



Trustees' annual report & accounts 2017

The members of the board,
who are the trustees and directors of LifeArc
(formerly known as Medical Research Council
Technology), present their report and audited
financial statements for the year ended
31 March 2017.

LifeArc

**Our vision:
to pioneer new
ways to turn
great science
into greater
patient impact.**

CHAIRMAN'S STATEMENT

Trustees' annual report 31 March 2017

This has been an unprecedented year in the development of the charity, with many milestone events. In July 2016 we completed a partial royalty monetisation of Keytruda® for \$150m (£115.6m), securing our immediate financial future and enabling the significant expansion envisaged in our exciting new strategy. In the period, we have also completed moves to state of the art new research facilities at both the Stevenage Bioscience Catalyst in April 2016 and the Edinburgh Bioquarter in May 2017. Notably in June 2017 we changed our name to LifeArc from Medical Research Council Technology (MRC Technology).

LifeArc better describes what we do – it represents the arc or bridge between the best medical science and delivering much needed treatments for patients. The name change has been the culmination of many months' work. We are proud of our Medical Research Council heritage, but we needed our name to reflect our independence and our charitable objects. Collaboration continues to be essential to help us to fulfil our purpose as a charity and the new name conveys that we are not restricted by who we can work with. An exciting post period example was our announcement in July that we have signed an agreement with the London School of Hygiene & Tropical Medicine to provide a range of technology transfer services to this world renowned Institution.

Our new strategy, recognising our increased financial resources available, builds on our successful model of collaboration by setting up and leading "Communities for Impact". These networks will bring together the best partners to drive medical innovation in specific therapeutic and diagnostic areas. We also announced, as part of the new strategy, that we will establish two new funds to assist the progression of medical science and together these are worth a minimum of £30 million over four years. The Philanthropic Fund will provide grants to support academic research funded by other medical research charities and organisations, while the Seed Fund will invest in early stage therapeutics and biological research facilitating active development and commercial return.

We committed significant resources to grow our diagnostics development capability in Scotland. In May 2017 the team moved to their new purpose-built offices and labs at the Edinburgh Bioquarter. We needed bigger premises to accommodate increased collaborations with industry, academia and the NHS. The location was selected because it is close to a major research hospital and medical researchers, and adjacent to a thriving SME community.

LifeArc continues to drive medical innovation. This year we worked with 35 medical research charities to help them maximise the benefits of their funded research for their patient groups. We are now working with charities in the UK, USA, Denmark, Austria and the Netherlands. This network allows us to gain a global overview of what patients need now and in the future and where we can help make a difference.

Our drug discovery and academic collaborations aid the progression of medical science discoveries and we continue to seek out and develop exciting academic science in line with our strategic objectives. We currently have 40 collaborations with universities in the UK and around the world, through which we help progress their cutting-edge science more quickly so that patients can benefit from them. We have agreements with seven pharmaceutical companies and several major charities to identify and develop specific early stage targets. We have reviewed over 80 opportunities across a range of therapeutic areas, but in particular oncology and neuroscience, and selected six of these for progression. We continue to develop a strong portfolio of both antibody (13 projects) and small molecule (16 projects) based projects, with a focus on enhancing target validation and achieving proof of concept. Our current 29 active projects cover 12 primary indications at various stages, including three of which have achieved proof of concept and for which we are now seeking licensees.

LifeArc continues under Service Level Agreement (SLA), to support the Medical Research Council (MRC) and its scientists in all aspects of the management, translation and commercialisation of MRC innovation.

In the period this included the delivery of 135 intellectual property agreements, 472 operational agreements, the active management of 182 patent rights, preparation and funding advice for several planned MRC spin-outs and the ongoing representation of MRC in their established spin-outs. We additionally delivered input to and/or managed on MRC's behalf: the assessment of applications for MRC extramural funding schemes; the Development Gap Fund awards; the Awards To Inventors scheme; the transfer to various universities of six MRC units and their Principal Investigators and the transfer of ownership of ex-NIMR MRC intellectual property and agreements to The Crick Institute.

One major partnership we embarked on in the year was with Cancer Research UK to find new immunotherapy drug targets which brings together CRUK's network of leading scientists with LifeArc's target selection and validation expertise. The next stage of the exciting collaboration will be to seek a clinical partner to accelerate the progress of promising compounds into the clinic. Later in the period we licensed an antibody to Newsummit Biopharma, a leading China-based drug development process solutions provider, for development of a novel therapeutic for treatment of Hepatitis C virus infection.

Following the successful collaboration with Renishaw Diagnostics coming to an end, we were delighted to help facilitate transfer of our carbapenem resistance assay to Bruker who have subsequently taken it to market under the trade name Carbaplex™. Not standing still, we are now collaborating with the Belgian company Biocartis building molecular assays for their Idylla™ platform.

The Dementia Consortium is currently progressing five projects through our Centre for Therapeutics Discovery. The World Alzheimer Report (2015) stated that 46.8 million people worldwide are affected by dementia, so it is crucial that we and our partners focus on this disease.

During the year we also launched the Kids Cancer ACT NOW network with the aPODD Foundation, bringing together charities that work to find treatments for childhood cancers. Children's cancer

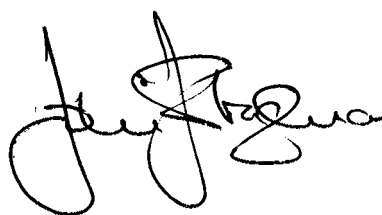
has not yet benefitted in the same way as adult cancers from recent advances in immunotherapy treatments, so we have to explore how we can enable similar breakthroughs for children.

None of this critical work is possible without our dedicated and skilled employees. I am very pleased to say we recognised the important role of employees by promoting Amanda Cowley to be the first Executive Director, Human Resources in April 2017. As the organisation continues to grow and extend its impact, the need to attract and retain the necessary talent from pharma, biotech and academia internationally increases.

I'd also like to take this opportunity to thank most sincerely our retiring trustees, Mike Brooks, Mark Edwards and Sir Philip Cohen for their guidance and contribution, and welcome Steve Visscher to the Board. The skills and experience our trustees bring are invaluable in providing good governance, strategic guidance and helping us ensure we deliver our charitable objects in the optimal manner. We are looking to further expand and enhance the Board in the coming year.

Looking towards our future, our new five-year strategy includes a focus on translation in four therapeutic areas: antimicrobials, neuroscience, personalised oncology and respiratory disease. These enable us to focus our work in areas where we have recognised strengths and that have demonstrable unmet need that motivates charitable intervention. We are not limiting our projects to these areas and will continue to consider projects that we can help progress for the benefit of patients.

We are profoundly excited about the future. The next year will bring many new challenges and opportunities, and we look forward to embracing them and continuing our work that ultimately touches patients' lives.



