



# TRUSTEES' ANNUAL REPORT AND ACCOUNTS

# 2014

The members of the Board, who are the Trustees of MRC Technology (the Charity) and the Directors of MRC Technology (the Charitable Company), present their report for the year ended 31 March 2014. In presenting this report, the Trustees have complied with the Statement of Recommended Practice, Accounting and Reporting by Charities (the Charities' SORP).

# INTRODUCTION

## Chairman's statement

In 2013-14 we completed the fourth year of our ten year strategic plan and continue to successfully pursue our charitable objectives, primarily through the management of intellectual property (IP) for the MRC and a growing number of healthcare charities, and by investing £8.6m directly in early stage drug discovery and the development of healthcare diagnostics.

During the year we licensed a prospective treatment for fibrosis and have three other potential drug candidates where commercial partners are now being sought, arising from the work of our Centre for Therapeutic Discovery team. The Trustees through the Scientific Committee undertook a major review of the strategic direction of our drug discovery programme in conjunction with the Executive management team, to ensure we continue to maximise the charitable impact of our investment in this area.

We completed a review of opportunities to further our charitable objectives with diagnostics and biomarkers and started to invest in this area, recruiting expertise from the diagnostics industry and commencing collaboration with a diagnostic company. We aim to leverage our global scouting activity to seek additional academic collaborations to translate exciting academic research findings into novel diagnostic tests through this new area of investment.

The Medical Research Council continues to be the engine room of our charitable impact in IP management through our management of their intellectual property generation. We have also gained considerable traction in offering IP management services to charities and, through these activities, we have raised our profile, enabling us to bring together medical research charities, universities and industry to progress scientific discovery for patient benefit. We worked to create the Dementia Consortium, launched at the G8 Dementia Summit in December 2013, bringing together MRCT and Alzheimer's Research UK with two global pharmaceutical companies to provide £3 million in funding for research projects.

During the year we took two major decisions to improve our long term sustainability and security. In February 2014 we decided to withdraw from our existing pension arrangements in the MRC Pension Scheme, removing the uncertainty of the future cost of providing a defined benefit pension scheme and replacing it with the known cost of defined contribution arrangement. The withdrawal from the MRC Pension Scheme will crystallise the real cost of benefits already accrued, a provision for the estimated cost has been recognised as an exceptional item in the Statement of Financial Activities this year.

In March 2014 we surrendered our leasehold interest in our Mill Hill laboratory facility and we are in the process of committing to lease a new facility at the Stevenage Bioscience Catalyst. The transfer will be of significant benefit in furthering our charitable objects, with the MRC providing the funding to fit out and relocate to a new, strategically sited, state of the art research facility.

We currently generate a substantial proportion of our income from a revenue share on the royalties generated by several successfully commercialised products. These royalties will decline in the near future as related patents expire. In recent years, our revenue share on these royalties has enabled us to build up substantial reserves that are available to fund our Strategic Plan over several years. We also have a number of licensed assets in late stage clinical trials with the potential to generate new royalty income in the next two to five years. During the year we undertook an in-depth review of the status and future royalty potential of these assets in addition to our biannual review of our current royalty bearing assets.

During the year the Board of Trustees has continued to enhance the governance framework and develop the Board to improve its resilience and capabilities. The Nomination Committee carried out an in-depth Trustee recruitment exercise to replace two Trustees with terms ending in November 2013 and June 2014. The Board continues to maintain and develop the depth and range of expertise available.



D. John Jeans CBE  
Chairman, MRC Technology

19 June 2014



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### About us

MRC Technology is a technology transfer organisation that helps bridge the gap between basic research and commercial application, ensuring that our academic and medical charity partners generate a return on their research investment and providing our industry partners with a pipeline of commercially viable projects.

We were established 14 years ago to handle the technology transfer needs of the UK's Medical Research Council. Today we work with universities, medical research charities, and pharmaceutical and biotechnology organisations around the world.

We have helped launch 16 drugs and form 18 start-ups, negotiated over 400 licences, and generated over £700 million in royalty revenues for our academic and charity partners, with global pharma revenues from this work being over £50 billion.

### Corporate management team

#### EXECUTIVE MANAGEMENT

**Justin Bryans**

Director, Drug Discovery

**Peter Crowne**

Director, Finance

**Michael Dalrymple**

Director, Business Development

**Mike Johnson**

Director, Corporate Partnerships

**Carol Moore**

Director, Intellectual Property and Licensing

**Dave Tapolczay**

C.E.O

#### COMPANY SECRETARY

**Erica Wilkinson**

### Structure of key divisions

MRC Technology is split into six key divisions:

#### **Business Development (BD)**

Supports charitable and fundraising activities through the identification and acquisition of potential projects for MRC Technology to work on, and the marketing and sales of assets which have passed through CTD or CLT by seeking commercial partners.

#### **Centre for Lifescience Technology (CLT)**

Promotes the public benefit by facilitating and improving the commercial readiness of early stage diagnostics that emerge from academic research.

#### **Centre for Therapeutics Discovery (CTD)**

Promotes the public benefit by driving the development of early stage molecular targets emerging from academic research to deliver lead compounds or antibodies for clinical development by third parties.

#### **Corporate Partnerships (CP)**

Supports charitable and fundraising activities by developing and maintaining relationships with both the MRC and other key stakeholders, aiding the generation of new product income.

#### **Corporate Resources (CR)**

Provides support for charitable, governance and fundraising activities through the provision of ICT, finance, HR, legal and general management functions.

#### **Intellectual Property and Licensing (IPL)**

Promotes the public benefit by focusing on the identification, protection, development and exploitation of MRC intellectual property and providing technology transfer services to UK charities.

## Objects

The objects of MRC Technology, as set out in its Articles of Association, are:

- To promote the public benefit by improving human health and medical research, in particular by assisting the progress of the scientific discoveries and new technologies arising from research into therapeutic treatments, drugs, diagnostics, other technologies or information resources.
- To work with industry, charities, universities, the health service and other relevant bodies as well as conducting its own research and development as needed to accelerate the progress of these discoveries and technologies to the stage at which they are (i) capable of being made generally available to the medical profession and the public for practical application for the improvement of health and/or (ii) are transferred or licensed to a third party to progress development of such discoveries or technologies towards such goals.

## Vision

A strong public benefit company based on the identification and development of intellectual property from basic research linked to a highly professional licensing and project management capability.

The development of global centres of excellence for:

- The humanisation of monoclonal antibodies;
- Early stage drug discovery; and
- The design and development of prototype life science tools in medicine and diagnostics.

## Mission

To translate basic science into clinical applications for the benefit of the public. To support this, global networks and linkages will be created to facilitate the acquisition of novel intellectual property (IP).

MRC Technology:

- Adds value by furthering the development of promising products and bringing them closer to the clinic;
- Identifies and pursues opportunities in licensing, platform technologies and start-up companies by leveraging our strengths in patent management and business development; and
- Will develop the Centre for Therapeutics Discovery (CTD), to provide a drug discovery resource, and the Centre for Lifescience Technology (CLT), to focus on science tools and diagnostics.

## Public benefit

As stated in our Objects and Vision and Mission Statement, the beneficiary of our activities is the general public. We fulfil our objectives through two main activities:

- The management of intellectual property and licensing of products that arise from scientific discoveries and the furtherance of their progression towards novel healthcare products to aid human health; and
- Funding research within our facilities to assist the transfer of technology from the academic to the commercial sector.

We do this by working closely with the Medical Research Council (MRC) and a wide range of universities, charities, pharmaceutical/biotech companies and other organisations across the world. Key contacts are being built throughout the UK charity sector and globally with major academic institutions to share knowledge and help these organisations to improve their technology transfer activities. This is expected to lead to the identification of a larger number of targets with the potential to treat human disease. We undertake our activities for the public benefit, with the fundamental aim of improving human health.

The main activities undertaken are:

- Management and progression of scientific research discoveries mainly in the areas of:
  - therapeutics; and
  - diagnostics and life science tools.
- Partnering with key stakeholders to accelerate progress towards new treatments by:
  - commercialising discoveries for use in healthcare; and
  - negotiating third party commercialisation to develop products for use in healthcare.

In developing our strategy and implementing governance changes the Trustees have sought advice on the guidance on public benefit published by the Charity Commission.

