I analyse new technologies, I first try to understand the science and motivation behind any new invention. Secondly, I look to the potential application and motivations for using this technology. I consider that great technology companies are the ones that truly address a human need with the lowest level of complexity.

"In oncology, with the development of immuno-oncology, we are now seeing very exciting times. Immuno-oncology treatments are beginning to offer long-term remission for patients. However, the cost and complexity of manufacturing and the drug combinations used in clinic make this potentially unsustainable for the treatment of larger populations."

"I truly believe that Affimer technology combines very interesting properties for the generation of therapeutic candidates that possess high target affinities and multiple specificities. These characteristics will allow Affimer therapeutics to display a differentiated mechanism of action, with improved safety and efficacy profiles. I'm very excited to work as part of the team at Avacta to make this dream come true."

Animal Health

Our strategy is to provide vets, directly and through partner laboratories, with solutions that enable them to diagnose and treat companion animals more effectively.

Avacta Animal Health has an established specialism in allergy diagnostics, a growing expertise in the use of data in diagnostics and ongoing developments in antimicrobial resistance. To do this we develop, manufacture or source, then market and support diagnostic solutions and related treatments.

We work closely with leading experts in academia and industry (Key Opinion Leaders or 'KOLs') and aim to present vets with well-researched and evidenced tools that enable faster and more reliable decisions in practice.

Competitive strengths

Our aim is to be different to our competitors in a number of ways, each presenting value to our customers:

- We develop and manufacture most of our own products allowing us to provide the highest level of insight and support.
- We add to established services to provide a more complete solution.
- We provide especially strong frontline customer service, with in-house veterinary support and specialist KOL assistance.
- We have an innovative and well-resourced research and development team.
- We have access to proprietary Avacta Life Sciences technology.

Market focus

Our customers are companion animal vets and the laboratories serving them. We listen to their feedback through surveys, our sales and customer services teams and our Veterinary Advisory Board. We are privileged to work with Jason Atherton, Laura Playforth, Mark Dunning and Kirsten Pantenburg as our Veterinary Advisory Board members and they help to inform our development and commercial choices. Our partner laboratories serve much of Continental Europe as well as parts of the Asian market and the US.

Development focus

Our development priorities are increasingly set by market feedback and then driven by our R&D team, either towards new assays, algorithms or delivery methods. We involve and work closely alongside industry KOLs from the UK and the US to ensure our work is based upon the latest and best research available.

During this financial year, our immediate development efforts have been increasingly focused on allergy and this has led to additional offerings, launched in September. We now offer a more complete allergy service supporting vets through much of their work up process.

Long-term development ambitions are to deliver more data-led innovations and to provide one or more point of care tests that help achieve the appropriate use of antibiotic treatments.

Management team

Our business is run by a management team with experience covering all aspects of the companion animal industry, supported by experienced and highly capable production, development and commercial teams. Fuller biographies can be accessed at **www.avactaanimalhealth.com/about/people/**.

- Hayley Booth – Head of Commercial
- Johanna Gourlay – Senior Veterinary Technical Manager
- Nicola Kingswell – Head of Laboratory Operations
- Rob Harrand – Technology and Data Science Lead

Team Profile: Johanna Gourlay, Senior Veterinary Technical Manager

Professional background

Johanna graduated as a veterinary surgeon from the University of Edinburgh in 2004 and spent nearly a decade in clinical veterinary practice before making the move across to the animal health sector in 2013. This first role in industry was as a Veterinary Advisor for a global veterinary pharmaceutical company, with a focus on the technical support of both the companion animal dermatology and equine product ranges. During her three and half years at the company she was the technical lead in numerous UK product launches, trained the internal commercial team and established and maintained networks of veterinary key opinion leaders in her clinical areas of expertise. In 2016 Johanna completed a Postgraduate Certificate in Equine Science, again from the University of Edinburgh, and is now working towards the BSAVA (British Small Animal Veterinary Association) Masters in Clinical Veterinary Research accredited through the University of Nottingham Trent.

Johanna's role within the Company

At Avacta Animal Health, Johanna's role as Senior Veterinary Technical Manager is to provide both the commercial and research and development teams with clinical guidance and technical support. Her role spans from direct communication with veterinary surgeons in practice or academia, through to helping shape the strategy of the animal health business and aiding development of clinical research for publication.

Day to day she works closely with the customer services, sales and marketing teams to ensure they have technical backup when required and is an integral part of the team responsible for delivering an extension to the current allergy testing portfolio.

Why are you excited by Avacta Animal Health?

"Avacta Animal Health has an exceptional reputation for first-class customer service, which I experienced first-hand as a vet in practice and now feel privileged to be a small part of. This reputation has been built upon the foundation of leading diagnostic tests which are supported by peer-reviewed publications and continually improved by our research and development scientists."

"I am incredibly excited by what the future holds for Avacta Animal Health, not only because of the further developments planned to expand and support our current tests but also due to the unique link we have to Affimer technology and the immense opportunities this may present."

Financial Review

Reported Group revenues grew to £2.74 million, an increase of 26% (2016: £2.17 million).

Revenue

Revenues for the Affimers business, Avacta Life Sciences, increased to £1.15 million (2016: £0.70 million) as the number of custom Affimer projects increased. Revenues in Avacta Animal Health increased to £1.59 million (2016: £1.46 million) as a result of growing sales from pet/equine allergy tests.

Research and development costs

During the year the Group expensed through the income statement £2.60 million (2016: £1.50 million) in relation to research and development costs. Within the amount expensed, £1.94 million (2016: £0.93 million) relates to the costs associated with the in-house Affimer therapeutic programme which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £0.57 million (2016: £0.57 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

Furthermore, development costs amounting to £1.41 million (2016: £1.73 million) were capitalised within intangible assets.

Administrative expenses

Administrative expenses have increased during the year to £7.18 million (2016: £5.43 million) as the scale of the Affimer business operations continued to increase, with full year costs of the increased development, production and sales teams. Depreciation increased to £0.93 million (2016: £0.60 million) following the completion of the new laboratory facilities in Cambridge and Wetherby at the end of the prior year.

Losses before taxation

Losses before taxation from continuing operations for the year were £7.89 million (2016: £5.57 million).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £1.53 million (2016: £0.92 million). The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years.

Cash flow

The Group reported cash and short-term deposit balances of £13.17 million at 31 July 2017 (2016: £19.52 million).

Operating cash outflows from operations amounted to £4.24 million (2016: £4.23 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.75 million (2016: £0.57 million) which represented tax refunds for the 2015 and 2016 financial years.

During the year capital expenditure of £0.66 million (2016: £2.86 million) was significantly lower than the prior year when the new facilities at the Cambridge and Wetherby sites were completed.

Financial position

Net assets as at 31 July 2017 have reduced to £29.89 million (2016: £35.86 million) as a result of the losses incurred during the year of £6.37 million and the corresponding reduction in cash and short-term deposits.

Events since the end of the financial year

There are no events to report that have occurred since the end of the financial year.

Principal Risks and Uncertainties

The principal risks and uncertainties that could have a significant impact on the Group are set out below.

Research and development

The Group's research and development activities are focused around the Affimer technology within the reagent, diagnostic and therapeutic areas.

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for their internal development programmes or customer-related projects.

The development teams continue to work on improving the core Affimer technology platform, with oversight from the Senior Leadership Team and Scientific Advisory Board.

Timing

There is a risk that the development of the Affimer technology may take longer than planned to meet the requirements of current and potential customers.

Given the proprietary nature of the Affimer technology and its early stage development, it may take some time for customers to evaluate and utilise the technology instead of more established antibody technologies. This could delay the completion of commercial licences for the technology and the resultant revenues from these licences.

Intellectual property

The success of the Group's Affimer technology platform depends on its ability to obtain and maintain patent protection for its proprietary technology.

Failure to protect the Affimer technology platform, or to obtain patent protection with a scope that is sufficiently wide, could significantly impact the ability to commercialise the technology.

Should the patents be challenged, there could be a considerable cost in defending the patent rights, with an uncertain outcome.

The Board regularly reviews the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories.

Funding

The development of the Group's Affimer technology, in particular in the therapeutic areas, is resource and cash intensive.

As at 31 July 2017 the Group had cash and short-term deposits of £13.17 million which would provide sufficient funds over the next 18 to 24 months to continue the current programmes.

Should the Group decide to accelerate the Affimer platform development programme into additional therapeutic areas to increase shareholder value then further funding would need to be raised. As with all fundraising activities, there are external market and economic factors which may impact the timing and amount of funding available.

Key staff

The Group has in place an experienced and motivated Senior Leadership Team together with a growing number of highly skilled senior scientists.

Loss of key staff could lead to a delay in the Group's plans and operations.

The Group aims to provide remuneration packages and working conditions that will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies.

Loss of facilities

Should the Group's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected.

The Group has recently relocated to purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

Key Performance Indicators

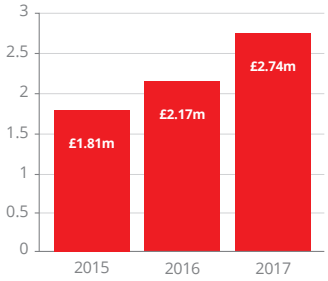
At this stage of the Group's development, the non-financial key performance indicators provide the best measure of progress and value generation. The most important of these are securing commercial partnerships and licensing deals, and building a pipeline of assets with strong supporting data for clinical development and licensing.

In addition, the number of customers evaluating the Affimer technology which may lead to commercial licensing agreements is seen as a growing acceptance of the technology. Both of these are discussed in more detail within the Operational Review on pages 12 to 35.

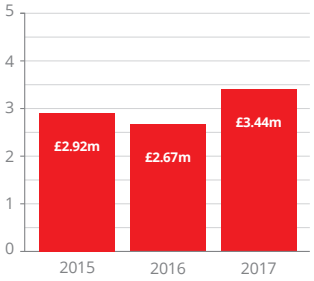
The financial key performance indicators focus around three areas:

- Group revenues
- Research and development expenditure, which is either expensed through the Income Statement or capitalised
- Cash and short-term deposit balances

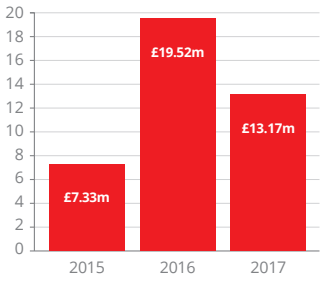
Group revenues



Research and development expenditure



Cash and short-term deposit balances



This Strategic Report was approved by the Board on 3 October 2017 and signed on its behalf.

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Governance

Board of Directors

The Avacta Group Board of Directors provide experienced strategic and practical guidance to the Company to help ensure that the interests of all shareholders are met and that corporate good practice is followed.

Top row:
Dr Trevor Nicholls
Alan Aubrey

Middle row:
Dr Mike Owen
Dr Alastair Smith

Bottom row:
Dr Michael Albin
Tony Gardiner

Dr Trevor Nicholls
Non-executive Chairman

Trevor is currently Chief Executive Officer of CAB International, a not-for-profit intergovernmental organisation owned by 47 member countries whose mission is to improve lives worldwide by providing information and applying scientific expertise to solve problems in agriculture and the environment. He is also Non-executive Chairman of Iota Sciences Limited, a company spin-out from the University of Oxford which is commercialising innovative microfluidic technology for the life sciences sector. In addition, he is a Non-executive Director at hVivo plc and Conidia Bioscience.

Trevor brings considerable experience in the commercialisation of life science systems and reagents from his previous roles as Chief Commercial Officer at Affymetrix, founder and Chief Executive Officer of UK biotech company Oxagen Ltd and Commercial Director of the Life Sciences business at Amersham International (now part of GE Healthcare). Trevor is Chairman of the Remuneration Committee and a member of the Audit Committee.

Alan Aubrey
Non-executive Director

Alan is the Chief Executive Officer of IP Group plc, a FTSE 250 company that specialises in commercialising intellectual property. He is also a Non-executive Chairman of Ceres Power Holdings plc, a manufacturer of advanced solid oxide fuel cells, a Non-executive Chairman of PROACTIS Holdings PLC, an AIM listed company that provides specialist Spend Control software to global organisations, and a Non-executive Director of Oxford Nanopore Technologies, a company that provides DNA sequencing technologies.

Alan is a fellow of the Institute of Chartered Accountants of England and Wales and was a partner in KPMG, where he specialised in providing advice to fast-growing technology businesses. Alan is the Chairman of the Audit Committee and a member of the Remuneration Committee.

Dr Mike Owen
Senior Independent Director

Mike was Senior Vice President and global Head of Research of the Biopharmaceuticals R&D Unit at GlaxoSmithKline and was responsible for initiating and rapidly growing GSK's robust pre-clinical and clinical therapeutic antibody pipeline during the last decade through in-house development as well as through acquisitions such as Domantis. He left GSK in 2010 to establish Kymab, which is developing biotherapeutics using its novel transgenic mouse platform.

Mike is an immunologist by training who had a highly successful scientific career at Imperial Cancer Research during which he was elected a member of the European Molecular Biology Organisation and a fellow of the Academy of Medical Sciences. Mike is also an independent board member at Zealand Pharma and Non-executive Director of Ossianix Inc. and Blink Therapeutics, ReNeuron plc, GammaDelta Therapeutics and Glythera. He sits on the Scientific Advisory Board of Kymab and also advises the private equity CRT Pioneer Fund and HS Life Sciences. Mike is Chairman of the Scientific Advisory Board and a member of the Remuneration Committee and the Audit Committee.