Dr John Stageman OBE
Chairman, LifeArc
6 October 2017

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Introduction

LifeArc is the new name for Medical Research Council Technology, a medical research charity with a 25 year legacy of helping scientists and organisations turn their research into treatments and diagnostics for patients.

The new name reflects our purpose: to be the arc or bridge between research and improving patients' lives.

LifeArc is pioneering new ways to turn great science into greater patient impact. It brings together a network of partners to tackle specific diseases and directly funds academic and early stage research.

We have dedicated laboratories in Stevenage where around 80 scientists work on antibody and small molecule projects, while the Edinburgh lab progresses diagnostics development.

So far, our work has helped to develop four drugs (Keytruda®, Actemra®, Tysabri® and Entyvio®) and a test for antimicrobial resistance.

www.LifeArc.org

Twitter @LifeArc1

Charitable objects

The objects of LifeArc, as set out in our 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 our 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.

Public benefit statement

The trustees confirm that they have complied with the public benefit requirement in the Charities Act 2011, which stipulates that they must have regard to the Charity Commission's public benefit guidance in exercising powers or duties related to the guidance.

OBJECTIVES AND ACTIVITIES

Trustees' annual report 31 March 2017

Improving patients' lives
Our strategy focuses on four areas:

Objective 1:

Create collaborations, known as Communities for Impact, to drive medical innovation.

Strategy:

Bring together a network of partners whose skills and knowledge complement our own to progress research to patients quicker.

Activities:

Continued engagement with collaborators to understand and articulate unmet patient needs so we can align our focus accordingly.

Identified projects for translation and progression towards patients, including antimicrobials, neuroscience and personalised oncology.

Objective 2:

Share our resources to help others translate discoveries.

Strategy:

Assist academia and medical research organisations to create the most value from their research through our Technology Transfer service.

Activities:

Facilitated translation of innovation in other organisations through creative collaboration and making our resources and know-how widely available, including through employee secondments.

Objective 3:

Broaden our skills, capabilities and technologies to create more value.

Strategy:

Introduce horizon scanning to identify and invest in breakthrough technologies and develop our technical expertise to accelerate therapeutic discovery and diagnostics development.

Activities:

Worked towards ensuring that our employees are capable of delivering our objectives by determining current and future capability and capacity and identified and implemented the tools needed to deliver this.

Invested in new technologies to speed up drug discovery and diagnostics development processes to enable us to tackle diseases we can't progress currently.

Grew the diagnostics capability of our Centre for Diagnostics Development.

Our strategy (continued)

Objective 4:

Fund medical research to get new therapeutics and diagnostics to patients.

Strategy:

Co-fund the translation of medical research up to £500M over the next five years.

Activities:

We prepared to launch two new funds to expand and diversify the way we can deliver our charitable object of supporting early stage translational science to benefit patients. A Philanthropic Fund will provide grants to support academic research funded by other medical research charities and organisations, while a Seed Fund will invest in early stage therapeutics and biological research.

Future focus

During the next financial year our activities will continue to focus on achieving our 2017 – 2022 strategy. We will:

- Prioritise key collaborations, known as Communities for Impact, to reflect priority areas where we can make a difference for patients
- Open the Philanthropic and Seed funds for applications to progress promising medical science
- Progress more diagnostic projects through our enhanced Centre for Diagnostics Development
- Develop employees and build on the special mix of expertise and experience in the organisation

STRATEGIC REPORT - ACHIEVEMENTS AND PERFORMANCE

Trustees' annual report 31 March 2017

Objective: 1

Create collaborations, known as Communities for Impact, to drive medical innovation

Academic collaboration

Collaborations with 40 universities both in the UK and around the world move cutting-edge science closer to clinical benefit. We continue to develop relevant technologies to expedite discoveries and enable more rapid progress.

New collaborations during the year include:

- Keio University School of Medicine (Tokyo) for target identification and early stage drug discovery
- Leicester University and UCB for antibody assisted drug discovery
- University of Luxembourg received Dementia Consortium funding to explore a new treatment based on TRIM32 inhibition
- AstraZeneca, Asthma UK, the British Lung Foundation and academics with projects in respiratory epigenetics
- Manchester University to develop novel therapeutics for Alzheimer's disease, targeting the immune system
- Max Planck Society to develop an antibody therapeutic to target the plexin molecule, which has been implicated in immune-mediated diseases, cancer and osteoporosis.

Drug discovery partnerships

LifeArc currently has agreements with seven pharmaceutical companies to share our early stage target assessments and develop early stage drug discovery collaborations. These are Abbvie, Astex, AstraZeneca, Daiichi Sankyo, Eisai, Lilly and Merck.

We also have partnerships with Cancer Research UK and Cancer Research Technology to explore novel immuno-oncology targets.

We are also working with three charities: Alzheimer's Research UK (ARUK), Asthma UK and the British Lung Foundation to progress treatments for patients.

Dementia Consortium

We continued to work with ARUK and five global pharmaceutical companies to translate promising early-stage research through the Dementia Consortium. Since its launch in 2014, LifeArc has reviewed over 80 projects and progressed five through its Centre for Therapeutics Discovery.

Kids Cancer ACT NOW

We launched the Kids Cancer ACT NOW network with the aPODD Foundation, creating a mechanism for childhood cancer research charities to collaboratively fund research and influence the research agenda.

Collaborations

We continue to work with global pharmaceutical companies, patient groups and funders to explore new operational models with the potential to progress medicines for unmet needs towards patients where traditional routes have failed.

We have collaborated with the NIHR and medical research charities to understand the gaps in the scientific understanding of how nutrition impacts on cancer survivorship and what needs to be done to overcome it.

We started work with three other technology transfer offices on an EU-funded project to assess 1,200 Horizon 2020 and Seventh Framework Programme (FP7) funded life science projects to understand their potential for commercialisation. The project will conclude in late 2019 with the publication of joint findings.

Drug discovery projects

Progress has been made in a number of disease areas, including oncology, antimicrobials (hand foot and mouth disease), neuroscience (dementia, pain) and others (including osteoporosis).

Our Centre for Therapeutics Discovery is currently working on 13 antibody and 16 small molecule projects, covering over 12 separate primary and alternative indications.

Number of projects by indication:

Project Status	Oncology	Antimicrobials	Neuroscience	Other
Gene to Target	3	1	4	–
Target to Hit	3	1	2	1
Hit to Lead	3	1	4	3
Proof of Concept / Marketing	1	1	–	1
Total projects 2017	10	4	10	5

Call for Targets projects reviewed

The Business Development team is continuously seeking out potential new targets, chemistry and antibody projects for the drug discovery pipeline, focusing on areas of high unmet patient need.

A broad range of indications were reviewed, high proportions being neuroscience (37%) and oncology (25%). During the year 83 potential projects were evaluated with six progressing for further development.