## Strategic Report

### Summary of achievements

During 2013-14 we completed the fourth year of our ten year strategic plan to develop new healthcare targets and treatments for the public benefit. During the year we invested £8.6m (2013 – £8.3m) directly in early stage drug discovery and the development of healthcare devices and diagnostics. We evaluated 59 (2013 – 56) new projects during the year progressing 6 (2013 – 3) to full drug discovery projects within our Centre for Therapeutics Discovery (CTD), focusing on areas of high unmet patient need. We have licensed one prospective treatment for fibrosis and have three other potential drug candidates where commercial partners are now being sought.

To increase the health benefits arising from MRC research we continue to ensure any intellectual property arising from the MRC is appropriately exploited to maximise the potential patient benefit, and where financial value is attached to the exploitation, that the MRC receives a share of the value to fund further research. The MRC is a significant component of our charitable impact, through intellectual property generation, patent management, licensing and evaluation agreements and the generation of potential projects for our drug discovery programme. During the year we undertook the following on behalf of the MRC:

- Assessed 105 (2013 – 86) potential inventions from scientists across a range of MRC units and institutes.
- Filed 17 (2013 – 25) patents and had 27 (2013 – 29) patents granted.
- Executed 41 (2013 – 16) licences and 8 (2013 – 7) evaluation agreements.
- Managed the collection of royalty income of £83.4m (2013 - £85.5m) and revenue share and inventor award payments of £34.1m (2013 - £40.7m) for the MRC whilst monitoring their portfolio of active assets.

### 1 Assisting medical research charities

Medical research charities need independent monitoring and assessment of their funded research to ensure potential discoveries are identified and managed, and to show that their research spending is efficient and has impact. Many charities lack sufficient scale to maintain this capability, given the skills and breadth of experience required for this to be effective. We are able to meet this need whilst fulfilling our own charitable objects. We offer three core services to client organisations such as charities involved with promoting fundamental life science discoveries as follows:

- **Research Grant Terms and Conditions Review:**  
We use our extensive experience in contract drafting and ability to create clear and equitable terms to refine and simplify clients' grant terms and conditions such that they are robust and fit for purpose.
- **Portfolio Review:**  
We work with clients to prioritise their research portfolio and identify the projects most likely to be translated into patient benefit. Our Business Managers liaise with researchers to build a clear understanding of project progress every 3-6 months and, where IP exploitation is imminent, negotiate a revenue sharing agreement on behalf of the client.
- **Call for Targets:**  
We manage Call for Targets campaigns for clients who wish to provide significant grant funding to support further research into key areas of importance to them, reviewing applications from Principal Investigators and universities and selecting a small number for progression. We have initiated a joint 'Call for Targets' with Arthritis Research UK (ARUK) and Parkinson's UK (PDUK), specifically aimed at identifying targets in the respective disease areas, resulting in 19 additional proposal submissions for ARUK and 8 for PDUK.

Our client base for these services continues to grow, with 14 clients engaged or engaging with us to support them. The potential need is substantial. There are 124 medical research charities in the UK who collectively spent in excess of £1 billion on medical research in 2011-12.

Through these activities we have become recognised as a catalyst to bring together medical research charities, universities and industry to progress scientific discovery for patient benefit. We worked to help create the Dementia Consortium, launched at the G8 Dementia Summit in December 2013. This consortium brings together MRCT and Alzheimer's Research UK with two global pharmaceutical companies to provide £3 million in funding for research projects emerging from academia, supports the validation of new biological targets for dementia and explores the tractability of these targets for collaborative drug discovery programmes.

## 2 Accelerating the translation of medical science

### Scouting for targets

Our Business Development team sustains our drug discovery pipeline, focused on areas of high unmet patient need, by continuously sourcing new projects as we progress those already in the portfolio. Projects for a broad range of indications have been reviewed, including cancer, inflammation, fibrosis and pain. Our main source of projects is still the UK, but non-UK programmes are steadily increasing, reflecting our efforts to attract projects from mainland Europe, the US and China and assisted by our growing reputation in these territories. During the year 59 potential projects were evaluated with six progressing for further development.

#### Source of Projects for Evaluation

INDICATION	UK (MRC)	Europe	USA	China	Other	TOTAL
Cancer	9 (1)	8	15	1	–	<b>33</b>
Inflammation	3 (1)	1	–	–	–	<b>4</b>
Other	7 (1)	10	4	1	–	<b>22</b>
Total 2014	19 (3)	19	19	2	–	<b>59</b>
Total 2013	30 (6)	8	14	3	1	<b>56</b>

We continued to expand our global network of collaborations:

- Under the formal Memorandum of Understanding with the Chinese Academy of Sciences (CAS) Shanghai Institute of Biochemistry and Cell Biology, we have supplied a subset of our small molecule diversity library to accelerate potential future drug discovery collaborations.
- Under the formal Memorandum of Understanding with Mount Sinai School of Medicine in the United States, we have been working up two antibody projects.
- In March we signed an agreement with Daiichi Sankyo focusing on the identification and selection of novel drug targets in the areas on oncology, cardiovascular and metabolic diseases.

### Diagnostics

Following a review of opportunities to invest in the diagnostics and biomarker area, we are confident that there is potential to deliver impact in line with our charitable objects. As a result we have started to expand the scientific team in our Edinburgh laboratory facility and re-focus their activity towards the translation of basic academic research in this area. We have recruited an experienced team leader from the diagnostics industry and are in late stage discussions with Renishaw Diagnostics Ltd, a Glasgow based diagnostic company, on a research collaboration. We plan to leverage our global scouting activity to seek additional academic collaborations with a view to translating exciting research findings into novel diagnostic tests.

## 2 Accelerating the translation of research (continued)

### Antibody engineering and small molecule drug discovery

We are working on nine antibody and 14 small molecule drug discovery projects covering more than 20 separate primary and alternative indications, in a portfolio focused primarily but not exclusively in the areas of cancer, autoimmune/inflammatory and central nervous system diseases. These projects involve collaborations with a range of universities both in the UK and around the world.

Number of projects by primary indication

PROJECT STATUS	Oncology	Autoimmune/ Inflammation	Central Nervous Sys'	Other
Feasibility	2	-	-	1
Reagent/assay Generation	1	-	1	-
Hit/Antibody Generation	4	1	2	1
Hit/Antibody Optimisation	1	-	2	1
Proof of Concept Studies	2	1	-	3
<b>Total 2014</b>	<b>10</b>	<b>2</b>	<b>5</b>	<b>6</b>
<b>Total 2013</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>4</b>

We continue to consolidate and develop our in-house and collaborative capability, for example;

- We are developing the capability to identify antibodies suitable for antibody-drug conjugate generation.
- We are exploring multiple methodologies for accessing additional antibodies, which will significantly improve our ability to generate novel material.
- We are exploring novel technologies in the small molecule arena, for example DNA-encoded libraries.
- The X-ray and nuclear magnetic resonance (NMR) structural capability based at Leicester University continues to deliver X-ray data of proteins of interest including both apo and liganded structures to drive our drug discovery programmes.

This year our research team has contributed to the exchange of scientific knowledge through the publication of papers in peer reviewed journals in addition to presenting at a number of high level meetings.

## 3 Intellectual property protection and translation funding

Our Intellectual Property and Licensing team protects promising research, ensuring a return on investment for our clients if projects are commercialised. We also advise on routes to further funding and accelerated development opportunities.

### MRC Patent management

We monitor the research carried out by MRC units, institutes and centres to ensure that any intellectual property arising from the research is promptly identified and evaluated for potential patient benefit. During the year, our Business Managers evaluated 105 (2012/13 - 86) potential new technologies for the MRC, resulting in the filing of 17 (2013 - 25) new patents with 27 (2013 - 29) patents granted on behalf of the MRC. We also administered patent costs totalling £1.0m (2013 - £1.3m) on behalf of the MRC.

We continue to provide intellectual property and contractual expertise to those MRC units transferring to university control, as part of the restructuring of MRC activities. We are providing MRC with significant support to achieve their aims with the programme of unit migrations and to develop consistency and best practice in the transfer process.

### MRC Development Gap Fund

We have a successful record of managing funding schemes for early stage research with commercial potential and continue to manage the MRC Development Gap Fund (DGF). The DGF is "pre seed" money, operating at the earliest possible stage of technology transfer. It is intended to strengthen new patent filings or to support patent applications from good, commercially interesting, ideas. We assessed 15 (2013 - 17) DGF submissions during 2013-14, resulting in 12 (2013 - 14) approved projects equating to a total funding of £777k (2013 - £1.0m). The successful projects covered a range of technologies and inventions sourced from 6 (2013 - 11) different MRC units and institutes and supported 9 (2013 - 15) researchers. The projects had an average cost of £74.6k (2013 - £74k) and an average duration of 11 months.