Dr Alastair Smith
Chief Executive Officer

Alastair combines world-class scientific and technical knowledge with a highly commercial mindset. Alastair has been Chief Executive Officer of Avacta since its inception in 2005 and has been responsible for the management and strategic development of the Company, led the IPO and the fund-raising and M&A activities of the Group, and has overseen the product development programmes. He has a degree and PhD in Physics from Manchester University and, after working in the US for a period, took up a position at Leeds University in 1995. At the age of 38 he was awarded a Chair of Molecular Biophysics and had, over ten years, grown one of the leading biophysics research groups in Europe. He left his academic career in 2007 to focus full time on delivering value to Avacta shareholders.

Dr Michael Albin
Non-executive Director

Following a PhD in Chemistry at Pennsylvania State University and postdoctoral research in Biochemistry at the California Institute of Technology, Michael worked at SYVA Diagnostics followed by 15 years at Applied Biosystems Inc. rising to the role of VP of Strategic Technologies of the parent company Applera Corp, an S&P 500 company. Whilst at Applied Biosystems Inc. (now Life Technologies Inc.), he was responsible for R&D programmes with a budget in excess of US$100 million, overseeing the development of the company's product pipeline via internal development, investment and acquisition.

In recent years, he has worked as a private consultant focusing on technical and strategic assessments for a wide range of companies in the life sciences, molecular diagnostics, and personalised medicine sectors. Michael is a Non-executive Director for Genturi Genomics, which is based in the US and focused on developing DNA sequencing technologies. In addition, he carries out due diligence for venture capital and other investment organisations in the US, Canada and the UK. Michael is a member of the Remuneration Committee and the Audit Committee.

Tony Gardiner
Chief Financial Officer

Tony is a member of the Institute of Chartered Accountants of England and Wales and joined Avacta in January 2016 as Chief Financial Officer. He has over 20 years' experience of senior financial and operational management roles across a number of different sectors. Between 2007 and 2011, Tony was the Chief Financial Officer of AIM-listed Fusion IP plc, an IP commercialisation company, which was subsequently acquired by IP Group plc in 2014. He played a key role in supporting the growth of the business and oversaw all finance activities as well as directly supporting life sciences and health technology companies in Fusion's portfolio. Tony joined Avacta from AHR, an international architecture and building consultancy practice where he had been Finance Director since 2011. Tony has also held senior finance roles within Eversheds LLP, KCOM Group Plc and Hickson International Plc.

Senior Leadership Team

The Senior Leadership Team bring a wealth of commercial, technical, scientific and operational experience to the Group. Working with the Board of Directors, the team defines the Group's strategy and provides experienced management of the Group's activities to deliver that strategy.

Top row:
Philippe Cotrel

Bottom row:
Matt Johnson
Amrik Basran

Philippe Cotrel
Chief Commercial Officer

Dr Philippe Cotrel, a protein chemist by training, has over 20 years' commercial experience in sales, marketing and customer support in the life sciences sector, having held senior positions in Amersham Pharmacia Biotech, Oxford Glycosciences, Affymetrix and Abcam.

Whilst at Affymetrix, at that time the inventor and market leader of commercial microarrays, Philippe was appointed General Manager and Vice President of Commercial Operations in Europe with responsibility for European commercial operations, generating approximately £65 million in sales made up of capital equipment, consumables and services. Philippe joined Abcam in 2008 as Commercial Director and was responsible for sales and marketing activities, successfully growing revenue from £36 million to £144 million over a seven-year period. He managed regional offices in Boston, Tokyo, Hong Kong and Shanghai and was responsible for all global customer-facing functions, as well as business development activities for the service and *in vitro* diagnostics divisions of the business.

Philippe joined Avacta from Abcam and now leads Avacta's commercial strategy and business development activities, and drives the commercialisation of Affimer technology, as both research reagents and biotherapeutics.

Matt Johnson
Chief Technical Officer

Matt studied Genetics & Microbiology at the University of Sheffield and stayed on to complete a PhD in Molecular Biology with Dr Anne Moir investigating novel surface proteins of the B. cereus endospore. As part of his PhD, he completed an EMBO short-term fellowship at the Pasteur Institute in Paris with Dr Michele Mock, looking at the same proteins in B. anthracis, the causative agent of anthrax.

After completing his PhD, Matt took a Postdoctoral position in the Department of Biochemistry at Cambridge University with Professor George Salmond. The focus of the project was characterising a novel toxin-antitoxin phage resistance mechanism discovered on a cryptic plasmid in E. carotovora.

Matt joined Abcam in 2005 as a development scientist producing and characterising antibodies. His career at Abcam developed as the company grew to become the leading provider of research-grade antibodies in the life sciences market. He held several roles over his eight years in the company, culminating in the post of Head of R&D. His experience at Abcam includes building an imaging team for ICC and IHC, being responsible for managing the antibody characterisation group, running a team responsible for process improvements and QA, project managing a team of developers implementing a new LIMS system and management team of the Product Development & Manufacturing facility. As Head of R&D, he built and ran a research group with interests in recombinant antibody/binder technologies, alternative detection methodologies, immunoassay development and antibody characterisation. His other responsibilities included contributing to M&A strategy, licensing deals and technology scouting. To support this, he completed a Postgraduate Certificate in Intellectual Property Law at the University of Bournemouth in 2012.

Amrik Basran
Chief Scientific Officer

Dr Amrik Basran has over 14 years' experience of both the biotech and pharma industries. He completed his degree and PhD at the University of Leicester and has a background in protein biochemistry/engineering. He then spent six years as a post-doctoral researcher at the Institute of Biotechnology, Cambridge University isolating novel bacterial pathways involved with the metabolism of illicit drugs and high explosives.

In 2002, Amrik then joined Domantis, a start-up biotech company based in Cambridge developing domain antibodies (dAbs), a novel antibody fragment technology. As Director of Protein Sciences, he was responsible for characterising the lead dAbs from early discovery for their suitability for drug development, supporting pre-clinical evaluations and tech transfer to CMOs. Domantis was acquired by GSK in 2006, after which Amrik became Head of Topical Delivery (Biopharm Discovery Unit), supporting the development of biotherapeutics across the GSK portfolio. The group focused on discovering and developing a wide range of therapeutic antibodies, dAbs and proteins for delivery into the eye, skin and lung. This included developing formulation and delivery strategies for biotherapeutics for Phase I clinical studies.

Amrik left GSK in 2012 and joined Avacta in 2013 as Chief Scientific Officer to develop the Affimer platform for therapeutic use, focusing on immuno-oncology where there is a high unmet medical need for new novel drugs to improve the long-term clinical outcome for cancer patients.

Scientific Advisory Board

The Scientific Advisory Board (SAB) has been established by the Company to guide therapeutic strategy including target selection and to provide critical review of progress. The SAB meets twice yearly on average and is chaired by Dr Mike Owen, Senior Independent Director.

Top row:
Professor Adrian Hayday

Middle row:
Professor Gerard Evan
Professor Terence H Rabbitts

Bottom row:
Professor Paul Moss

Professor Adrian Hayday **(FMedSci)**

Professor Hayday is the Kay Glendinning Professor of Immunobiology at the Francis Crick Institute, King's College London, co-Leader of the Clinical Academic Grouping in Genetics, Rheumatology, Immunology, Infection, and Dermatology at Guy's Hospital, and a Senior Group Leader at the London Research Institute of Cancer Research UK. He obtained his PhD in tumour virology from Imperial College London and then moved to work at MIT with Susumu Tonegawa, before his appointment to the Yale University faculty, where he rose to become a full professor in 1997.

Adrian's research interests include unconventional T cells, the regulation of tissue inflammation and the control of carcinogenesis. He was co-discoverer of the gamma-delta T cell antigen receptor, a discovery that generated widespread interest in immune cell function within tissues, and tumour immune surveillance. Together with long-standing collaborators, Adrian has succeeded in identifying critical roles for gamma-delta cells in primary immunoprotection against solid tumours, and in immunoregulation, particularly within tissues. He is internationally renowned for his work in immunology and has published nearly 200 papers.

He was elected a fellow of the Academy of Medical Sciences in 2002 and won the King's College Award for Business in 2009. He has been a member of numerous advisory boards including the Scientific Advisory Board of Medimmune, and is currently a member of the Scientific Advisory Boards of Cerimon Pharmaceuticals, HS Lifesciences, ImmunQure and CIRI. He also advises a number of bodies, including the Wellcome Trust, where he sits on the Strategy Committee and chairs the Funding Committee in Basic Immunology and Infectious Diseases, and CRUK where he is Chair of the Science Committee, which is responsible for the oversight of basic and translational cancer research programmes.

Professor Gerard Evan
(PhD, FRS, FMedSci)

Professor Evan's research focuses on the molecular basis of cancer. He has developed a novel class of genetically engineered mouse in which oncogenes and/or tumour suppressor genes may be toggled off and on, *in vivo*. Using two such mouse models his research has directly ascertained the therapeutic impact, efficacy and side effects of Myc inhibition and p53 – two key targets involved in the process of cancer cell replication and regulation.

Gerard serves as a Member of the Scientific Advisory Board at Ensemble Discovery Corporation, is a Gerson and Barbara Bass Baker Distinguished Professor of Cancer Biology at the University of California San Francisco, Co-leader of the Cell Cycling and Signaling Program at the UCSF Comprehensive Cancer Center which he helped create in 1999 and is Head of the Department of Biochemistry at the University of Cambridge.

Gerard received his BA in Biochemistry from the University of Oxford in 1977 and his PhD in Molecular Immunology in 1981 from the University of Cambridge. He worked in the laboratory of J. Michael Bishop at UCSF from 1982 to 1984 then joined the Cambridge Branch of the Ludwig Institute for Cancer Research and became a Research Fellow of Downing College, Cambridge. In 1988, he joined the Imperial Cancer Research Fund (ICRF) Laboratories in London as a Senior Scientist and then as Principal Scientist. He was awarded the Pfizer prize in Biology in 1995, and in 1996 was elected as the Royal Society's Napier Professor of Cancer Research.

In 1999, he was elected a Fellow of the UK Academy of Medical Sciences and appointed to the Gerson and Barbara Bass Baker Distinguished Professor of Cancer Biology at the University of California, San Francisco. He was elected to the Royal Society in 2004, to the Neal Levitan Research Chair of the Brain Tumour Society and, in 2006, became a Senior Scholar of the Ellison Medical Research Foundation for Aging. In 2009, he was elected to the Sir William Dunn Chair of Biochemistry in the University of Cambridge, where he is now Head of Biochemistry.

Professor Terence H Rabbitts
(FMedSci, FRS)

Professor Terence Rabbitts is a molecular biologist, working at the University of Oxford John Radcliffe Hospital, whose examination of the organisation and rearrangement of human genes over the past four decades has helped to shape our understanding of immunity and cancer. Terence was responsible for determining the genetic basis of human antibody diversity, which enables the immune system to fight countless pathogens, and revealed genetic translocations that cause some cancers.

He has considerable experience in guiding the commercialisation of cutting-edge biotechnology. He has been the Chairman of the Scientific Advisory Boards of Cambridge Antibody Technology and Quadrant Healthcare until their respective IPOs, a member of the Scientific Advisory Board of Domantis until its acquisition by GSK, Chair of the Medical Advisory Board of Oakes Lyman and is currently a member of the Scientific Advisory Boards of Oryzon Genomics and of DiThera.

Terence worked in Cambridge from 1973 to 2006 in the MRC Laboratory of Molecular Biology, where he was joint Head of the Division of Protein and Nucleic Acid Chemistry together with the Nobel Laureate César Milstein. He was the Director of the Leeds Institute of Molecular Medicine from 2007 to 2010. He has been awarded the Colworth Medal of the Biochemical Society and the CIBA Prize and was elected as a Member of the European Molecular Biology Organization (EMBO) (1981), a Fellow of the Royal Society (FRS) (1987) and a Founder Fellow of the Academy of Medical Sciences (FMedSci) (1998).

Professor Paul Moss
(MRCP, FRCPath)

Professor Paul Moss leads the University of Birmingham's world-class cancer research as Director of the School of Cancer Sciences. His research is centred on the application of translational immunological research in the study of human malignancies. Paul's current research team comprises clinical and non-clinical research scientists working on a wide range of projects. His group is particularly interested in developing strategies to optimise stem cell transplantation for patients with haematological malignancies. Paul also has a long-standing research interest in cytomegalovirus, a herpes virus that in healthy individuals is asymptomatic but can cause severe illness in immuno-compromised transplant patients. Collectively, his research is likely to facilitate the design of improved immunotherapy strategies targeted at cancer.

Paul is also Director of Research and Knowledge Transfer at the University of Birmingham and Chairman of the Infection and Immunity Board at the Medical Research Council. In this role, he oversees funding in basic, clinical and translational research applied to infectious human disease and to disorders of the human immune system. He also serves as a member of the Strategy Board at the MRC. Paul is an honorary consultant at the University Hospitals Birmingham NHS Foundation Trust and he is the Clinical Service Lead for chronic lymphocytic leukemia. He is also a member of the Scientific Advisory Board of Cell Medica Ltd and has previously been the Chair of the Cancer Research UK (CRUK) Clinical and Translational Research Committee (2008 to 2012).

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 July 2017.

Principal activity

The principal activity of the Group is to shape the future of medicine by providing powerful reagents for research and diagnostics to accelerate the understanding of biology and disease, and to help apply these advances to diagnosis and treatment of humans and animals.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 9 to 38. This report includes sections on strategy and markets and considers key risks and key performance indicators.