Source of projects for evaluation:

Primary Indication	UK	Europe	USA	China	Other	Total
Antimicrobials	6	0	4	0	1	11
Inflammation	1	2	2	0	2	7
Neuroscience	13	12	3	0	3	31
Oncology	4	9	4	3	1	21
Other	2	2	8	0	1	13
Total 2017	26	25	21	3	8	83
Total 2016	39	24	14	4	13	94

STRATEGIC REPORT - ACHIEVEMENTS AND PERFORMANCE

Trustees' annual report 31 March 2017

Objective 2:

Medical Research Council (MRC) support

Share our resources to help others translate discoveries.

LifeArc continues to deliver, under a Service Level Agreement, on the MRC's objectives of capturing, translating and commercialising intellectual property (IP) for patient benefit and MRC income generation.

We also supported MRC researchers in successful applications for translational funding under both MRC and external grant funding schemes, including Development Gap Fund (DGF), Developmental Pathway Funding Scheme (DPFS), Confidence in Concept and Wellcome Trust awards. We also supported provision of agreements to give MRC scientists access to small molecule compound libraries and tool compounds.

We provided assistance in transferring six MRC units and their principal investigators to the relevant universities and continue to provide assistance/advice to those MRC units that have previously transferred to universities.

We continue to manage the MRC's DGF which funded 4 new projects this year. We are in late stage licence/collaborative development negotiations with various parties in relation to 7 projects that have previously received DGF funding.

We drafted and published the third annual newsletter 'Showcasing translation of MRC Science 2016', highlighting the breadth of translational activity at MRC units and institutes we helped to facilitate.

LifeArc managed on MRC's behalf:

- 38 invention disclosures
- 7 new patent applications and brought to grant 18 patents in 15 different patent families
- an active patent portfolio of 182 patents/patent applications
- 267 catalogue reagents, 126 non-patented assets and 63 technology disclosures
- 135 agreements relating to MRC IP, including 52 IP licence agreements
- negotiation and signature of 472 non-IP agreements for MRC Head Office and MRC Units including the Institute of Genetics and Molecular Medicine, Toxicology Unit, Human Nutrition Research/Elsie Widdowson Laboratory, MRC Harwell, MRC Laboratory of Molecular Biology and London Institute of Medical Sciences.

Charity partnerships

Over the year LifeArc advised 35 medical research charities on how to maximise their research portfolios.

Since we started providing services to charities in 2012 we have engaged with over 65 individual charities across the UK, USA, Denmark, Netherlands and Austria.

We provide advisory services such as reviewing and updating grant funding terms and conditions and ongoing research portfolio review and monitoring.

Objective 3:

Broaden our skills, capabilities and technologies to create more value

Diagnostic projects

During the year the Centre for Diagnostics Development (CDD) designed and fitted out new offices and laboratories at the Edinburgh Bioquarter. The diagnostics team relocated to the new facilities in May 2017, which provide exciting new opportunities for us in the diagnostics development space.

CDD, as part of a collaboration with Renishaw Diagnostics Ltd. (RDL), developed a multiplex PCR test to classify carbapenem resistant bacteria. The qPCR asset was acquired by Bruker Corporation from RDL and ported onto their MALDI Biotyper IVD platform as well as being made available for other platforms. In addition, CDD has two projects in feasibility phase in collaboration with the University of Edinburgh.

STRATEGIC REPORT - ACHIEVEMENTS AND PERFORMANCE

Trustees' annual report 31 March 2017

Diagnostic partnerships

Discussions continue with various contacts in the NHS, and in particular NHS Lothian, aiming to create a LifeArc/NHS partnership to identify and streamline diagnostic development in areas of direct interest to clinicians.

The collaboration with RDL has terminated as a result of RDL's parent company withdrawing from the diagnostics sector. Work is well advanced to deliver a second industrial collaboration with Biocartis, a European diagnostics company, and the first project has been identified.

Objective 4:

Fund medical research to get new therapeutics and diagnostics to patients.

Research investment

We announced the creation of a Philanthropic Fund, providing grants to progress science independent of commercial viability, and a Seed Fund, aimed at developing new therapeutics and biological modalities. These funds are complementary to existing similar funds and help us to progress early stage science for the benefit of patients.

Work to establish the operational structures to manage the funds and the application processes is underway, and we plan to start investing from January 2018.

Personal development planning

LifeArc has implemented career ladders across the charity, which allows employees to choose between technical or management career paths. The benefits are that employees are able to work to their strengths and have a clear understanding of the requirements for progression to the next level. It also promotes consistent and focussed development through regular personal development planning.

Legal status

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

LifeArc is 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.

Governing document

LifeArc's governing document is the Articles of Association, subject to the provisions of the Companies Act 2006, the Charities Act 2011 and the Charities and Trustee Investment (Scotland) Act 2005.

Organisation

The board, which is appointed from the members, acts in the capacity of directors of LifeArc for the purposes of the Companies Act 2006 and in the capacity of trustees in respect of its charitable objects under the Charities Act 2011. There are more members than directors, therefore not all members act in the capacity of director.

The members decide on any changes to the constitution of LifeArc and on the powers of directors. All the functions of LifeArc within its constitution and achievement of its charitable objects are governed and carried out by the board of directors acting as trustees of LifeArc. The board of trustees meets at least four times a year to review and direct activities and to deal with the detailed financial and administrative affairs of LifeArc.

The Chief Executive Officer and executive directors (who are not themselves members of the board) comprise the executive team, which manages the day to day business of LifeArc.

The board of trustees

Members of the board have varied backgrounds across the fields of biomedical sciences (academic and pharmaceutical), finance, investment fund management, law and medicine. Our board is responsible for setting strategies and policies for LifeArc and ensuring that these are implemented. It delegates oversight and assurance for key business functions to five dedicated committees.