## 4 Licensing and licence performance management

### MRC Technology

We executed three licence agreements and one evaluation agreement in relation to MRC Technology's asset portfolio. In December 2013 we signed a licence agreement with UCB for a humanised antibody to a target for fibrosis. The deal included an initial payment and will command milestone success payments and a royalty on product sales.

We are progressing the partnering of a number of assets generated by our drug discovery programme:

- licensing a small molecule programme against a target with potential applications in inflammatory disease;
- a collaboration to advance a small molecule programme in Parkinson's disease; and
- potential partners are being canvassed for a humanised antibody to the IL17B receptor, a potential target in asthma.

We continue to track eight active MRC Technology licences arising from our drug discovery programme with indications in Alzheimer's, cancer, Crohn's disease and macular degeneration. For one of these licences, MSD have submitted a Biologics License Application (BLA) in advanced melanoma for their antibody therapy Pembrolizumab. This antibody was humanised by MRC Technology scientists in 2007 and the BLA has been accepted for review by the U.S. Food and Drug Administration (FDA). This is the first of a series of studies and rolling applications for multiple cancer indications in the promising new area of cancer immunotherapy.

### MRC

The protection, commercialisation and return on the investment in medical research by the MRC remain a core focus. We executed 41 (2013 – 16) licences and 8 (2013 – 7) evaluation agreements on their behalf during the year. We continue to monitor active licences arising from the commercialisation of MRC research, with a wide range of indications.

### Management of IPR derived income

We managed the collection of £83.4m (2013 - £85.5m) of royalty income and milestone payments on behalf of the MRC together with related revenue share and inventor awards arrangements totalling £34.1m (2013 – 40.7m). The MRC reinvests this income in medical research.

### Legal structure

Medical Research Council Technology (MRC Technology) is a company limited by guarantee (No 2698321) having been incorporated under the Companies Act 1985 on 18 March 1992. We do not have any share capital, but our members, in the event of a winding up, undertake to contribute to the assets of MRC Technology a sum not exceeding £1 per member.

MRC Technology is also a registered charity (1015243) with the Charity Commission for England and Wales and a charity registered in Scotland (SC037861) with the Office of the Scottish Charity Regulator. Our governing instruments are our Memorandum and Articles of Association, subject to the provisions of the Companies Act 2006, the Charities Acts 2011 and the Charities and Trustee Investment (Scotland) Act 2005.

The Board which is appointed from the members, acts in the capacity of Directors of MRC Technology for the purposes of the Companies Act 2006 and in the capacity of Trustees in respect of its charitable objectives under the Charities Acts. There are more members than Directors, therefore not all members act in the capacity of Director.

In general, the members decide on any changes to the constitution of MRC Technology and on the powers of directors but all the functions of MRC Technology within its constitution and the achievement of its charitable objects are governed and carried out by the Board of Directors acting as trustees of MRC Technology. The Board meets not less than four times a year to review and direct activities and to deal with the detailed financial and administrative affairs of MRC Technology. The Chief Executive Officer (CEO) and Executive Directors (who are not themselves members of the Board) comprise the Executive Team, which manages the day to day business of MRCT.

The members of the Board of MRC Technology are listed on page 9 together with the principal places of business and professional advisers of MRC Technology on page 11. The day to day management of MRC Technology is delegated by the Board to the CEO, Dr Dave Tapolczay.

We manage the intellectual property rights of MRC under the terms of a Service Level Agreement.

A Handbook of Governance Policies, which includes our Memorandum and Articles and Charity Commission advice and guidance, is regularly revised and updated. Arrangements are also in place for a charity law adviser to attend meetings of the Board, when required, for the purposes of keeping the Trustees abreast of charity law and related governance issues.

### Statement of Trustees' responsibilities

Charity and Company law require the members of the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of MRCT and of its financial activities for the year. In preparing those financial statements the members of the Board:

- Select suitable accounting policies and then apply them consistently;
- Observe the methods and principles of the Charities' SORP: Accounting and Reporting by Charities;
- Make judgements and estimates that are reasonable and prudent;
- Are responsible for the maintenance and integrity of the corporate and financial information included on the Charitable Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
- State whether applicable United Kingdom Generally Accepted Accounting Practice and Financial Reporting Standards and applicable law has been followed, disclosing and explaining any departure therefrom; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to assume that MRC Technology will continue in operation.

The members of the Board are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time MRC Technology's financial position and to enable them to ensure that the financial statements comply with the Companies Act. The members of the Board are also responsible for safeguarding the assets of MRC Technology and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

## The Board of Trustees




Throughout the year the Board consisted of ten Trustees with varied backgrounds across the fields of biomedical sciences (academic and pharmaceutical), finance, investment fund management, law and medicine.

The Board of Trustees met four times (June, September and November 2013 and March 2014). The Trustees considered and agreed the direction of the CTD Strategy, as analysed and recommended by the Science Committee, at the Board meeting in March.

The Board reserves all major strategic and policy decisions to itself but delegates oversight and assurance for key business functions to dedicated committees.

### Members of The Board of Trustees

Committee Attendance	Board	ARMC	IMC	RC	NC	SC
D. John Jeans (Chairman)	4/4	-	-	1/1	3/3	-
Michael Brooks	3/4	4/4	4/4	1/1	3/3	-
Sally Burtles <i>Elected November 2013</i>	1/1	-	-	-	-	-
Prof Sir Philip Cohen	0/4	-	-	-	-	2/3
Dr Annette Doherty	4/4	-	-	-	-	3/3
Mark Edwards	4/4	-	-	-	-	3/3
Peter Keen	3/4	-	-	-	-	-
Diane Mellett	4/4	4/4	4/4	-	-	-
Declan Mulkeen	3/4	-	-	-	-	-
David Quysner <i>Retired November 2013</i>	2/4	3/3	3/3	-	3/3	-
Ian Skidmore	4/4	-	-	-	-	3/3

	Denotes chairperson of committee
	Denotes chairperson up to November 2013
	Denotes chairperson from November 2013

## Committees of the Board

The Board is responsible for setting strategies and policies for MRC Technology and ensuring that these are implemented. Five Committees report to the Board which, during the year, were:

### RC Remuneration Committee

*Deals with matters relating to Remuneration Policy and the annual review of remuneration, in particular with regard to senior executives. The RC met once during the year, inter alia to review the reward strategy and to agree bonus payments for the previous year.*

### ARMC Audit and Risk Management Committee

*Provides assurance to the Board of Trustees on key issues around financial planning, capacity and reporting; internal control; risk and other related matters. The committee approves the appointment of the internal and external auditors, reviews the management accounts, provides oversight of the budget process, and scrutinises the annual accounts and internal audit programme. The key focus for ARMC for the next financial year will be to continue to improve risk management across the organisation. The committee met four times during the year and held an additional special meeting in February 2014 to scrutinise the budget proposal. Sub committees of the Board are able to co-opt non members. Co-option is purely to advise the Committee, and no voting or other rights are attached to the position. During the year Claire-Marie O'Grady was co-opted to the ARMC.*

### IMC Investment Management Committee

*Separate delegated committee of the ARMC which provides assurance to ARMC and the Board of Trustees on the management of MRC Technology's invested funds and Investment Policy. The committee supervises the appointment and performance management of MRC Technology's Investment Fund Managers. The committee met four times during the year. The IMC receives regular updates from the Investment Managers, and members of their charity investment teams attend and present at two IMC meetings each year, as part of the on-going monitoring of the performance of our investment portfolios.*

### NC Nominations Committee

*The main functions of the committee are to develop and maintain an active succession plan for the organisation. During the year the NC carried out an in-depth Trustee recruitment exercise to identify replacement Trustees for two Trustees and successfully recruited two new Trustees to replace two whose terms are ending; one in November 2013; the other in June 2014.*

### SC Scientific Committee

*The purpose of the committee is to provide assurance to the Board of Trustees on the management of MRC Technology's investment in drug discovery and diagnostic research through CTD and CLT. The committee met on 27 February 2013 to consider in detail the proposed CTD Strategy which was analysed and put forward for Board approval.*

## Principles of governance

The Board always seeks to adopt best practice in its corporate governance arrangements and makes full use of the Charity Commission Guidance and the FRC Corporate Governance Code and takes professional guidance as required to fulfil its duties.

