The human solution

Annual Report and
Financial Statements 2016

hVIVO

better treatments, faster

WHO WE ARE

Our vision:
revolutionise healthcare by putting humans at the heart of disease modelling.

Our mission:
overcome unmet medical need barriers by providing human models of disease which bridge the translation gap from animal to man, and which can illuminate the molecular and cellular causes of disease.

Better treatments, faster

The demand for new treatments in the drive towards a healthier world is a pressing one. There is a real need to understand better the true causes of debilitating and life threatening conditions and identify the best way to alleviate or cure them.

OUR HIGHLIGHTS

In 2016, we made significant strides in leveraging our platform to test new products and harvest our biological insights, resulting in early indications of our potential for revolutionising flu and asthma care.

Financial highlights

- Revenue of £19.9 million (2015: £7.7 million), includes £7.3 million from third party client engagements and £12.5 million from equity investments (£9.7 million from the three PrEP-001 Phase IIa clinical studies and £2.8 million from the FLU-v Phase IIb clinical study)
- Gross profit of £4.2 million and gross profit margin of 21.3% (2015: gross profit of £2.5 million and gross profit margin 31.8%), with margin dampened by clinical studies with equity investments
- Research and development (R&D) expense was £6.3 million (2015: £10.2 million) and is lower, as expected, compared to previous years, due to the timing of phases and weighting of costs of our discovery research programmes, with greater R&D expense in previous years from undertaking the sample studies and subsequent third party transcriptomic analysis
- Administrative expenses were £13.8 million (2015: £13.7 million) with costs maintained primarily due to non-capitalisable costs of investment in a medical management technology platform, leveraging technology to improve efficiency, partially offset by ongoing cost savings and other efficiency initiatives
- Short-term deposits, cash and cash equivalents of £25.7 million at 31 December 2016 (2015: £51.2 million), extending cash runway into H2 2018

Operational highlights

- Filed hVIVO's first patent application in severe flu as a result of our pathomics-informed drug target discovery, and in parallel, progressed the selection of a severe flu compound against this target, positioning hVIVO to lead the way in developing the first treatments for this area of high unmet need
- Advanced a potentially ground-breaking biological algorithm for predicting who will experience asthma worsening before symptoms emerge
- Conducted three Phase IIa clinical studies for PrEP-001 designed to address key clinical development questions, regarding target indications (both flu and cold), dosing regimens (daily dosing), and optimal field study population (healthy adults)
- Contracted our second equity investment in April 2016, acquiring a 49.0% interest in Imutex Limited for £7.0 million, which holds two clinical stage vaccine platforms in universal flu (FLU-v) and mosquito-borne disease (AGS-v)
- Advanced three clinical studies with FLU-v and AGS-v, with initial data read-outs expected in 2017

CHIEF EXECUTIVE OFFICER'S STATEMENT

Kym Denny
Chief Executive Officer

In 2016, the insights enabled by our 'disease in motion' human disease models allowed us to achieve significant steps in our quest for precision medicines in respiratory and infectious diseases.

After three years of collecting and qualifying influenza (flu) disease in motion samples, we were able to demonstrate 'severe flu' as having a different pathophysiology to 'normal flu', opening up the ability to predict, diagnose and treat severe flu for the very first time. Additionally, from our new asthma exacerbation disease model, we were able to advance a potentially ground-breaking biological algorithm that can predict, up to two days before symptoms emerge, who will experience asthma worsening due to the common cold. Leveraging our platform for its product testing capabilities, we advanced PrEP-001 through three clinical studies aimed at widening its application, selecting the optimal dosing regimen, and investigating the best patient population in which to advance development. Lastly, we formed a joint venture with SEEK Group ("SEEK") to develop two clinical stage vaccine assets in universal flu and mosquito-borne diseases, which we advanced into Phase IIb and first-in-man studies, respectively.

Severe flu – first pathomics patent application filed

Over hVIVO's 25 years of experience researching flu it has become clear that there are significant gaps in existing treatments and vaccines. We believe we can overcome these gaps by better understanding the immune response to flu infection. In particular, hVIVO noted that there were no treatments for severe flu. This translates into a worrying economic reality: in the US alone, there are 200,000 cases of severe flu annually, 20% of which develop acute respiratory distress syndrome (ARDS) and cause $13.8 billion in hospital costs[1]. These figures can be expected to increase exponentially in pandemic outbreaks.

As such, hVIVO turned the power of our platform on severe flu in order to illuminate the correct drug targets to produce a positive therapeutic effect. Through our pathomics process, we arrived at a qualified pathway component for our severe flu drug target in under 18 months and filed our first patent application around this discovery in early July 2016. The invention in this initial patent application aims to protect our pathomics-informed drug target (HVO-001), with additional patent applications to follow that address novel and inventive use of the associated pathway and disease activity biomarkers.

Based on both in vitro and human ex vivo disease relevant assays, we are currently in the compound selection stage for our severe flu drug candidate. We believe our pathomics insights and our efforts over the past three years to distinguish those pathways involved in severe flu positions hVIVO to lead the charge in defining and treating this area of high unmet medical need.

1 CDC.gov, Influenza Activity – United States, 2013-2014 Season and Composition of the 2014-15 Influenza Vaccine, Accessed 10/15; Woods et al. (2015), Am J Physiol Lung Cell Mol Physiol 38(9): L912-L921; Howard WA et al. (2011), influenzajournal.com; Wisen, J. et al. (2012), Annals of Intensive Care, 2:41.

Data mining – translating insights to products

Once we had identified a biological distinction between severe and normal flu, we turned to data mining of our time-course, disease in motion samples to reveal patterns and meaningful correlations between clinical, cellular and molecular data. Our goal is subsequently to identify molecular signatures and biological algorithms that can serve as predictor tools and patient stratification guides. For flu, we have identified a candidate invention to distinguish who is contagious well in advance of showing symptoms (patent application filed in February 2017) and we are currently working to identify a molecular signature for predicting who will develop severe flu. Qualification of these discoveries is ongoing in 2017, and we continue to mine our existing discovery data sets with the goal of deriving additional commercially viable inventions.

In addition to flu, 2016 saw hVIVO progress data mining of samples from our newest human model in asthma exacerbation. We identified a time-course signature in our disease in motion data that pointed to an ability to predict who would suffer asthma worsening when infected with the common cold. By the end of 2016, we had completed a third party analysis of that discovery, which we strengthened via correlation analysis and grouping, in addition to predictive modelling. The result was a refined algorithm that can potentially predict up to two days in advance of any symptoms, who will experience a worsening of their asthma (patent application filed in April 2017). We see this invention being further refined as we zero in on asthma subtypes. The discovery holds promise for both precision drug development as well as precision diagnostics. As a development tool, the asthma worsening predictor can help select patients for enrolment into clinical trials; as a diagnostic or digital health tool, it could help patients at risk proactively and appropriately seek or avoid therapeutic interventions, thereby preventing serious exacerbations and morbidity for patients and substantially reducing healthcare costs.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

APPLYING BIOLOGICAL INSIGHTS:

2016 saw hVIVO progress data mining of samples from our newest human model in asthma exacerbation. We identified a time-course signature in our disease in motion data that pointed to an ability to predict who would suffer an asthma worsening when infected with the common cold.

ADVANCING PRODUCT TESTING:

Leveraging our controlled environment and calibrated models, the PrEP-001 studies were designed to answer crucial questions regarding breadth of viral coverage, dosing regimens and optimal field study patient populations early in development. They provide the ability to sufficiently explore study variables before committing to Phase III – underpinning the speed to market approach built into our platform.

Advancing PrEP-001 – a novel pan-viral prophylactic

Less than 18 months after our investment in PrEP Biopharm Limited ("PrEP Biopharm") and its lead product PrEP-001, hVIVO has completed three Phase IIa studies for PrEP-001: a proof-of-concept ("POC") in flu, a dose ranging (durability) study, both using healthy volunteers, and a study exploring an additional patient population (asthmatics). These studies were designed to answer early in development crucial questions regarding breadth of viral coverage, dosing regimens and optimal field study patient populations. They provide the ability to sufficiently explore study variables before committing to Phase III – a step that is imperative in diseases such as asthma, where taking a "one-size-fits-all" approach is not viable for bringing more targeted and effective new medicines to market, highlighting how little is known regarding asthma's subtype populations.

PrEP-001 is a nasally administered, broad-spectrum agent that leverages the innate immune system to prevent upper respiratory tract viral infections. The PrEP-001 Phase IIa flu POC study, which achieved positive results and was announced in June 2016, was a key highlight of the first half of 2016. Severity and duration of flu symptoms were reduced two-fold in healthy volunteers. Following the previous successful results in the common cold POC study in 2014, this study demonstrated PrEP-001's potential as a pan-viral prophylactic for flu and cold infections that cause more than 500 million infections per annum[1].

The PrEP-001 Phase IIa durability and asthma exploratory studies were designed to provide valuable insights for PrEP-001 on dosing regimens and future study patient populations, respectively, and build on the profile of the drug following the positive flu and cold POC challenge studies in healthy volunteers. Both of these trials were initiated in 2016 and reported post-period in February 2017. Both studies demonstrated that PrEP-001 was safe and well tolerated, with the adverse event profile being similar in active and placebo arms and consistent with previous studies with the drug.

The durability study was conducted in healthy subjects challenged with human rhinovirus 16 (HRV-16) to explore the impact of two potential dosing schedules for PrEP-001 beyond the once daily dosing already established in prior studies. Together, with the previous study in common cold, the results showed that weekly and twice weekly dosing were not sufficient to sustain a meaningful prophylactic effect and once daily dosing may be the more effective dosing regimen.

The next Phase IIa trial investigated the effect of PrEP-001 in a different patient population, namely people with asthma. The trial involved a non-stratified approach in patients with mild to moderate controlled asthma, challenging them with HRV-16. The primary endpoint was patient assessed TSS, expressed as an average (Area Under the Curve ("AUC")). The trial failed to meet its primary endpoint, with lower than expected symptoms reported in both the placebo and treatment groups, hinting that a broad, controlled asthma patient population responds differently to cold infections than a more homogeneous healthy population.

We subsequently took a deeper look into the data to see if we could detect any trends that would help pinpoint the key differences in the clinical characteristics and biology of the patient population and therefore identify key features of responders and non-responders. We identified that there was a significantly higher number of patients post common cold infection with no symptoms in the active group compared to placebo. This suggests that there was potentially a strong responder subtype. In addition, when exploring individual symptoms (as opposed to an average), we found in a modified intent-to-treat ("ITT") analysis that the TSS peak was significantly lower in the active compared to the placebo.

Work is now ongoing to fully characterise the responder subgroup discussed above at the clinical, cellular and molecular level. Whilst PrEP-001's asthma trial results were not what we hoped for, hVIVO is in a privileged position of being in possession of full time-course data for healthy, mild uncontrolled, and controlled mild to moderate asthma patients challenged with the common cold virus and we will be leveraging this dataset to tease out the granular differences (i.e. phenotypes and endotypes) between asthma patients and how they respond to viral infection. In the meantime, PrEP Biopharm will advance the development of PrEP-001 in the healthy adult population, with Phase IIb planned for H1 2018.

1 Molinari (2007), Vaccine 25(27): 5086–5096.
Fendrick et al. (2003) Arch Intern Med, 163(4): 487-494.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

As we now move forward with converting our insight into precision development tools and diagnostics, we will add much deeper value to these products and to future products we collaborate on and test in our platform.

Expanding our pipeline – Imutex Limited

In April 2016, hVIVO completed its second equity investment, forming a joint venture in a new company, Imutex Limited ("Imutex"), with PepTcell Limited, also known as the SEEK Group ("SEEK"). The partnership was formed to develop two clinical stage vaccine platforms in universal flu (FLU-v) and mosquito-borne diseases (AGS-v).

Such vaccines are key public health priorities identified by the Centers for Disease Control and Prevention ("CDC"), the US National Institute of Health ("NIH"), and other international health authorities. Since the announcement, hVIVO and SEEK have been collaborating to accelerate development of both vaccines. Both products have the potential to qualify for US Food and Drug Administration ("FDA") Fast Track designation, depending on the outcome of the trials being conducted in 2016/2017.

Outlook

In 2016, we made significant strides in leveraging our platform to test new products and harvest our biological insights. We advanced the development of our three clinical stage assets. Separately and concurrently, we pivoted from building our collection of disease in motion samples to mining and converting the biological insights they reveal into precision medicine-based therapies and tools.

To date, our equity investment assets, namely PrEP-001 and FLU-v, have benefited from our platform, primarily as a rapid, sophisticated testing tool. As we now move forward with converting our insight into precision development tools and diagnostics, we will add much deeper value to these products and to future products we collaborate on and test in our platform. To that end, in 2017 we will be focusing on mining our time-course samples across common cold challenged data sets to search for an asthmatic subgroup of PrEP-001 responders, as well as a phenotype associated with susceptibility to viral infection. In the meantime, PrEP Biopharm will press ahead with a PrEP-001 Phase IIb study in healthy adults.

We also expect the development of the assets from our most recent investment in Imutex to continue at its rapid pace, with data from the two FLU-v Phase IIb, and the AGS-v Phase I study, expected later this year. With flu remaining a key priority for many public health authorities, we will look to advance to lead candidate selection and capitalise on the opportunity to fast track development of a potential severe flu drug treatment, as well as further progressing Imutex's FLU-v.

We plan to continue to progress the application of our asthma worsening predictor tool as we deepen our understanding of asthma subtypes, and qualify our severe flu predictor tool. Along with the flu contagiousness patent application filed in February 2017, we expect the development of additional tools for flu and asthma to continue in 2017.

In the second half of 2016, our testing facilities were leveraged to their highest capacity of the year, with the completion of PrEP-001 durability and asthma exploratory studies, the start of the FLU-v study, and the restarting of a client study that was delayed from H1 2016. We successfully managed the workload of the PrEP-001 and FLU-v studies to accommodate the client study, such that the PrEP-001 and client studies completed their quarantines in Q4 2016, with the expanded FLU-v study achieving its last quarantine cohort in March 2017. Demand continues to rebuild for flu, with strong funding opportunities coming particularly from US government agencies. Our flexible operating model allows us dynamically to balance competing demands for our capacity and workload, to meet our own and our clients' development expectations. Our commercial operating model is now such that we seek to balance and flex our platform's capacity and workload between engagements with our equity investments, our strategically important clients and our own discovery work (together with the associated funding streams from client revenue and government grants), such that we achieve the optimum mixture of work type to advance our products and progress adoption of our models depending on priority and best value.

We also continue to make significant strides in achieving a more agile, flexible and efficient operating model, together with implementing other cost savings initiatives and leveraging technology in our process, which seek to extend our cash runway and prioritise our investment spend to achieving near term value inflection points and commercialisation opportunities.

As we move into 2017, we stand at the forefront of the development of precision medicine for respiratory and infectious diseases, and model platform, converting biological insights from our disease in motion samples into proprietary inventions that will, over time, help to revolutionise how we treat respiratory and infectious diseases such as asthma and flu. I look forward to updating you further as we achieve key milestones and I would like to thank our staff, patients, customers, partners and investors for their invaluable support in making all of our 2016 achievements possible.