Members of the board of trustees

Dr John Stageman OBE, Chairman

Mike Brooks
(retired 17/11/2016)

Dr Sally Burtles

Professor Sir Phillip Cohen
(retired 20/04/2016)

Dr Annette Doherty

Dr Mark Edwards
(retired 17/11/2016)

Dr Les Hughes

Peter Keen

Dr Declan Mulkeen

Dr Paul Mussenden

Dr Mike Romanos

Steve H Visscher CBE
(appointed 17/11/2016)

STRUCTURE, GOVERNANCE, MANAGEMENT

Trustees' annual report 31 March 2017

Committees of the board

Board meetings

John Stageman - Chair	■	■	■	■
Mike Brooks <i>Retired 17/11/16</i>	■	■	■	—
Mark Edwards <i>Retired 17/11/16</i>	■	□	□	—
Paul Mussenden	■	□	■	■
Declan Mulkeen	■	■	■	■
Philip Cohen <i>Retired 20/04/16</i>	■	—	—	—
Sally Burtles	■	■	■	■
Peter Keen	■	■	■	■
Annette Doherty	■	■	■	■
Les Hughes	■	■	■	■
Mike Romanos	■	■	■	■
Steve Visscher <i>Appointed 17/11/16</i>	—	—	—	□

Audit and risk management committee (ARMC)

Mike Brooks - Chair <i>Retired 17/11/16</i>	■	■	—	—
Paul Mussenden <i>Chair from 17/12/16</i>	■	■	■	■
Peter Keen	■	□	■	■
Steve Visscher <i>Appointed 17/11/16</i>	—	—	—	□
<p><i>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.</i></p>				

Scientific committee (SC)

John Stageman Temporary chair	■	■
Mark Edwards <i>Retired 17/11/16</i>	■	—
Philip Cohen <i>Retired 20/04/16</i>	—	—
Sally Burtles	■	■
Annette Doherty	■	■
Les Hughes	■	■
Mike Romanos	■	■

Provides assurance to the board of trustees on the management of LifeArc's investment in drug discovery and diagnostic development through CTD and CDD.

Nominations committee (NC)

John Stageman - Chair	■	■
Mike Brooks <i>Retired 17/11/16</i>	■	■

The main function of the committee is to develop and maintain an active succession plan for the board.

Investment management committee (IMC)

Peter Keen - Chair	■	■	■
Mike Brooks <i>Retired 17/11/16</i>	■	—	—
Paul Mussenden	■	■	■
Steve Visscher <i>Appointed 17/11/2016</i>	—	—	□

Separate delegated committee of the ARMC which provides assurance to the ARMC and the board of trustees on the management of LifeArc's invested funds and investment policy. The committee supervises the appointment and performance management of LifeArc's investment fund managers.

Remuneration committee (RC)

John Stageman - Chair	■	■
Sally Burtles	■	■
Paul Mussenden	—	■

Deals with matters relating to remuneration policy and the annual review of remuneration, in particular with regard to senior executives.

Executive management

Dr Dave Tapolczay
Chief Executive Officer

Dr Edward Bliss
General Counsel &
Company Secretary

Dr Justin Bryans
Executive Director,
Drug Discovery

Amanda Cowley
Executive Director,
Human Resources

Dr Michael Dalrymple
Executive Director,
Diagnostics and Science Foresight

Andrew Farquharson
Executive Director,
Technology Transfer

Mike Johnson
Executive Director,
Business Development

Andrew Mercieca
Chief Financial Officer

Structure of key divisions

LifeArc has five divisions with IT, finance, human resources, marketing and general management functions providing support for the charity.

■ Centre for Therapeutics Discovery (CTD)

Progresses early stage molecular targets emerging from academic research, for indications where there is a clear unmet need, towards clinical benefit.

■ Centre for Diagnostics Development (CDD)

Works with industry, academia and health services to accelerate the delivery of cutting edge diagnostic tests to patients.

■ Technology Transfer

Provides intellectual property (IP) management and commercialisation services to the MRC and technology transfer services to other medical research charities and organisations. Provides general advisory support to LifeArc on issues relating to IP that impact the business.

■ Legal

Negotiate and conclude all commercialisation agreements relating to MRC IP, drafts and concludes agreements with charity clients and provides general advisory support to LifeArc on a broad range of legal issues that affect the organisation and its administrative activities.

■ Business Development

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

Corporate Partnerships was integrated into Business Development in December 2016. This activity creates new routes to deliver our charitable objects through exploring, defining and implementing collaborative approaches to help patients.

STRUCTURE, GOVERNANCE, MANAGEMENT

Trustees' annual report 31 March 2017

Statement of trustees' responsibilities

The trustees (who are the directors for the purpose of Company Law) are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company Law requires trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and of its incoming resources and application of resources, including its income and expenditure for that period. In preparing these financial statements the trustees are required to:

- select suitable accounting policies and then apply them consistently
- observe the methods and principles in the Charities' SORP
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that LifeArc will continue in operation.

The members of the board are responsible for keeping proper accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

The trustees are also responsible for safeguarding the assets of LifeArc and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities. The board met five times during the year (April, June, October, November (AGM) and January).

Internal control

■ Delegation:

There is a clear organisational 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

■ Policies:

Standard operating procedures are in place for all activities and risk areas

■ Risk management:

There are processes in place for the identification, evaluation and management of significant risks faced by LifeArc. This information is embodied in a risk register which is reviewed at executive management meetings, audit and risk management committee meetings and meetings of the board of trustees

■ Internal audit:

Internal audit services are provided by BDO LLP

■ 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 reviewed and updated.

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 takes professional advice as required to fulfil its duties.

Trustee appointment

The LifeArc nominations committee meets at least twice a year to review the structure, size and composition of the board. Consideration is given to recruitment, re-elections and succession planning for the board and executive management team to ensure the organisation is best able to meet its strategic aims and charitable objects.

With each vacancy, it is their responsibility to evaluate the balance of skills, knowledge, experience and diversity of the board before any recruitment takes place. Candidates will then be identified and considered on merit by the nominations committee before a candidate is nominated for approval by the board.

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 committees.

Trustee training

All trustees are offered an 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 LifeArc employee.

In addition, trustees' training is provided through updates to charity law and key governance requirements by the Company Secretary or external advisers.

Risk management

The trustees have a risk management strategy which comprises:

- Regular review of the principal risks and uncertainties that the charity faces
- Establishment of policies, systems and procedures to mitigate those risks identified in the review
- Implementation of procedures to minimise or manage any potential impact on the charity should those risks materialise.

Conflicts of interest

LifeArc's policy on conflicts of interest applies to board members and employees. An annual disclosure form is completed by board members and all LifeArc 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 decides whether that trustee 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.

STRUCTURE, GOVERNANCE, MANAGEMENT

Trustees' annual report 31 March 2017

Remuneration

The objective of LifeArc's remuneration is to facilitate the achievement of our strategy in the context of the charitable objects. Central to this is the need to ensure that we can attract, retain and motivate the necessary calibre of talent required to do so.

We work towards the guiding principles:

- Offer a total reward package (salary, bonus, pension and benefits) that is competitive in the relevant talent market, but also reflective of LifeArc's charitable status
- To reward performance that delivers on the charity's goals
- To encourage employees to build upon their capabilities and share their knowledge with others
- To ensure benefits are flexible and fit for the employee population
- To be fair, non-discriminatory, consistent and transparent in the remuneration award process.

Senior leaders

The LifeArc remuneration framework and award practice is overseen by the remuneration committee which deals with matters relating to remuneration policy and the annual review of remuneration, with particular regard to senior leaders.

Reward for the CEO and senior leaders is awarded using the same criteria and methodology as all other employees in LifeArc. This process follows the annual performance review and includes an assessment of salaries in the relevant talent market.