## General meetings

One general meeting was held during 2013/14 to appoint new Trustees and Members to MRC Technology.

## Annual General Meeting

We are obliged under our revised Articles of Association to hold an Annual General Meeting (AGM) every calendar year. The AGM was held on 14 November 2013 for the purpose of retiring Trustees and electing new Trustees, to receive the annual report and accounts and to appoint the auditors.

## Trustee induction

All Trustees are offered a tailored induction programme, meeting with the executive management team to discuss all areas of the business. A Trustee induction pack is also given to all Trustees to familiarise them with the charity's objects, their duties, key guidance from the Charity Commission and statutory declarations. Trustees can at any time request meetings with the executive team or any MRC Technology employee.

In addition, Trustees' training is provided through updates to charity law and key governance requirements by the company secretary or external advisors.

## Performance

The Chairman held individual reviews with each Trustee to discuss their roles. These meetings also included a review of the function and remit of the Board subcommittees.

## Internal control

- Delegation: There is a clear organisation structure with documented lines of responsibility for control.
- Reporting: The Board reviews and approves the annual budgets and monitors actual expenditure and forecasts on a regular basis.
- Risk management: There are processes in place for the identification, evaluation and management of significant risks faced by MRC Technology. This information is embodied in a risk register which is reviewed at Divisional Directors Meetings, Audit and Risk Management Committee meetings and meetings of the Board of Trustees.
- Internal Audit: Moore Stephens continue to provide internal audit services to MRC Technology.
- Governance: The Board is regularly advised by the Company Secretary, and seeks specialist advice on charity law as required. A handbook of Board governance policies is regularly updated.

The internal audit programme provided by Moore Stephens has been running for four years. During the year audits were performed on Corporate Partnerships, Business Development and key financial controls. The agreed recommendations arising from all audits conducted are monitored through to successful implementation, with the status of outstanding recommendations reviewed by executive management on a quarterly basis with oversight by the ARMC.

## Conflicts of interest

We have a policy on conflicts of interest which applies to Board members and employees. An annual disclosure form is completed by Board members and all MRC Technology employees. These are reviewed by the Company Secretary and Chairman and any areas of concern are discussed.

Where a Trustee has a material interest in a potential transaction, the Board agrees whether they should receive the meeting paper and whether they should be excluded from the discussion and the Board's decision making for that matter. Redacted minutes may also be sent to the Trustee. The same principles apply to all decision making committees.

## Health and safety

As a laboratory and office based organisation, we regard health and safety as a top priority. Each of our three sites has a director responsible for health and safety. Control of Substance Hazardous to Health (COSHH) and other protocols are rigorously observed and monitored. Employees at the main laboratory site in Mill Hill work closely with the health and safety section at MRC's adjacent National Institute for Medical Research (these arrangements include access to occupational health facilities). Staff at our smaller laboratory facility in Edinburgh also have access to MRC's health and safety advisers locally.

The Health and Safety Committee, comprising executive officers, develops and monitors health and safety plans and policies for the Corporate Head Office at Lynton House and co-ordinates health and safety policies across the organisation.

A rolling list of any accidents is reviewed by the Board of Trustees at each meeting.

## Employment

We encourage employees to be fully involved in the performance and objectives of MRC Technology through regular employee briefings and via the corporate intranet. An online performance management system is used. All employees are formally reviewed during the year and the results reviewed for fairness and consistency by Directors and by the Remuneration Committee.

We use a corporate induction manual to enhance the integration of new employees and improve communications to employees generally.

MRC Technology headcount was 138 employees as at the year-end.

We are committed to a policy of equal opportunities in all aspects of our activities.

## Principal places of business

MRC Technology  
Lynton House  
7-12 Tavistock Square  
London WC1H 9LT

MRC Technology  
1-3 Burtonhole Lane  
Mill Hill  
London NW7 1AD

MRC Technology  
Crewe Road South (Hospital Main Drive)  
Edinburgh EH4 2SP

## Professional advisors

### Auditors

PKF Littlejohn LLP  
Statutory Auditors  
1 Westferry Circus  
Canary Wharf  
London E14 4HD

### Internal Auditors

Moore Stephens LLP  
150 Aldersgate Street  
London EC1A 4AB

### Charity Law Advisers

Russell-Cooke Solicitors LLP  
2 Putney Hill  
London SW15 6AB

### Solicitors

Cumberland Ellis LLP  
Atrium Court, 15 Jockey's Fields  
London WC1R 4QR

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Lloyds TSB Bank Plc  
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### Investment Managers and Advisers

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Royal London Asset Management  
55, Gracechurch Street  
London EC3V 0U

HSBC Global Asset Investment Management (UK) Limited  
78 St James's Street  
London SW1A 1HL

## Overview

KEY NUMBERS (£'000's)	2013-14	2012-13
Total incoming resources	25,196	24,156
Total resources expended	29,934	15,649
Net Movement in Funds belonging to MRC Technology	(4,439)	10,575
Funds Balance carried forward	54,180	58,619

The overall deficit delivered of £4,439k (2013 – surplus £10,575k) includes the following significant items:

- £14,216k exceptional costs related to exiting the current defined benefit pension arrangements for staff and replacing them with a defined contribution plan.
- £8,000k compensation received from the MRC, £4,950k for the surrender of our leasehold interest in our Mill Hill laboratory premises, generating a small profit on disposal, and £3,050k contribution towards our future relocation costs.

Excluding the exceptional item we have generated a surplus of £9,777k and continue to maintain our free reserves in line with the policy set out below.

Total incoming resources for the year, including the £8,000k compensation from the MRC for the surrender of our leasehold interest, were £25,196k (2013 - £24,156k) and also included £3,850k (2013 - £4,200k) received from the MRC as a fee for services provided and £16,815k (2013 - £19,087k) of contract and royalty income. The latter income derives principally from our share of royalties arising from the development of successful treatments for multiple sclerosis (Tysabri™) and rheumatoid arthritis (Actemra™) both of which were based on MRC research.

Total resources expended, including the £14,216k exceptional costs related to exiting the current defined benefit pension arrangements, amounted to £29,934k (2013 - £15,649k). The costs comprise the research costs and expenses related to technology transfer activities, both activities being directly related to our public benefit objective, the cost of generating funds, governance costs and general support costs that are not directly attributable to charitable activities. The underlying expenditure relating to delivering our public benefit objectives is in line with last year.

## Change in staff pension arrangements

We currently provide pensions for our employees through participation in the MRC Pension Scheme (MRCPS), a defined benefit scheme administered by Trustees and maintained independently of MRCT. Following three months consultation with employees, the Board of MRCT decided on 14th February 2014 to withdraw from the MRCPS, closing the MRCPS to new joiners from 1st May 2014 and to the future accrual of pension entitlements for existing employees from 31 March 2015. A defined contribution personal pension plan has been made available from 1st May 2014 to all existing employees and new joiners through Legal & General Assurance Limited. The new arrangements are fully compliant with the auto enrolment requirements of the Pensions Act.

We decided to withdraw from the MRCPS to remove the uncertainty of the future cost of providing a defined benefit pension scheme, replacing it with the known cost of a defined contribution arrangement, and to crystallise and settle the cost of benefits already accrued in accordance with section 75 of the Pensions Act. We have taken the advice of actuarial specialists and estimate the cost of funding MRCT's liabilities in respect of the MRCPS to the section 75 funding level to be £13,500k.

Whilst the MRCPS is disclosed in note 10 to be funded to 110% of liabilities at the latest triennial valuation date (31 March 2010), the triennial valuation basis is different to that used for the purpose of calculating a section 75 estimate, the latter requiring a far more prudent funding level. This amount has been recognised as an exceptional cost in the Statement of Financial Activities and is expected to become payable after 31 March 2015, on terms to be agreed with the Trustees of the MRCPS.

## Disposal of long term leasehold interest in our Mill Hill premises

We held the Mill Hill laboratory premises and site under a 60 year lease dated 30th March 1994 from the landlord, the MRC, who is the freeholder and also an adjoining occupier through the National Institute for Medical Research (NIMR). MRC is proposing to relocate the NIMR to a new purpose built facility, the Crick Institute, in the next two years and wishes to dispose of their entire free holding.

Having obtained Charity Commission consent, we surrendered our lease to the MRC on the 28th March 2014 for a total of £8,000k compensation, £4,950k for the surrender of our leasehold interest, generating a small profit on disposal, and £3,050k contribution towards our future relocation costs. We are in the process of signing a commitment to lease a new laboratory facility, fitted out to our

specifications, at the Stevenage Bioscience Campus and expect completion and occupation of our new premises by the summer of 2015. MRC has granted us a short lease to continue operations at our Mill Hill facility until our new site is available.