Kym Denny
Chief Executive Officer
19 April 2017

PRECISION DEVELOPMENT: PATH TO PRECISION MEDICINE

The way we tackle disease is changing towards an emerging approach for disease prevention and treatment that takes into account people's individual variations in genes, phenotypes (e.g. specific clinical subtypes) and endotypes (specific disease mechanism subtypes), environment and lifestyle – this is known as precision medicine[1]. In 2015, President Obama announced a 'precision medicine initiative[2]' focused on research to generate the scientific information needed to optimise efficiency or therapeutic benefit of disease treatment on an individual basis. The short-term goal of the initiative involves applying this precision medicine concept to further cancer research. The long-term goal of the initiative is to bring precision medicine to all areas of healthcare.

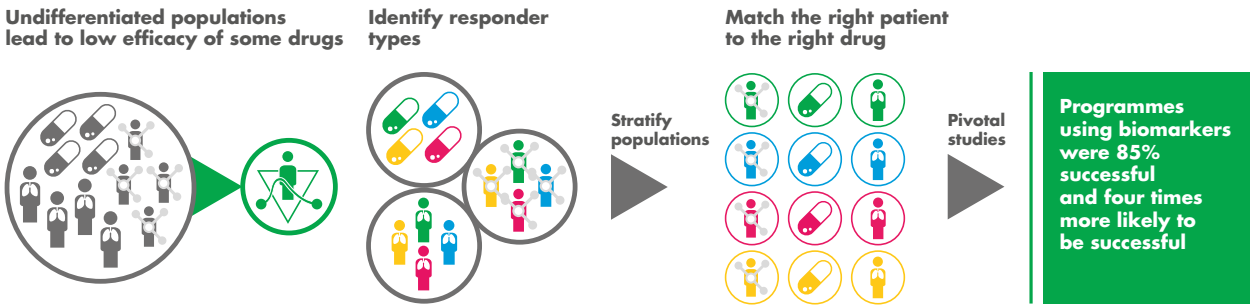
Cancer research has so far paved the way in precision medicine, with treatment revolutionised with the realisation of targeted therapies, essentially matching the right patient to the right drug. However, the process has been slow and at times serendipitous due to the complexity of the disease. The challenge now is to apply the precision strategy used in cancer to other complex diseases.

The underlying concept of precision medicine involves an intimate understanding of the disease at a clinical, molecular and potentially temporal level in order to develop better targeted treatments (e.g. based on specific molecular mechanisms of disease). The key to this approach is the ability to identify specific disease subtypes based on shared clinical and/or molecular disease mechanisms that are believed to give rise to clinically significant differences in the course of the disease or symptoms. The safety and efficacy of a treatment can then be evaluated separately in each of the subtypes to understand how these may vary and determine relevant responder groups. Biomarkers (characteristic genes or proteins associated with the disease or treatment response) may also be identified and monitored as they are accepted as 'leading indicators' of disease outcome and disease response.

1 NIH, www.nih.gov/research-training/allofus-research-program (20 April 2017).
2 NIH, The Precision Medicine Initiative Cohort Program – Building a Research Foundation for 21st Century Medicine (17 September 2015).

Precision development process

hVIVO is applying a precision development approach to develop more targeted therapies for respiratory diseases, putting it at the forefront of respiratory precision medicine.



Source: www.nature.com/nrd/journal/v13/n6/full/nrd4309.html#.

Although we are only at the beginning of this approach in the treatment of widespread respiratory and infectious diseases such as asthma and flu, we believe hVIVO is well positioned to realise this new drug development and treatment paradigm given our capabilities to:

Monitor disease in motion and harvest insights

Using our platform, hVIVO is able to see disease in motion with standardised time-course precision sampling, illuminating the entire disease life cycle from healthy to symptom and disease flare and back again. This allows us to capture the true biological levers and progression of the disease that are normally hidden from view, providing a far more granular view than is possible through analysis of the snapshot samples obtained during traditional studies. Through our pathomics efforts, we have created an approach that enables us to identify distinct levers, map them and qualify them scientifically. Using this disruptive approach in flu, hVIVO reduced the drug pre-discovery timeline by 90% and produced the first ever map of the human host response to flu, as well as severe flu. It has enabled us to characterise severe flu as a disease separate from normal flu and identify a promising proprietary drug target for severe flu development.

Identify stratification tools and targets

Our disease in motion based platform makes the hVIVO approach much more holistic than other approaches: patients act as their own baseline and our controlled system and standardised time-course samples provide the ability to correlate multiple biomarkers into formulas and algorithms. The results of our pathomics work then enables us to identify the causal biology that can be developed into potentially ground-breaking predictor and patient stratification tools to enable future, highly-targeted (precision) drug development for treating areas of high unmet medical need – enabling the right drug for the right patient. To that end, in 2016 hVIVO initiated our potentially landmark asthma stratification programme. This approach is expected to discover useful biomarkers for predicting and developing more efficacious treatments for asthma – a vital first step to advancing more precision medicine-based treatments.

PRECISION DEVELOPMENT: PATH TO PRECISION MEDICINE CONTINUED

Conduct targeted studies

Our controlled environment and calibrated models can be used to accurately test therapeutic interventions and diagnostics along with predictive tools and biomarkers in exploratory POCs with target patients to confirm efficacy and refine our insights. For example, we can utilise our asthma predictor tool during asthma studies to identify patients at risk of asthma worsening and use the sample data to further refine our tool. hVIVO platform-based studies can also be used at different points in the clinical development process to reduce risk, increase competitive advantage and/or improve success rates. For example, they can be conducted during early clinical development for an efficient development plan when there is less risk of failure in late phase, or can be done in late phase clinical development to better profile a drug and improve its label, its chance of success and commercial uptake by payers. PrEP-001 will be the first drug to use the model this way and we are actively seeking partners to leverage the model to enhance many more assets in flight.

Asthma biomarker qualification study: innovative dynamic phenotyping study

The hVIVO asthma initiative is one of the first dynamic phenotyping projects aiming to characterise asthma, not only in the static or baseline state, but also throughout the evolution of an exacerbation following viral infection, the most common cause of exacerbations of asthma. This hVIVO initiative will leverage the hVIVO viral asthma exacerbation disease model to map the underlying biology associated with asthma exacerbations.

This asthma phenotyping study commenced in August 2016 is designed for up to 500 subjects and includes both healthy and a wide range of asthma patients and phenotypes (e.g. GINA[1] 1-5).

The study aims to define asthma phenotypes and possible endotypes (i.e. underlying disease mechanisms) through viral (common cold) challenge induced clinical and biomarker changes, as well as safety and tolerability to viral challenge in healthy and a broad range of asthma patients. Using the hVIVO platform of human disease models, a common cold infection is generated in asthma patients and these are then continuously monitored as their condition exacerbates by the viral infection in a controlled setting. This approach is expected to reveal biological causality previously unseen by scientists.

In addition to phenotyping asthma patients, this approach is expected to discover useful biomarkers for predicting and developing more efficacious treatments for exacerbations of asthma – a vital first step to advancing more precision-medicine based treatments.

1 Source: http://ginasthma.org/.

ANNOUNCING IMUTEX LIMITED

Public health stalemate: flu

Flu is a prime example of a public health stalemate – in 1918 around 50 million people died due to the Spanish Flu pandemic and yet today there is still no effective cure. In the US alone, five to six million people per year are treated for flu and flu's economic burden is a massive $87.1 billion per year (US), highlighting our ongoing vulnerabilities against a future pandemic[1].

Emerging threat: Zika

Due to Zika's risks to unborn babies, lack of treatment, and rapid spread, the World Health Organisation ("WHO") declared Zika a public health emergency in February 2016. Today, more than 70 countries have reported mosquito-borne transmissions of the Zika disease. In the US there are more than 20,000 cases reported, including more than 3,000 on the mainland alone. Local mosquito transmission has been confirmed in the state of Florida, and a recent study estimated over two billion people in Africa and Asia were at risk[2].

In April 2016, hVIVO announced a joint venture investment with SEEK to develop vaccines against flu and mosquito-borne diseases, such as Zika and other flaviviruses. The joint venture investment in a new company, Imutex, strengthens hVIVO's commercial flu portfolio and expands it into the adjacent therapeutic area of mosquito-borne diseases, with immediate focus on Zika. With this investment, hVIVO acquired a 49% equity stake in Imutex, which holds two clinical stage assets.

Imutex's assets, FLU-v (universal flu vaccine) and AGS-v (mosquito-borne disease vaccine), address public health threats that are both old and new, representing the current conundrum of public health. In this era of rapid technological improvements, we are still fighting common diseases in much the same way we did over 100 years ago, whilst simultaneously being constantly challenged by new, emerging threats, such as Ebola and Zika.

FLU-v belongs to a group of novel 'universal flu' vaccines that are designed to provide broad-spectrum coverage against multiple flu strains, providing a more effective means to address the threats from flu than current seasonal vaccine approaches.

1 CDC.com, Molinari (2007), Vaccine, 25(27): 5086–5096.

2 WHO situation report 10 March 2017 www.cdc.gov/zika/geo/united-states.html as of 22 March 2017 www.bbc.com/news/health-36090650.

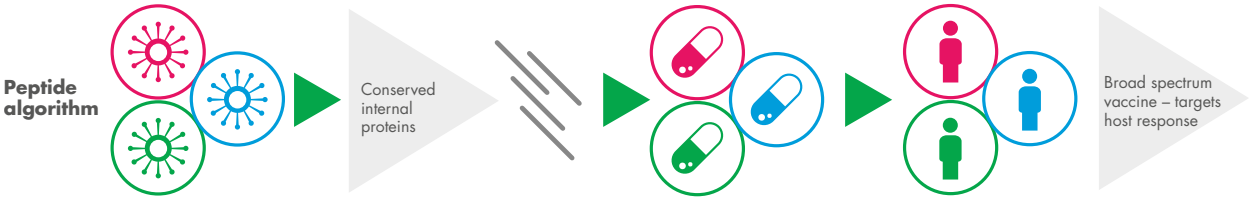
ANNOUNCING IMUTEX LIMITED CONTINUED

Imutex vaccine platforms

Imutex vaccines utilise conserved peptides and generate broad spectrum vaccines for flu and mosquito-borne diseases. FLU-v works by targeting conserved internal proteins common to all flu viruses to activate T and B cells, key components of the human immune system response. The success of such an approach would eliminate the sensitivity to strain variability seen with traditional vaccines and promote single vaccine coverage for all flu strains.

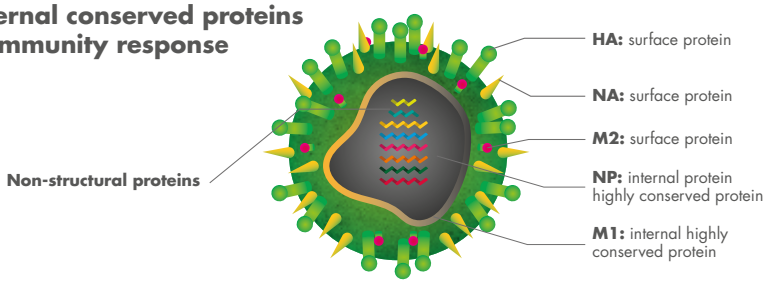
The AGS-v mosquito-borne vaccine has a proposed dual action mechanism, aiming to prevent infection in humans and also to control the mosquito population. It works by creating an anti-saliva immune response in humans that prevents infection. In addition, after the mosquito bites a vaccinated human host, antibodies from the human attack the gut and salivary glands of the mosquito which reduces the survival of the mosquito.

Imutex vaccine approach



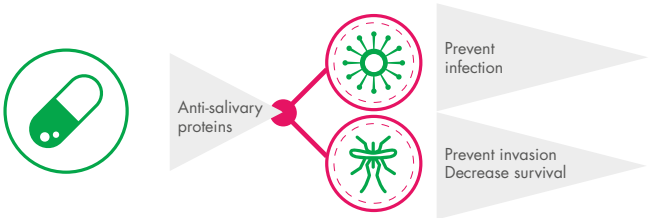
FLU-v: universal flu vaccine

Leverages internal conserved proteins to maximise immunity response



AGS-v: mosquito-borne disease vaccine

Dual action mechanism



In 2016, two FLU-v studies were initiated:

- the Phase IIb trial for FLU-v commenced at hVIVO in August 2016, with completion of part I of the trial anticipated in 2017; and
- the Universal Influenza Vaccines Secured ("UNISEC") consortium Phase IIb study had its first subjects vaccinated in August 2016 in the Netherlands, with the study expected to complete in 2017.

The results of these studies will then help identify appropriate biomarkers and support designing our future pivotal FLU-v Phase III.

AGS-v is intended to provide broad protection against a range of mosquito-transmitted diseases, such as Zika, malaria, West Nile fever and Dengue fever, and to hinder the ability of mosquitoes to transmit such infections. AGS-v has a novel proposed dual action mechanism of preventing infection in humans whilst controlling the mosquito population.

The AGS-v Phase I first-in-man trial commenced in February 2017, with initial read-outs expected later in 2017. The results of this study will help design future studies, as well as support fast track submission if appropriate.

TAKING AIM AT FLU

The hVIVO Flu Mission

The hVIVO flu mission is to redefine the fight against flu by mapping the underlying pathophysiology of flu illness from the human host response to flu infection to:

- Find new drugs and vaccines to prevent, treat and speed recovery
- Discover tools to predict, identify and stratify the severity of infection
- Discover tools to help prevent transmission
- Establish the biological links to clinical endpoints to decrease the difficulty we have in study design of novel treatments and tests for flu

2018 will mark the 100 year anniversary since the Spanish Flu pandemic which took the lives of an estimated 50 million people globally and we are still no closer to finding a way to effectively control the disease. In the intervening years there have been multiple outbreaks, some causing millions of deaths. Approximately 5-20%[1] of the population suffer from flu each year, which increases exponentially in pandemic outbreaks highlighting our ongoing vulnerabilities against a future pandemic.

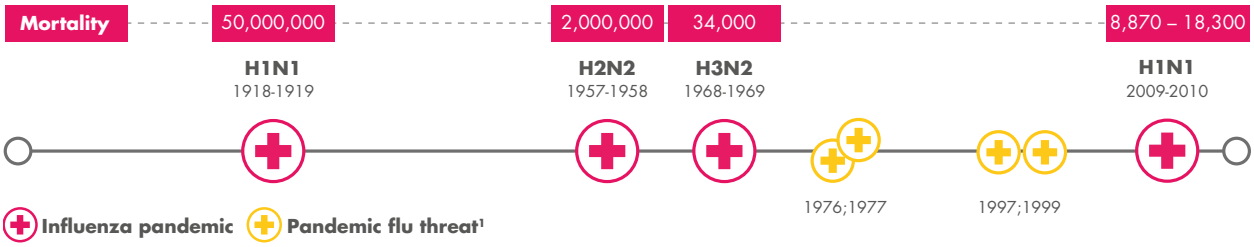
With over 25 years of experience researching flu, we believe hVIVO is well placed to tackle the high unmet medical need for a safe and effective therapy. We believe we can overcome the significant gaps in existing treatments and vaccines through a combination of novel drugs and vaccines, and by better understanding the immune response to flu infection to discover tools to predict, stratify and identify infection severity.

1 Sources: CDC.gov, Influenza Surveillance Reports (2005-2014) ECDC Flu Fact Sheet for Health Professionals, Accessed 09/15; WHO Influenza, Accessed 09/15. Influenza Activity – United States, 2013-2014 Season and Composition of the 2014-15 Influenza Vaccine, Accessed 10/15.

TAKING AIM AT FLU CONTINUED

The problem with flu

There have been multiple outbreaks since the Spanish Flu pandemic in 1918, highlighting the continuing threat flu poses today. While progress has been made in developing treatments and vaccines, many questions about the disease still remain.