Health and safety

As a laboratory and office based organisation, LifeArc regards health and safety as a top priority. Each of the three sites has an executive director responsible for health and safety. Control of Substance Hazardous to Health and other protocols are rigorously observed and monitored.

At the main laboratory site in Stevenage we also make use of and are represented on Stevenage Bioscience Catalyst health and safety committee.

The Edinburgh site does not have a formal safety committee. Health and safety issues are discussed with all employees at regular employee meetings. The safety officer attends the quarterly meetings of LifeArc's Health and Safety Committee.

The health and safety committee, comprising executive officers, develops and monitors health and safety plans and policies for the Lynton House office and co-ordinates health and safety policies across the organisation. A rolling list of reported accidents is reviewed by the board of trustees at each board meeting.

Employment

LifeArc offers a challenging and innovative environment where employees have the opportunity to play a key role in supporting and progressing translational research. We provide an environment where continuous development can take place and where employees are supported and enabled to meet the changing demands and priorities of the charity.

LifeArc strives to attract and recruit the best candidates from within the charity and the wider external market.

The working environment is flexible, friendly and diverse with dynamic, innovative and technically skilled people.

Employees are encouraged to participate in processes that affect them and are well represented by their staff consultative group.

LifeArc is committed to a policy of equal opportunities in all aspects of our activities.

ADMINISTRATIVE DETAILS

Trustees' annual report 31 March 2017

Locations

LifeArc (registered office)
Lynton House
7-12 Tavistock Square
London
WC1H 9LT

LifeArc
Accelerator Building
Open Innovation Campus
Stevenage
SG1 2FX

LifeArc
Nine, Edinburgh Bioquarter
9 Little France Road
Edinburgh
EH16 4UX

Advisers

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

Bankers
Lloyds Bank Plc
Lloyds Banking Group
3rd Floor, 25 Gresham Street
London EC2V 7HN

Charity law advisers
Bates Wells Braithwaite
10 Queen Street Place
London EC4R 1BE

Internal auditors
BDO LLP
55 Baker Street
London W1U 1EU

Investment managers & advisers
Schroder and Co. Limited
3rd Floor
100 Wood Street
London EC2V 7ER

Rothschild Wealth Management
(UK) Limited
New Court, St Swithin's Lane
London EC4N 8AL

Overview

Key numbers	2016-17 £000s	2015-16 £000s
Total incoming resources	128,967	29,708
Total resources expended	24,828	23,038
Net movement in funds	109,837	5,506
Funds balance carried forward	174,972	65,135

The overall surplus delivered was £109,837k (2016 – £5,506k).

Total incoming resources for the year were £128,967k (2016 - £29,708k) including £115,634k (£150,000k) for Keytruda® royalty monetisation, £8,475k (2016 - £25,137k) of contract and royalty income, and £1,750k (2016 - £2,788k) received for IP management and technology transfer services.

Contract and royalty income primarily relates to royalties from Keytruda® which received FDA approval in 2015-16 for the treatment of advanced melanoma, and has now been approved by the European Commission and The National Institute for Health and Care Excellence (NICE) and is available to patients in the EU. The FDA also approved Keytruda® to treat patients with advanced (metastatic) non-small cell lung cancer. It also includes LifeArc's share of royalties arising from the development

of the successful treatment for multiple sclerosis (Tysabri®).

2015-16 included LifeArc's share of royalties arising from the development of the successful treatment for rheumatoid arthritis (Actemra®) for which the Winter patent has now expired.

Total resources expended amounted to £24,828k (2016 - £23,038k).

The costs comprise the research costs and expenses related to technology transfer activities, both activities being directly related to LifeArc's 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 LifeArc's public benefit objectives is in line with last year.

Investment policy

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 monitors investment activities on behalf of LifeArc. The performance of the investment portfolio for the year ended 31 March 2017 was broadly in line with expectations in the prevailing investment environment.

Following the Keytruda® royalty monetisation our investments were restructured with £60m each being invested with both Rothschild and Schroders in long term portfolios focused on equities, fixed interest securities, cash, and alternatives with a targeted return of RPI + 3% net of fees.

A further £40m has been invested with Rothschild in a short term portfolio to fund LifeArc's day to day operations, with a focus on fixed interest securities and a targeted return of three month LIBOR.

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.

FINANCIAL REVIEW

Trustees' annual report 31 March 2017

Reserves policy

LifeArc holds reserves to ensure that, as far as is reasonably possible, its future expenditure objectives can be met, given certain assumptions about future income streams.

All of LifeArc's reserves are held in pursuance of its charitable objects as stated above.

The level of free reserves held at 31 March 2017, defined as being those funds that are freely available for general purposes and excluding tangible fixed assets, was £164,421k (2016 - £56,216k).

The trustees have decided, given the long term nature of drug discovery, that currently a balance equivalent of between five and seven years' (£125m - £175m) of operating costs is desirable to provide a buffer against any substantial and unanticipated interruption to the income stream and to provide the charity with sufficient flexibility to manage its affairs in this event.

Material decrease of royalty income from Keytruda® would have a significant impact on the charity since it forms the vast majority of the overall income of LifeArc.

Auditors

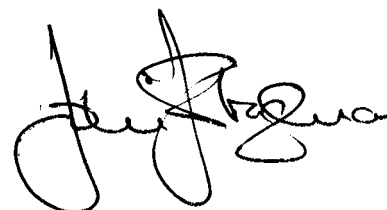
PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

Disclosure of information to auditors

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

- there is no relevant audit information of which LifeArc's auditors are unaware
- the members of the board have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This annual report was approved by the LifeArc board on 6 October 2017 and signed on its behalf by



Dr John Stageman OBE
Chairman

Independent auditor's report to the members of LifeArc

We have audited the financial statements of LifeArc for the year ended 31 March 2017 which comprise the statement of financial activities, incorporating an income and expenditure account, the balance sheet, 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) including FRS 102 The Financial Reporting Standards applicable in the UK and Republic of Ireland.

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 charitable company's trustees, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 10 of the Charities Accounts (Scotland) Regulators 2006 (as amended). Our audit work has been undertaken so that we might state to the charitable company's members and its trustees 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 auditor

As explained more fully in the trustees' responsibilities statement, set out on page 12, 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 charity'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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 March 2017 and of its incoming resources and application of resources, including income and expenditure for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 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 trustees' report and strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

The strategic report and the trustees' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and trustees' report.

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 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
- the charitable company's financial statements are not in agreement with the accounting records or returns
- certain disclosures of trustees' remuneration specified by law are not made
- we have not received all the information and explanations we require for our audit.