We believe the disposal will be of significant benefit to us in the furtherance of our charitable objects, having achieved sufficient funding through the transaction to fit out and relocate to a new, state of the art research facility strategically sited on a new bio science campus with easy access to key collaborators in Cambridge, Stevenage and London.

### Investment policy and performance

Investments are held for the purpose of generating funds for charitable activities and as a reserve against any future shortfall in income. The Investment Management Committee (IMC) monitors investment activities on behalf of MRC Technology. The performance of the investment portfolio for the year ended 31 March 2014 was in line with expectations in the prevailing investment environment.

As permitted by our Articles of Association, the members of the Board have given the Investment Managers discretion to manage those parts of the portfolio for which they are responsible within an agreed risk profile:

- Schroders provides short term cash management services, investing in the money market for terms up to twelve months;
- HSBC manages a long term investment portfolio focused on equities and fixed interest securities; and
- Royal London Asset Management (RLAM) manages a long term investment portfolio focused on corporate bonds.

£9,300k cash was generated in the year which was surplus to short to medium term operating requirements. £6,500k was invested with RLAM and £2,800k with HSBC in line with our Investment Policy.

### Reserves policy

We hold reserves to ensure that, so far as is reasonably possible, our future expenditure objectives can be met, given certain assumptions about future income streams. All of our reserves are held in pursuance of our charitable objects. The level of free reserves that we held at 31 March 2014, defined as being those funds that are freely available for general purposes and excluding permanent and expendable endowment funds and tangible fixed assets, was £51,713k (2013 - £51,343k).

Reserves take account of the possibility that income streams may reduce significantly in the future. The Trustees have decided, given the long term nature of drug discovery, that currently a balance equivalent to between 2 and 3 years' operating costs is desirable to provide a buffer against any substantial and unanticipated interruption to the income stream and to provide us with sufficient flexibility to manage our affairs in this event. Loss of royalty income would have the greatest impact on us since it forms a high proportion of the overall income of MRC Technology.

We have a number of licensed assets in late stage clinical trials with the potential to generate new royalty income in the next two to five years. During the year we undertook an in depth review the royalty potential of these assets in addition to our biannual review of our current royalty bearing assets, Tysabri™ and Actemra™.

The level of reserves is monitored and reviewed on a regular basis.

### Commercial subsidiary companies

#### AERES Biomedical Limited

AERES Biomedical Limited was established to undertake research, development and commercial exploitation in therapeutic antibody research. Although the company is not a charity its activities are entirely within the objects of MRC Technology. The company is free to undertake non-charitable activities but none were undertaken. While the company keeps its own internal accounting records, its financial activity is subject to the internal controls of MRC Technology, and MRC Technology continues to monitor and administer income from its projects.

In November 2012 the Board of Trustees for MRC Technology decided to dissolve AERES Biomedical Limited. In July 2013 MRC Technology purchased the minority interest in AERES Biomedical Limited and initiated a capital reduction, returning all liquid assets to the shareholders in proportion to their shareholding. The process for dissolution will be completed following the assignment of the remaining assets of the company to MRCT and is expected to be completed by the end of 2014.

### Disclosure of information to auditors

So far as each member of the Board is aware at the time of the approval of this board report:

- There is no relevant audit information of which MRCT's auditors are unaware; and
- the members of the Board have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Auditors

PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

### Report and accounts approval

This annual report was approved by the MRCT Board on 19 June 2014 and signed on its behalf by

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the left.

D. John Jeans CBE  
Chairman  
MRC Technology



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## Independent Auditor's report to the members of MRC Technology

We have audited the Group and parent charitable Company financial statements of Medical Research Council Technology for the year ended 31 March 2014 which comprise the Consolidated Statement of Financial Activities, incorporating an Income and Expenditure Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charitable 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 charitable Company and the charitable Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Trustees and Auditors

As explained more fully in the Trustees' Responsibilities Statement, set out on page 8, the Trustees (who are also the directors of the charitable Company for the purposes of company law) are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations under those Acts.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent charitable Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Trustees' Report and Strategic Report to identify material inconsistencies with the audited Financial Statements and to identify

any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent charitable Company's affairs as at 31 March 2014, and of the Group's incoming resources and application of resources, including their and the parent charitable Company's income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Trustees and the Strategic Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report if, in our opinion:

- the parent charitable Company has not kept proper and adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable Company's Financial Statements are not in agreement with the accounting records or returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Sarah Morrison (Senior Statutory Auditor)  
For and on behalf of PKF Littlejohn LLP Statutory Auditors  
1 Westferry Circus, Canary Wharf, London E14 4HD

19 June 2014

*PKF Littlejohn LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006*

## CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

		Unrestricted Funds	Endowment Funds	Restricted Funds	Total Funds	Total Funds
	Notes	Accumulated	Permanent		2014	2013
		£000's	£000's	£000's	£000's	£000's
<b>INCOMING RESOURCES</b>						
Incoming Resources from Generated Funds						
Activities for Generating Funds	1	3,850	–	–	3,850	4,200
Investment income	2	1,135	–	–	1,135	819
Other income	3	3,055	–	–	3,055	9
Profit on disposal of fixed asset	4	–	67	–	67	–
<b>Total Incoming Resources from Generated Funds</b>		<b>8,040</b>	<b>67</b>	<b>–</b>	<b>8,107</b>	<b>5,028</b>
Incoming Resources from Charitable Activities						
Research contracts and royalty income	5	16,815	–	–	16,815	19,087
Grants	6	–	–	274	274	41
<b>Total Incoming Resources</b>		<b>24,855</b>	<b>67</b>	<b>274</b>	<b>25,196</b>	<b>24,156</b>
<b>OUTGOING RESOURCES</b>						
Costs of generating funds	7	172	–	–	172	200
Governance costs	9	620	–	–	620	764
Charitable activities		14,652	–	274	14,926	14,685
Exceptional cost of pension scheme settlement	10	14,216	–	–	14,216	–
<b>Total Resources Expended</b>		<b>29,660</b>	<b>–</b>	<b>274</b>	<b>29,934</b>	<b>15,649</b>
Net (Outgoing) / Incoming resources before transfer	11	(4,805)	67	–	(4,738)	8,507
Gross transfer between funds	12	5,138	(5,138)	–	–	–
<b>Net Incoming /(Outgoing) Resources</b>		<b>333</b>	<b>(5,071)</b>	<b>–</b>	<b>(4,738)</b>	<b>8,507</b>
<b>STATEMENT of TOTAL RECOGNISED GAINS &amp; LOSSES</b>						
Realised investment (losses) / gains	16					
- Listed		2	–	–	2	58
- Other		–	–	–	–	–
Unrealised investment gains	16	297	–	–	297	1,712
Investment Write Off	17	–	–	–	–	(220)
Revaluation of Land & Buildings		–	–	–	–	509
Minority interest		–	–	–	–	9
<b>Net Movement in Funds belonging to MRCT</b>		<b>632</b>	<b>(5,071)</b>	<b>–</b>	<b>(4,439)</b>	<b>10,575</b>
Balance brought forward at 1 April		53,548	5,071	–	58,619	48,044
<b>Balance carried forward at 31 March</b>	<b>21</b>	<b>54,180</b>	<b>–</b>	<b>–</b>	<b>54,180</b>	<b>58,619</b>

MRC Technology (MRCT) has no recognised gains or losses other than as stated above.

All of the activities other than in respect of the charitable company's trading company, AERES Biomedical Limited, represented continuing activities of MRCT. The accounting policies and notes on pages 20 to 29 form part of the Financial Statements.