1 Pandemic flu threats are novel flu strains that do not spread to pandemic level or are contained via containment and vaccination. A relatively recent example is Avian Flu ('97 and '99) which caused severe illness in several hundred people in Hong Kong.

Sources: Flu.gov, Pandemic Flu History, Accessed 10/15; College Physicians of Philadelphia, The History of Vaccines, Accessed 10/15
Pandemic: global disease outbreak.
Epidemic: rapid spread of infectious disease.
Outbreak: disease occurs in high rates in a specific community or region.

Mapping flu

Over 200,000 patients are hospitalised each year in the US due to severe flu. 20% of these patients then go on to develop serious and life threatening conditions, and are responsible for $13.8 billion in hospital charges each year[1]. The price of severe flu is a significant economic burden with no available treatment. As a result, hVIVO set out to identify the underlying causes of severe flu in order to find the right drug targets to produce an effective treatment against the disease.

The Company began in 2014 by first mapping the pathophysiology of normal flu, to differentiate it from severe flu. Once the team knew the pathways associated with normal flu recovery, hVIVO collected samples from people with severe flu who were hospitalised (in 2015). We then compared the difference to focus on the pathways most associated with severe flu. Through our pathomics process, we soon arrived at a qualified pathway component for our severe flu drug target in under 18 months and filed our first patent application around this discovery in early July 2016. The invention in this initial patent application aims to protect our pathomics-informed drug target (HVO-001), with additional patent applications to follow that address novel and inventive use of the associated pathway and disease activity biomarkers. Together this work provided us patents, a qualified drug target and a longitudinal time course sample database we can now mine for other flu inventions.

Next generation treatments and vaccines

In the development of next generation treatments and vaccines, hVIVO currently has two proprietary products in clinical development (FLU-v and PrEP-001) and is in the compound selection stage for the HVO-001 pathomics-informed drug target.

FLU-v – a broad-spectrum flu vaccine

Through our joint venture with SEEK we are developing a novel universal flu vaccine, FLU-v, designed to provide broad-spectrum coverage against multiple flu strains. Data from the two FLU-v Phase IIb clinical trials initiated in 2016 is expected in 2017. (For more details see the "Announcing Imutex Limited" section)

PrEP-001 – a novel pan-viral prophylactic

PrEP-001 is a nasally administered, broad-spectrum prophylactic that leverages the innate immune response to prevent upper respiratory tract viral infections and is designed to help the large number of patients that suffer substantial morbidity and mortality as a result of such respiratory viral infections. hVIVO is partnered with PrEP Biopharm, through an equity investment, in the clinical development of PrEP-001.

The PrEP-001 Phase IIa flu POC study completed in 2016 and achieved positive results, with severity and duration of flu symptoms being reduced two-fold in healthy adults, highlighting its potential as a prophylactic against flu infection. Following the previous successful results in common cold POC studies in 2014, this study demonstrated PrEP-001as a pan-viral prophylactic for both flu and common cold infections.

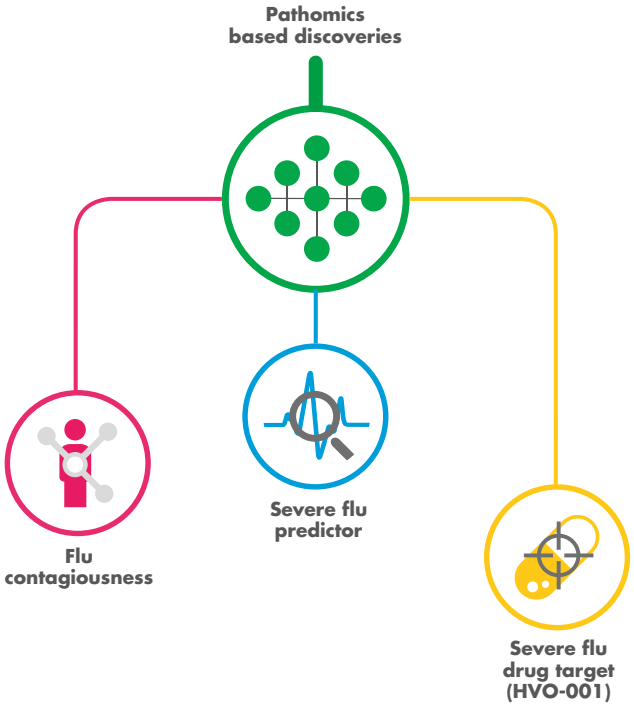
HVO-001 – hVIVO's first pathomics-informed drug target for severe flu

Using our pathomics process, we identified a novel drug target for severe flu and filed our first patent application concerning this discovery in early July 2016. Based on the results of our *in vitro* and human *ex vivo* disease relevant assays, we are currently in the compound selection stage for HVO-001.

1 CDC.gov, Influenza Activity – United States, 2013-2014 Season and Composition of the 2014-15 Influenza Vaccine, Accessed 10/15; Woods et al. (2015), Am J Physiol Lung Cell Mol Physiol 38(9): L912-L921; Howard WA et al. (2011), influenzajournal.com; Wisen, J. et al. (2012), Annals of Intensive Care, 2:41.

The expanding hVIVO flu tool box

In 2016, we have made significant progress leveraging our biological insights to develop our new diagnostic and predictive tools, flu contagiousness, severe flu predictor and the severe flu drug target (HVO-001).



Public Health Priority: Severe Flu

There is a growing recognition of severe flu as a public health threat.

- In a Broad Agency Announcement ("BAA") issued October 2015 by the Biomedical Advanced Research and Development Authority ("BARDA") within the US Department of Health and Human Services for 2016 funding, the US agency stresses, "because there are no treatments approved for severely ill, hospitalised influenza patients, the strongest proposals will include a clinical development plan that addresses treatment of this population"
- In addition, at the European Respiratory Society International Congress conference in London in September 2016, there was a symposium that focused on the problem of severe flu, to our knowledge the first time this acute medical need has featured at this prestigious congress

Next generation diagnostic tools and the provision of precision development

Our research into flu and severe flu has generated standardised time-course samples for monitoring changes throughout the disease process, allowing us to uncover previously undiscovered cause and effect biological levers behind flu illness. Mining this extensive collection of samples and using our platform based discovery and qualification framework, we have been working to identify molecular signatures and biological algorithms that can serve as predictor tools:

- **flu contagiousness** – a molecular signature to distinguish who is contagious well in advance of showing symptoms (patent application filed in February 2017); and
- **severe flu predictor** – a potential molecular signature (being defined) for predicting who will develop severe flu.

Further work with these discoveries is ongoing in 2017. In addition, we continue to analyse our existing discovery data sets with the goal of deriving additional commercially viable inventions. These tools have potential applications for protecting at risk patients against flu as well as utility in public health, military and travel/hospitality.

ADVANCING ASTHMA R&D

The hVIVO Asthma Mission

The hVIVO asthma mission focuses on mapping the underlying pathophysiology of asthma in order to:

- Find new targeted drugs to better manage disease, treat and speed recovery
- Discover tools/biomarkers to predict and identify disease worsening
- Discover tools to stratify patients to match patients to drugs
- Establish the biological links to clinical endpoints in order to better match study design and tests with the appropriate targeted treatments for asthma

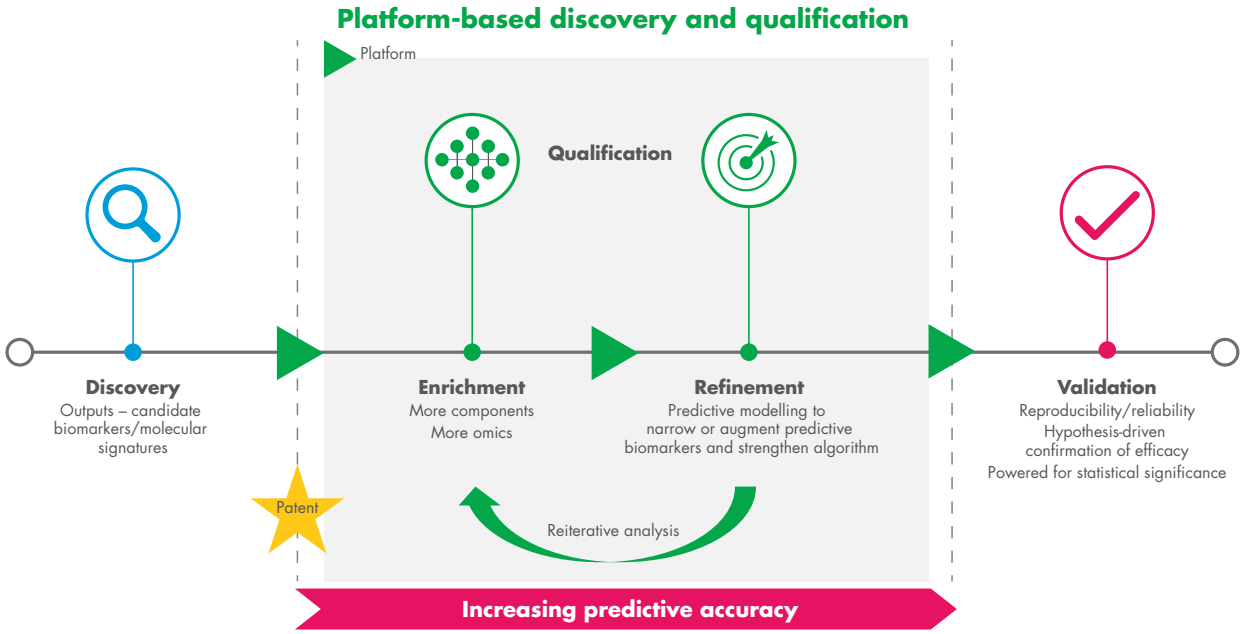
It is becoming increasingly clear that asthma is more than just one disease. The complexity of the disease comes from it being made up of a number of disease subtypes, which in turn have differing underlying pathophysiologies. Being able to recognise and discover the underlying mechanisms of these subtypes would be a vital step in developing an effective treatment for the disease. Asthma affects more than 300 million people[1] worldwide, with many people remaining sub-optimally controlled and currently with no cure.

Historically treated as one condition, up to 10% of asthma patients do not respond well to current treatments and 50% of adult asthma patients have asthma that is uncontrolled, with health-care related costs of more than $14.7 billion per year[2] in the US alone – all highlighting the urgent need for more personalised therapies. This need for more personalised care, together with the growing pipeline of biologics, and the lack of validated and meaningful end-points that are critical for pioneering new drug classes, mean the challenges in asthma drug development will only increase.

1 www.aaaai.org/about-aaaai/newsroom/asthma-statistics.
2 www.cdc.gov/asthma/asthma_stats/uncontrolled_asthma.htm Busse, et al. (2010), Lancet, 376(9743):826- 834.

Framework for developing our emerging products

The platform-based discovery and qualification process being used to develop diagnostic and predictive tools such as the asthma predictor tool.



At hVIVO, we can leverage our platform's allergen and viral exacerbation models (the two most prevalent triggers for asthma exacerbations) to watch the disease in motion and decipher the dynamics by analysing the samples to figure out the disease pathophysiologies. We can apply this process to interrogate many different aspects of asthma, looking at it from the disease, drug and/or patient perspective.

Sorting the biology

hVIVO can use these models to sort through the biology of asthma and obtain a detailed view of the asthma subtypes (i.e. phenotypes and endotypes), creating a topological map that should put us in prime position to gain valuable intellectual property to commercialise drug targets, biomarkers and stratification tools for use in the clinic and in drug development. The time-course samples hVIVO collects throughout the disease life cycle and across clinical, cellular and molecular levels serve as a valuable reservoir. These samples can be mined to identify molecular signatures and time-course events that inform algorithms and serve as predictive tools, enabling us to find answers to crucial questions plaguing scientists and clinicians around asthma typing/segmentation and exacerbation risk.

The promise of this approach quickly became evident during analysis of our early asthma model data sets from 2015. The data provided a longitudinal view that enabled us to see not just the changes but the sequence and correlation of the changes due to the time-course and standardised nature of our samples and processes – a perspective not possible in the traditional snapshot views obtained during field-based studies.

Through the analysis of our samples' data, we identified an algorithm for predicting when a patient is at risk of asthma worsening up to two days before symptoms appear. In April 2017, we filed a patent application for this work.

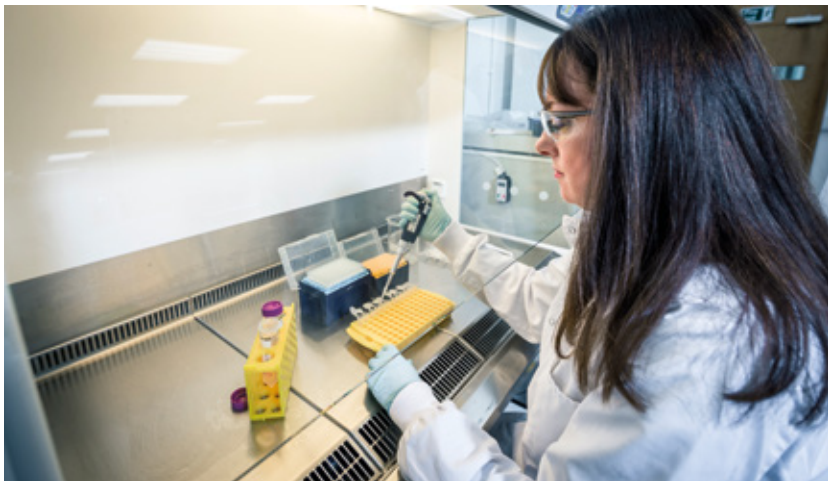
hVIVO's asthma predictor tool for asthma worsening provides our first POC for discovering the hidden potential within our asthma samples. This diagnostic tool can be used to segment patients for a study, help patients manage their disease, and/or take preventative actions to avoid an exacerbation. We will seek partners to advance this tool and will characterise its use in various subtypes of asthma patients.

Identifying a drug's ideal population

Given asthma's heterogeneous nature and the growing pipeline of targeted therapies, the ability to segment patients and better match patients to specific treatments will become an increasingly more critical factor of success for asthma therapeutics. The hVIVO platform can be used to help enhance a drug's success rate by defining specific biomarkers to make the drug more targeted – matching the right drug with the right patient. We can do this by taking all asthma patients (or a suspected phenotype) into a study to dose them with the therapeutic intervention and then efficiently identify the strongest responders. We then can use the study's disease in motion samples to fully characterise a drug's specific responder patient population.

BUSINESS MODEL AND STRATEGY

By leveraging our disease in motion platform, we are building a pipeline of respiratory and infectious disease products to accelerate through early testing.