Alastair Duke (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP,
Statutory auditor, 1 Westferry Circus,
Canary Wharf, London E14 4HD

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

Financial statements

FINANCIAL STATEMENTS INDEX

Trustees' annual report 31 March 2017

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Statement of financial activities

For the year ended 31 March 2017

	Notes	Unrestricted Funds	Restricted Funds	Total Funds 2017	Total Funds 2016
		£000s	£000s	£000s	£000s
INCOMING RESOURCES					
<i>Income and endowments from:</i>					
Donations and Legacies	1	105	–	105	–
Charitable activities	2	125,859	818	126,677	28,140
Investments	3	1,827	–	1,827	1,447
Other income	4	358	–	358	121
Total income and endowments		128,149	818	128,967	29,708
<i>Expenditure on:</i>					
Raising funds	5	438	–	438	143
Charitable activities	6	23,479	818	24,297	23,000
Provisions	19	93	–	93	(105)
Total expenditure		24,010	818	24,828	23,038
Net gains / (losses) on investments		5,698	–	5,698	(1,164)
Net income	9	109,837	–	109,837	5,506
Net movement in funds	20	109,837	–	109,837	5,506
Reconciliation of funds:					
Total funds brought forward	20	65,135	–	65,135	59,629
Total funds carried forward	20	174,972	–	174,972	65,135

All income and expenditure derives from continuing activities. The statement of financial activities includes all gains and losses recognised during the year. Comparative presented in note 29. The accounting policies and notes on pages 26-40 form part of these financial statements.

AUDITED ACCOUNTS

Trustees' annual report 31 March 2017

Balance sheet

As at 31 March 2017

Company number: 2698321

	Notes	2017	2016
		£000s	£000s
FIXED ASSETS			
Tangible fixed assets	13	10,551	8,919
Investments	14	123,791	32,995
		<hr/> 134,342	<hr/> 41,914
CURRENT ASSETS			
Investments	15	36,075	13,214
Debtors	16	12,011	10,155
Cash at bank and in hand		589	10,669
		<hr/> 48,675	<hr/> 34,038
Creditors: amounts falling due within one year	17	(6,062)	(7,815)
		<hr/> 42,613	<hr/> 26,223
Net current assets			
		<hr/> 176,955	<hr/> 68,137
Total assets less current liabilities			
Provision for liabilities	19	(1,983)	(3,002)
		<hr/> 174,972	<hr/> 65,135
Net assets			
CHARITY FUNDS			
Unrestricted funds	21	174,972	65,135
		<hr/> 174,972	<hr/> 65,135
Total charity funds			

The financial statements were approved and authorised for issue by the board on 6 October 2017.

Signed on behalf of the board of trustees.



Dr John Stageman OBE, Chairman

The accounting policies and notes on page 26 to 40 form part of these financial statements.

Statement of cash flows

Year ended 31 March 2017

	Notes	2017	2016
		£000s	£000s
Cash flow from operating activities	22	99,594	4,830
Net cash flow provided by / (used in) operating activities		99,594	4,830
Cash flow from investing activities			
Payments to acquire tangible fixed assets		(3,330)	(7,209)
Receipts from sale of fixed assets		–	3
Payments to acquire investments		(175,404)	(6,517)
Receipts from sale of investments		92,233	7,348
Dividends, interest and rents received from investments		1,827	1,447
(Increase) / Decrease in current asset investments		(22,861)	1,200
(Decrease) / Increase in cash held for investment		(2,139)	255
Net cash flow provided by / (used in) investing activities		(109,674)	(3,473)
Change in cash and cash equivalents in the year		(10,080)	1,357
Cash and cash equivalents at 1 April		10,699	9,312
Cash and cash equivalents at 31 March		589	10,669
Cash and cash equivalents consist of:			
Cash at bank and in hand		589	10,669
Short term deposits		–	–
Cash and cash equivalents at 31 March		589	10,669

The accounting policies and notes on page 26 to 40 form part of these financial statements.

ACCOUNTING POLICIES

Trustees' annual report 31 March 2017

General information and basis of preparation

The charity constitutes a public benefit entity as defined by FRS 102. The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) applicable to charities preparing their accounts in accordance with the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014, the financial reporting standard applicable in the United Kingdom and Republic of Ireland (FRS 102), the Charities Act 2011, the Companies Act 2006 and UK generally accepted practice as it applies from 1 January 2015.

The financial statements are prepared on a going concern basis under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the charity and rounded to the nearest £000.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern

The directors 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 donations and legacies comprise the following:

- Donations recognised according to the terms of the agreement upon completion of agreed signed documentation.

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
- Technology transfer services fees receivable from the Medical Research Council (MRC) which are invoiced in line with the service level agreement
- Grant income recognised when LifeArc has the right to receive the money. Grants received which are restricted by the donor for performance in future accounting periods are deferred
- Rental income from subletting. Income recognised represents amounts invoiced in the year.

Incoming resources from Investments comprise the following:

- Investment income together with recoverable tax, recognised on an accruals basis.

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 raising 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 LifeArc
- charitable activities comprise expenditure on the direct charitable activities of LifeArc
- provisions comprise estimated movement in obligations as at the balance sheet date as a result of a past event.

Fund accounting

The unrestricted fund is a general unrestricted fund which is available for use at the discretion of the trustees in furtherance of the general objectives of LifeArc and which has not been designated for other purposes. The restricted funds are grants received in the year which are subject to specific restrictions imposed by the donor.

Support cost allocation

Support costs are those that assist the work of the charity but do not directly represent charitable activities and constitute corporate resource and governance costs. They are incurred directly in support of expenditure on the activities of the charity. Corporate resource and governance costs have been allocated to activities on an employee headcount basis.

Accounting for tangible fixed assets

Fixed assets 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.

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 – 5-10 years;
- furniture, fixtures and fittings and office equipment – 5 years;
- computers – 3-5 years;
- leasehold improvements – 10 years; and
- IT infrastructure – 10 years.

Fixed asset investments

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

ACCOUNTING POLICIES

Trustees' annual report 31 March 2017

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.

Employee benefits

When employees have rendered service to the charity, short-term employee benefits to which the employees are entitled are recognised at the undiscounted amount expected to be paid in exchange for that service.

Taxation

LifeArc 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.

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.

Where there is a rent free period the total cost of the lease is recognised over the term on a straight line basis.

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.

Provisions

A provision is made for a liability in the financial statements where LifeArc 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.

Foreign currencies

Monetary 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 monthly 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

The charitable company operates a defined contributions pension scheme which is open to all employees. The funds of the scheme are administered by a third party and are separate from the charitable company. The pension charge represents contributions payable by the charitable company for the year. The charitable company's liability is limited to the amount of the contributions.

Material items

Material items are items which derive from events or transactions that fall within the ordinary activities of the charity 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 material items helps to provide a better indication of the charity's underlying business performance.