Financial results

Details of the Group's financial results are set out in the Consolidated Income Statement and other components on pages 60 to 89.

The Directors have reviewed the results for the years ended 31 July 2017 and 31 July 2016, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the Directors considered the work and recommendations of management as well as the report from the external auditor.

Financial key performance indicators ('KPIs')

A review of the Group's KPIs are included within the Financial Review on page 38.

Dividends

The Directors do not recommend the payment of a dividend (2016: £nil).

Going concern

After making enquiries, the Directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Report and Accounts. This is described in more detail at Note 1.

Directors

The Directors who were in office during the year and up to the date of signing the Report and Accounts, unless otherwise stated were:

- Dr Trevor Nicholls
- Dr Mike Owen
- Alan Aubrey
- Dr Michael Albin
- Dr Alastair Smith
- Tony Gardiner
- Craig Slater – Resigned 20 January 2017

Under the Articles of Association of the Company, one third of the Directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Report & Accounts. The Directors retiring by rotation at the forthcoming Annual General Meeting are Mike Owen and Tony Gardiner. Both of these directors, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that both of these Directors continue to be effective and to demonstrate commitment to the Company. Details of the Directors offering themselves for re-election or re-appointment at the forthcoming Annual General Meeting can be found on pages 40 and 41.

The Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholders

The Company is informed that, at 3 October 2017, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued ordinary share capital
IP Group plc	16,958,315	24.8%
Lombard Odier Asset Management	7,787,716	11.4%
Aviva Investors	6,556,141	9.6%
Ruffer LLP	4,841,909	7.1%
Baillie Gifford & Co	4,431,319	6.5%
JO Hambro Capital Management	4,100,000	6.0%
Fidelity Worldwide Investment	4,062,665	5.9%
Avacta Employees Share Trust	3,232,306	4.7%
NFU Mutual	2,390,000	3.5%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2017 and at 3 October 2017 were as follows:

	31 July 2017 number of shares	3 October 2017 number of shares
Non-executive Directors		
Trevor Nicholls	35,000	35,000
Mike Owen	7,763	7,763
Alan Aubrey	191,334	191,334
Michael Albin	21,943	21,943
Executive Directors		
Alastair Smith	537,284	570,509
Tony Gardiner	-	-

In addition, Alastair Smith has a joint interest in 1,640,000 shares and Tony Gardiner has a joint interest in 150,000 shares in the share capital of the Company. Such shares are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within Joint Share Ownership Agreements between Alastair Smith (dated 9 January 2012 and 15 February 2016) or Tony Gardiner (dated 15 February 2016), as the case may be, and Avacta Group Trustee Limited and Avacta Group plc in both cases.

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Remuneration Committee Report on pages 51 to 54.

The middle market price of the Company's ordinary shares on 31 July 2017 was 81.0p and the range during the year was 61.0p to 107.5p with an average price of 83.6p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 51 to 54.

Research and development

During the year the Group expensed through the income statement £2.60 million (2016: £1.50 million) in relation to research and development costs. Within the amount expensed, £1.94 million (2016: £0.93 million) relates to the costs associated with the in-house Affimer therapeutic programme which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £0.57 million (2016: £0.57 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

In addition, development costs amounting to £1.41 million (2016: £1.73 million) were capitalised within intangible assets.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments is set out at Note 20.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 31 July 2017 and the amount owed to its trade creditors at 31 July 2017, was 25 days (2016: 32 days).

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Re-appointment of auditors

A resolution for the re-appointment as auditors of KPMG LLP and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 18 January 2018.

By order of the Board

Tony Gardiner
Company Secretary

Avacta Group plc (Registered number – 4748597)
3 October 2017

Corporate Governance Report

The Board of Directors recognise the importance of corporate governance as set out in the QCA Code to protect shareholder value.

QCA Code on Corporate Governance

Although adherence to the QCA Code is not compulsory for companies listed on AIM, the Directors adopt the principles of the QCA Code to the extent they consider appropriate for a company the size and nature of Avacta Group plc.

The Board of Directors

The Board is responsible for the Company's systems of corporate governance. At 31 July 2017, the Board comprised four Non-executive Directors and two Executive Directors. The profiles of the Directors are set out on pages 40 to 41.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

The Chairman, Dr Trevor Nicholls, was appointed as Non-executive Director in August 2013 and became Chairman in January 2015. Prior to his appointment to the Board, he had no involvement with any part of the Avacta Group. Given the size of the Company, he has been considered to be independent since his appointment.

Dr Mike Owen was appointed as a Non-executive Director in September 2015 and the Board determines him to be independent of the executive management and free from any relationship that could materially affect the exercise of his independent judgement. Mike also chairs the Avacta Life Sciences Scientific Advisory Board, which comprises independent key opinion leaders who provide a challenging review of the ongoing therapeutic programmes and areas such as immuno-oncology target selection.

Dr Michael Albin was appointed as a Non-executive Director in February 2014, with his initial responsibility to provide an independent review to the Board of the Affimer technology developments. This role continues and from February 2017 the Board has sought to convert his fee for services as a Non-executive Director to a fixed amount consistent with other Non-executive Directors so this cannot be considered to impact what the Board consider to be his independent position.

Alan Aubrey was appointed as a Non-executive Director in August 2006. He is also the Chief Executive Officer of IP Group plc, a significant shareholder in the Company, which means that he cannot be considered as an independent non-executive. Alan's vast experience of working with fast-growing technology companies is considered to add significantly to the Board.

Tony Gardiner was appointed as an Executive Director in January 2016 and fulfils the role of Chief Financial Officer for the Group. In addition to this role, Tony is also Company Secretary and provides advice and guidance to the Board and Non-executive Directors. The Board acknowledges that best corporate governance practice would not combine the role of an Executive Director and Company Secretary; however, given the relative size of the Group at this stage the Board is comfortable with Tony performing both roles but will review the position as the Group grows.

The Board met regularly throughout the year with ad hoc meetings also being held. The role of the Board is to provide leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed to acceptable levels. The Board has agreed the Schedule of Matters reserved for its decision, which includes ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also approves acquisitions and disposals of businesses, major capital expenditure, annual financial budgets and recommends interim and final dividends. It receives recommendations from the Audit Committee in relation to the appointment of auditors, their remuneration and the policy relating to non-audit services. The Board agrees the framework for Executive Directors' remuneration with the Remuneration Committee and determines fees paid to Non-executive Directors. Given the relative size of the Company, there is currently no separate Nomination Committee and the Board, with advice from the Remuneration Committee, take responsibility for any recruitment of Executive and Non-executive Directors together with succession planning. Board papers are circulated before Board meetings in sufficient time to allow meaningful review and preparation by all Board members.

The performance of the Board is evaluated on an ongoing basis informally with reference to all aspects of its operation including, but not limited to: the appropriateness of its skill level; the way its meetings are conducted and administered (including the content of those meetings); the effectiveness of the various Committees; whether Corporate Governance issues are handled in a satisfactory manner; and, whether there is a clear strategy and objectives.

A new Director, on appointment, is briefed on the activities of the Company. Professional induction training is also given as appropriate. The Chairman briefs Non-executive Directors on issues arising at Board meetings if required and Non-executive Directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business by means of Board presentations on insurance as well as issues covering pensions, social, ethical, environmental and health and safety.

In the furtherance of his duties or in relation to acts carried out by the Board or the Company, each Director has been informed that he is entitled to seek independent professional advice at the expense of the Company. The Company maintains appropriate cover under a Directors and Officers insurance policy in the event of legal action being taken against any Director.

Each Director is appraised through the normal appraisal process. The Chief Executive is appraised by the Chairman, the executive Board members by the Chief Executive and the non-executive Board members by the Chairman. The Senior Independent Director seeks the views of all the Directors on the performance of the Chairman and discusses their combined views with him. Each Director has access to the services of the Company Secretary if required.

The Non-executive Directors are considered by the Board to be independent of management and are free to exercise independence of judgement. The Non-executive Directors have never been employees of the Company nor do they participate in any of the Company's pension schemes or bonus arrangements. They receive no remuneration from the Company other than the Directors' fees.

The table below shows the number of Board meetings and Committee meetings held during the year and the attendance of each Director.

	Board meetings		Committee meetings			
			Audit		Remuneration	
	Position	Attended	Position	Attended	Position	Attended
Trevor Nicholls	Non-executive Chairman	8/8	Member	1/1	Chairman	2/2
Mike Owen	Non-executive	8/8	Member	1/1	Member	2/2
Alan Aubrey	Non-executive	8/8	Chairman	1/1	Member	2/2
Michael Albin	Non-executive	7/8	Member	1/1	Member	2/2
Alastair Smith	Executive CEO	8/8	-	1/1	-	2/2
Craig Slater	Executive COO	3/3	-	-	-	-
Tony Gardiner	Executive CFO	8/8	-	1/1	-	1/2

Re-election

Directors are subject to re-election at the Annual General Meeting following their appointment. In addition, at each Annual General Meeting one third (or whole number less than one third) of the directors will retire by rotation.

The Audit Committee

The Audit Committee ('the Committee') is established by and is responsible to the Board. The terms of reference of the Audit Committee include the following responsibilities:

- To monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the Financial Services Authority
- To monitor and review the effectiveness of the Company's system of internal control
- To make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis
- To implement the policy relating to any non-audit services performed by the external auditors

Alan Aubrey is the Chair of the Committee. Whilst he is not considered an independent Non-executive Director by the nature of his position as Chief Executive Officer of IP Group plc, a significant shareholder in the Company, he is a Fellow of the Institute of Chartered Accountants in England and Wales and brings significant breadth of recent and relevant financial experience. The other members of the Committee, Trevor Nicholls, Michael Albin and Mike Owen, all of whom are Non-executive Directors, have gained wide experience in regulatory, commercial and risk issues.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held once per year (usually during September) to coincide with the review of the scope of the external audit and observations arising from their work in relation to internal control and to review the financial statements. The external auditors are invited to these meetings and meet with the Audit Committee at least once a year. At its meeting, the Committee carries out a full review of the year-end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence, particularly with the provision of non-audit services.

The Audit Committee considers that the Company's relationship with the Group's auditors is working well and the Committee remains satisfied with the effectiveness of the auditors. Accordingly, the Company does not consider it necessary to put the audit out to tender. There are no contractual obligations restricting the Company's choice of external auditors.

Due to its size and structure, the Group does not have an internal audit function. This is a matter which the Committee reviews annually.

The Remuneration Committee

The Remuneration Committee is chaired by Trevor Nicholls and the other members of the Committee are Alan Aubrey, Michael Albin and Mike Owen, all of whom are Non-executive Directors. The Committee meets at least once a year with the Chief Executive in attendance as appropriate.

The terms of reference of the Remuneration Committee include the following responsibilities:

- To determine the framework and policy, together with the individual packages of the remuneration of the executive directors and certain other senior executives of the Group
- To determine targets for performance-related pay schemes
- To review employee benefit structures
- To produce an annual report of the Committee's remuneration policy

Internal control and risk management

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the risk management procedures. The Board receives these regular reports and monitors the position at Board meetings. There are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group, which are reviewed on a regular basis. The review process involves a review of each area of the business to identify material risks and the controls in place to manage these risks. The process is undertaken by the Chief Financial Officer and senior managers with responsibility for specific controls. Where any significant weakness or failing is identified, implementation of appropriate remedial action is completed following approval by the Board.

Following the implementation of the Bribery Act 2010, the Board reviewed the Group's policies and procedures to ensure that adequate procedures were in place should a person associated with the Company be accused of bribery. The Board now reviews its policies and procedures on a regular basis to ensure compliance and effectiveness.

The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

Shareholder communications

The Group reports formally to shareholders when its full year and interim results are published, with the Executive Directors and senior management presenting the results to institutional investors, analysts and the media.

The Annual Report & Accounts is published on the Company's website, **www.avacta.com**, and can be accessed by shareholders. The Directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The Chief Executive Officer and Chief Financial Officer meet regularly with institutional shareholders to foster a mutual understanding of objectives and communicate back to the Board. The Board is provided with brokers' reports and regular reports from meetings with shareholders. The Chairman and Senior Independent Director are also available to discuss governance and other matters directly with major shareholders.

Share Dealing Code

The Company has adopted a code on dealings in relation to the securities of the Group. The Company requires the Directors and other relevant employees of the Group to comply with the Share Dealing Code and takes proper and reasonable steps to secure their compliance.

Corporate social responsibility

The Board recognises the importance of taking into account corporate social responsibility in operating the business and in particular the impact of its activities relating to health, safety and environmental issues.

The Group has well defined health and safety policies and procedures, complying with current legislation and safeguarding staff, contractors and visitors. Alastair Smith is the Executive Director responsible for health and safety, chairing quarterly Group meetings and reporting on health and safety matters to the Board. The Group's policies and procedures form a part of staff induction and training programmes. Regular internal safety audits are carried out and no significant issues have been identified by these audits.

Remuneration Committee Report

This report sets out the remuneration policy for the year ended 31 July 2017.

Introduction

The Company is listed on AIM and therefore is not required to prepare a remuneration report complying with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and disclosure provisions under Schedule 8 of the Companies Act 2006.

The Company aims to adhere to a high level of compliance with corporate governance guidelines and therefore the Company has prepared this unaudited report voluntarily so that shareholders can clearly understand remuneration paid to the directors.

At the Company's AGM, a resolution to approve the Remuneration Report will be proposed, with details provided within the Notice of Meeting. The vote will be advisory.