Business model	Objectives	Progress in the year
Use pathomics to expand our discovery R&D capabilities to understand the biological pathways involved in the immune response to disease	• Maintain processes and structure to generate and protect IP and support product commercialisation	• Identified invention candidates for flu contagiousness and severe flu predictor. Filed a flu contagiousness patent application February 2017 • Identified algorithm for predicting asthma worsening. Filed patent application April 2017
Discover new biomarkers and drug targets to pave the way for the next generation of therapeutic and diagnostic products Diversify into adjacent markets by developing the hVIVO platform into new disease areas	• Expand the hVIVO platform into new diseases to illuminate molecular and cellular causes in areas of high unmet medical need	• Produced severe flu pathomics map, resulting in our first patent application for a pathomics-informed drug target • Began the first dynamic asthma phenotyping study to characterise asthma patients and differentiate asthma subtypes to develop more precision-based approaches to asthma care
Partner with pharmaceutical companies through collaborations and equity investments	• Share in the upside potential of products benefiting from platform	• Formed a joint venture with SEEK (in a new company, Imutex) to accelerate development of a universal flu vaccine (FLU-v) and a mosquito-borne disease vaccine (AGS-v)
Test equity investment and customer products in platform-based clinical studies	• Accelerate drug discovery and commercialisation through delivering high-quality product validation capabilities	• Obtained favourable results in PrEP-001 Phase II clinical study in flu – highlighting pan-viral prophylaxis potential • Completed the PrEP-001 asthma and durability studies with data read-out in early 2017. Drug to advance in healthy adults while hVIVO investigates asthma subtypes • Initiated Imutex's FLU-v Phase IIb study

See pages 22 to 25 for associated risks.

FINANCIAL REVIEW

Graham Yeatman
Chief Financial & Business Officer

During 2016, hVIVO completed three PrEP-001 Phase IIa clinical studies, contracted its equity investment in Imutex Limited (April 2016) and made significant progress in conducting the FLU-v Phase IIb clinical study for PepTcell Limited.

A third party client study postponed from H1 2016 was restarted and completed in H2 2016, which added to improved utilisation and gross profit margin in the second half of the year. hVIVO continued to invest in its research and development programme to leverage its collection of disease in motion samples to provide biological insights and further develop its clinical assets.

Financial KPIs	**2016**	2015
Short-term deposits, cash and cash equivalents	**£25.7m**	£51.2m
Revenue	**£19.9m**	£7.7m
Gross profit	**£4.2m**	£2.5m
Gross profit margin	**21.3%**	31.8%
Research and development expense	**£(6.3)m**	£(10.2)m
Administrative expense	**£(13.8)m**	£(13.7)m
Share of loss of associates and joint ventures	**£(7.4)m**	£(0.1)m
Loss for the year	**£(17.9)m**	£(17.9)m

Revenue

Revenue for the year ended 31 December 2016 was £19.9 million (2015: £7.7 million). Revenue includes £7.3 million from third party client engagements and £12.5 million from equity investments (£9.7 million from the three PrEP-001 Phase IIa clinical studies and £2.8 million from the PepTcell Limited FLU-v Phase IIb clinical study). The PepTcell Limited FLU-v study is included in revenue following the reversal in accounting treatment of the Imutex Limited transaction, announced on 13 April 2017 (see note 4).

During 2016, the Group delivered final study data for the PrEP Biopharm Limited flu and asthma licence arrangements, leading to recognition of revenue and related costs against the delivery of these two licences on a "completed" basis. Revenue from the PrEP-001 durability study, FLU-v study and other third party client studies was recognised on a percentage of completion basis.

Research and development ("R&D") expense

R&D expense was £6.3 million (2015: £10.2 million) and is lower, as expected, compared to previous years, due to the timing of phases and weightings of cost of our various discovery research programmes, with greater R&D expense in previous years from undertaking the sample clinical studies and subsequent third party transcriptomic analysis.

Share of loss of associates and joint ventures

Share of loss of associates and joint ventures was £7.4 million (2015: £0.1 million), which reflects the share of results of hVIVO's investments in PrEP Biopharm Limited (£7.4 million loss) and Imutex Limited (£nil).

Administrative expense

Administrative expenses were £13.8 million (2015: £13.7 million). The increase is primarily due to non-capitalisable costs of investment in a medical management technology platform of £0.4 million, as well as increased spend on legal and professional fees, partially offset by savings achieved through the continuation of cost saving initiatives during the period. Administrative expense in 2016 included £1.0 million of leasehold provisions (2015: £1.0 million).

Taxation

The Group makes claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount credited to the consolidated statement of comprehensive income with respect to amounts received and receivable for the surrender of research and development expenditure was £4.8 million for the year ended 31 December 2016 (2015: £3.7 million).

Consolidated statement of financial position

As of 31 December 2016 total assets less liabilities amounted to £46.1 million (2015: £63.6 million) including short-term deposits of £nil (2015: £37.0 million) and cash and cash equivalents of £25.7 million (2015: £14.2 million).

The principal movements in the consolidated statement of financial position during the year are summarised below:

- acquisition of equity in Imutex Limited of £7.1 million, inclusive of £0.1 million of transaction costs;
- recognition of losses (£7.4 million) and other comprehensive income (£0.2 million) relating to the Group's investment in PrEP Biopharm Limited;
- delivery of the licence of previously completed flu and asthma study data to PrEP Biopharm, resulting in a reduction of current intangible asset of £2.9 million;
- decrease in short-term deposits of £37.0 million;
- increase in cash and cash equivalents of £11.5 million; and
- decrease in current trade and other payables of £10.4 million, which includes the payment in January 2016 of £5.0 million deferred consideration in respect of the equity investment in PrEP Biopharm Limited on 1 November 2015.

Cash flow

The principal cash flows in the year were as follows:

Inflows:

- finance income of £0.3 million (2015: £0.4 million).

Outflows:

- cash outflow from operating activities of £17.8 million (2015: £9.8 million);
- equity investment in Imutex Limited of £7.1 million, inclusive of £0.1 million of transaction costs; and
- purchase of intangible assets (data management software platform) of £0.7 million (2015: £nil).

Key performance indicators

The Directors consider the principal financial performance indicators of the Group to be:

- short-term deposits, cash and cash equivalents;
- revenue;
- gross profit;
- gross profit margin;
- research and development expense;
- administrative expense;
- share of loss of associates and joint ventures; and
- net profit or loss.

The Directors consider the principal non-financial performance indicators of the Group to be:

- performance of hVIVO's equity investments;
- collaboration opportunities with global pharmaceutical companies;
- development of intellectual property from our discovery research and product validation capabilities and, in particular, disease research (pathomics), data mining and analysis, sample collection and product testing processes;
- the expansion of the hVIVO platform and its increasing acceptance by global pharmaceutical companies and government bodies, including regulatory agencies;
- development of new human disease models; and
- research and development in other disease areas including asthma.

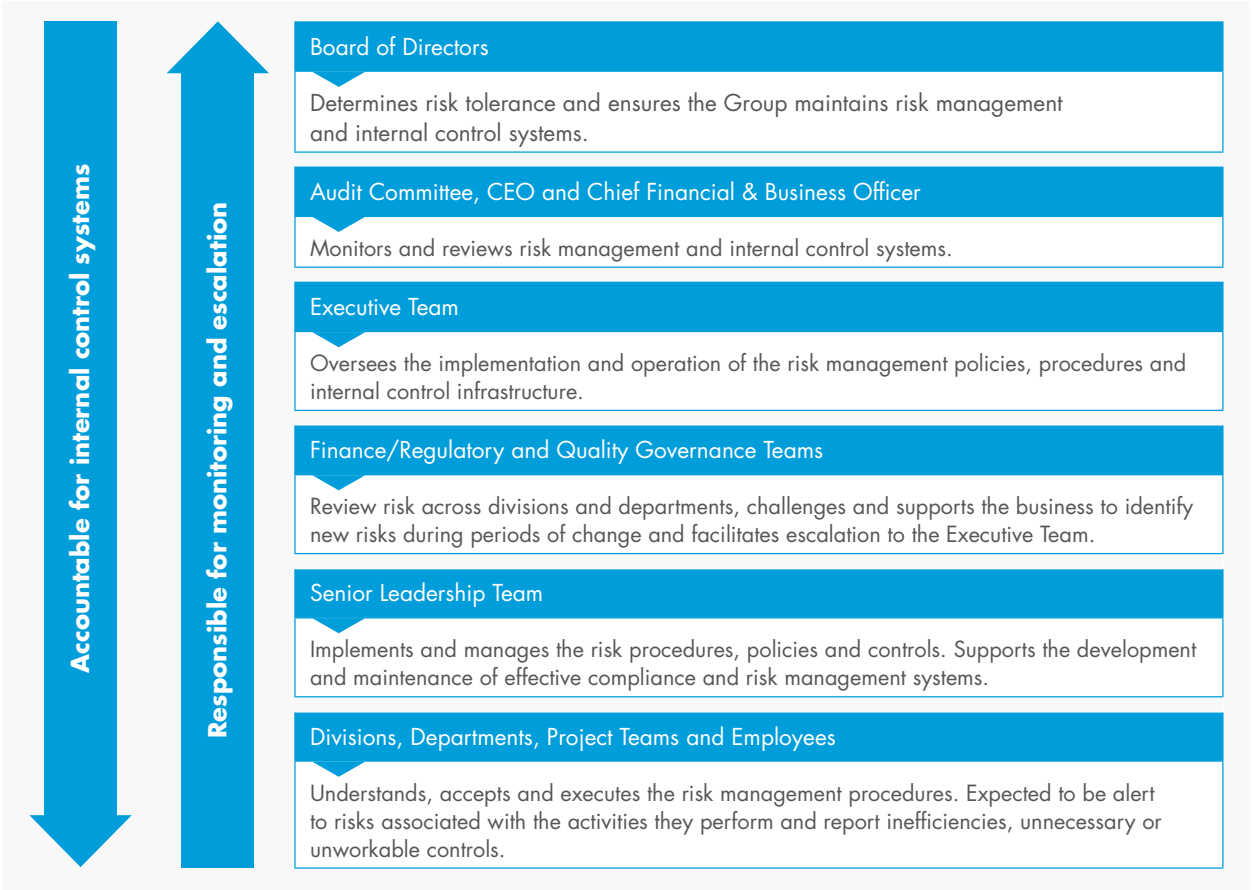
These elements are discussed within the Chief Executive Officer's statement.

Graham Yeatman
Chief Financial & Business Officer
19 April 2017

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management at hVIVO is an integral part of decision making and embedded in normal business operations. It exists to help protect volunteers and safeguard patients, employees, Company assets and reputation and to help achieve business objectives.

hVIVO's Board of Directors is responsible for ensuring that the Group maintains a system of internal control. The system of control is designed to manage rather than eliminate the risk of failure to achieve business objectives. The risk profile of the Company's strategy and associated investments is continually monitored within hVIVO's corporate governance framework (see Corporate Governance statement). This section of the Annual Report and Financial Statements highlights the principal risks and uncertainties considered to have a material impact on the execution and delivery against hVIVO's financial and strategic objectives.



Risk category		Description
STRATEGIC	S	Strategic risks which could have an internal or external influence and would impact on hVIVO's ability to perform or advance from today's position.
OPERATIONAL	O	Operational risks which may impact on hVIVO's ability to deliver on its objectives – resulting in an internal impact.
FINANCIAL	F	Financial risks which may impact on the sustainability or liquidity of the Company – affected by internal or external risks.

Principal risk	Category	Mitigation
Regulatory, quality and ethics framework Failure to comply with legal, regulatory and ethical frameworks and/or regulations covering health and safety, Good Clinical Practice ("GCP") MHRA, FDA and all other appropriate bodies resulting in: • core business being curtailed pending investigations for a period of time; • inability to deliver studies or closure; • data and sample integrity and/or subject safety being affected; and • potential legal action.	S	• hVIVO operates a single Quality Management System governed by senior quality and regulatory professionals to mitigate the risk of regulatory non-compliance. A Regulatory and Quality Governance Group provides governance over policies, standard operating procedures and corrective action/preventative action ("CAPA") processes. Regular internal audits are conducted and reported to management. • hVIVO has instituted systems and training programmes to ensure adherence with policies and standard operating procedures. • hVIVO's clinical governance framework ensures high quality, safe and accountable care of subjects by General Medical Council ("GMC") registered doctors. • hVIVO complies with the UK Data Protection Act.
Intellectual property and patent protection Failure to secure and protect intellectual property ("IP") due to number and complexity of patents in the sector could place freedom to operate restrictions. New laws on clinical trial patent exemptions and scope in the US, UK and Europe could compromise the enforcement of patents within the clinical trials industry. hVIVO could be challenged and may have to respond to objections to new patent applications from the European Patent Office or third parties opposing patent grants.	S	• hVIVO uses all aspects of intellectual property to protect its model: patents, trademarks, copyrights and trade secrets. • hVIVO engages and utilises internal and external patent experts to define intellectual property protection strategies and responses to objections and/or patent opposition. • Continuous mapping of the IP landscape to identify threats and opportunities and avoid infringements. • Integrated and concerted workflows to execute the R&D, IP, product development and commercialisation strategies.
Competition to hVIVO platform The life sciences industry is subject to rapid technological change which could affect hVIVO's product viability. The emergence of competition could impact our market potential and/or lead to pricing pressures and demand shortfall. Failure to compete could impact on hVIVO's future revenues and profitability.	S	• hVIVO continues to monitor competitor developments and pricing positions to protect acquired assets and new product development. • hVIVO's human-based approach involves collecting and analysing human-based samples during studies to research and understand disease biology, enabling it to evolve its platform, support new product development and maintain its significant advantage over existing and potential competition, by increasing its wealth of know-how, proprietary information, virus library and experience built over many years of successful operation of the human disease model with its own viruses. • hVIVO's human-based approach has enabled it to expand its product portfolio to include both product validation services (for clinical stage asset development) and respiratory and infectious diseases discovery research (for earlier stage new product development), helping to diversify the Company's risk from technological changes in any one area.
Collaboration Failure to identify and secure appropriate investment opportunities and/or poor value assessment and integration could negatively impact our ability to build and realise the benefits of collaborations. Failure to deliver on obligations on either side of partnerships could also impact on our ability to develop, produce and/or commercialise our products which would adversely impact our strategic objectives for commercialisation and value inflection.	S	• hVIVO is selective in pursuing only those collaborative partnerships, equity investments, joint ventures and licensing agreements which are core to our business strategy. • hVIVO engages professional advisers to assist the Company in the process of conducting legal, financial and commercial due diligence prior to executing transactions. • Successful integration of recent transactions has added to our toolkit for structuring of future potential collaborations and partnerships. • Internal controls reduce risk, while our delivery builds our reputation and track record. • hVIVO is developing expertise and experience in external grant and government funding mechanisms that support respiratory and infectious diseases research and development activities.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risk	Category	Mitigation
Research and early development Failure to realise hVIVO's scientific research would impede on our strategic delivery and adversely impact on financial performance. Failure to focus research on commercially important areas would impact value of our R&D programmes. Failure of clinical trials (for assets owned by hVIVO or by its strategic partners) to meet primary or secondary endpoints, could impede or delay the achievement of hVIVO's financial and strategic objectives. Failure to achieve regulatory approval could cause delays and additional costs.	S	• hVIVO retains scientific and medical expertise and knowledge in respiratory and infectious diseases and focuses investment in these core therapeutic areas. • Integration of risk appetite with strategic planning governs R&D orientation, requirements, spend and targets. This approach ensures investment keeps pace with R&D programme milestones, appropriately balancing risk management with vision and entrepreneurship. • hVIVO applies the human disease model to collect human samples that support rapid pre-discovery and allows human data to inform target and biomarker qualification and early proof of concept studies. • hVIVO invests in research areas such as pathomics, data mining and translational medicine to support and promote new product development (for assets owned by hVIVO or by its strategic partners). • hVIVO engages and collaborates with key US governmental organisations, such as the National Institutes of Health ("NIH"), which enables hVIVO to leverage its knowledge and expertise in clinical development activities. • hVIVO engages regulatory experts and medical key opinion leaders to refine future study requirements and support study design.
Operations and business performance Failure to balance our revenue against demand and lumpy utilisation against a fixed cost base would impact our financial performance. Failure to attract and retain appropriate skills and expertise in specialist areas could impact our ability to deliver against strategic and financial objectives. Poor operational controls could lead to failure to deliver against promise and would result in reputational risk.	O	• Continuous review of market intelligence, customer insights, our networks and new collaborations help hVIVO to stay at the forefront of industry developments in a drive to remain ahead of the competition and respond to changing market conditions. • hVIVO continues to focus on building and diversifying product and service offerings whilst building business development capability and client pipeline. • hVIVO's Quality Management System and associated standard operating procedures support the safe, efficient and effective delivery of human disease model studies, covering start-up, recruitment and screening, quarantine and close-out activities. • hVIVO has implemented a thorough contract review process to ensure third party vendors are properly vetted, inherent risks are identified and mitigated, and deliverables and obligations are clearly defined before contracts are finalised. • hVIVO continually assesses the permanent to variable staff ratio to ensure the business model operates efficiently. • Improved scientific, financial and operational information sharing through the continued evolution of our reporting to better manage the business, reduces risk of errors and irregularities. • Unexpected infectivity rates are an inherent risk to our business model however they are a natural feature of a virus/human interaction. hVIVO exploits current scientific best practice and knowledge to provide the most appropriate circumstances and environment for infection to occur, although this cannot be guaranteed.