**BALANCE SHEETS**

Company Number: 2698321

Balance Sheet	Notes	GROUP		COMPANY	
		2014	2013	2014	2013
		£000's	£000's	£000's	£000's
<b>FIXED ASSETS</b>					
Tangible fixed assets	15	2,471	7,278	2,471	7,278
Investments	16	33,905	23,565	33,905	23,565
		36,376	30,843	36,376	30,843
<b>CURRENT ASSETS</b>					
Investments	17	21,945	26,468	21,957	27,075
Debtors	18	12,130	5,763	12,130	5,763
Cash at bank and in hand		1,489	1,082	1,481	301
		35,564	33,313	35,568	33,139
Creditors: amounts falling due within one year	19	(3,860)	(4,983)	(3,860)	(4,960)
<b>NET CURRENT ASSETS</b>		31,704	28,330	31,708	28,179
Provision for liabilities and charges	20	(13,900)	(401)	(13,900)	(401)
<b>NET ASSETS</b>		54,180	58,772	54,184	58,621
<b>FUNDS</b>					
21					
Unrestricted Funds					
- Accumulated funds		54,168	52,941	54,184	53,550
- Trading company funds		12	607	-	-
		54,180	53,548	54,184	53,550
Permanent Endowment		-	5,071	-	5,071
Expendable Endowment		-	-	-	-
Funds belonging to MRCT		54,180	58,619	54,184	58,621
- Due to minority interests		-	153	-	-
<b>TOTAL FUNDS</b>		54,180	58,772	54,184	58,621

Approved by the MRCT Board of Trustees on 19 June 2014 and signed on its behalf by:



D. John Jeans CBE, Chairman

The Accounting Policies and Notes on pages 20 to 29 form part of these Financial Statements

## CONSOLIDATED CASHFLOW STATEMENT

Consolidated Cashflow Statement	2014	2013
	£000's	£000's
Net cash inflow / (outflow) from operating activities	5,460	7,784
Returns on investments and servicing of finance	1,135	819
Capital expenditure and financial investment	(6,188)	(10,843)
Increase / (decrease) in Cash in the Year	407	(2,240)
<b>Reconciliation of Net (Outgoing) / Incoming Resources to Net Cash Inflow from Operating Activities</b>		
Net (outgoing) / incoming resources before other recognised gains and losses	(4,738)	8,507
Depreciation	1,020	992
Investment income	(1,135)	(819)
Decrease / (increase) in debtors	(6,367)	7,945
(Decrease) / increase in creditors	(1,123)	(631)
Increase in long term creditors	13,499	349
Decrease / (increase) in current asset investments	4,523	(8,701)
(Profit) / Loss on disposal of fixed assets	(67)	142
Minority interest purchase of Aeres	(152)	–
Net Cash Inflow from Operating Activities	5,460	7,784
<b>Analysis of Cash Flows for Headings Netted in the Cash Flow Statement</b>		
<b>Returns on Investments and Servicing of Finance</b>		
Investments listed on a recognised stock exchange	878	403
Investments other	254	408
Bank interest	3	8
Net Cash Inflow from Returns on Investments and Services of Finance	1,135	819
<b>Capital Expenditure and Financial Investment</b>		
Payments to acquire tangible fixed assets	(1,097)	(584)
Proceeds on disposal of tangible fixed assets	4,950	–
Proceeds on disposal of investments	10,942	8,997
(Increase) / decrease in cash held for investment	(1,311)	(356)
Payments to acquired fixed assets investments	(19,672)	(18,900)
Net Cash Outflow of Capital Expenditure and Financial Investment	(6,188)	(10,843)
<b>Analysis of Net Funds</b>		
Cash at bank at end of year	1,489	1,082
Cash at bank at start of year	1,082	3,322
Net Movement in Cash	407	(2,240)

## ACCOUNTING POLICIES

### Basis of Preparation of Financial Statements

#### Accounting Convention

The Financial Statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with Companies Act 2006, the Charities Accounts (Scotland) Regulations 2006 (as amended) and applicable United Kingdom Financial Reporting and Accounting Standards. In particular, the accounts have been prepared in accordance with the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" and Scottish Charity Legislation, subject to the departures referred to below relating to pension costs.

#### Basis of Consolidation

The consolidated accounts incorporate the accounts of MRCT and its subsidiary undertaking, AERES Biomedical Ltd which has been accounted for under the acquisition method. No separate Statement of Financial Activities is presented for the parent company as permitted by section 408 of the Companies Act 2006.

The consolidated accounts are prepared in accordance with the provisions of the Charities' SORP.

#### Going Concern

The Trustees consider that the use of the going concern basis is appropriate because there are no material uncertainties relating to events or conditions that may cast significant doubt about the ability of the Charity to continue as a going concern, and there is reasonable expectation that the Charity has adequate reserves to continue in operational existence for the foreseeable future.

#### Incoming Resources

Incoming resources from generated funds comprise the following:

- Technology Transfer Services fees receivable from the Medical Research Council (MRC) which are invoiced in line with the service level agreement;
- MRC's contribution to the transition costs to cover the relocation from the Mill Hill site;
- rental income from researchers occupying MRCT facilities. Income recognised represents amounts invoiced in the year; and
- investment income together with recoverable tax, recognised on an accruals basis

Incoming Resources from Charitable Activities comprise the following:

- research contract and development income recognised according to the terms of the contract upon completion of agreed milestones; royalty income recognised on an accruals basis; and

- grant income recognised when MRCT has the right to receive the money. Grants received which are restricted by the donor to work to be carried out in future accounting periods are deferred.

All income is recognised exclusive of any applicable VAT

#### Resources Expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with the use of resources.

- Costs of generating funds are the costs of managing investments for both income generation and capital maintenance and include investment manager fees relating to the costs of the external management of investments of MRCT;
- governance costs include audit, legal and professional fees and are the costs incurred in safeguarding the MRCT's assets and meeting constitutional and statutory requirements, including associated salary costs; and
- charitable activities comprise expenditure on the direct charitable activities of MRCT.

#### Fund Accounting

The **Permanent Endowment Fund** was to be used in accordance with specific restrictions imposed by the donor, the MRC. This fund comprises the long leasehold interest in land and buildings, title to which was transferred from the MRC to MRCT on its incorporation in 1994. MRCT surrendered the long leasehold land and buildings to the MRC on 28th March 2014.

The **Accumulated Fund** is a general unrestricted fund which is available for use at the discretion of the Trustees in furtherance of the general objectives of MRCT and which has not been designated for other purposes.

The **Trading Company Funds** are funds belonging to MRCT's subsidiary undertaking.

The **Restricted Funds** are grants received in the year which are subject to specific restrictions imposed by the donor.

#### Accounting for Tangible Fixed Assets

Fixed assets (with the exception of long leasehold land and buildings) with a cost in excess of £5,000 are recognised at cost and depreciated according to the disclosed policy.

In the opinion of the Trustees there is no impairment to the valuation of the leasehold land and buildings.

## ACCOUNTING POLICIES

### Accounting for Intangible Fixed Assets

Internally generated intangible fixed assets are capitalised if there is a readily ascertainable market value.

### Depreciation of Tangible Fixed Assets

Depreciation is provided on a straight line basis so as to write off the cost or valuation of tangible fixed assets less estimated residual value over their estimated useful economic lives which are as follows:

- Long leasehold land and buildings – over the period of the lease or useful economic life, whichever is the shorter;
- plant and machinery – 10 years;
- laboratory equipment – 5 years;
- furniture, fixtures and fittings and office equipment – 5 years;
- computers – 3 years;
- leasehold improvements – 10 years; and
- IT infrastructure – 10 years.

### Fixed Asset Investments

Investments are stated at market value at the balance sheet date. The unrealised gains and losses arising as a result are included in the SOFA together with any realised gains and losses on any investments disposed of in the year.

### Current Asset Investments

Investments are stated at market value at the balance sheet date. The unrealised gains and losses arising as a result are included in the SOFA together with any realised gains and losses on any disposals in the year.

Investments in subsidiary undertakings are stated at net asset value.

### Operating Leases

Rentals paid under operating leases are charged to the Statement of Financial Activities on a straight line basis over the terms of the lease.

The lease for the Corporate Head Office (Lynton House) was signed in September 2009 for ten years, and includes a rent free period of 26 months. The total cost of the lease is recognised over the term on a straight line basis.

### Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Transactions which have been concluded prior to the balance sheet date are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange gains and losses arising in the normal course of operations are included in the SOFA.

### Pension Costs

MRCT contributes to the Medical Research Council Pension Scheme (MRCPS) which is a defined benefit scheme, at rates set by the MRC Actuary and advised to the Board. The Scheme is a multi-employer pension scheme and it is not possible to identify the assets and liabilities of the Scheme which are attributable to MRCT. In accordance with FRS 17, the Scheme is therefore accounted for as a defined contribution scheme. Contributions to the Scheme are charged to the SOFA as they become payable in accordance with the rules of the Scheme.

### Impairment Reviews

A review of the impairment of fixed asset investments is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

### Exceptional Items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which individually need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. The separate reporting of exceptional items helps to provide a better indication of the group's underlying business performance.