Remuneration Committee

The Remuneration Committee consists of Trevor Nicholls (Chairman), Mike Owen, Alan Aubrey and Michael Albin. All members of the Committee are Non-executive Directors of the Company and all with the exception of Alan Aubrey are considered by the Board to be independent. Non-executive Directors have no personal financial interest in the Company, except the holding of shares, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the Company.

The Remuneration Committee has responsibility for the following:

- Determining the framework and policy, and the individual packages of the remuneration of the Executive Directors and certain other senior executives, including pension rights and any compensation payments
- Determining targets for performance-related pay and share incentive schemes
- Reviewing employee benefit structures
- The use of remuneration consultants
- To produce an annual report of the Committee's remuneration policy

Remuneration policy of Executive Directors

Avacta's remuneration policy for Executive Directors is designed to attract, retain and motivate executives of the highest calibre to ensure that the Group is managed successfully for the benefit of shareholders. The policy is to pay base salary at lower quartile levels with attractive short-term and longer-term performance incentives. Share ownership is encouraged and all of the Executive Directors are interested in the share capital or share options over the share capital of the Company. In setting remuneration levels, the Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Avacta operates. Avacta is a dynamic, growing company, which operates in a specialised field and positions are benchmarked against comparable roles in AIM companies.

Executive Directors – Short-term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual Director's experience, responsibilities and performance. Individual salaries of Directors are subject to review annually on 1 November. The increase applied on 1 November 2016 was 2% based on an RPI measure and consistent with other staff across the Group.

Performance-related bonus

The Company operates an annual performance-related bonus scheme for Executive Directors. The bonus scheme is discretionary and is based around significant value creation milestones, covering financial, commercial, technical and operational parameters, which are set at the start of the financial year. The maximum bonus that can be earned by an Executive Director is 100% of basic salary. The Committee determines on an annual basis the composition of the award which can be split between cash, deferred share awards and share options.

In respect of the year ended 31 July 2016, the Committee decided to grant share options under an unapproved Executive Share Option Scheme ('ESOS') exercisable at the market price on the date issued in December 2016. Alastair Smith was awarded 74,325 share options and Tony Gardiner was awarded 22,973 share options exercisable at 74.0p.

During the year ended 31 July 2017, the Executive Directors waived their entitlement to performance award bonuses in respect of the year and were instead granted share options under an unapproved Executive Share Option Scheme ('ESOS') with share price performance criteria to be achieved over a three-year period in order that their interests were strongly aligned with the longer-term interests of shareholders. The terms around these option agreements are detailed on pages 53 to 54.

Benefits in kind

The Company provides private medical, critical illness and income protection insurance for the Executive Directors.

Pensions

The Company makes matched payments into defined contribution Personal Pension Plans on behalf of the Executive Directors. These payments are at a rate up to 6% of basic salary consistent with terms offered to other staff across the Group.

Executive Directors – Long-term incentives

Share interests

The Committee considers that the long-term motivation of the Executive Directors is secured by their interests in the share capital of the Company, operating an EMI-approved share option scheme and an unapproved Executive Share Option Scheme.

The individual interests and joint interests (where applicable) of the Directors in the share capital of the Company are set out on page 47 and their interests in options held over shares in the Company are set out on pages 53 to 54.

Executive Directors are expected to build a direct stake in the Company's shares over time, either through the purchase of shares in the market from time to time and/or through the future exercise of share options.

Following consultation with key institutional shareholders of the Company, the Committee has proposed to introduce a Long-Term Incentive Plan ('LTIP') for Executive Directors and certain senior executives. Nominal price share options may be granted from time to time. The number of share options awarded will relate to the Executive Director's base salary.

The option vesting will be based on the performance of the Company's share price, calculated based on the average share price in the preceding 30-day period, with lower and upper share price targets set in order to trigger the vesting on the third anniversary, subject to an underpinning hurdle of outperformance compared to an agreed AIM Biotech index. The options vesting will be on a linear basis between the lower and upper share price targets. Vested options can be exercised at any time, but may not be disposed of until at least the fifth anniversary of the award grant.

The Company has the ability to grant share options under its share option schemes subject to a cap, as previously agreed with shareholders, of up to 10% of total issued share capital in any ten-year period.

Executive Directors' service agreements

The Board's policy on setting notice periods for Directors is that these should not exceed one year. All Executive Directors have service agreements terminable on six months' notice.

The details of the service contracts of the Executive Directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Alastair Smith	9 January 2012	Nil	6 months
Tony Gardiner	4 January 2016	Nil	6 months

Non-executive Directors

The Board determines the fees paid to Non-executive Directors, the aggregate limit for which is laid down in the Articles of Association. The fees, which are reviewed annually, are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. Non-executive Directors are not involved in any discussion or decision about their own remuneration. The same applies to the Chairman of the Board, whose remuneration is determined by the Board on the recommendation of the Committee.

The Non-executive Directors do not participate in any of the Company's pension schemes or bonus arrangements nor do they have service agreements.

The details of the service contracts of the Non-executive Directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Trevor Nicholls	2 August 2013	Nil	1 month
Mike Owen	17 September 2015	Nil	1 month
Alan Aubrey	13 July 2006	12 months	3 months
Michael Albin	5 February 2014	Nil	1 month

Michael Albin, by way of an agreed variation to his initial service agreement entered into on 22 February 2016, entered into an irrevocable binding commitment to invest 50% of his fee for services as a Non-executive Director into new shares in the Company. The shares are purchased on a quarterly basis and the purchase price of the shares is determined as the average mid-market closing share price for the five trading days immediately prior to each quarter-end.

The Non-executive Directors do not hold any interest in share options or the joint share ownership plan of the Company.

External appointments

The Committee recognises that its Directors may be invited to become Executive or Non-executive Directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's Directors to the benefit of the Group, it is the Company's policy to approve such appointments provided there is no conflict of interest and the commitment required is not excessive. The Director concerned can retain the fees relating to any such appointment.

Directors' remuneration – audited

The remuneration of each of the Directors of the Company for the year ended 31 July 2017 is set out below. These values are included within the audited accounts.

	2017 Basic salary and fees £000	2017 Bonus £000	2017 Benefits in kind £000	**2017 Total £000**	**2017 Pension contributions £000[5]**	2016 Total £000	2016 Pension contributions £000
Non-executive Directors							
Trevor Nicholls	35	-	-	**35**	**-**	31	-
Alan Aubrey	25	-	-	**25**	**-**	22	-
Michael Albin[1]	32	-	-	**32**	**-**	38	-
Mike Owen	27	-	-	**27**	**-**	22	-
Executive Directors							
Alastair Smith	188	-	3	**191**	**10**	207	2
Tony Gardiner[2]	147	-	1	**148**	**8**	90	4
Craig Slater[3]	66	-	-	**66**	**3**	154	8
Tim Sykes[4]	-	-	-	**-**	**-**	54	1
	520	-	4	**524**	**21**	618	15

The above emoluments include all payments paid to the Directors whilst Directors of the Group.

1 *Michael Albin's fees for his services as a Director amounted to £27,000. In addition, prior to 31 January 2017, he received payment as an independent consultant amounting to £5,000.*

2 *Tony Gardiner was appointed as a Director on 4 January 2016.*

3 *Craig Slater resigned as a Director on 20 January 2017.*

4 *Tim Sykes resigned as a Director on 8 December 2015.*

5 *The number of Directors accruing benefits under money purchase pension schemes was three (2016: three).*

Details of Directors' interests in share options in the Executive Share Option Schemes

	At 31 Jul 2016	Granted	Waived	Exercised	At 31 July 2017	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Alastair Smith	141,176	-	-	-	141,176	50.0p	9 Jan 2016	9 Jan 2012	9 Jan 2022
Alastair Smith	128,764	-	-	-	128,764	118.5p	Note 1	15 Feb 2016	15 Feb 2026
Alastair Smith	-	74,325	-	-	74,325	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Alastair Smith	-	520,550	-	-	520,550	72.5p	Note 2	27 Jan 2017	27 Jan 2027
	269,940	**594,875**	**-**	**-**	**864,815**				
Tony Gardiner	210,968	-	-	-	210,968	118.5p	Note 1	15 Feb 2016	15 Feb 2026
Tony Gardiner	-	22,973	-	-	22,973	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Tony Gardiner	-	306,000	-	-	306,000	72.5p	Note 2	27 Jan 2017	27 Jan 2027
	210,968	**328,973**	**-**	**-**	**539,941**				

Note 1 – This option provides that, unless waived at the discretion of the Remuneration Committee of the Board, it can, if it has not lapsed, be exercised as to one quarter after each anniversary of the date of grant up to and including the fourth anniversary of the date of grant.

Note 2 – This option provides that, unless waived at the discretion of the Remuneration Committee of the Board and it has not lapsed, it will vest as to one half if the share price on the third anniversary of the date of grant (27 January 2020) is at or above 200p per share. If the share price on third anniversary of the date of grant (27 January 2020) is at or above 250p per share the option shall vest in full. A linear sliding scale will operate should the share price fall in the range between 200p and 250p on the third anniversary of the date of grant. The share price will be calculated as the average over a 30-day period either immediately before or immediately after the third anniversary of the date of grant (27 January 2020), using the daily closing mid-market share price.

The aggregate gain made by Directors on the exercise of share options was £Nil (2016: £Nil).

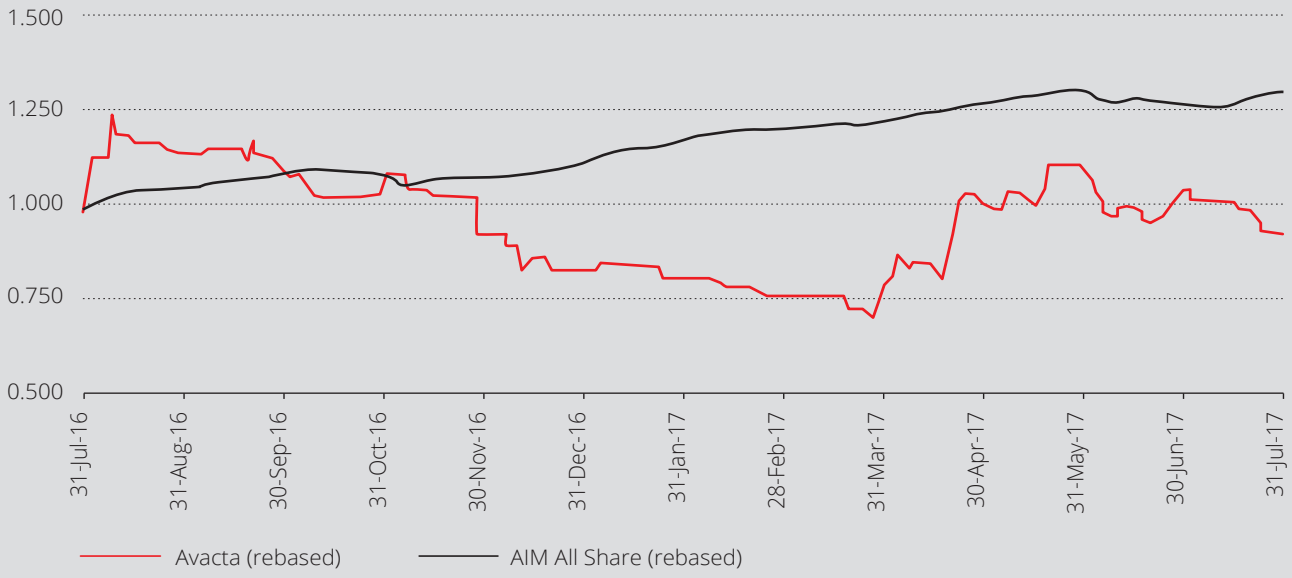
Details of Directors' joint interests in the Joint Share Ownership Plan ('JSOP')

	At 31 July 2016	Granted	Waived	Exercised	At 31 July 2017	Date of agreement
Alastair Smith	1,144,149	-	-	-	1,144,149	9 January 2012
Alastair Smith	495,851	-	-	-	495,851	15 February 2016
	1,640,000	-	-	-	1,640,000	
Tony Gardiner	150,000	-	-	-	150,000	15 February 2016

Alastair Smith and Tony Gardiner hold an interest in the shares of the Company, which are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within the Joint Share Ownership Agreements between the individual, Avacta Group Trustee Limited and Avacta Group plc.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE AIM (rebased) for the year ended 31 July 2017.



The Remuneration Committee has selected the above index because it is most relevant for the Company's size and sector.

This report was approved by the Board of Directors and authorised for issue on 3 October 2017 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee
3 October 2017

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Avacta Group plc

1. Our opinion is unmodified

We have audited the financial statements of Avacta Group plc ('the Company') for the year ended 31 July 2017 which comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Recoverability of intangible assets £12,299,000 (2016: £11,480,000)

Refer to pages 65 to 66 (Accounting Policy) and pages 75 to 76 (financial disclosures).

Forecast-based valuation

Goodwill and other intangibles are significant and the estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

Our response

Our procedures included:

- **Sensitivity analysis:** reviewing the cash flow model and performing breakeven analysis to identify the inputs to which it was most sensitive for further assessment.
- **Assessing forecasts:** critically evaluating the pace of acceleration of the Group's projected revenue growth based on our knowledge and understanding of the status of the ongoing projects. Assessing forecast growth assumptions against market expectations underpinned by the Group's development activity and by comparing market capitalisation with the carrying value of intangible assets.
- **Historical comparison:** evaluating track record of forecast assumptions used against the actual results and market expectations.
- **Assessing transparency:** considering adequacy and consistency of the Group's disclosures in respect of the sensitivity of goodwill and other intangibles to key assumptions.