Principal risk	Category	Mitigation
Attraction and retention of key employees Challenges with attracting and retaining appropriate skills, knowledge and expertise could impact on our ability to deliver against strategic and financial objectives.	O	• hVIVO benchmarks its remuneration and incentives packages and aims to ensure that they remain in line with industry standards. • hVIVO is investing in leadership and management training to embed values and behaviours that will underpin a constructive, engaging and collaborative working environment. • hVIVO undertakes talent identification and succession planning for key individuals and positions.
Business continuity, infrastructure and scalability Significant disruptions of information technology systems or breaches of data security could disable critical systems, slow volunteer recruitment processes and cause loss of sensitive data. Risk that our infrastructure, system and processes may not be sufficiently scalable to match unexpected demand and growth ambition.	O	• Continue to focus on process improvements, and prioritise our goal of being a fit-for-purpose, cost-effective and agile organisation. • Continue to invest and embed measures across our IT infrastructure, systems and operational security to monitor and mitigate risks. • IT incident, response and data recovery plans are in place to support overall business continuity plans. • Improved reporting and increased speed of information to the business to support better decision making and reduce risk of errors and irregularities.
Financial risk Failure to protect the Company's financial performance and stewardship of assets against financial risk.	F	• **Liquidity risk:** hVIVO maintains good relationships with its banks, financial institutions with high credit ratings, and its working capital requirements are anticipated via the forecasting and budgetary processes. Regular forecasting and reporting is in place to manage liquidity risk. • **Credit risk:** hVIVO is mainly exposed to credit risk from its trade and other receivables, short-term deposits and bank balances. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in recoverability of the cash flows. • **Foreign currency risk:** hVIVO is exposed to minimal foreign currency risk. The functional currency of the Company is Pounds Sterling for its sales and the majority of its purchases. hVIVO seeks to negotiate the majority of its contracts with international clients in Sterling; however, where this is not possible, hVIVO will seek to hedge against the foreign currency risk. Some third party supplier purchases are made in Euros and US Dollars, although these are not considered significant.

The Company's Strategic report is set out on pages 01 to 25 of the Annual Report.

The Strategic report outlines our performance against our strategic objectives, performance and financial position, as well as our outlook for the future.

The Strategic report was approved by the Board on 19 April 2017 and signed on its behalf by:

Kym Denny
Chief Executive Officer
19 April 2017

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the Group. Its aim is to represent the interests of the Group's shareholders and to provide leadership and control to ensure the growth and development of a successful business.

Jaime Ellertson

Non-Executive Chairman

Jaime Ellertson was appointed Non-Executive Chairman of hVIVO plc in June 2014. Jaime has led numerous high-growth, data and service-driven companies through phases of rapid expansion, both in the private and public arena. Jaime currently holds the position of Chairman and Chief Executive Officer of Everbridge Inc, a provider of critical event management solutions to leading healthcare, corporate and government organisations globally. Jaime led Everbridge through a successful public offering in September 2016 (NASDAQ: EVBG). He lives in Massachusetts and is a citizen of the United States of America.

Jaime has previously served as the Chief Executive Officer, President and a Director of Gomez Inc, a company specialising in monitoring and managing website data and web application performance. During his tenure he led Gomez Inc through an IPO registration that resulted in the successful sale of the company for $295 million to Compuware Corporation. He served as Chief Executive Officer, President and Director of S1 Corporation Inc, a software provider to the financial services marketplace. Jaime also orchestrated the successful turnaround of Interleaf, Inc, a provider of software tools for e-content management, culminating in its acquisition for $852 million by BroadVision Inc in 2000. Earlier in his career, he founded several high-growth software companies including Openware Technologies Inc, Document Automation Corporation and Purview Technologies Inc. Jaime is currently a Director of PeopleFluent and Everbridge in addition to having held numerous directorships on both public and private US and UK based companies.

Kym Denny

Chief Executive Officer

Kym Denny was appointed CEO of hVIVO Services Limited in December 2010 and became CEO of hVIVO plc in April 2012. Kym has over 15 years' senior management experience of international clinical trials including Phase I to IV clinical operations, project management, drug safety, data management and site management. This experience was gained in a wide range of therapeutic areas including infectious disease and respiratory, CNS, oncology and women's health.

In 2016, Kym was the Ernst & Young Entrepreneur of the Year UK category winner for Healthcare, won the Gold Award in the "Female Executive of the Year in Europe, the Middle East and Africa" category at the Women in Business Stevie Awards, and was appointed to the Mayor of London's Business Advisory Board.

Kym began her career as a Clinical Research Associate at Kendle Research. She went on to found InSite Clinical Trials, a hybrid CRO and site management company in Atlanta, Georgia, USA, and then to the UK where she was appointed to the Board of Profiad Limited where she also oversaw the Clinical Operations function. She later became Managing Director of Harrison Clinical Research and then joined Origin as Head of International Clinical Operations, being promoted to Vice President of Clinical Research when the company was acquired by Constella LLC and later, SRA International.

Graham Yeatman

Chief Financial & Business Officer

Graham Yeatman joined hVIVO Services Limited as Finance Director in May 2011 and became Finance Director of hVIVO plc in April 2012. He was promoted to Chief Financial & Business Officer in January 2015. Graham has significant experience of building businesses for rapid growth and profitability. He is a Chartered Accountant and trained and worked with PricewaterhouseCoopers for 13 years across its audit, tax, consultancy, business process re-engineering and outsourcing divisions. In 2001 he joined buyingTeam Limited (subsequently renamed Proxima) as Finance and Operations Director and was influential in growing the business to become one of the UK's leading purchasing services providers. In 2006 he joined Neuropharm Group plc as Chief Financial Officer. Graham has a first class degree in Economics and Maths from Bristol University.

Dr Trevor Nicholls

Non-Executive Director

Dr Trevor Nicholls became a Non-Executive Director in May 2014. Trevor has 35 years of experience building international businesses in the life science industry, with a strong focus on genomics and proteomics. He was previously Chairman of Oxford Nanopore Technologies Limited, is currently Chairman of Avacta Group plc and was the Chairman of Activiomics Limited prior to its acquisition by hVIVO. Trevor is also Chief Executive Officer of CABI, a not-for-profit intergovernmental organisation owned by 48 member countries worldwide. Prior to his current role with CABI, he was Chief Commercial Officer for Affymetrix Inc with accountability for global operations, delivering $330 million revenue with 600 staff across eight locations worldwide. Prior to Affymetrix, Trevor was founding CEO of Oxygen Ltd, a genomics discovery company spun out from the Wellcome Trust Centre for Human Genetics in Oxford. He has also worked for Amersham International (now part of GE Healthcare), McKinsey and Unilever. Trevor has a BA and a DPhil in Biochemistry from the University of York and holds Diplomas from the Institute of Marketing and Institute of Directors.

Dr Mark Warne

Non-Executive Director

Dr Mark Warne became a Non-Executive Director of hVIVO in April 2016 and acts as Chairman of the Remuneration Committee. He is currently Head of IP Group's Healthcare division, which at the end of December 2015, had shareholdings in 27 companies valued at over £328 million. Mark also represents IP Group on the boards of a number of its portfolio companies, both quoted and private. Mark has been at IP Group since 2008 and has extensive experience in building world-changing healthcare businesses as well as in managing transactions including portfolio company IPOs, financings and M&A. He joined IP Group from pre-clinical drug discovery CRO, Exelgen, where he was Managing Director. Mark spent eight years at Exelgen (formerly known as Tripos Discovery Research) where he also held positions in licensing and strategic affairs, project management and research. He has a PhD in Computational Chemistry, an MSc in Colloid Science and a BSc in Chemistry, all from the University of Bristol. Mark is a Chartered Chemist and member of the Royal Society of Chemistry.

James F Winschel

Non-Executive Director

James F Winschel became a Non-Executive Director in October 2014. He is Chairman of the Audit Committee. James retired in June 2014 as Executive Vice President at PAREXEL International Corporation, a US publicly traded healthcare services company with $1.9 billion in annual service revenue. He previously served as Senior Vice President and Chief Financial Officer of PAREXEL from 2000 to 2013, with responsibility for directing all financial activities, during a period when PAREXEL's revenue grew by $1.5 billion and market capitalisation increased from $225 million to $2.7 billion. In March 2016, James became CFO of Boston-based Hamlin Scientific Corporation. Prior to joining Hamlin, he was the CFO of Novimmune S.A., a Swiss biotechnology company based in Geneva, Switzerland. Earlier in his career, James spent five years at BTM Capital Corporation, a Bank of Tokyo Mitsubishi Limited subsidiary, initially as Executive Vice President and Chief Financial Officer for three years before being promoted to President, U.B. Vehicle Leasing, Inc. Prior to these roles, he was the Vice President of Finance at Caremark International, Inc for two years. He spent the previous four years at Whirlpool Financial Corporation, both as the Vice President and Managing Director, Commercial Financing Division and prior to that as the Vice President and Chief Financial Officer. James worked for five years in various roles at General Electric Capital Corporation, in the Transportation and Industrial Financing Division and prior to that at General Electric Company for eleven years. James holds an MBA in Accounting and a BSc in Finance from Syracuse University in the USA.

DIRECTORS' REPORT

Financial Statements

The Directors present their Annual Report and audited Financial Statements for the Company (registered company number 08008725) and Group for the year ended 31 December 2016.

Principal activities

hVIVO, a specialty biopharma company with discovery and clinical testing capabilities, is pioneering a human-based analytical platform to accelerate drug discovery and development in respiratory and infectious diseases. Leveraging human disease models in flu, RSV and asthma exacerbation, the hVIVO platform captures disease in motion, illuminating the entire disease life cycle from healthy to sick and back to health. Based in the UK, market leader hVIVO has conducted more than 45 clinical studies, inoculated over 2,000 volunteers and has three first-in-class therapies currently in development with a growing pre-clinical pipeline.

The operational activities of the Group are carried out through hVIVO Services Limited, a 100% owned subsidiary of hVIVO plc. The principal activity of the Company is that of a holding company.

Business review and key performance indicators

The Group's results are set out in the consolidated statement of comprehensive income on page 40 and are explained in the financial review on pages 20 and 21. A detailed review of the business, its results and future direction is included in the Chief Executive Officer's statement on pages 02 to 07.

Capital structure

The Company is primarily financed through equity provided by its shareholders.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 27.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The articles themselves may be amended by special resolution of the shareholders.

Details of financial risk management are set out in note 25.

Research and development

The Group considers that the majority of its activities constitute research and development, whether as separate independent research and development (separately identified as research and development expense in the consolidated statement of comprehensive income), or as a natural consequence of operating and pioneering human disease models during client sponsored human disease model studies (included within cost of sales). In the opinion of the Directors, continuity of the investment in this area is essential for the development of the human disease model, maintenance of the Group's market position and for achieving long-term significant value.

Dividends

The Directors do not recommend the payment of a dividend (2015: £nil).

Directors

The Directors of the Company are as follows:

Kym Denny
Graham Yeatman
Jaime Ellertson
Trevor Nicholls
Mark Warne — Appointed 19 April 2016
James Winschel

Two former Directors of the Company, Alison Fielding and David Norwood, retired at the Annual General Meeting on 23 May 2016.

At 31 December 2016, the Directors had the following beneficial interests in the Company's shares:

	31 December 2016 Number	31 December 2015 Number
Executive Directors		
Kym Denny	**347,680**	347,680
Graham Yeatman	**185,200**	185,200
Non-Executive Directors		
Jaime Ellertson	**55,040**	25,165
James Winschel	**34,706**	26,413
Mark Warne	**5,677**	5,677

Biographical details of the Directors who are not retiring are given on pages 26 and 27.

Directors' interests

The interests of Directors in the shares of the Company are given above and in the Directors' remuneration report on pages 34 to 36.

Directors' interests in contracts of significance, other than service contracts are disclosed in note 29 to the Financial Statements. Information regarding Directors' service contracts is given on page 34 within the Directors' remuneration report.

Directors' and officers' liability insurance and indemnity

The Company has purchased insurance to cover the Directors and officers of the Company and that insurance remains in force at the date of this report. The insurance operates to protect the Directors and officers by providing qualifying third party indemnity provisions.

Share capital

During 2016, 38,168 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson and James Winschel under the terms of their letters of appointment.

As at 31 December 2016, the issued share capital of the Company was:

	Number of ordinary 5p shares	Nominal value £
Issued and fully paid up	78,101,077	3,905,054

The average market price of the Company's ordinary shares at close of business on 31 December 2016 was 167 pence per share.

The maximum share price during the year was 205 pence per share (3 May 2016) and the minimum price was 153 pence per share (22 December 2016).

During 2017 to date, 28,231 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson and James Winschel under the terms of their letters of appointment.

Substantial share interests

At 19 April 2017, the Company had been advised or is aware of the following interests of 3% or more in the Company's issued share capital:

	Number of shares	Percentage of issued share capital
Invesco Limited	21,249,382	27.2
IP2IPO Limited	13,063,883	16.7
IP Venture Fund	2,171,371	2.8
Woodford Investment Management LLP	14,578,064	18.7
Lansdowne Partners (UK) LLP	5,816,038	7.4
David Norwood	3,219,520	4.1
Henderson Global Investors Limited	2,784,773	3.6

DIRECTORS' REPORT CONTINUED

Employees

The Group is committed to providing equal opportunities in employment and creation of a work environment where everyone is treated with dignity and respect. All job applicants and employees receive equal treatment regardless of gender, race, age, disability, sexual orientation, religion or belief, nationality or ethnic origin.

The Group places considerable value on the involvement of our employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through newsletters, formal and informal meetings, either directly with employees, or through an Employee Representatives Group ("ERG") – consisting of representatives from various business constituencies appointed by and acting on behalf of our employees. ERG is actively involved in the work of Employee Forum, a collaborative platform for the engagement of employees and sharing of management information. The Annual Report and Half-year Financial Statements are also key milestones in communicating with our employees.

hVIVO recognises that commercial success depends on the full commitment of all our employees and commits to respecting their human and employment rights, to provide them with a good, challenging and fulfilling working environment, free from unnecessary risk, and to maintain fair and competitive terms and conditions of employment at all times.