1 Income from donations and legacies		2017 £000s	2016 £000s
Donations and legacies		105	–
		<u>105</u>	<u>–</u>
2 Income from charitable activities		2017 £000s	2016 £000s
Keytruda® royalty monetisation		115,634	–
Research contracts and royalty income		8,475	25,137
IP management and technology transfer services		1,750	2,788
Grants		818	215
		<u>126,677</u>	<u>28,140</u>
3 Income from investments		2017 £000s	2016 £000s
Dividends - equities		811	402
Interest - fixed interest securities		881	930
Interest - deposits		135	115
		<u>1,827</u>	<u>1,447</u>
4 Other income		2017 £000s	2016 £000s
Loss on disposal of tangible fixed assets		–	(26)
Miscellaneous		358	147
		<u>358</u>	<u>121</u>
5 Investment management costs		2017 £000s	2016 £000s
Investment manager fees		438	143
		<u>438</u>	<u>143</u>

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

6	Analysis of expenditure on charitable activities	Activities undertaken directly £000s	Support costs £000s	Total 2017 £000s	Total 2016 £000s
	Early stage drug discovery	12,128	3,280	15,408	11,933
	Diagnostics Development	1,272	415	1,687	1,164
	Technology Transfer, Legal and Business Development	5,709	1,493	7,202	9,903
		19,109	5,188	24,297	23,000

7	Allocation of support costs	Governance £000s	Corporate resources £000s	Total 2017 £000s	Total 2016 £000s
	Early stage drug discovery	268	3,012	3,280	2,615
	Diagnostics Development	34	381	415	318
	Technology Transfer, Legal and Business Development	197	1,296	1,493	1,413
		499	4,689	5,188	4,346

8	Governance costs	2017 £000s	2016 £000s
	Staff costs	182	157
	Direct costs		
	Other legal and professional charges	17	10
	Audit fees	24	27
	Other fees	30	49
	Bank charges	5	5
	Insurance	113	99
	Other governance costs	128	62
		499	409

9	Net income for the year stated after charging / (crediting):	2017 £000s	2016 £000s
	Depreciation of tangible fixed assets	1,666	894
	Operating leases - property	1,089	627
	Operating leases - equipment	38	117
	Auditor's remuneration	24	30
	Fees payable to internal auditor	29	45
	Net losses / (gains) on foreign exchange	14	199
		<u>2,860</u>	<u>1,912</u>

10	Auditor's remuneration	2017 £000s	2016 £000s
	Fees payable to the charity's auditor for the audit of the charity's annual accounts	24	27
	Fees payable to the charity's auditor for other services:		
	Other services	–	3
		<u>24</u>	<u>30</u>

11	Trustees' and key management personnel remuneration and expenses	2017 No. trustees	2016 No. trustees	2017 £000s	2016 £000s
	The following trustees' expenses were reimbursed or paid directly on their behalf during the year:				
	Travel and subsistence	8	5	4	3
		<u>8</u>	<u>5</u>	<u>4</u>	<u>3</u>

The trustees neither received nor waived any remuneration during the year (2016: £Nil).

The total amount of employee benefits received by key management personnel during the year was £1,311k (2016 - £1,047k). The charity considers its key management personnel to comprise the Chief Executive Officer and executive management team.

Included in above are £Nil (2016 - £Nil) which have been paid directly to third parties.

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

12 Staff costs and employee benefits

2017

2016

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

Management	7	7
Research	72	66
Technology transfer	35	30
Administration	41	41
Agency / contract staff	2	2
	<u>157</u>	<u>146</u>

The total staff costs and employees benefits were as follows:

2017
£000s

2016
£000s

Wages and salaries	9,026	7,767
Social security	973	838
Defined contribution pension costs	1,053	1,079
Agency/contract staff	74	60
	<u>11,126</u>	<u>9,744</u>

The number of employees who received total employee benefits (excluding employer pension costs) of more than £60,000 is as follows:

2017

2016

£60,001 - £70,000	15	17
£70,001 - £80,000	9	5
£80,001 - £90,000	10	7
£90,001 - £100,000	5	5
£100,001 - £110,000	4	-
£110,001 - £120,000	2	1
£130,001 - £140,000	-	1
£140,001 - £150,000	1	1
£150,001 - £160,000	1	1
£160,001 - £170,000	2	1
£170,001 - £180,000	1	-
£230,001 - £240,000	-	1
£260,001 - £270,000	1	-
	<u>51</u>	<u>40</u>

The Remuneration Committee ensures the charity is able to attract and retain the calibre of talent required to facilitate the achievement of our strategy in the context of our charitable status.

The pension contributions to the defined contribution scheme payable on behalf of 51 (2016 – 40) members of staff amounted to £576,746 (2015 £532,697).

13 Tangible fixed assets	Assets under construction £000s	Leasehold improvements £000s	Laboratory equipment & plant £000s	Fixture fittings & computers £000s	Total £000s
COST OR VALUATION					
At 1 April 2016	520	6,386	5,195	1,715	13,816
Additions	1,417	101	1,362	450	3,330
Disposals	–	–	(241)	(123)	(364)
Reclassification	(487)	–	352	135	–
At 31 March 2017	1,450	6,487	6,668	2,177	16,782
ACCUMULATED DEPRECIATION					
At 1 April 2016	–	439	3,836	622	4,897
Charge for year	–	663	675	328	1,666
Disposals	–	–	(235)	(97)	(332)
At 31 March 2017	–	1,102	4,276	853	6,231
NET BOOK VALUE					
At 31 March 2017	1,450	5,385	2,392	1,324	10,551
At 31 March 2016	520	5,947	1,359	1,093	8,919

LifeArc had capital commitments of £654k at 31 March 2017 relating to works at building Nine, Edinburgh Bioquarter (£Nil 2016).

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

14 Fixed asset investments	2017 £000s	2016 £000s
Investment in Targetome	86	136
Investments at market value	123,705	32,859
	<u>123,791</u>	<u>32,995</u>

Listed investments		2017 £000s	2016 £000s
Market value at 1 April		32,435	34,566
Acquisitions		175,404	6,381
Sale proceeds		(92,233)	(7,348)
Unrealised (loss) / gain		3,273	(948)
Realised (loss) / gain		2,263	(216)
Market value at 31 March		121,142	32,435
Historical cost at 31 March		118,742	30,858
Portfolio analysis			
Equities	within the UK	11,822	6,388
	overseas	39,586	4,524
Fixed interest securities	within the UK	43,333	17,073
	overseas	2,357	2,911
Alternative investment		24,044	1,539
		121,142	32,435
Cash		2,563	424
		123,705	32,859

15 Current asset investments	2017 £000s	2016 £000s
At 1 April	13,214	14,414
Net (withdrawal) / investment	(13,764)	(1,275)
Acquisitions	50,525	–
Sale Proceeds	(19,895)	–
Realised gains / (losses)	(13)	–
Unrealised gains / (Losses)	175	–
Interest received	128	109
Management Fees	(9)	(34)
Market value at 31 March	30,361	13,214
Total current asset investments	30,361	13,214
Historical cost at 31 March	30,181	13,192
Portfolio analysis		
Fixed interest securities within the UK	29,361	–
Alternative investment	1,000	–
	30,361	–
Cash	5,714	13,214
	36,075	13,214

The fair value of listed investments is determined by reference to the quoted price for identical assets in an active market at the balance sheet date.