Capitalisation of development costs £7,550,000 (2016: £6,779,000)

Refer to page 66 (Accounting Policy) and pages 75 to 76 (financial disclosures).

Accounting treatment

The Group conducts a significant level of development activity. Project development costs are capitalised if they meet the criteria of relevant accounting standards which require, among other things, an assessment of the technical stage of the project. The point at which technical feasibility is demonstrated may differ for each project. Due to this, assessing whether the capitalisation criteria are met is inherently judgmental and there is a risk that the relevant point in time for capitalisation is not identified appropriately.

Our response

Our procedures included:

- **Testing application:** We reviewed the status of projects to which the majority of research and development spend relates. We identified the technical status of these projects and critically assessed how the status of each type of project compared to the capitalisation criteria of the accounting standard. We corroborated the status of projects by reviewing project milestone announcements, through discussions with project management staff, and where applicable by inspecting documentation regarding the stage of medical trials to assess technical feasibility.

Recoverability of carrying value of investment and intercompany receivables in subsidiaries (parent company only)

Refer to page 66 (Accounting Policy) and pages 87 to 88 (financial disclosures).

Forecast-based valuation

The parent company balance sheet includes a significant investment in subsidiaries and a significant receivable from those subsidiaries. The Company's assessment of potential impairment of the investments in and/or the receivables from trading subsidiaries is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. A risk also exists that the investments in /receivables from non-trading subsidiaries is not recoverable.

Our response

Our procedures included:

- Tests of detail: Comparing the carrying amount of the investment in /receivables from non-trading subsidiaries with the respective net asset values to identify whether, being an approximation of their minimum recoverable amount, these net asset values were in excess of the carrying amount.
- Assessing forecasts: The work done on the Group's forecasts, to assess the recoverability of investments in /receivables due from in the trading subsidiaries, is as described in the intangibles risk above. Considering adequacy and consistency of the Group's disclosures in respect of impairment of investments.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £390,000 (2016: £270,000), determined with reference to a benchmark of Group loss before taxation, of which it represents 4.9% (2016: 4.9%).

Materiality for the parent company financial statements as a whole was set at £350,000 (2016: £200,000), determined with reference to a benchmark of company net assets, of which it represents 0.8% (2016: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £20,000 (2016: £14,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 10 (2016: 10) reporting components, we subjected 8 (2016: 8) to full scope audits for group purposes. These audits covered 100% (2016: 100%) of total Group revenue, 100% (2016: 98%) of Group loss before taxation, and 99% (2016: 100%) of total Group assets. Component materiality levels were set individually for all components having regard to the mix of size and risk profile of the Group across the components, and was £6,000 to £350,000 in each case (2016: £6,000 to £200,000).

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 55, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

8. The purpose of our audit work and to whom we owe our responsibilities

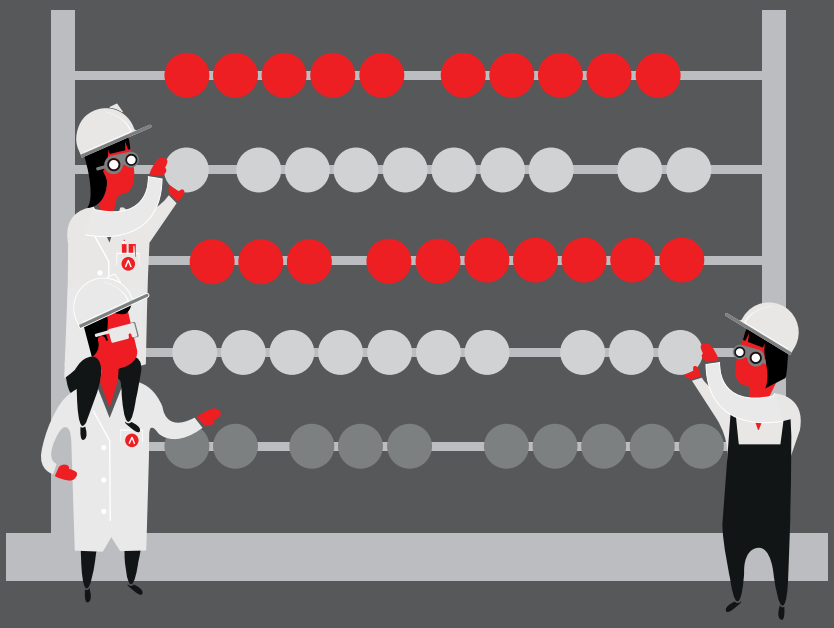
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other 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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

3 October 2017

Financial Statements



Consolidated Income Statement for the Year Ended 31 July 2017

	Note	2017 £000	2016 £000
Revenue		**2,735**	2,165
Cost of sales		**(941)**	(895)
Gross profit		**1,794**	1,270
Research and development costs		**(2,597)**	(1,500)
Administrative expenses		**(7,178)**	(5,434)
Operating loss	5	**(7,981)**	(5,664)
Financial income	6	**88**	99
Loss before taxation from continuing operations		**(7,893)**	(5,565)
Taxation	7	**1,526**	918
Loss and total comprehensive loss for the year attributable to equity shareholders		**(6,367)**	(4,647)
Loss per ordinary share:			
• Basic and diluted	8	**(9.31p)**	(6.86p)

All activities relate to the continuing operations of the Group.

The notes on pages 64 to 83 form an integral part of these financial statements.

Consolidated Balance Sheet as at 31 July 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	9	**12,299**	11,480
Property, plant and equipment	10	**3,453**	3,738
		15,752	15,218
Current assets			
Inventories	11	**158**	268
Trade and other receivables	12	**1,277**	1,128
Income taxes		**1,200**	1,418
Short-term deposits	13	**4,000**	10,000
Cash and cash equivalents	14	**9,166**	9,521
		15,801	22,335
Total assets		**31,553**	37,553
Current liabilities			
Trade and other payables	15	**(1,324)**	(1,357)
Contingent consideration	16	**(340)**	(340)
Total liabilities		**(1,664)**	(1,697)
Net assets		**29,889**	35,856
Equity attributable to equity holders of the Company			
Share capital	18	**6,917**	6,915
Share premium	19	**633**	621
Capital reserve	19	**1,899**	1,899
Other reserve	19	**(1,729)**	(1,729)
Reserve for own shares	19	**(2,651)**	(2,651)
Retained earnings	19	**24,820**	30,801
Total equity		**29,889**	35,856

The notes on pages 64 to 83 form an integral part of these financial statements.

The financial statements on pages 60 to 89 were approved by the Board of Directors on 3 October 2017 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the Year Ended 31 July 2017

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2015	5,057	35,756	(1,729)	2,669	(1,590)	(21,031)	19,132
Total transactions with owners, recorded directly in equity:							
Placing net of related expenses	1,760	19,255	-	-	-	-	21,015
Exercise of share options	8	76	-	-	-		84
Share premium cancellation	-	(55,437)	-	-	-	55,437	-
Own shares acquired	90	971	-	-	(1,061)	-	-
	1,858	(35,135)	-	-	(1,061)	55,437	21,099
Total comprehensive loss for the period	-	-	-	-	-	(4,647)	(4,647)
Share-based payment charges	-	-	-	-	-	272	272
Transfer[1]	-	-	-	(770)	-	770	-
At 31 July 2016	6,915	621	(1,729)	1,899	(2,651)	30,801	35,856
Total transactions with owners, recorded directly in equity:							
Issue of shares	2	12	-	-	-	-	14
	2	12					14
Total comprehensive loss for the period	-	-	-	-	-	(6,367)	(6,367)
Share-based payment charges	-	-	-	-	-	386	386
At 31 July 2017	**6,917**	**633**	**(1,729)**	**1,899**	**(2,651)**	**24,820**	**29,889**

Details of the nature of each component of equity are given at Note 19.

1 The transfer of equity from the capital reserve to retained earnings relates to share option warrants that had expired.

Consolidated Statement of Cash Flows for the Year Ended 31 July 2017

	2017 £000	2016 £000
Cash flow from operating activities		
Loss for the year	**(6,367)**	(4,647)
Amortisation and impairment losses	**651**	642
Depreciation	**932**	604
Loss on disposal of property, plant and equipment	**11**	67
Reduction of contingent consideration	**-**	(443)
Equity-settled share-based payment charges	**386**	272
Financial income	**(88)**	(99)
Income tax credit	**(1,526)**	(918)
Operating cash outflow before changes in working capital	**(6,001)**	(4,522)
Decrease in inventories	**110**	65
Increase in trade and other receivables	**(125)**	(361)
Decrease in trade and other payables	**(58)**	(80)
Operating cash outflow from operations	**(6,074)**	(4,898)
Finance income received	**88**	99
Income tax received	**1,745**	566
Cash flows from operating activities	**(4,241)**	(4,233)
Cash flows from investing activities		
Purchase of plant and equipment	**(658)**	(2,863)
Development expenditure capitalised	**(1,470)**	(1,762)
Decrease/(increase) in balances on short-term deposit	**6,000**	(10,000)
Net cash flow from investing activities	**3,872**	(14,625)
Cash flows from financing activities		
Proceeds from issue of shares	**14**	21,049
Net cash flow from financing activities	**14**	21,049
Net (decrease)/increase in cash and cash equivalents	**(355)**	2,191
Cash and cash equivalents at the beginning of the year	**9,521**	7,330
Cash and cash equivalents at the end of the year	**9,166**	9,521

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Avacta Group plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2017 comprise the Company and its subsidiaries (together referred to as the 'Group').

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Company has elected to prepare its parent company financial statements in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* ('FRS 102'), and with the Companies Act 2006. These parent company financial statements and notes appear after the notes to the consolidated financial statements.

The financial statements have been prepared under the historical cost convention except for derivative financial instruments that are stated at fair value.

The accounting polices set out below have been applied consistently throughout the Group and to all periods presented for the purposes of these consolidated financial statements.

The consolidated financial statements are presented in sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed at Note 22.

Going concern

The Strategic Report on pages 9 to 38 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 36 along with details of its cash flow and liquidity. Note 20 to the financial statements sets out the Group's financial risks and the management of those risks.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the status of customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the Affimer research and development programme. Whilst there are inherent uncertainties regarding the cash flows associated with the development of the Affimer platform, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due for the foreseeable future.

The Financial Reporting Council issued *Going Concern and Liquidity Risk: Guidance for Directors of UK Companies* in 2009, and the Directors have considered this when preparing these financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 31 July 2017. The Directors have taken steps to ensure that they believe the going concern basis of preparation remains appropriate, and that the carrying value of intangibles remains supported by future cash flows. The key conclusions are summarised below:

- The Group continues to develop its Affimer platform technology. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.
- As at 31 July 2017 the Group's short-term deposits and cash and cash equivalents were £13.17 million (2016: £19.52 million).
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2019. These show that the Group has sufficient funds available to meet its obligations as they fall due into the 2019 calendar year.
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

Following this assessment, the Directors have reasonable expectation that the Group has adequate resources to continue for the foreseeable future and that carrying values of intangible assets are supported. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

New standards and interpretations not applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 2 Share-based Payment Amendments to clarify the classification and measurement of share-based payment transactions (effective date 1 January 2018).
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018). The Group has commenced an assessment of the impact likely from adopting the standard and does not expect the impact will be material to the Group's reported results or financial position.
- IFRS 16 Leases (effective date 1 January 2019).
- IFRS 17 Insurance Contracts (effective date 1 January 2021).

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

The following principal accounting policies have been applied consistently to all periods presented in the Group financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up-to-date prices, of property, plant and equipment over their estimated useful lives as follows:

- Laboratory equipment – 5 to 10 years
- Fixtures and fittings – 3 to 10 years
- Leasehold improvements – 5 to 10 years

Intangible assets – Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Intangible assets – Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure on the pipeline of therapeutic Affimers is expensed in the period it is incurred, consistent with pharmaceutical industry practice, as there is significant risk through the product development stages up to regulatory approval that a commercial product may not materialise.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the Group can demonstrate all of the following. It must demonstrate that:

- completion of the intangible asset so that it will be available for use or sale is technically feasible;
- it intends to complete the intangible asset and use or sell it;
- it has the ability to use or sell the intangible asset;
- it can demonstrate how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- there is an availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- it can measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Consolidated Financial Statements (continued...)

Development expenditure relating to reagent or diagnostic products in the Life Sciences business is amortised based on the number of custom Affimer projects completed in the period with the amortisation charge spread over a period up to ten years. Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised over a period up to five years from when the tests are first launched.

Acquired intangible assets – Business combinations

Intangible assets that are acquired as a result of a business combination are recognised separately from goodwill when their fair value can be reliably measured.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, impairment losses are recognised within the consolidated income statement. 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.

Impairment

The carrying amount of the Group's non-financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit ('CGU') exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

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 separately identifiable cash flows.

Where individual assets are not capable of generating cash flows independently from other assets, they are grouped together into CGUs.

Financial instruments

In accordance with IAS32 *Financial instruments: presentation*, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group.
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is determined using the first in, first out method. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

Financial assets

The Group classifies its financial assets into one of the following categories:

- 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) or amounts held on deposit with third-party institutions (short-term deposits and cash and cash equivalents).
- Trade and other receivables: Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables.
- Short-term deposits: Short-term deposits comprise money market deposits which are convertible to known amounts of cash and have an original maturity of between three and twelve months.
- Cash and cash equivalents: Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Financial liabilities

Financial liabilities comprise trade payables and other short-term monetary liabilities, which are recognised at amortised cost. Such liabilities are classified as other liabilities in accordance with IAS39 for compliance with IFRS7.

Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

In accordance with IFRS 8 *Operating Segments*, the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors. Accordingly, the Board of Directors, which reviews internal monthly management reports, budget and forecast information is deemed to be the Group's chief operating decision-maker ('CODM').

Revenue recognition

The Group derives revenue from the sale of products, granting of licences and the provision of services. Revenue represents the fair value of consideration received or receivable in respect of products, licences or services supplied to third parties in the period, excluding sales-related taxes and trade discounts. Revenue is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer; this is usually when products are delivered and title passes to the customer. Revenue from the provision of services is recognised on services when the service has been performed. Revenue from licences comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing revenue stream are as follows:
(i) Exclusivity arrangements, technology access fees and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction;
(ii) Certain services include milestone and royalty payments which are recognised as the service is provided to the extent that it is probable they will be received.

Share-based payments

The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Non-recurring items

Non-recurring items are material items in the Income Statement that derive from events or transactions which fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate the Group has highlighted as needing to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. They are recognised within operating profit.

Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Rentals payable under operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Leases where the Group retains substantially all of the risks and rewards of ownership are classified as finance leases or hire purchase agreements. Assets held under finance leases or hire purchase agreements are capitalised and depreciated over the shorter of their useful economic lives or the length of the lease. The capital element of the future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the finance leases and hire purchase agreements and represent a constant proportion of the balance of capital outstanding.

Post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable based on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except when they arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that is not a business combination and that affects neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which an asset can be utilised.

Notes to the Consolidated Financial Statements (continued...)

2 Segment reporting

Operating segments

In the view of the Board of Directors, the Group has two distinct reportable segments, which are Life Sciences and Animal Health, and segment reporting has been presented on this basis. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

The principal activities of each reportable segment are as follows:

- **Life Sciences:** provision of custom Affimers for reagents and diagnostics, drug and biomarker discovery in biotech research and development.
- **Animal Health:** provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.

Segment revenue represents revenue from external customers arising from sale of goods and services, plus inter-segment revenues. Inter-segment transactions are priced on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group's revenue to destinations outside the UK amounted to 54% (2016: 48%) of total revenue.

Operating segment analysis 2017	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	770	**770**
Provision of services	1,148	817	**1,965**
Revenue	**1,148**	**1,587**	**2,735**
Cost of goods sold	(423)	(518)	**(941)**
Gross profit	**725**	**1,069**	**1,794**
Research and development costs	(2,266)	(331)	**(2,597)**
Administrative expenses	(3,978)	(1,263)	**(5,241)**
Segment operating loss	**(5,519)**	**(525)**	**(6,044)**
Corporate and other unallocated items			**(1,937)**
Operating loss			**(7,981)**
Finance income			**88**
Loss before taxation			**(7,893)**
Taxation			**1,526**
Amount attributable to equity holders of the Company			**(6,367)**
Segment intangible assets	8,238	4,043	**12,281**
Segment other assets	5,407	392	**5,799**
Segment assets	**13,645**	**4,435**	**18,080**
Corporate and other unallocated items			**13,473**
Total assets			**31,553**
Segment liabilities	**(869)**	**(222)**	**(1,091)**
Corporate and other unallocated items			**(573)**
Total liabilities			**(1,664)**

Operating segment analysis 2016	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	674	**674**
Provision of services	704	787	**1,491**
Revenue	**704**	**1,461**	**2,165**
Cost of goods sold	(451)	(444)	**(895)**
Gross profit	**253**	**1,017**	**1,270**
Research and development costs	(1,306)	(194)	**(1,500)**
Administrative expenses	(2,671)	(1,113)	**(3,784)**
Segment operating loss	**(3,724)**	**(290)**	**(4,014)**
Corporate and other unallocated items			**(1,650)**
Operating loss			**(5,664)**
Finance income			**99**
Loss before taxation			**(5,565)**
Taxation			**918**
Amount attributable to equity holders of the Company			**(4,647)**
Segment intangible assets	7,481	3,999	**11,480**
Segment other assets	5,986	362	**6,348**
Segment assets	**13,467**	**4,361**	**17,828**
Corporate and other unallocated items			**19,725**
Total assets			**37,553**
Segment liabilities	**(946)**	**(173)**	**(1,119)**
Corporate and other unallocated items			**(578)**
Total liabilities			**(1,697)**

3 Employees

Staff costs:	**2017 £000**	2016 £000
Wages and salaries	**4,231**	3,636
Social security costs	**454**	391
Pension charges	**172**	126
Share-based payment charges	**386**	272
	5,243	4,425
Average number of employees (including Directors) during the year:		
Commercial and operational	**89**	76
Administrative	**14**	11
	103	87

Notes to the Consolidated Financial Statements (continued...)

4 Share-based payments

The Group operates a Joint Share Ownership Plan ('JSOP'), an Inland Revenue approved executive incentive plan ('EMI scheme') and an unapproved share option plan ('Unapproved scheme'). Options have also been granted to certain individuals dependent upon the performance of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) and dependent upon the future sales performance of any products or services resulting from certain acquired intellectual property and assets related to the development of the Group's animal health diagnostic test menu. Details of the options currently granted and unexercised are given below.

Grant date	Employees entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee (or consultant) benefits						
23 June 2009	2	50,666	Time served	187.5	Note 1	22 June 2019
12 November 2010	1	35,913	Time served and share price performance	76.0	Note 2	11 November 2020
12 November 2010	1	16,000	Time served	76.0	Note 3	11 November 2020
9 January 2012	1	141,176	Time served	50.0	Note 4	9 January 2022
12 January 2012	1	20,689	Contractual performance	72.5	12 January 2012	12 January 2022
21 December 2012	19	9,500	Unconditional	106.5	21 December 2012	21 December 2022
8 March 2013	1	12,269	Time served	120.0	Note 5	8 March 2023
16 September 2013	1	250,000	Time served	81.5	Note 6	16 September 2023
4 November 2013	5	125,000	Time served	88.5	Note 7	4 November 2023
4 November 2013	18	15,500	Unconditional	88.5	4 November 2013	4 November 2023
16 June 2014	1	200,000	Time served	118.0	Note 8	16 June 2024
16 June 2014	1	111,607	Time served and commercial performance	118.0	Note 9	16 June 2024
21 September 2014	1	18,000	Time served	86.0	Note 10	21 September 2024
3 November 2014	1	18,000	Time served	75.0	Note 11	3 November 2024
4 November 2014	2	50,000	Time served	88.5	Note 12	4 November 2024
10 November 2014	1	25,000	Time served	73.0	Note 13	10 November 2024
25 November 2014	26	21,000	Unconditional	66.0	25 November 2014	25 November 2024
15 May 2015	1	138,366	Time served	85.5	Note 14	15 May 2025
13 November 2015	2	50,000	Time served	134.5	Note 15	13 November 2025
13 November 2015	50	51,000	Unconditional	134.5	13 November 2015	13 November 2025
15 February 2016	4	589,172	Time served	118.5	Note 16	15 February 2026
1 November 2016	45	45,500	Unconditional	89.5	1 November 2016	1 November 2026
1 November 2016	14	545,396	Time served	89.5	Note 17	1 November 2026
1 November 2016	3	131,532	Time served and technical milestones	89.5	Note 18	1 November 2026
1 November 2016	2	238,296	Time served and technical milestones	89.5	Note 19	1 November 2026
16 December 2016	3	128,650	Unconditional	74.0	16 December 2016	16 December 2026
27 January 2017	2	826,550	Share price performance	72.5	Note 20	27 January 2027
2 March 2017	1	180,450	Time served and technical milestones	66.5	Note 21	2 March 2027
31 July 2017	2	110,500	Time served	81.0	Note 22	31 July 2027
31 July 2017	1	49,400	Time served and technical milestones	81.0	Note 23	31 July 2027

Grant date	Individuals entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted to individuals in consideration for business combinations						
14 December 2007	1	27,675	Note 24	319.0	14 December 2007	13 December 2017
14 December 2007	4	270,453	Note 25	10.0	14 December 2007	13 December 2017
14 May 2013	2	297,450	Note 26	10.0	14 May 2013	14 May 2018
8 December 2014	1	854	Note 26	10.0	8 December 2014	7 December 2015
28 July 2015	2	2,419	Note 26	10.0	28 July 2015	27 July 2016
21 June 2016	2	4,438	Note 26	10.0	21 June 2016	20 June 2017
20 June 2017	2	8,532	Note 26	10.0	20 June 2017	19 June 2018

Note 1 – Each of these options provides that they can, if they have not lapsed, be exercised as to 50,666 at 31 July 2017.

Note 2 – Each of these options provides that they can, if they have not lapsed, be exercised as to one half of the share price of the Company increases to 160p for a continuous period of three calendar months and as to one half if the share price of the Company increases to 200p for a continuous period of three calendar months, within three years from the date of grant.

Note 3 – This option provides that they can, if they have not lapsed, be exercised as to 16,000 at 31 July 2017.

Note 4 – This option provides that they can, if they have not lapsed, be exercised as to 141,176 at 31 July 2017.

Note 5 – This option provides that they can, if they have not lapsed, be exercised as to 12,269 at 31 July 2017.

Note 6 – This option provides that they can, if they have not lapsed, be exercised as to 250,000 at 31 July 2017.

Note 7 – This option provides that they can, if they have not lapsed, be exercised as to 125,000 at 31 July 2017.

Note 8 – This option provides that they can, if they have not lapsed, be exercised as to 150,000 at 31 July 2017 and as to 50,000 on or after 21 February 2018.

Note 9 – This option provides that they can be exercised as to 111,607 at 31 July 2017.

Note 10 – This option provides that they can, if they have not lapsed, be exercised as to 18,000 at 31 July 2017.

Note 11 – This option provides that they can, if they have not lapsed, be exercised as to 18,000 at 31 July 2017.

Note 12 – This option provides that they can, if they have not lapsed, be exercised as to 50,000 at 31 July 2017.

Note 13 – This option provides that they can, if they have not lapsed, be exercised as to 25,000 at 31 July 2017.

Note 14 – This option provides that they can, if they have not lapsed, be exercised as to 92,244 at 31 July 2017 and as to 46,122 on or after 15 May 2018.

Note 15 – This option provides that they can, if they have not lapsed, be exercised as to 20,000 at 31 July 2017 and as to 30,000 on or after 14 November 2017.

Note 16 – This option provides that they can, if they have not lapsed, be exercised as to 147,293 at 31 July 2017, as to 147,293 on or after 15 February 2018, as to 147,293 on or after 15 February 2019 and as to 147,293 on or after 15 February 2020.

Note 17 – This option provides that they can, if they have not lapsed, be exercised as to 272,698 on or after 1 November 2017 and as to 272,698 on or after 1 November 2018.

Note 18 – This option provides that they can, if they have not lapsed, be exercised as to 43,844 once the first technical milestone is achieved, 43,844 once the second technical milestone is achieved and 43,844 on or after 1 November 2019.

Note 19 – This option provides that they can, if they have not lapsed, be exercised as to 79,432 once the first technical milestone is achieved, 79,432 once the second technical milestone is achieved and 79,432 on or after 1 November 2021.

Note 20 – This option provides that they can, if they have not lapsed, be exercised as to 413,275 if the share price is 200p on a sliding scale up to 826,550 if the share price is 250p on 27 January 2020.

Note 21 – This option provides that they can, if they have not lapsed, be exercised as to 60,150 once the first technical milestone is achieved, 60,150 once the second technical milestone is achieved and 60,150 on or after 2 March 2022.

Note 22 – This option provides that they can, if they have not lapsed, be exercised as to 55,250 on or after 31 July 2018 and as to 55,250 on or after 31 July 2019.

Note 23 – This option provides that they can, if they have not lapsed, be exercised as to 16,467 once the first technical milestone is achieved, 16,467 once the second technical milestone is achieved and 16,466 on or after 31 July 2020.

Note 24 – These options were granted to an individual at the date of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) to reflect the estimated value of the equity issued at that date and the fair value of those options has been capitalised under IFRS3.

Note 25 – Each of these options provides that they can, if they have not lapsed, be exercised subject to the achievement of certain milestones set by the Company within the Share Purchase Agreement dated 14 December 2007.

Note 26 – These options were granted to certain individuals as a result of the post-acquisition sales performance of animal health diagnostic tests developed from intellectual property acquired, the fair value of which was estimated at the date of the acquisition and capitalised under IFRS3.

Notes to the Consolidated Financial Statements (continued...)

The number and weighted average exercise price of share options are as follows:

	Year ended 31 July 2017		Year ended 31 July 2016	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	2,672,831	90.33	2,184,360	76.70
Granted during the year	2,266,306	79.69	727,110	120.78
Exercised during the year	(1,000)	77.75	(73,463)	41.59
Forfeited or lapsed during the year	(121,184)	223.22	(165,176)	66.06
Outstanding at end of period	**4,816,953**	**81.98**	**2,672,831**	**90.33**
Exercisable at end of period	**2,130,915**	**74.68**	**1,715,502**	**77.97**

These options are share-based payments and are measured at fair value at the date of grant. Where the options have been granted as employee benefits, the fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

In addition, certain employees have a joint interest in shares with Avacta Group Trustee Limited as trustee of The Avacta Employees' Share Trust. At 31 July 2017, six employees (2016: six) had joint interests in 3,232,306 (2016: 3,232,306) ordinary shares in the Company. The precise nature of the joint interest is described within Joint Share Ownership Agreements dated 15 February 2016, or 21 February 2014, or 9 January 2012 between each employee individually, Avacta Group Trustee Limited and Avacta Group plc. These joint interests have been treated as employee benefits and the fair value at the date of issue of the shares based on the Group's estimate of the number of shares that will eventually be sold and the price at which they will be sold on a straight-line basis from the date that a sale becomes probable to the date at which they are anticipated to be sold.