Applications for employment by people with disability are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of existing employees becoming disabled all reasonable effort is made to ensure that their employment within the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able bodied person.

Subsequent events

There are no events after the balance sheet date requiring disclosure.

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report and Financial Statements confirms that;

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

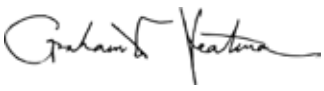
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Ernst & Young LLP were appointed on 30 December 2016 as the Company's auditor. Ernst & Young LLP has expressed its willingness to continue in office as the Company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Notice convening the Annual General Meeting, which will take place at 10.00am on 24 May 2017 at the Company's registered office, has been sent out to shareholders with the Annual Report and Financial Statements. Details of the business to be transacted at the AGM can be found in the Notice.

By order of the Board



Graham Yeatman
Chief Financial & Business Officer

19 April 2017

CORPORATE GOVERNANCE STATEMENT

Principles of corporate governance

As a company admitted to trading on AIM, the Company is not subject to compliance with the UK Corporate Governance code (the "Code"). The Board has nonetheless taken steps to consider the main provisions of the code insofar as practical and reasonable given the size of the Group and the nature of its operations.

The Company's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business performance. It believes that corporate governance involves more than a simple "box ticking" approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance) in a sensible and pragmatic fashion having regard to the individual circumstances of our business. The key objective is to enhance and protect shareholder value.

Board of Directors

During 2016, the Board of hVIVO plc comprised two Executive Directors and four Non-Executive Directors, one of whom is the Chairman. The roles of Chairman and Chief Executive Officer are distinct and are held by different people to ensure a clear division of responsibility. The role of the Non-Executive Directors is to bring valuable judgement and insight to Board deliberations and decisions. The Non-Executive Directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board and its Committees, ensuring that matters are fully debated and that no individual or group dominates the Board's decision-making processes.

All Directors have access to the advice and services of the Company Secretary and in the course of their duties, if necessary, are able to take independent professional advice at the Company's expense. Committees have access to such resources as are required to fulfil their duties.

The Board receives regular reports detailing the progress of the Group, the Group's financial position and projections, as well as business development activities and operational issues, together with any other material deemed necessary for the Board to discharge its duties. The Chairman is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgements.

The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below. The terms of reference of the Committees are provided on the investor section of the Company's website. The Board is responsible for the review and approval of key policies and decisions in respect of business strategy and operations, Board appointments, budgets and forecasts, items of substantial investment and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every Annual General Meeting and are eligible for re-appointment.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities for each.

Audit Committee

The Audit Committee comprises three Non-Executive Directors: James Winschel, who chairs the Committee, Trevor Nicholls and Mark Warne. The external auditor, Chief Executive Officer and Chief Financial & Business Officer may be invited to attend Audit Committee meetings and, following each meeting, the Audit Committee and external auditor have the opportunity to meet without the Executive Directors present. The Audit Committee meets at least three times each year for full-year, half-year and audit planning purposes.

The Committee reviewed the half-year and full-year results as well as the Half-year Report and Annual Report and Financial Statements prior to their submission to the Board and considered any matters raised by the external auditor. All scheduled Committee meetings were quorate and the conclusions from those meetings were presented to the Board.

In certain circumstances it is permitted by the Board for the auditor to supply non-audit services (for example, in the provision of tax advice). The Audit Committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence. The overall fees paid to the auditor are not deemed significant enough to them so as potentially to impair their independence. The auditor is awarded assignments on a competitive basis and the Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviews the cost-effectiveness, independence and objectivity of the external auditor. A formal Statement of Independence is received from the external auditor each year.

Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors: Mark Warne, who chairs the Committee, Trevor Nicholls and James Winschel. The Remuneration Committee meets at least once each year.

The Committee is responsible for considering the Executive Directors' and senior management's remuneration packages and makes its recommendations to the Board.

The Chairman, Chief Executive Officer and Chief Financial & Business Officer may be invited to attend Remuneration Committee meetings, other than when their own remuneration is discussed. No Director is involved in deciding his own remuneration.

Further details of Directors' remuneration are disclosed in the Directors' remuneration report.

Internal control and risk management

The Board acknowledges its responsibility for safeguarding shareholders' investments and the Group's assets. In applying this principle, the Board recognises that it has overall responsibility for ensuring that the Group maintains a system of internal control that provides it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Through the Audit Committee, the Directors have reviewed the effectiveness of the internal controls. The key features of the internal control environment are described below:

- **control procedures and environment** – the Group has an organisational structure with clearly drawn lines of accountability and authority. Employees are required to follow well-defined internal procedures and policies appropriate to the business and their position within the business and management promotes the highest levels of professionalism and ethical standards;
- **identification and evaluation of risks** – the Group employs Executive Directors and senior management with the appropriate knowledge and experience required for a medical and scientific research group. Identification and evaluation of risk is a continuous process;
- **financial information** – the Group prepares detailed budgets and working capital forecasts. These are based upon the strategy and business planning of the Group and are approved by the Board. Detailed management accounts and working capital re-forecasts are reviewed at least quarterly for each Board meeting, with any variances from budget investigated thoroughly and a summary provided to the Board. Annual Reports, Preliminary Statements and Half-year Reports prepared by the Group are reviewed by the Audit Committee prior to approval by the Board; and
- **monitoring** – the Board monitors the activities of the Group through the supply of reports from various areas of the business as contained in the Board papers. The Executive Committee performs a more detailed review, taking corrective action if required. The Board, through the Audit Committee, reviews the effectiveness of the systems of internal control.

Given the Group's relative small size, the Board does not consider it either necessary or practical at present to have its own internal audit function. The Board will continue to monitor the requirement to have an internal audit function.

Communication with shareholders

The Board attaches great importance to communication with both institutional and private shareholders.

Regular communication is maintained with all shareholders through Company announcements, the Annual Report and Financial Statements, Preliminary Statements and Half-year Report.

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders, especially considering the long-term nature of the business. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders this is not always practical. The Board, therefore, likes to use the Company's Annual General Meeting as the opportunity to meet private shareholders who are encouraged to attend, after which the Chief Executive Officer will give a presentation on the activities of the Group. Following the presentation there will be an opportunity to ask questions of the Executive Directors on a formal and informal basis and to discuss development of the business.

The Company operates a website at www.hvivo.com. The website contains details of the Group and its activities, regulatory announcements and Company announcements, Annual Reports and Half-year Reports, and the Terms of Reference of the Audit and Remuneration Committees.

Going concern

As disclosed in note 2 to the Consolidated Financial Statements, having made relevant and appropriate enquiries, including consideration of the Company and Group current resources and working capital forecasts, the Directors have a reasonable expectation that, at the time of approving the Financial Statements, the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

DIRECTORS' REMUNERATION REPORT

Introduction

hVIVO plc has elected voluntarily to prepare a Directors' remuneration report as set out below.

As a company admitted to trading on the AIM, the Company is not required to provide a formal remuneration report. This report is provided to give greater transparency of the Group's remuneration policy.

Remuneration practice overview

hVIVO's remuneration practice is to encourage and reward individual superior performance in line with both corporate and individual performance goals linked to the delivery of value to our shareholders.

The Remuneration Committee oversees hVIVO's reward policy and practices to support the creation of competitive practices which are designed to support a pay for performance culture throughout the organisation whilst also ensuring that we balance commercial drivers with our regulatory responsibilities.

Our approach is designed to offer rewards that:

- drive a culture of pay for performance;
- enable hVIVO to attract and retain the talent it needs to ensure success;
- incentivise the achievement of the Group's strategy and build sustainable long-term performance;
- have flexibility to accommodate the changing needs of the business as it grows and responds to customer needs and new business opportunities;
- incentivise achievement linked to growth goals aligned to our current stage of growth and development; and
- attract, retain and reward the senior executive team and from time to time selected other key individuals with critical skills, engendering a collective opportunity to drive performance and share in the success and growth of the business if they successfully deliver increased shareholder value.

Our reward strategy includes:

- base salaries which are aimed at above average for the UK life sciences and biotechnology sectors and linked to market conditions and Company and individual performance;
- a discretionary performance based bonus linked to stretch Company and individual performance goals measured through business planning and KPI measures as well as individual performance appraisal processes; and
- share incentives, issued to our most senior executives and certain individuals who have been considered key to incentivise and retain in certain stages of the Company's growth.

The Company's remuneration practice will continue to be reviewed on an annual basis by the Company Remuneration Committee to ensure it remains aligned to the Company's objectives and shareholders' interests.

Executive Directors

Kym Denny has a service agreement with hVIVO plc dated 26 April 2012, with continuous employment from 28 September 2009. Her appointment is terminable on six months' notice by either party.

Graham Yeatman has a service agreement with hVIVO plc dated 15 April 2015, with continuous employment from 3 May 2011. His appointment is terminable on six months' notice by either party.

Non-Executive Directors

The Non-Executive Directors have entered into letters of appointment with the Company, with the Board determining any fees paid. The appointments are terminable on three months' notice by either party. The Non-Executive Directors do not participate in the Group's pension, bonus or option schemes. Options previously awarded to Trevor Nicholls by Activiomics Limited were, following acquisition, exchanged for hVIVO options on a like-for-like basis.

Remuneration

The Executive Directors, Kym Denny and Graham Yeatman, are entitled to receive base salary, travel allowance, employer pension contributions, share options and a discretionary performance-related bonus.

Salary

Base salaries are reviewed annually and effective from the beginning of April.

The Remuneration Committee seeks to assess the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary.

Benefits

During 2016, the Company implemented a flexible benefit platform, providing a much more engaging approach to the overall management and visibility of total reward for employees as well as introducing benefit enhancements for all employees of life insurance and healthcare solutions.

The Executive Directors are entitled to receive a benefit of life insurance (x3 base salary) and private medical insurance (self and family).

Bonuses

The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and contribution to the Group. The maximum bonus that can be earned by an Executive Director is 100% of base salary.

Pensions

The Group operates a Group personal pension scheme which is a defined contribution scheme. Under the scheme rules, the Group pays an employer pension contribution of between 3% and 9% of base salary. The scheme is open to the Executive Directors and employees. The Executive Directors may elect to receive a like-for-like cash allowance in lieu of employer pension contribution, if advised due to lifetime allowance constraints.

Directors' remuneration

The Directors received the following remuneration during the year:

	Salary and fees[1] £'000	Taxable benefits £'000	Bonus £'000	**2016 total excluding pensions £'000**	**2016 pensions £'000**	2015 total excluding pensions £'000	2015 pensions £'000
Kym Denny	262	1	39	**302**	**23**	327	19
Graham Yeatman	224	1	32	**257**	**5**	268	18
Executive Directors	486	2	71	**559**	**28**	595	37
Jaime Ellertson[2]	148	–	–	**148**	**–**	132	–
Trevor Nicholls	20	–	–	**20**	**–**	20	–
Mark Warne[3]	14	–	–	**14**	**–**	–	–
James Winschel[4]	50	–	–	**50**	**–**	50	–
Alison Fielding[5]	8	–	–	**8**	**–**	20	–
David Norwood[5]	8	–	–	**8**	**–**	20	–
Non-Executive Directors	248	–	–	**248**	**–**	242	–
Total	734	2	71	**807**	**28**	837	37

1 Salary and fees including travel allowances and cash allowances in lieu of employer pension contribution.

2 Jaime Ellertson's disclosed remuneration includes an amount which is contractually committed by him quarterly to purchase shares of hVIVO plc.

3 Mark Warne was appointed as a Non-Executive Director on 19 April 2016.

4 James Winschel's disclosed remuneration includes an amount which is contractually committed by him quarterly to purchase shares of hVIVO plc.

5 Alison Fielding and David Norwood retired from the Board at the Annual General Meeting on 23 May 2016.

DIRECTORS' REMUNERATION REPORT CONTINUED

Share options

The Company issues share options to the Executive Directors and employees to reward performance, to encourage loyalty and to enable valued employees to share in the success of the Company.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

The share scheme was established immediately following the Company's acquisition of the entire issued share capital of hVIVO Services Limited (formerly Retroscreen Virology Limited) on 20 April 2012. The share scheme replicates the terms of the hVIVO Share Option Scheme (the "Old Share Scheme") which was operated by hVIVO Services Limited prior to the acquisition. Options over ordinary shares in hVIVO Services Limited outstanding under the Old Share Scheme at the time of the acquisition were exchanged by option holders for options on the same terms.

On 21 April 2015, hVIVO implemented a new share scheme available to Executive Directors and key management. As participants in the new share scheme, hVIVO granted 200,148 options over ordinary shares of 5.0 pence each in the Company to the Executive Directors with an exercise price of £3.37 per share under a new share option plan.

	Options as at 31 December 2015	Number of options granted during the year	**Options as at 31 December 2016**	Date of grant	Expiry of option	Exercise price	Percentage vested
Kym Denny	145,540	—	**145,540**	13 Jan 2010	12 Jan 2020	6.25p	100
Kym Denny	1,366,320	—	**1,366,320**	23 Dec 2011	22 Dec 2021	8.15p	100
Kym Denny	111,193	—	**111,193**	21 Apr 2015	20 Apr 2025	337.25p	—
Graham Yeatman	644,600	—	**644,600**	23 Dec 2011	22 Dec 2021	8.15p	100
Graham Yeatman	88,955	—	**88,955**	21 Apr 2015	20 Apr 2025	337.25p	—
Trevor Nicholls[1]	26,540	—	**26,540**	3 Mar 2014	18 Dec 2022	101.63p	100

1 Under the terms of the agreement to purchase 100% of the ordinary shares of Activiomics Limited, the options in Activiomics Limited were exchanged for options in the Company on a like-for-like basis.

On 26 April 2012, following the share-for-share exchange and 20 for 1 share split, the original options on shares in hVIVO Services Limited were exchanged for new options on shares in the Company on an equivalent basis.

No options held by the Directors were exercised or lapsed during the year.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company Financial Statements in accordance with IFRS as adopted by the EU.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRS as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

to the members of hVIVO plc

We have audited the Financial Statements of hVIVO plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and Parent Company statements of financial position, the consolidated and Parent Company statements of changes in equity, the consolidated and Parent Company statements of cash flow, the related notes 1 to 32 to the Consolidated Financial Statements and the related notes 1 to 11 to the Parent Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 37, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements 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 Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the period then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

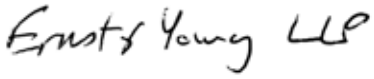
Based on the work undertaken in the course of the audit

- the information given in the Strategic report and the Corporate Governance report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic report and the Corporate Governance report have been prepared in accordance with applicable legal requirements.

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 requires us to report to you if, in our opinion:

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



David Hales (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
19 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue		**19,850**	7,717
Cost of sales		**(15,629)**	(5,266)
Gross profit		**4,221**	2,451
Other income	6	**276**	1,187
Research and development expense		**(6,282)**	(10,199)
Provision against virus inventory	17	**–**	(1,617)
Administrative expense		**(13,767)**	(13,671)
Share of loss of associates and joint ventures	16	**(7,371)**	(146)
Loss from operations	7	**(22,923)**	(21,995)
Finance income	9	**310**	387
Finance costs	10	**(18)**	(17)
Loss before taxation		**(22,631)**	(21,625)
Taxation	11	**4,750**	3,716
Loss for the year		**(17,881)**	(17,909)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates and joint ventures		**207**	(5)
Exchange differences arising on translating foreign operations		**(65)**	1
Total comprehensive loss for the year attributable to owners of the parent		**(17,739)**	(17,913)
Loss per share – basic (pence)	12	**(22.9p)**	(26.0p)
Loss per share – diluted (pence)	12	**(22.9p)**	(26.0p)

All activities relate to continuing operations.