No short term deposits were held at 31 March 2017. At March 2016 they had an original maturity of 0 – 32 days, an average maturity at the balance sheet date of 17 days and an average interest rate of 0.62%.

16 Debtors	2017 £000s	2016 £000s
Trade debtors	5,988	5,193
Interest receivable	373	–
Prepayments and accrued income	5,100	3,829
Tax debtor - VAT	274	–
Other debtors	276	1,133
	12,011	10,155

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

17 Creditors: amounts falling due within one year	2017 £000s	2016 £000s
Trade creditors	2,178	882
Accruals	3,052	5,581
Tax creditor - VAT	–	1,015
Other creditor	460	–
PAYE & NI creditor	372	337
	6,062	7,815

18 Leases	2017 £000s	2016 £000s
Operating leases – lessee		
Total future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	1,257	1,127
Later than one and not later than five years	3,145	3,155
Later than five years	1,418	1,780
	5,820	6,062

19 Provisions for liabilities and charges	Loyalty bonus £000s	Canada provision £000s	Contractual payments £000s	Total £000s
At 1 April 2016	217	2,385	400	3,002
Additions during the year	–	93	107	200
Amounts charged against the provision	(217)	(1,146)	–	(1,363)
Foreign exchange loss during the year	–	144	–	144
At 31 March 2017	–	1,476	507	1,983

The Canada provision has given rise to a resulting payment of £1,476k due within one year.

The contractual payments provision relates to dilapidations and accelerated rent and service charges for the Edinburgh site, dilapidations for the Lynton House site, and dilapidations for the Stevenage site.

Charges to the SOFA resulting from provisions during the year amount to £93k charge to the Canada provision (2016 - £105k credit), £Nil charge to salaries and wages (2016 - £217k), and £107k charge to contractual payments (2016 - £Nil) of which £Nil (2016 - £Nil) was attributable to restricted funds.

20	Fund reconciliation	Balance at 1 April 2016	Income	Expenditure	Transfers	Gains / (Losses)	Balance at 31 March 2017
	Unrestricted	65,135	128,149	(24,010)	–	5,698	174,972
	Restricted	–	818	(818)	–	–	–
		65,135	128,967	(24,828)	–	5,698	174,972

Fund descriptions

a) Unrestricted funds

The unrestricted fund is a general unrestricted fund which is available for use at the discretion of the trustees in furtherance of the general objectives of LifeArc and which has not been designated for other purposes.

b) Restricted funds

The restricted funds are grants received in the year which are subject to specific restrictions imposed by the donor.

Grant income includes £818k (2016 - £215k) from Alzheimer's Research UK (ARUK), GSK Services, and European Commission Horizon 2020 programme.

21	Analysis of net assets between funds	Unrestricted funds £000s	Restricted funds £000s	Total 2017 £000s	Total 2016 £000s
	Fixed Assets	134,342	–	134,342	41,914
	Cash and current investments	36,664	–	36,664	23,883
	Other current assets / liabilities	5,949	–	5,949	2,340
	Provisions	(1,983)	–	(1,983)	(3,002)
		174,972	–	174,972	65,135

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

22 Reconciliation of net income to net cash flow from operating activities	2017 £000s	2016 £000s
Net income for year	109,837	5,506
Dividends, interest and rents from investments	(1,827)	(1,447)
Investment disposal levies and third party fees	161	–
Depreciation and impairment of tangible fixed assets	1,666	894
(Gains) / losses on investments	(5,698)	1,164
Loss on disposal of tangible fixed assets	–	26
Loss on write off of tangible fixed assets	83	215
(Increase) in debtors	(1,856)	(2,663)
(Decrease) / Increase in creditors	(2,772)	1,135
Net cash flow from operating activities	99,594	4,830

23 Pensions and other post-retirement benefits

a) Defined contribution pension plans

The charity operates a defined contribution pension plan for its employees.

The amount of contributions recognised as an expense during the year was £1,053k (2016 - £1,079k).

24 Related party transactions	Income £000s	Expenditure £000s	Debtor £000s	Creditor £000s
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Information about related party transactions and outstanding balances is outlined below:

Medical Research Council

At end date 2017	1,854	627	104	1,840
At end date 2016	2,788	4,277	1,000	5,926

The members of the board received no remuneration from LifeArc for their services as trustees during the year. However, reimbursements for travel expenses with an aggregate value of £4,156 (2016 - £3,403) were made to eight members (2016 - five members). These transactions were carried out on normal commercial terms.

Trustee indemnity insurance was purchased in the year at a cost of £5,226 including insurance premium tax (2016 - £5,226).

25 Limited liability

LifeArc is a company limited by guarantee and thus has no share capital.

In the event of LifeArc being wound up, every member of LifeArc undertakes to contribute no more than £1 to the assets of LifeArc while they are a member, or within one year after they cease to be a member, for the debts and liabilities of LifeArc contracted before they cease to be a member. The number of members at 31 March 2017 was 17 (2016 – 11).

26 Charitable status

LifeArc 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.

27 Contingent liabilities

LifeArc 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 LifeArc of future royalties on those sales.

28 Ultimate controlling party

The charitable company is controlled by its members.

NOTES TO THE FINANCIAL STATEMENTS

Trustees' annual report 31 March 2017

29 Comparative Statement of Financial Activities	Unrestricted Funds £000s	Accumulated Funds £000s	Total Funds £000s
INCOMING RESOURCES			
<i>Income and endowments from:</i>			
Donations and Legacies	–	–	–
Charitable activities	27,925	215	28,140
Investments	1,447	–	1,447
Other income	121	–	121
Total income and endowments	29,493	215	29,708
<i>Expenditure on:</i>			
Raising funds	143	–	143
Charitable activities	22,785	215	23,000
Provisions	(105)	–	(105)
Total expenditure	22,823	215	23,038
Net (losses) investments	(1,164)	–	(1,164)
Net income	5,506	–	5,506
Net movement in funds	5,506	–	5,506
Reconciliation of funds:			
Total funds brought forward	59,629	–	59,629
Total funds carried forward	65,135	–	65,135

Registered address

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Company number

LifeArc is a company
limited by guarantee no.
2698321 incorporated in
England and Wales.

Charity numbers

LifeArc 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.