Fair value is measured by use of the Black-Scholes or Monte Carlo option pricing model depending on which is most appropriate to the conditions attached to the employee benefit.

The Group recognised a charge to the income statement of £386,000 (2016: £272,000) which was charged within administrative expenses.

The options outstanding at 31 July 2017 had a weighted average exercise price of 81.98p (2016: 90.33p), and a weighted average remaining contractual life of 7 years and 20 weeks (2016: 6 years and 17 weeks).

The inputs into the Black-Scholes models for the options granted during the year are as follows:

	2017	2016
Weighted average share price at date of grant	**79.95p**	120.78p
Weighted average exercise price	**79.95p**	120.78p
Expected volatility	**58.2%**	165.5%
Expected life	**5.0 years**	4.5 years
Risk-free rate	**1.0%**	1.0%
Expected dividends	**Nil**	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period commensurate with the expected life of the option. The expected life used in the model has been adjusted, based on management's best estimate at the date of grant, for the effects of non-transferability, exercise restrictions and behavioural considerations.

5 Operating loss

Operating loss is stated after charging/(crediting):	2017 £000	2016 £000
Grant income	**(42)**	(123)
Release of deferred consideration	**-**	(443)
Operating lease rentals:		
• Land and buildings	**261**	285
Depreciation of property, plant and equipment (see Note 10):		
• On owned assets	**932**	604
Loss on disposal of property, plant and equipment	**11**	-
Amortisation of intangible fixed assets (see Note 9)	**651**	642
Employee benefit expense, including share-based payment charges (see Note 3)	**5,243**	4,425
Auditors remuneration:		
• Audit services in respect of the Company's financial statements	**19**	15
• Audit services in respect of the Company's subsidiaries' financial statements	**18**	15
• Tax compliance services	**11**	13
• Tax advisory services	**7**	-

6 Finance income

	2017 £000	2016 £000
Interest received	**88**	99

7 Taxation on loss on ordinary activities

	2017 £000	2016 £000
Corporation tax:		
Current year	**(1,200)**	(700)
Prior years	**(326)**	(218)
Deferred taxation:		
Current year	**-**	-
Tax on loss on ordinary activities	**(1,526)**	(918)

Notes to the Consolidated Financial Statements (continued...)

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.7% (2016: 20%). The differences are explained below.

	2017 £000	2016 £000
Loss on ordinary activities before taxation	**(7,893)**	(5,565)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.7% (2016: 20%)	**(1,555)**	(1,113)
Effects of:		
· Difference between capital allowances and depreciation	**212**	144
· Expenses not deductible for tax purposes	**114**	91
· Utilisation of tax losses	**-**	(10)
· Other timing differences (principally tax losses not recognised)	**1,229**	888
· Government tax incentives	**(1,526)**	(918)
· Deferred tax (Note 17)	**-**	-
	(1,526)	(918)

8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue. The earnings per ordinary share are the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive.

	2017	2016
Loss (£000)	**(6,367)**	(4,647)
Weighted average number of shares (number)	**68,389,839**	67,713,817
Basic and diluted loss per ordinary share (pence)	**(9.31p)**	(6.86p)

9 Intangible assets

	Goodwill £000	Customer related intangible assets £000	Development costs £000	Patents £000	Total £000
Cost					
At 1 August 2015	4,655	210	8,122	53	13,040
Internally developed/additions	-	-	1,726	36	1,762
Disposals	-	-	(2,381)	(33)	(2,414)
At 31 July 2016	4,655	210	7,467	56	12,388
Internally developed/additions	-	-	1,414	56	1,470
Disposals	-	(60)	-	-	(60)
At 31 July 2017	**4,655**	**150**	**8,881**	**112**	**13,798**
Amortisation and impairment					
At 1 August 2015	-	210	2,432	38	2,680
Charge for the year	-	-	637	5	642
Disposals	-	-	(2,381)	(33)	(2,414)
At 31 July 2016	-	210	688	10	908
Charge for the year	-	-	643	8	651
Disposals	-	(60)	-	-	(60)
At 31 July 2017	**-**	**150**	**1,331**	**18**	**1,499**
Net book value					
At 31 July 2017	**4,655**	**-**	**7,550**	**94**	**12,299**
At 31 July 2016	4,655	-	6,779	46	11,480
At 31 July 2015	4,655	-	5,690	15	10,360

Development costs

Development costs relate to the internally generated intangible assets associated with the development of:

- the Affimer affinity reagent based technologies;
- the additional companion animal diagnostic testing capability; and
- internally developed software.

Development expenditure relating to reagent or diagnostic products in the Life Sciences business is amortised based on the number of custom Affimer projects completed in the period with the amortisation charge spread over a period up to ten years. Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised over a period up to five years from when the tests are first launched.

Patents

The amortisation period applied to the patent expenditure is the same period as the length of the life of the patent, being either 14 or 15 years.

Notes to the Consolidated Financial Statements (continued...)

Goodwill

Goodwill arising on business combinations is allocated to the Group's separate Cash Generating Units ('CGUs') based on an assessment of which CGUs will derive benefit from each acquisition. A CGU is the smallest group of assets which generate cash inflows independently from other assets. A CGU can be smaller than an Operating Segment. In the view of the Directors, the Group currently has two (2016: two) CGUs reflecting the core areas of technological focus. Goodwill is not amortised, but tested annually for impairment. The goodwill can be allocated, on an operating segment (see Note 2) basis, as follows:

	2017 £000	2016 £000
Animal Health	**3,117**	3,117
Life Sciences	**1,538**	1,538
Goodwill	**4,655**	4,655

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 July 2017. The tangible and intangible non-current assets at 31 July 2017 can be allocated as follows:

	Tangible £000	Goodwill £000	Development costs £000	Patents £000	**Total £000**
Animal Health	104	3,117	926	-	**4,147**
Life Sciences	3,341	1,538	6,606	94	**11,579**
	3,445	**4,655**	**7,532**	**94**	**15,726**

In each case the recoverable amount of each CGU is compared against the carrying value of assets allocated to each CGU. The recoverable amount is estimated based on value-in-use calculations. Centrally held assets are considered against the aggregate value in use of the whole Group.

Value-in-use calculations include detailed budgets and three-year forecasts, followed by modelling of expected cash flows reflecting the expected life cycle of each product and extrapolation of 'steady state' performance at growth rates given below. The long-term growth rates reflect the long-term expectation for each CGU and have been estimated at 2.5% (2016: 2.5%) in each case. Gross and operating margins have been assumed to remain constant based on budget and past experience. All cash flows are discounted back to present value using a pre-tax discount rate of between 12.5% and 15.0% (2016: between 12.5% and 15.0%) that takes into account the individual risks of each particular asset and revenue stream.

The Directors' key assumptions relate to short-term revenue growth and discount rates applied. Gross and operating margins have been assumed to remain constant and are based on budget.

10 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	Total £000
Cost					
At 1 August 2015	-	208	2,348	176	2,732
Additions	1,060	531	1,193	79	2,863
Disposals	-	(138)	(207)	(58)	(403)
At 31 July 2016	1,060	601	3,334	197	5,192
Additions	63	73	431	91	658
Transfers	(1,114)	1,114	-	-	-
Disposals	(9)	-	(57)	-	(66)
At 31 July 2017	**-**	**1,788**	**3,708**	**288**	**5,784**
Depreciation					
At 1 August 2015	-	113	946	127	1,186
Charge for the year	-	61	505	38	604
Disposals	-	(104)	(177)	(55)	(336)
At 31 July 2016	-	70	1,274	110	1,454
Charge for the year	-	215	666	51	932
Disposals	-	-	(55)	-	(55)
At 31 July 2017	-	285	1,885	161	2,331
Net book value					
At 31 July 2017	**-**	**1,503**	**1,823**	**127**	**3,453**
At 31 July 2016	1,060	531	2,060	87	3,738
At 1 August 2015	-	95	1,402	49	1,546

11 Inventories

	2017 £000	2016 £000
Raw materials and components	**147**	259
Finished goods	**11**	9
	158	268

Notes to the Consolidated Financial Statements (continued...)

12 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	**247**	161
Prepayments and accrued income	**851**	626
Other taxes and social security	**179**	341
	1,277	1,128

Trade and other receivables denominated in currencies other than sterling comprise £56,000 (2016: £17,000) of trade receivables denominated in US dollars and £7,000 (2016: £nil) denominated in euros. The fair values of trade receivables are the same as their book values.

The Group does not maintain a provision for impairment against trade receivables. Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator of impairment. The summarised ageing analysis of trade receivables past due but not impaired is as follows:

	2017 £000	2016 £000
Under 30 days overdue	**49**	30
Between 30 and 60 days overdue	**6**	(4)
Over 90 days overdue	**-**	21
	55	47

The other classes within trade and other receivables do not contain impaired assets.

13 Short-term deposits

	2017 £000	2016 £000
Short-term deposits	**4,000**	10,000

Balances held on short-term deposits have maturity dates between three and twelve months at the time of investment.

14 Cash and cash equivalents

	2017 £000	2016 £000
Cash	**9,166**	9,521

15 Trade and other payables

	2017 £000	2016 £000
Trade payables	**645**	403
Other taxes and social security	**150**	167
Accruals and other creditors	**529**	787
	1,324	1,357

Trade and other payables denominated in currencies other than sterling comprise £56,000 (2016: £10,000) of trade payables denominated in US dollars and £4,000 (2016: £19,000) denominated in euros. The fair values of trade payables are the same as their book values.

16 Contingent consideration

	2017 £000	2016 £000
Contingent consideration	**340**	340

Contingent consideration amounting to £822,000 arose on the acquisition of certain assets relating to the development of the animal health diagnostic test menu on 14 May 2013 and the amount payable is related to actual and estimated revenues generated over the five-year period ended 14 May 2018. £19,000 (2016: £25,000) of the contingent consideration is payable after more than one year.

17 Deferred tax liabilities

Deferred tax liabilities are attributable as set out below and are disclosed as non-current liabilities in the balance sheet:

	2017 £000	2016 £000
Deferred tax asset/(liability)		
Development costs	**(1,287)**	(1,359)
Trading losses	**856**	993
Other items	**431**	366
	-	-

Movement in deferred tax year ended 31 July 2017	At 1 August 2016 £000	Income statement £000	At 31 July 2017 £000
Development costs	(1,359)	72	(1,287)
Trading losses	993	(137)	856
Other items	366	65	431
	-	-	-

There is no liability to corporation tax in the year.
There is an unprovided deferred tax asset of approximately £4,645,000 due to trading losses in prior financial years (2016: £4,159,000). This asset has not been recognised because of uncertainty around future utilisation of losses.

Notes to the Consolidated Financial Statements (continued...)

18 Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid:		
• 68,397,933 (2016: 68,379,282) ordinary shares of 10p each	**6,840**	6,838
• 19,327,344 deferred shares of 0.4p each	**77**	77
	6,917	6,915

Share issues

On various dates during the year, 1,000 ordinary shares of 10p each were allotted and issued at a weighted average price of 77.8p per share further to the exercising of options by employees or former employees of the Company.

On 4 October 2016, 5 January 2017, 6 April 2017 and 4 July 2017, 17,651 ordinary shares of 10p each in total were allotted and issued at a weighted average price of 76.7p per share to Michael Albin, a Non-executive Director in settlement of 50% of the fees due for his services as a Non-executive Director during the year as per an agreement dated 22 February 2016.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, www.avacta.com. The holders of the deferred shares shall not, by virtue or in respect of their holdings of deferred shares, have the right to receive notice of any General Meeting, nor the right to attend, speak or vote at any such General Meeting.

Save as required by law, the Company need not issue share certificates to the holders of the deferred shares in respect of their holding thereof. The deferred shares shall not entitle their holders to receive any dividend or other distribution. The deferred shares shall on a return of assets in a winding up entitle the holders only to the repayment of the amounts so paid up on such deferred shares after repayment of the capital paid up on the ordinary shares plus the payment of £10,000,000 per ordinary share. The Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the deferred shares a transfer thereof and/or an agreement to transfer the same to such person as the Company determines as custodian thereof, without making any payment to the holders thereof, and/or to cancel the same (in accordance with the provisions of the Companies Acts) without making any payment to or obtaining the sanction of the holders thereof, and pending such transfer and/or cancellation, to retain the certificate for such shares. The Company may, at its option at any time purchase all or any of the deferred shares then in issue, at a price not exceeding 1p for each holding of deferred shares so purchased.

19 Capital and reserves

Share premium

The share premium account of £633,000 (2016: £621,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. Following approval by shareholders at the Annual General Meeting on 25 January 2016 and the subsequent approval of the Court, an amount of £55,437,000 was cancelled from the share premium account. The remaining share premium reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2016: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve is not distributable.

Other reserve

The other reserve of negative £1,729,000 (2016: negative £1,729,000) arose from the application of reverse acquisition accounting principles to the financial statements at the time of the reverse takeover of Avacta Group plc by Avacta Limited. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,651,000 (2016: negative £2,651,000) arose as a result of 3,232,306 (2016: 3,232,306) ordinary shares of 10p each being subscribed for jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Group less the cancellation of £55,437,000 from the share premium account in the prior year. The charge and associated credits in respect of cumulative share based payment charges (where appropriate) are also included.