The accompanying notes are an integral part of the consolidated statement of comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Goodwill	13	**1,722**	1,722
Intangible assets	14	**3,375**	3,030
Property, plant and equipment	15	**1,552**	2,679
Investment in associates and joint ventures	16	**14,150**	14,254
		20,799	21,685
Current assets			
Inventories	17	**1,986**	2,141
Current intangible asset	18	**–**	2,935
Trade and other receivables	19	**3,704**	2,642
Research and development tax credit receivable		**4,558**	4,101
Short-term deposits	20	**–**	37,031
Cash and cash equivalents	21	**25,679**	14,205
		35,927	63,055
Total assets		**56,726**	84,740
Equity and liabilities			
Equity			
Share capital	26	**3,905**	3,903
Share premium account		**93,217**	93,145
Share-based payment reserve		**238**	144
Merger reserve		**4,199**	4,199
Other reserve		**211**	211
Retained deficit		**(55,718)**	(37,979)
Total equity		**46,052**	63,623
Non-current liabilities			
Other payables	23	**400**	475
Provisions	24	**3,131**	3,140
		3,531	3,615
Current liabilities			
Trade and other payables	22	**7,143**	17,502
		7,143	17,502
Total liabilities		**10,674**	21,117
Total liabilities and equity		**56,726**	84,740

The Consolidated Financial Statements of hVIVO plc (registered company number 08008725) on pages 40 to 71 were approved and authorised for issue by the Board on 19 April 2017 and signed on its behalf by:

Kym Denny
Chief Executive Officer

Graham Yeatman
Chief Financial & Business Officer

The accompanying notes are an integral part of the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserve £'000	Retained deficit £'000	Total equity £'000
As at 31 December 2014	3,383	72,498	249	4,199	921	(20,066)	61,184
Share-based payment	—	—	78	—	—	—	78
Proceeds from shares issued:							
Acquisition of subsidiary – settlement of deferred consideration	11	699	—	—	(710)	—	—
Exercise of warrants and share options	52	360	(183)	—	—	—	229
Issue of new shares	1	67	—	—	—	—	68
Placing net of related expenses	456	19,521	—	—	—	—	19,977
Total transactions with owners in their capacity as owners	520	20,647	(105)	—	(710)	—	20,352
Loss for the year	—	—	—	—	—	(17,909)	(17,909)
Exchange differences on translation of foreign assets	—	—	—	—	—	(4)	(4)
As at 31 December 2015	3,903	93,145	144	4,199	211	(37,979)	63,623
Share-based payment	—	—	94	—	—	—	94
Proceeds from shares issued:							
Issue of new shares	2	72	—	—	—	—	74
Total transactions with owners in their capacity as owners	2	72	94	—	—	—	168
Loss for the year	—	—	—	—	—	(17,881)	(17,881)
Share of other comprehensive income of associates and joint ventures	—	—	—	—	—	207	207
Exchange differences on translation of foreign assets	—	—	—	—	—	(65)	(65)
As at 31 December 2016	**3,905**	**93,217**	**238**	**4,199**	**211**	**(55,718)**	**46,052**

The accompanying notes are an integral part of the consolidated statement of changes in equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash used in operating activities	32	**(17,832)**	(9,846)
Cash flows from investing activities			
Acquisition of intangible assets		**(660)**	(15)
Acquisition of property, plant and equipment		**(162)**	(869)
Decrease/(increase) in balances on short-term deposit		**37,031**	(9,024)
Investment in associates and joint ventures		**(7,138)**	(9,405)
Interest received		**310**	398
Net cash generated from/(used in) investing activities		**29,381**	(18,915)
Cash flows from financing activities			
Net proceeds from issue of shares		**–**	20,205
Other payables repaid		**(75)**	(75)
Net cash (used in)/generated from financing activities		**(75)**	20,130
Net increase/(decrease) in cash and cash equivalents		**11,474**	(8,631)
Exchange gain on cash and cash equivalents		**–**	10
Cash and cash equivalents at the start of year		**14,205**	22,826
Cash and cash equivalents at the end of year		**25,679**	14,205

The accompanying notes are an integral part of the consolidated statement of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

hVIVO plc (the "Company") and its subsidiaries (together, the "Group") is a specialty biopharma company with discovery and clinical testing capabilities, pioneering a human-based analytical platform to accelerate drug discovery and development in respiratory and infectious diseases. Leveraging human disease models in flu, RSV and asthma exacerbation, the hVIVO platform captures disease in motion, illuminating the entire disease life cycle from healthy to sick and back to health. Based in the UK, market leader hVIVO plc has conducted more than 45 clinical studies, inoculated over 2,000 volunteers and has three first-in-class therapies currently in development with a growing pre-clinical pipeline. The Group carries out its core activities from the United Kingdom. Sales and marketing support is provided by the US-based subsidiary of the Company, hVIVO Inc.

The Company is incorporated and domiciled in the United Kingdom and its shares are listed on the London Stock Exchange's AIM market ("HVO"). The Company's registered office address is Queen Mary BioEnterprises Innovation Centre, 42 New Road, London, United Kingdom E1 2AX.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board ("IASB"). The Group Financial Statements also comply with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's statement of comprehensive income. The Parent Company's result for the year was a loss of £566,000 (2015: loss £176,000).

The Group Financial Statements are presented in Pounds Sterling (£) and all values are rounded to the nearest thousand (£'000) except where indicated otherwise.

The Financial Statements have been prepared under the historical cost convention.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and Directors' report on pages 01 to 25 and pages 28 to 30.

In determining the basis for preparing the Consolidated Financial Statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the Consolidated Financial Statements. As at 31 December 2016 the Group had short-term deposits, cash and cash equivalents of £25.7 million (2015: £51.2 million) and net current assets of £28.8 million (2015: £45.6 million).

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

As part of its going concern review the Board has followed the guidelines published by the Financial Reporting Council entitled "Going Concern and Liquidity Risk Guidance for UK Companies 2009". Having made relevant and appropriate enquiries, including consideration of the Company's and Group's current cash resources and the working capital forecasts, the Directors have a reasonable expectation that the Company and Group will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the Consolidated Financial Statements.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable return from its involvement with the investee; and, has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with International Accounting Standard ("IAS") 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate or joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred a legal or constructive obligation or made payments on behalf of the associate or joint venture. hVIVO recognises revenues arising from transactions with associates and joint ventures in its Consolidated Financial Statements.

An investment in an associate or joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of investment.

The requirements of IAS 28 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill), is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or joint venture, or when the investment is classified as held for sale.

Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each group company are expressed in Pounds Sterling (£), which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the date of transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable for sale of goods and services in the ordinary course of business and is shown net of Value Added Tax.

Service revenues

The Group primarily earns revenues by undertaking client clinical services engagements. A client clinical service engagement typically comprises a number of quarantine cohorts. Each quarantine cohort lasts two to three weeks, but the timeline of work involved in building up to undertaking a clinical study is in the range of three to twelve months. Whether a client clinical service engagement is for one quarantine cohort or for a number of quarantine cohorts, the overall timeline of the engagement is much the same, apart from the additional time for the quarantine cohorts themselves and the time lags in between quarantine cohorts (with some cohorts offset in parallel and some sequential), as much of the upfront work is the same whether for one or a number of quarantine cohorts.

Client clinical service revenue is recognised on a percentage of completion method using output measures.

Depending on the contractual terms, revenue is recognised based on the level of work completed to date in respect of each individual element of the client clinical service contract.

Contracts generally contain provisions for renegotiation in the event of changes in the scope, nature, duration, volume of services or conditions of the contract. Renegotiated amounts are recognised as revenue by revision to the total contract value arising as a result of an authorised customer change order. Provisions for losses to be incurred on contracts are recognised in full in the period in which it is determined that a loss will result from performance of the contractual arrangement.

The difference between the amount of revenue recognised and the amount invoiced on a particular contract is included in the consolidated statement of financial position as deferred income. Normally amounts become billable in advance upon the achievement of certain milestones, in accordance with pre-agreed invoicing schedules included in the contract or on submission of appropriate detail. Any cash payments received as a result of this advance billing are not representative of revenue earned on the contract as revenues are recognised over the period during which the specified contractual obligations are fulfilled. Amounts included in deferred income are expected to be recognised within one year and are included within current liabilities.

In the event of contract termination, if the value of work performed and recognised as revenue is greater than aggregate milestone billings at the date of termination, cancellation clauses provide for the Group to be paid for all work performed to the termination date.

Licensing revenues

Where licensing arrangements have a single contracted deliverable, such as the delivery of a licence for study data, revenue is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the deliverable, the Group no longer has managerial involvement or effective control of the deliverable, the amount of revenue and costs associated with the transaction can be measured reliably, it is probable that the Group will receive future economic benefits associated with the transaction and costs incurred can be reliably measured. Licence revenue for such arrangements is therefore generally recognised on handover of the deliverable. Until this point in time any amount invoiced in respect of the arrangement is presented in the consolidated statement of financial position as deferred income. Costs associated with development of the study data are capitalised as a current intangible asset from the point that it is probable future economic benefits will be generated and are transferred to cost of sales upon handover of the deliverable.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- technical feasibility of the completed intangible asset has been established;
- it can be demonstrated that the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development;
- the expenditure attributable to the intangible asset can be reliably measured; and
- management has the ability and intention to use or sell the intangible asset.

Expenses for research and development include associated wages and salaries, material costs, depreciation on non-current assets and directly attributable overheads. Development costs recognised as assets are amortised over their expected useful life.

Intangible assets

The cost of a purchased intangible asset is the purchase price plus any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Intangible assets acquired in a business combination and recognised separately from goodwill are recognised at their fair value at the acquisition date (which is regarded as their cost). Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated life and the amortisation method for each intangible asset are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

Depreciation is charged, on a straight-line basis, so as to write off the costs of assets less their residual values, over their estimated useful lives, on the following basis:

Leasehold improvements	the shorter of five years or the life of the lease
Plant and machinery	four years straight line
Computer equipment	three years straight line

The assets' estimated useful lives, depreciation basis and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Impairment of goodwill

Goodwill is not amortised but is reviewed for impairment at each reporting date. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment at each reporting date, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Inventories

Inventories are reported at the lower of cost (purchase price and/or production cost) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling expenses.

Inventories comprise completed manufactured grade viruses, work in process in relation to the manufacture of viruses, and laboratory and clinical consumables. The cost of virus inventory is calculated using the weighted average cost method for each individual strain, with cost including direct materials and, where applicable, direct labour costs and an attributable portion of production overheads that have been incurred in bringing the inventories to their present location and condition. Adjustments are made for any inventories where net realisable value is lower than cost, or which are considered to be obsolete. Any inventories which management considers are not usable on future commercial engagements are provided against in the consolidated statement of comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the assets are impaired. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Short-term deposits

Short-term deposits comprise money market deposits which are convertible to known amounts of cash and have an original maturity of between three and twelve months.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at their fair value and are subsequently measured at their amortised cost using the effective interest rate method. Due to the short-term nature of these balances, the carrying amount of trade payables approximates to their fair value.

Borrowings

Borrowings, including advances received from related parties are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition borrowings are subsequently measured at amortised cost using the effective interest method.

Current and deferred tax

The tax credit recognised within the consolidated statement of comprehensive income represents the sum of the taxes currently payable or recoverable and the movements in deferred tax assets and liabilities.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss before income tax as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from HM Revenue & Customs, in respect of qualifying research and development costs incurred in the same accounting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

Current and deferred tax continued

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the consolidated statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and Development Expenditure Credits to be received in cash are recorded in other income in the period in which the qualifying expenditure was incurred, once the underlying claim methodology has been agreed with HM Revenue & Customs.

Operating leases

Rentals payable under operating leases are charged to expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Share-based payment transactions

Options

The Group operates an equity-settled share-based compensation plan, under which the Group receives services from employees (including Directors) as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period.

The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 27.

The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based upon the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Warrants

The Group enters into equity-settled share-based payment transactions, involving the issuance of warrants, with parties other than employees. Pursuant to these transactions, the Group receives services from such parties as consideration for equity instruments (warrants) issued. The fair value of such services received in exchange for the grant of warrants is recognised as an expense over the service period.

Pension costs

The Group operates a defined contribution pension scheme for all employees. The assets of the scheme are held separately from those of the Group. Payments into the scheme are charged as an expense as they fall due.

Provisions

Provisions for dilapidations and onerous lease commitments are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 2, the Group makes estimates and assumptions concerning the future based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions that have a significant effect on the amounts recognised in the Financial Statements are addressed below.

Revenue, deferred income and accrued income

Revenue for the performance of services is recognised based on the level of work completed under the percentage of completion method. The recognition of revenue (and hence the related deferred and accrued income balances) requires management to make estimates in relation to the level of work done and assumptions of the costs to complete each project.

At each period end, management reviews each individual contract to assess whether any anticipated losses should be recognised immediately.

Revenue in relation to the licensing of data is recognised when data is delivered to the customer.

Revenue from transactions with related parties, associates and joint ventures

The recognition and presentation of revenue generating transactions as at an arm's-length requires management to make judgements on the fair value of consideration received and whether the transactions have standalone commercial substance.

hVIVO recognised revenue from transactions with related parties of £12.5 million during the year (PrEP Biopharm Limited £9.7 million and PepTcell Limited £2.8 million), which management concluded represented an arm's-length fair value (see note 29).

Impairment of intangible assets and goodwill

The Group's balance sheet includes goodwill and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of fair value less costs of disposal and its value in use. Determining whether an asset is impaired requires estimation of the fair value of the asset or cash generating unit or the estimation of the value in use of the cash generating unit to which the asset has been allocated.

Virus inventory

In valuing virus inventory, management is required to make assumptions in relation to the future commercial use, being both external client revenue engagements, engagements with our equity investments and internal research and development engagements, for each virus. This includes consideration of both the current business pipeline and management's estimates of the future virus requirements, based on its significant knowledge and experience in the field of virology.

Leasehold provision

Provisions for dilapidations and onerous lease commitments are recognised when the Group has a present or constructive obligation as a result of past events. The recognition of provision requires management to make best estimates of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. There is reasonable uncertainty around the likelihood and timing of the exit of the lease as negotiations will involve third parties. The provision is discounted for the time value of money.

Research and development tax credit

The Group's research and development tax claim is complex and requires management to make significant assumptions in building the methodology for the claim, interpreting research and development tax legislation to the Group's specific circumstances, and agreeing the basis of the Group's tax computations with HM Revenue & Customs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Critical accounting estimates and judgements continued

Investments in associates and joint ventures

In assessing the level of control hVIVO holds in respect of its equity investments, management consider a number of factors including control of voting rights at board level and the power to direct the "relevant activities" of that investee through decision making and the management of assets.

PrEP Biopharm Limited

On 1 November 2015, the Company acquired 62.62% of the share capital of PrEP Biopharm Limited. Although hVIVO holds more than 50% of the equity of PrEP Biopharm Limited, hVIVO's voting rights are limited to 49.98% under the Investment and Shareholders' Agreement ("ISHA"). The effect is that the voting rights hVIVO is entitled to exercise are less than half of the total voting rights that are able to be exercised.