### Taxation

MRCT is a registered charity and is generally exempt from Corporation Tax but not from Value Added Tax (VAT). Irrecoverable VAT is included with the cost of those items to which it relates. MRCT's subsidiary undertaking AERES Biomedical Ltd is liable for Corporation Tax on taxable profits.

### Provisions

A provision is made for a liability in the financial statements where MRCT has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the liability and a reliable estimate can be made of the obligation.

## NOTES TO THE FINANCIAL STATEMENTS

**1 Activities for Generating Funds**

	Unrestricted funds	Restricted funds	Totals	
			2014	2013
	£000's	£000's	£000's	£000's
IP management and technology transfer services	3,850	–	3,850	4,200
	3,850	–	3,850	4,200

**2 Investment Income**

	2014	2013
	£000's	£000's
Investments listed on a recognised stock exchange	878	403
Bank term deposit interest	254	408
Other Bank interest	3	8
	1,135	819

**3 Other Income**

	£000's	£000's
	Miscellaneous income	5
MRC contribution to transition costs	3,050	–
	3,055	9

The contribution to transition costs is funding from the MRC to cover the relocation costs arising from the surrender of the leasehold interest in the Mill Hill site (note 4).

**4 Profit on Disposal of Long Term Leasehold Interest**

	£000's	£000's
Profit on disposal of fixed asset	67	–
	67	–

MRCT held the Mill Hill laboratory premises and site under a 60 year lease dated 30 March 1994 from the landlord, the MRC, who is the freeholder and also an adjoining occupier through the National Institute for Medical Research (NIMR). MRC is proposing to relocate the NIMR to a new purpose built facility, the Crick Institute, in the next two years and wishes to dispose of their entire free holding.

Having obtained Charity Commission consent, MRCT surrendered the lease to the MRC on the 28 March 2014 for a total of £8,000,000 compensation, £4,950,000 for the surrender of our leasehold interest, generating a £67,000 profit on disposal based on the net book value of £4,883,000, and £3,050,000 contribution towards our future relocation costs (note 3).

**5 Incoming Resources from Charitable Activities**

	Grants	Other Income	Totals	
			2014	2013
	£000's	£000's	£000's	£000's
Research contracts and development income	–	1,044	1,044	946
Grants (see note 6)	274	–	274	41
Royalty income	–	15,771	15,771	18,141
	274	16,815	17,089	19,128

**Turnover – Research Contracts**

The geographical analysis of research contracts and development income in respect of principal activities of the group is as follows:

	2014	2013
	£000's	£000's
United Kingdom	500	26
Rest of the World	544	920
	1,044	946



## NOTES TO THE FINANCIAL STATEMENTS

**6 Grants Receivable**

	2014	2013
	£000's	£000's
Technology Strategy Board (TSB)	238	41
Other	36	-
	274	41

**7 Resources Expended**

					Totals	
	Staff	Depreciation	Direct	Support	2014	2013
	£000's	£000's	£000's	£000's	£000's	£000's
Costs of generating funds	-	-	172	-	172	200
Governance costs - Note 9	233	-	217	170	620	764
Charitable activities	7,142	779	4,477	2,528	14,926	14,685
Exceptional costs	-	-	-	14,216	14,216	-
	7,375	779	4,866	16,914	29,934	15,649

Support costs are allocated to activities as described in note 8.

**8 Support Costs**

	2014	2013
	£000's	£000's
Staff	1,152	1,090
Depreciation	241	175
Other Support Costs	1,305	1,731
Exceptional costs	14,216	-
	16,914	2,996

Support costs are costs necessarily incurred but which are not directly attributable to costs of generating funds, Governance costs and charitable activities. These support costs principally comprise HR, ICT, Finance, Facilities and general management costs. Light, heat and other establishment costs have been allocated based on space occupied and insurance has been allocated based on staff numbers. All other support costs have been allocated on a basis appropriate to the nature of the cost.

**9 Governance Costs**

	2014	2013
	£000's	£000's
Staff Costs	233	407
Direct Costs		
Other Legal and Professional Charges	74	40
Audit Fees	25	25
Other fees	13	19
Bank Charges	9	8
Insurance	35	67
Security and Business Continuity	8	-
Other Governance Costs	53	49
Support Costs	170	149
	620	764

Staff costs included within Governance costs comprise the salaries and associated costs of the Director of Corporate Resources who resigned during the year ended March 2013 (and was not replaced), the Company Secretary and the CEO.

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Exceptional Costs of Withdrawing from Current Pension Arrangements

#### Current Pension Arrangements

MRCT provides pensions for its employees through participation in the MRC Pension Scheme (MRCPS) (an 80ths Scheme which is administered by Trustees and maintained independently of MRCT). The Scheme is a defined benefit scheme which was established to enable a number of autonomous but related employers to operate a pension scheme through the sharing of risk within a wider membership base. As such it is not possible for individual employers to identify their share of the underlying assets and liabilities. In such cases, paragraph 9(b) of FRS 17 allows MRCT to account for the Scheme as if it is a defined contribution scheme and for pension costs on the basis of contributions actually payable to the Scheme in the year.

The Scheme is valued every three years by a professionally qualified actuary using the projected unit actuarial method, the rates of contribution payable being determined by the actuary. The latest published assessment at 31 December 2010 was based on the assumptions that investment returns would be 6.00% per annum, the rate of increase in salaries 4.75% and that present and future pensions would increase at the rate of 2.75%. The overall market value of the Scheme's assets was £883.6m (excluding AVCs) representing 110% of the fund's accrued liabilities allowing for further pay increases. Full details can be found in the Financial Statements of the Medical Research Council. The next assessment at December 2013 is expected to be published in September 2014.

The total pension contribution charge for the year was £818,880 (2013 - £788,950) and £68,885 (2013 - £64,133) was outstanding as contributions at the year end.

The contribution rate for MRCT during the year was 14.9% (2013 - 14.9%). The contribution rates of the employees range from 6.25% to 6.5% depending upon length of service with the weighted average normal contribution rate for members being 6.45%.

#### Decision to Withdraw from the MRCPS

Following three months consultation with employees, the Board of MRCT decided on 14 February 2014 to withdraw from the MRCPS, closing the MRCPS to new joiners from 1 May 2014 and to the future accrual of pension entitlements for existing employees from 31 March 2015. A defined contribution personal pension plan was made available from 1 May 2014 to all existing and new employees, and 98% of members of MRCPS joined the new plan in May 2014.

MRCT decided to withdraw from the MRCPS to remove the uncertainty of the future cost of providing a defined benefit pension scheme, replacing it with the known cost of a defined contribution arrangement. The decision to withdraw requires MRCT to settle the cost of benefits already accrued in accordance with section 75 of the Pensions Act. Having taken the advice of actuarial specialists the estimated cost of leaving the MRCPS is to be £13,500k. Whilst the MRCPS is funded to 110% of liabilities on the actuary's normal valuation basis, the statutory basis set out by s75 requires a far more prudent funding level. This amount has been recognised as an exceptional cost in the SOFA and is expected to become substantially payable after 31 March 2015, on terms to be agreed with the Trustees of the MRCPS. In addition to the section 75 estimated cost, all costs directly attributable to reaching the decision to withdraw from the MRCPS have been included within the exceptional costs including but not limited to the cost of the consultation process and professional advice and support.

## NOTES TO THE FINANCIAL STATEMENTS

**11 Net Incoming Resources**

This is stated after charging:

	2014	2013
	£000's	£000's
Depreciation	1,020	992
Operating leases - property	262	247
Operating leases - equipment	196	208
Auditors' remuneration	25	25
Fees payable to internal auditors	7	16

**12 Transfer between Funds**

The Permanent Endowment fund related to the long leasehold land and buildings, title to which was transferred from the MRC to MRCT on its incorporation. MRCT surrendered the long leasehold land and buildings with MRC on 28 March 2014 (note 4). Consequently the balance of £5,138k on the Permanent Endowment Fund has been transferred to the Accumulated Funds.