20 Capital and financial risk management

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group develops such that it trades profitably in the foreseeable future. The Group recognises that, because it is an early stage development Group with limited current revenues and significant continued investment that does not support debt within its capital structure, its capital structure is largely limited to equity-based capital which the Group uses to finance most of its acquisition strategy.

The Group has two forms of debt: credit card debt and finance leases. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. Finance leases are long term and used where finance can be found for significant items of capital expenditure, against which the debt is secured. The Group does not have long-term gearing ratio targets.

Whilst the Group uses debt in the forms described above, this debt is immaterial to the Group's capital structure and its capital management strategy. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates. It does not impact the dividend policy of the Group as the current strategy is to invest capital in the business. The Group has not made any changes to its capital management during the year.

The Group considers its capital to include share capital, share premium, capital reserve, retained earnings and other reserves. The Group does not have any externally imposed capital requirements.

Financial risk management

The financial risks faced by the Group comprise credit risk, interest rate risk and currency risk. This note presents information about the Group's exposure to each of these risks and the Group's objectives and processes for managing this risk. Further disclosures are included throughout these consolidated financial statements.

Financial instruments policy

Treasury and financial risk policies are approved by the Board. All instruments utilised by the Group are for financing purposes. Short-term deposits are placed for a period of no longer than twelve months with institutions with a 'superior or strong' ability to repay short-term debt obligations. In order to manage financial exposure between different financial institutions no more than £10 million is placed on short-term deposit with any one financial institution. The day-to-day financial management and treasury function is controlled centrally for all operations. During the year, the Group had no derivative transactions.

Financial assets and liabilities

The Group's financial instruments comprise cash and liquid resources, short-term deposits, and various items such as trade receivables and trade payables that arise directly from its operations. An analysis of the financial assets and liabilities recognised on the balance sheet, each of which is at amortised cost is set out below.

	2017 £000	2016 £000
Financial assets		
Trade receivables	**247**	161
Short-term deposits	**4,000**	10,000
Cash	**9,166**	9,521
	13,413	19,682
Financial liabilities		
Trade payables	**645**	403
Contingent consideration	**340**	340
	985	743
Maturity profile of financial liabilities		
In one year or on demand	**985**	743

The financial liabilities due for repayment within one year relate to trade payables and other short-term liabilities.

Notes to the Consolidated Financial Statements (continued...)

Interest rate risk

The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one and twelve months.

Interest rate and currency profile

At 31 July 2017 and throughout the year, the Group maintained sterling cash at bank and short-term deposits. The current book value of interest bearing assets and liabilities is as follows:

	2017	2016
	£000	£000
Financial assets		
Short-term deposits	**4,000**	10,000
Cash at bank (floating interest rate)	**9,166**	9,521

Cash at bank attracted interest at floating rates, which were between Nil% and 0.32% at 31 July 2017 (2016: Nil% and 0.5%). Short-term deposits attracted interest at fixed rates which were between 0.55% and 0.80% at 31 July 2017 (2016: 0.85% and 1.25%).

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Fair value of financial instruments

At 31 July 2017, the difference between the book value and the fair value of the Group's financial assets and liabilities was £Nil (2016: £Nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 July 2017.

21 Pensions

The Group operates a defined contribution pension scheme for its employees. The pension cost charge for the year represents contributions payable by the Group to the scheme and other personal pension plans and amounted to £172,000 (2016: £126,000). There were outstanding contributions at 31 July 2017 of £35,000 (2016: £24,000).

22 Accounting estimates and judgements

The Directors discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out at Note 1.

The Directors consider that the key judgements and sources of estimation made in preparation of the financial statements are:

Going concern

After making enquiries, the Directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Report and Accounts. This is described in more detail at Note 1.

Intangible assets

The carrying value of intangible assets has been tested for impairment. Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made in order to estimate the assets' value in use in order to test the carrying amounts as described within Note 9. No impairment was recorded, but reasonably possible changes in inputs to the value in use calculations could have led to a different conclusion being drawn.

Further judgements have been taken to capitalise development costs in respect of specific products and services that it is intended will be introduced to the Group's markets in the future and to allocate the surplus of fair value paid by the Group as consideration over the fair value of the net assets acquired. In capitalising development costs, the Directors have identified only the direct costs associated with the people and the bought-in tools and services required to develop those specific products and services.

Share-based payments

The Group has equity-settled share-based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and the number of options expected to vest.

Revenue recognition

Fees invoiced in respect of upfront fees have been recognised as revenue in the period when all criteria for revenue recognition have been met. Revenue from the provision of services is recognised on services when the service has been performed.

Deferred tax recognition

The Directors consider it probable that the Group will become profitable at some stage in the future but given the uncertainty of when this will occur a deferred tax asset has not been recognised.

23 Commitments

(a) Capital commitments

At 31 July 2017, the Group had £Nil capital commitments (2016: £Nil).

(b) Operating lease commitments for land and buildings

The Group maintains non-cancellable operating lease commitments on three properties.

	2017 £000	2016 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**243**	254
• Between one and five years	**527**	481
• Over five years	**257**	290
	1,027	1,025

24 Related party transactions

Intra Group transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have, therefore, not been disclosed.

Remuneration of key management personnel

The Group considers the Directors to be its key management personnel. Full details of their compensation are set out in the Remuneration Committee Report on pages 51 to 54.

Company Balance Sheet as at 31 July 2017 – Registered number 04748597

	Note	2017 £000	2016 £000
Fixed assets			
Property, plant and equipment	25	**25**	45
Investments	26	**3,059**	5,489
		3,084	5,534
Current assets			
Debtors	27	**30,077**	22,518
Cash at bank		**12,779**	19,292
		42,856	41,810
Current liabilities	28	**(1,141)**	(2,476)
Net current assets		**41,715**	39,334
Net assets		**44,799**	44,868
Capital and reserves			
Share capital	29	**6,917**	6,915
Share premium	30	**633**	1,027
Capital reserve	30	**1,899**	1,899
Reserve for own shares	30	**(2,651)**	(2,651)
Retained earnings	30	**38,001**	37,678
Shareholders' funds		**44,799**	44,868

The notes on pages 86 to 89 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 3 October 2017 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the Year Ended 31 July 2017

	Share capital £000	Share premium £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 31 July 2015	5,057	36,162	2,669	(1,590)	(19,665)	22,633
Placing net of related expenses	1,760	19,255	-	-	-	21,015
Exercise of share options	8	76	-	-		84
Share premium cancellation	-	(55,437)	-	-	55,437	-
Own shares acquired	90	971	-	(1,061)	-	-
Transfer[1]			(770)		770	-
Total comprehensive profit/(loss) for the period	-	-	-	-	1,020	1,020
Share-based payment charges	-	-	-	-	116	116
At 31 July 2016	6,915	1,027	1,899	(2,651)	37,678	44,868
Issue of shares	2	12	-	-	-	14
Total comprehensive loss for the period	-	-	-	-	(1,613)	(1,613)
Share-based payment charges	-	-	-	-	177	177
Dividends received from subsidiary undertakings	-	-	-	-	1,353	1,353
Transfer[2]	-	(406)	-	-	406	-
At 31 July 2017	**6,917**	**633**	**1,899**	**(2,651)**	**38,001**	**44,799**

1 *The transfer of equity from the capital reserve to retained earnings relates to share option warrants that had expired.*

2 *The transfer from share premium to retained earnings relates to the elimination of the original acquisition accounting in 2009 of a subsidiary company that is dormant and due to be dissolved.*

Notes to the Company Balance Sheet

Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to Avacta Group plc.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The individual accounts of the Company have also adopted the following disclosure exemptions:

- The requirement to present a statement of cash flows and related notes
- Financial instrument disclosures, including: categories of financial instruments, items of income, expenses, gains or losses relating to financial instruments, and exposure to and management of financial risks
- The requirement to disclose related party transactions with wholly owned subsidiaries of the Company
- The requirement to disclose Group settled share-based payment transactions

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up-to-date prices, of property, plant and equipment over their estimated useful lives as follows:

- Fixtures and fittings – 3 to 10 years

Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged to the profit and loss account in the year.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except when they arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that is not a business combination and that affects neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which an asset can be utilised.

Share-based payments

The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

25 Property, plant and equipment

	Total £000
Cost	
At 31 July 2016	**100**
Additions	**4**
At 31 July 2017	**104**
Depreciation	
At 31 July 2016	**55**
Charge for the year	**24**
At 31 July 2017	**79**
Net book value	
At 31 July 2017	**25**
At 31 July 2016	**45**

26 Investments

	Total £000
Cost	
At 1 August 2016	14,053
At 31 July 2017	14,053
Provision	
At 1 August 2016	8,564
Charge for the year	2,430
At 31 July 2017	10,994
Net book value	
At 31 July 2017	**3,059**
At 31 July 2016	5,489

Avacta Analytical Inc. and TheraGenetics Inc. were both dissolved during the year.

The companies in which Avacta Group plc has an interest at 31 July 2017 are as follows:

	Principal activity	Country of Incorporation	Class and percentage of voting shares held	Holding
Subsidiary undertakings				
Avacta Limited	Non-trading	[1]England	Ordinary 100%	Direct
Avacta Analytical Limited	Non-trading	[1]England	Ordinary 100%	Indirect
Avacta Health Limited	Dormant	[1]England	Ordinary 100%	Direct
			Preference Nil%	N/A
TheraGenetics Limited[3]	Dormant	[1]England	Ordinary 100%	Direct
Crossco (1127) Limited	Intermediate holding company	[1]England	Ordinary 100%	Direct
Avacta Animal Health Limited	Contract services	[1]England	Ordinary 100%	Indirect
Avacta Animal Health Inc.	Contract services	[1]USA	Ordinary 100%	Indirect
Curidium Medica Limited[3]	Intermediate holding company	[1]England	Ordinary 100%	Direct
Curidium Limited[3]	Dormant	[1]England	Ordinary 100%	Indirect
Reactivlab Limited	Non-trading	[2]Scotland	Ordinary 100%	Direct
Avacta Life Sciences Limited	Technology development	[1]England	Ordinary 100%	Direct
Avacta Life Sciences Inc.	Technology development	[1]USA	Ordinary 100%	Indirect
Avacta Nottingham Asset Limited	Non-trading	[1]England	Ordinary 100%	Indirect
Affimer Limited (formerly Promexus Limited)	Non-trading	[1]England	Ordinary 100%	Indirect
Avacta Group Trustee Limited	Dormant	[1]England	Ordinary 100%	Direct

Avacta Analytical Limited is a subsidiary of Avacta Limited. Avacta Animal Health Limited is a subsidiary of Crossco (1127) Limited. Curidium Limited is a subsidiary of Curidium Medica Limited. Avacta Nottingham Asset Limited is a subsidiary of Avacta Animal Health Limited. Affimer Limited (formerly Promexus Limited) is a subsidiary of Avacta Life Sciences Limited.

1 Registered address: Unit 20, Ash Way, Thorp Arch Estate, Wetherby, West Yorkshire.

2 Registered address: 11 The Square, University Of Glasgow University Avenue, Glasgow.

3 TheraGenetics Limited, Curidium Medica Limited and Curidium Limited are all in the process of being dissolved.

Notes to the Company Balance Sheet (continued...)

27 Debtors

	2017 £000	2016 £000
Other taxes and social security	**30**	60
Prepayments and accrued income	**169**	119
Amounts owed by subsidiary undertakings	**29,878**	22,339
	30,077	22,518

28 Current liabilities

	2017 £000	2016 £000
Trade creditors	**62**	111
Other taxes and social security	**39**	35
Amounts owed to subsidiary undertakings	**569**	1,898
Accruals and deferred income	**131**	92
Contingent consideration	**340**	340
	1,141	2,476

29 Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid:		
• 68,397,933 (2016: 68,379,282) ordinary shares of 10p each	**6,840**	6,838
• 19,327,344 deferred shares of 0.4p each	**77**	77
	6,917	6,915

Share issues

On various dates during the year, 1,000 ordinary shares of 10p each were allotted and issued at a weighted average price of 77.8p per share further to the exercising of options by employees or former employees of the Company.

On 4 October 2016, 5 January 2017, 6 April 2017 and 4 July 2017, 17,651 ordinary shares of 10p each in total were allotted and issued at a weighted average price of 76.7p per share to Michael Albin, a Non-executive Director in settlement of 50% of the fees due for his services as a Non-executive Director during the year as per an agreement dated 22 February 2016.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, **www.avacta.com**. The rights of the holders of the deferred shares are set out at Note 18.

30 Reserves

Share premium

The share premium account of £633,000 (2016: £1,027,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. During the year £406,000 was transferred from share premium to retained earnings relating to the elimination of the original acquisition accounting in 2009 of a subsidiary company which is dormant and for which the Directors have instigated strike-off procedures. Following approval by shareholders at the Annual General Meeting on 25 January 2016 and the subsequent approval of the Court, an amount of £55,437,000 was cancelled from the share premium account. The remaining share premium reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2016: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,651,000 (2016: negative £2,651,000) arose as a result of 3,232,306 (2016: 3,232,306) ordinary shares of 10p each being subscribed for jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Company less the cancellation of £55,437,000 from the share premium account in the prior year. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

31 Commitments

(a) Capital commitments

At 31 July 2017, the Company had £Nil capital commitments (2016: £Nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2017 was £Nil (2016: £Nil).

(c) Operating lease commitments

The Company maintains non-cancellable operating lease commitments on three properties.

	2017 £000	2016 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**240**	254
• Between one and five years	**523**	481
• Over five years	**257**	290
	1,020	1,025

Secretary and Advisers

Secretary and Registered Office

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