**13 Staff**

	2014	2013
	£000's	£000's
Salaries	7,017	6,835
Social security costs	691	670
Pensions	819	789
	8,527	8,294

**14 Trustees and Employees**

The average number of employees, analysed by function, was:

	2014	2013
Management	6	6
Research	61	64
Technology Transfer	29	27
Administration	39	31
	135	128

No remuneration or other benefits have been paid or are payable to any charity trustee or connected persons. Expenses reclaimed are disclosed in note 21. The number of employees whose emoluments, excluding employer's pension contribution, exceeded £60,000 was:

	2014	2013
£60,000 – £70,000	11	11
£70,000 – £80,000	7	5
£80,000 – £90,000	4	3
£90,000 – £100,000	1	2
£110,000 – £120,000	2	3
£120,000 – £130,000	1	–
£130,000 - £140,000	1	–
£210,000 – £220,000	1	1

All of these members of staff were accruing benefits under the Medical Research Council defined benefit pension scheme. Pension contributions payable on behalf of these members of staff amounted to £308,252 (2013 £271,884).

## NOTES TO THE FINANCIAL STATEMENTS

**15 Tangible Fixed Assets**

Group and Company	Assets Under Construction	Land and Building	Lab' Equipment and Plant	Fixtures, Fittings and Computers	Total
	£000's	£000's	£000's	£000's	£000's
Cost or Valuation					
At 1 April 2013	158	5,909	3,545	808	10,420
Additions	137	–	443	517	1,097
Reclassification	(295)	–	–	295	–
Disposals	–	(5,054)	–	(48)	(5,102)
At 31 March 2014	–	855	3,988	1,572	6,415
Accumulated Depreciation					
At 1 April 2013	–	242	2,373	527	3,142
Reclassifications	–	–	–	–	–
Charge for year	–	258	514	248	1,020
Disposals	–	(170)	–	(48)	(218)
At 31 March 2014	–	330	2,887	727	3,944
Net Book Value					
At 31 March 2014	–	525	1,101	845	2,471
At 31 March 2013	158	5,667	1,172	281	7,278

On 28 March 2014 MRCT surrendered the long term lease of the property at Mill Hill with MRC in exchange for £4,950,000. MRCT was granted a new short term lease of the property. In the opinion of the Trustees there is no impairment to the valuation of the leasehold land and buildings. MRCT had no capital commitments at 31 March 2014 or 2013.

**16 Fixed Asset Investments**

Company	2014	2013
	£000's	£000's
Investments at market value	33,905	23,565
	33,905	23,565
Listed Investments		
Market value at 1 April	22,648	10,973
Acquisitions	19,672	18,900
Sale proceeds	(10,942)	(8,995)
Unrealised gain	297	1,712
Realised gain	2	58
Market value at 31 March	31,677	22,648
Historical cost at 31 March	29,891	20,553
Portfolio Analysis		
Equities – within the UK	6,965	5,252
Equities – overseas	4,397	4,710
Fixed interest securities – within the UK	13,971	8,390
Fixed interest securities – overseas	1,863	1,109
Alternative investment	4,661	3,187
	31,677	22,648
Cash	2,228	917
	33,905	23,565

## NOTES TO THE FINANCIAL STATEMENTS

## 17 Current Asset Investments

	2014	2013
	£000's	£000's
Term Bank deposits at 1 April	26,468	17,767
Capital (withdrawn) / invested	(4,750)	8,330
Interest received	227	371
Market value at 31 March	21,945	26,468
Current Asset Investments - Group	21,945	26,468
Subsidiary Undertaking		
AERES Biomedical Limited	12	443
Revaluation	-	164
	12	607
Current Asset Investments - Company	21,957	27,075

During the year MRCT purchased 20.3% of the shares from minority interests in AERES Biomedical Limited. MRCT now holds 100% of the shares in in AERES Biomedical Limited. The company is incorporated in the United Kingdom.

The principal activity of AERES Biomedical Limited is that of commercial exploitation of intellectual property rights and products in the area of therapeutic antibodies. In November 2012 the Board of Trustees of MRCT agreed a proposal from the executive management team to dissolve the company and transfer the activities of the company back to MRCT. The dissolution of AERES Biomedical Limited is being processed and is expected to be complete by the end of 2014.

A summary of the results of this subsidiary company for the year ended 31 March 2014 is shown below

	2014	2013
	£000's	£000's
<i>AERES Biomedical Limited</i>		
Capital and reserves	9	760
Turnover	-	221
Administrative expenses	(2)	(11)
Interest	1	2
Extraordinary item – Investment write off	-	(220)
Tax	-	(19)
Loss for the year	(1)	(27)

## 18 Debtors

	Group		Company	
	2014	2013	2014	2013
	£000's	£000's	£000's	£000's
Trade debtors	92	27	92	27
Amounts due from Medical Research Council	8,001	428	8,001	428
Prepayments and accrued income	3,857	5,109	3,857	5,109
Other debtors	36	28	36	28
Deferred Dilapidations Provision	144	171	144	171
	12,130	5,763	12,130	5,763

The amount due from the MRC arises from the agreement that Medical Research Council Technology surrender their long term lease of the Property in Mill Hill in exchange for compensation totaling £8,000,000 (notes 3 and 4). An amount of £1,000,000 is receivable after one year.

## NOTES TO THE FINANCIAL STATEMENTS

**19 Creditors**

Amounts falling due within one year

	Group		Company	
	2014	2013	2014	2013
	£000's	£000's	£000's	£000's
Trade creditors	544	425	544	425
Amounts due to Medical Research Council	167	459	167	459
Accruals	1,871	2,333	1,871	2,329
Tax creditor - VAT	995	1,509	995	1,490
PAYE & NI creditor	283	257	283	257
	3,860	4,983	3,860	4,960

**20 Provision for liabilities and charges**

Group &amp; Company

	2014	2013
	£000's	£000's
Provision for exceptional cost of pension scheme settlement	13,500	–
Provision for contractual payments	400	401
Provisions consist of the estimated cost of leaving the MRCPS (see note 10), and the dilapidations provisions for the Edinburgh site and Lynton House.	13,900	401

**21 Analysis of Total Funds as at 31 March 2014**

	Tangible fixed assets	Investments	Net current assets	Creditors due in more than one year	Due to minority interest	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Unrestricted funds						
Accumulated funds	2,471	33,905	31,704	(13,900)	–	54,180
	2,471	33,905	31,704	(13,900)	–	54,180

**22 Financial Commitments**

The minimum annual lease payments to which MRCT is committed under non-cancellable operating leases are - on leases expiring:

	2014		2013	
	Equipment	Property	Equipment	Property
	£000's	£000's	£000's	£000's
Within one year	38	–	16	–
Between two and five years	192	30	250	30
Over five years	–	448	–	417
	230	478	266	447

## NOTES TO THE FINANCIAL STATEMENTS

### 23 Related Party Transactions

i) The members of the Board received no remuneration from MRCT for their services as Trustees during the year. However, reimbursements for travel expenses with an aggregate value of £2,832 (2013 - £10,807) were made to five members (2013 - five members). These transactions were carried out on normal commercial terms.

ii) Trustee Indemnity Insurance was purchased in the year at a cost of £2,092 including insurance premium tax (2013 - £2,092).

iii) MRCT is associated with the MRC and received fees of £3,849,996 (2013 - £4,200,000) during the year for the management of the MRC patent portfolio.

At the year end, £8,000,700 (2013 - £428,329) was due from the MRC to MRCT (See notes 4 and 18) and £166,904 (2013 - £458,840) was due to the MRC from MRCT.

### 24 Limited Liability

MRCT is limited by guarantee and thus has no share capital.

In the event of MRCT being wound up, every member of MRCT undertakes to contribute no more than £1 to the assets of MRCT while they are a member, or within one year after they cease to be a member, for the debts and liabilities of MRCT contracted before they cease to be a member. The number of members at 31 March 2014 was 10 (2013 - 10).

### 25 Charitable Status

MRCT is a charity registered with the Charity Commissioners for England and Wales, number 1015243 and a Charity registered in Scotland (number SC037861) with the Office of the Scottish Charity Regulator.

### 26 Contingent Liabilities

MRCT has contingent liabilities with respect to the Awards to Inventors Scheme. Under the terms of this scheme a share of royalties is payable contingent on the sales of certain drugs and funded by the receipt by MRCT of future royalties on those sales.

### 27 Ultimate Controlling Party

The charitable company is controlled by its members.



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#### COMPANY NUMBER

Medical Research Council  
Technology is a company  
limited by guarantee no.  
2698321 incorporated in  
England and Wales.

#### CHARITY NUMBERS

Medical Research Council  
Technology is a charity  
registered with the Charity  
Commission for England  
and Wales no. 1015243  
and a charity registered in  
Scotland with the Office  
of the Scottish Charity  
Regulator no. SC037861.

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