Under the terms of the ISHA, hVIVO has appointed two Directors of PrEP Biopharm Limited, including the Chair, with equal votes and no casting vote. There are currently five Directors, following the appointment of an independent Non-Executive Director in August 2016. Accordingly, hVIVO does not control the Board.

The terms of the ISHA exclude the hVIVO Directors from any Board consideration and decision making on the hVIVO contracts. Under the terms of the PrEP Biopharm Limited transaction, PrEP Biopharm Limited contracted with hVIVO Services Limited for the licence of PrEP-001 flu and PrEP-001 asthma clinical study data and also to conduct a PrEP-001 durability clinical study under a client services agreement, for a total consideration of £10.0 million. The hVIVO contracts with PrEP Biopharm Limited are priced on an arm's-length basis.

hVIVO has concluded that despite having significant influence, the terms of the ISHA mean that it does not have the power to direct the relevant activities of PrEP Biopharm Limited. Accordingly, hVIVO uses the equity method to account for its investment in PrEP Biopharm Limited as an associate.

Imutex Limited

On 21 April 2016 the Company acquired 49.0% of the share capital of Imutex Limited under the terms of a Joint Venture Agreement with PepTcell Limited. hVIVO holds 49.0% of the voting rights of Imutex Limited and, under the terms of the Joint Venture Agreement, appoints two of the current four Directors.

hVIVO has concluded that the relevant activities of Imutex Limited are jointly controlled by PepTcell Limited and hVIVO. Accordingly, hVIVO uses the equity method to account for its investment in Imutex Limited as a joint venture with joint control.

The differences between consolidating a controlled entity and applying the equity method are significant. The equity method requires hVIVO to recognise its share of profits and losses and other changes in the net assets of PrEP Biopharm Limited and Imutex Limited.

Change in accounting treatment of revenues with related parties

In the Company's unaudited half-year financial report for the six months ended 30 June 2016, it was reported that the Company had entered into a joint venture with PepTcell Limited and acquired 49.0% of the share capital of Imutex Limited. It was also reported that, due to the linked nature of hVIVO plc's equity investment in Imutex Limited and the clinical services contracted to be provided by the Company's subsidiary hVIVO Services Limited to PepTcell Limited, the £5.5 million value of contracted services was recorded as an obligation to provide services and which is extinguished through delivery of services, with any resulting gains being recognised in the income statement.

On 13 April 2017, the Company announced in its trading update that having further reviewed the position and considered the nature and substance of the arrangement, the accounting treatment for the contract for clinical services with PepTcell returned to the original expectation, as announced on 22 April 2016. hVIVO plc recognises the £5.5 million FLU-v Phase IIb clinical study as revenue as the work is completed. The revenue recognised in relation to the work completed for this contract for the period ended 31 December 2016 was £2.8 million, of which £0.2 million related to the six months ended 30 June 2016 (this reverses the £0.1 million previously recognised in H1 2016 as a net 'gain on provision of services to joint venture').

4. Interpretations of accounting standards

Amendments to published standards effective for the year ended 31 December 2016

During the year no amendments to standards that became effective during the year were material to the Group.

Standards adopted early by the Group

The Group has not adopted any standards or interpretations early in either the current or the preceding financial year.

New and revised IFRSs in issue but not yet effective

Interpretations to existing standards and new standards that are not yet effective and have not been early adopted by the Group:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IAS 19 (amendments) Defined Benefit Plans: Employee Contributions
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Directors are of the opinion, with the exception of IFRS 15 and IFRS 16, that the application of these standards is unlikely to have any significant impact, other than increased disclosures, on the Financial Statements of the Group or Company. Management is considering the likely impact of adoption of IFRS 15 Revenue from Contracts with Customers.

5. Segmental information

The Group's Chief Operating Decision Maker, the Chief Executive Officer, is responsible for resource allocation and the assessment of performance. In the performance of this role, the Chief Executive Officer reviews the Group's activities, in the aggregate. The Group has therefore determined that it has only one reportable segment under IFRS 8 Operating Segments, which is 'medical and scientific research services'.

The Group carries out its main activities from the United Kingdom. The Group conducts sales activity in the US and in Europe which is carried out through hVIVO Inc and hVIVO Services Limited respectively. All revenue is derived from activities undertaken in the UK.

During the year ended 31 December 2016 the Group had four customers who each generated revenue greater than 10% of total revenue (2015: two customers). These customers generated 49%, 24%,14% and 11% of revenue (2015: 59% and 28% of revenue).

Revenue from related party transactions totalled £12.5 million in 2016 (2015: £0.2 million) as disclosed in note 29.

6. Other income

Other income consists of £0.3 million (2015: £1.2 million) accrued in respect of a Research and Development Expenditure Credit ("RDEC") claim for 2016. The Group classifies such RDEC claims as a government grant where amounts receivable as compensation for expenses or losses already incurred are recognised in the consolidated statement of comprehensive income in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Loss from operations

Loss before tax is stated after charging:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Employee benefit expense (note 8)	**14,933**	15,809
Recruitment and other human resources	**296**	672
Agency and interim consultants	**2,720**	1,611
Premises and equipment	**2,229**	2,507
Volunteer costs	**2,657**	1,695
Inventories used	**1,484**	1,140
Virus inventory provision (note 17)	**–**	1,617
Insurance	**225**	271
Professional fees	**2,099**	1,080
Information technology, including telecommunications	**1,031**	1,318
Depreciation of property, plant and equipment	**1,288**	1,342
Amortisation of intangible assets	**315**	318
Dilapidations and onerous lease expense (note 24)	**1,037**	1,003

Amounts payable to the Company's external auditor and its associates were as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Auditor fee:		
Fees payable to the Company's auditor for audit of the Company's annual Financial Statements	**50**	50
Fees payable to the Company's auditor and its associates for other services		
– the audit of the Company's subsidiaries pursuant to legislation	**50**	50
Total audit fees	**100**	100
Audit-related fees – audit-related assurance services	**38**	20
Total audit and audit-related fees	**138**	120
All other fees – other services	**64**	–
Total non-audit fees	**64**	–
	202	120

8. Employees

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
The average number of FTE employees (including Executive Directors) was:		
Management, administration and business development	**57**	60
hVIVO platform operation	**172**	196
Discovery and innovation	**17**	14
	246	270

In addition to the above, the Company employed 9 FTE employees (2015: 10) absent for maternity leave, paternity leave and long-term sickness.

The 2015 comparatives have been re-presented on a FTE, rather than headcount, basis.

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
The aggregate employee benefit expense comprised (including Directors):		
Wages and salaries	**12,955**	13,697
Social security costs	**1,333**	1,451
Pension cost – defined contribution plans	**551**	583
Share option expense	**94**	78
	14,933	15,809

The remuneration of the Executive Directors, who are the key management personnel of the Group, is shown within note 29.

9. Finance income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest received	**310**	387

10. Finance costs

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Other bank charges	**18**	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Taxation

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Current tax:		
Current year research and development tax credit	**(4,293)**	(3,749)
Adjustments in respect of previous periods	**(473)**	31
Foreign current tax	**16**	2
Deferred tax:		
Origination and reversal of temporary timing differences	**–**	–
	(4,750)	(3,716)

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable loss for the year.

The charge for the year can be reconciled to the loss in the consolidated statement of comprehensive income as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss before taxation	**(22,631)**	(21,625)
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	**(4,526)**	(4,379)
Expenses not deductible in determining taxable profit	**18**	129
Income not taxable for tax purposes	**–**	(595)
Fixed asset temporary timing differences not recognised	**7**	8
Current year research and development tax credit	**(1,681)**	(1,542)
Movement in unrecognised deferred tax asset	**1,524**	2,137
Other temporary timing differences not recognised	**381**	495
Adjustments in respect of prior periods	**(473)**	31
Tax for the year	**(4,750)**	(3,716)

Factors affecting current and future taxation

The rate of UK corporation tax during the year was 20%. It will fall to 19% from 1 April 2017, and 17% from 2020.

As at 31 December 2016, the Group had tax losses available for carry forward of approximately £22.6 million (2015: £22.8 million). The Group has not recognised deferred tax assets of £3.9 million (2015: £4.1 million) relating to carried forward losses. These deferred tax assets have not been recognised as the Group's management considers that there is insufficient future taxable income, taxable temporary differences and feasible tax-planning strategies in the short term to utilise all of the cumulative losses and therefore it is probable that the deferred tax assets will not be realised in full. If future income differs from current projections, this could significantly impact the tax charge or benefit in future periods.

12. Earnings per share ("EPS")

Basic earnings per share is calculated by dividing profit or loss for the year by the weighted average number of ordinary shares in issue during the year. Diluted EPS is computed based on the weighted average number of ordinary shares plus the effect of dilutive potential ordinary shares outstanding during the period based on the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants.

Dilutive potential ordinary shares include share options and warrants as described in note 2.

The calculation of the basic and diluted EPS as included in the consolidated statement of comprehensive income is based on the following data:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Earnings		
Loss for the year	**(17,881)**	(17,909)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	**78,076,407**	68,943,581
Effect of dilutive potential ordinary shares:		
– share options	**–**	–
Weighted average number of ordinary shares for the purposes of diluted EPS	**78,076,407**	68,943,581

In the current year, the potential ordinary shares were not treated as dilutive as the Group is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share were the same.

13. Goodwill

	2016 £'000	2015 £'000
At 1 January	**1,722**	1,722
Recognised on acquisition of subsidiary	**–**	–
At 31 December	**1,722**	1,722

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Consistent with our segmental reporting, the business has one cash generating unit to which all goodwill arising on acquisitions has been allocated. The recoverable amount of the cash generating unit is determined by reference to fair value of the cash generating unit less estimated costs of disposal. As at 31 December 2016, the recoverable amount of the cash generating unit was considered to be significantly in excess of its book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. Intangible assets

	Acquired intellectual property £'000	Capitalised software development £'000	Total £'000
Cost:			
At 31 December 2014	2,118	1,228	3,346
Additions at cost	—	15	15
Disposals	—	—	—
At 31 December 2015	2,118	1,243	3,361
Additions at cost	—	660	660
Disposals	—	—	—
At 31 December 2016	**2,118**	**1,903**	**4,021**
Accumulated depreciation:			
At 31 December 2014	—	13	13
Charge for the year	283	35	318
Disposals	—	—	—
At 31 December 2015	283	48	331
Charge for the year	282	33	315
Disposals	—	—	—
At 31 December 2016	**565**	**81**	**646**
Carrying amount:			
At 31 December 2014	2,118	1,215	3,333
At 31 December 2015	1,835	1,195	3,030
At 31 December 2016	**1,553**	**1,822**	**3,375**

The useful lives of assets for amortisation range from five to ten years.

15. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost:				
At 31 December 2014	2,419	2,990	1,045	6,454
Additions	72	655	142	869
Disposals	—	(2)	—	(2)
At 31 December 2015	2,491	3,643	1,187	7,321
Additions	21	75	66	162
Disposals	—	—	—	—
At 31 December 2016	**2,512**	**3,718**	**1,253**	**7,483**
Accumulated depreciation:				
At 31 December 2014	1,347	1,361	593	3,301
Charge for the year	320	729	293	1,342
Disposals	—	(1)	—	(1)
At 31 December 2015	1,667	2,089	886	4,642
Charge for the year	334	750	204	1,288
Disposals	—	—	—	—
At 31 December 2016	**2,001**	**2,839**	**1,090**	**5,930**
Carrying amount:				
At 31 December 2014	1,072	1,629	452	3,153
At 31 December 2015	824	1,554	301	2,679
At 31 December 2016	**511**	**879**	**163**	**1,553**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. Investment in associates and joint ventures

PrEP Biopharm Limited

On 1 November 2015, the Company acquired 62.62% of the share capital of PrEP Biopharm Limited for cash consideration of £14.0 million, of which £5.0 million was deferred consideration at 31 December 2015 and paid in January 2016. Acquisition costs of £0.4 million have been capitalised as part of the cost of the investment. PrEP Biopharm Limited is a UK-based development stage biopharmaceutical company which is developing infectious disease products. At the same time as the investment, PrEP Biopharm Limited entered into contractual arrangements with hVIVO Services Limited to the value of £10.0 million (see note 29).

The following table summarises the movements in the Company's investment in PrEP Biopharm Limited during the year:

	2016 £'000	2015 £'000
As at 1 January	**14,254**	—
Additions	**—**	14,405
Share of loss after tax recognised in the consolidated statement of comprehensive income	**(7,371)**	(146)
Share of other comprehensive income/(loss) of associates and joint ventures	**129**	(5)
As at 31 December	**7,012**	14,254

Summarised consolidated financial information in respect of PrEP Biopharm Limited and its 100% owned US-based subsidiary, PrEP Biopharm Inc, is set out below and has been prepared in accordance with IFRS:

	31 December 2016 £'000	31 December 2015 £'000
Current assets	**3,962**	15,298
Non-current assets	**5,090**	5,076
Current liabilities	**(366)**	(123)
Net assets	**8,686**	20,251
Interest in the associate	**5,439**	12,681
Goodwill	**1,573**	1,573
Carrying amount of the Group's interest in the associate	**7,012**	14,254

PrEP Biopharm Limited and its US subsidiary generated no revenue during the period as the activity was that of product development.

Its loss of £11.6 million (2015: £0.3 million) for the year ended 31 December 2016 consisted of £11.6 million of research and development expenditure (2015: £0.2 million) and £1.1 million of administrative expenditure (2015: £0.1 million), partially offset by income in respect of a research and development tax credit refund claim and foreign exchange gains.

Imutex Limited

On 21 April 2016, the Company acquired 49.0% of the share capital of Imutex Limited for £7.0 million consideration under the terms of a Joint Venture Agreement with PepTcell Limited. Acquisition costs of £0.1 million have been capitalised as part of the investment. Imutex Limited is a UK-based company developing vaccines against influenza and mosquito-borne diseases. At the same time as the investment, PepTcell Limited entered into a contractual arrangement with hVIVO Services Limited for a FLU-v clinical study to the value of £5.5 million (see note 29).

The following table summarises the movements in the Company's investment in Imutex Limited during the year:

	2016 £'000
As at 1 January	–
Additions	**7,138**
Share of loss after tax recognised in the consolidated statement of comprehensive income	–
As at 31 December	**7,138**

Summarised consolidated financial information in respect of Imutex Limited is set out below and has been prepared in accordance with IFRS:

	31 December 2016 £'000
Current assets	**383**
Non-current assets	**14,247**
Current liabilities	**(385)**
Net assets	**14,245**
Interest in the joint venture	**6,980**
Goodwill	**158**
Carrying amount of the Group's interest in the joint venture	**7,138**

Imutex Limited generated no revenues during the period as the activity was that of product development.

It recorded a loss of £nil for the period ended 31 December 2016.

17. Inventories

	31 December 2016 £'000	31 December 2015 £'000
Laboratory and clinical consumables	**35**	33
Virus – finished goods	**1,951**	2,108
	1,986	2,141

Inventories expensed in the consolidated statement of comprehensive income are shown within cost of sales or research and development expense. All inventories are carried at the lower of cost or net realisable value in the consolidated statement of financial position.

During 2015 a provision of £1,617,000 was recognised against the carrying value of 'Virus – finished goods'. During 2013 to 2014, hVIVO developed two separate strains of H3N2 flu virus for use in both client, equity investment and internal studies. Two strains were developed in order to mitigate the scientific and manufacturing risk of one strain failing development and to ensure that at least one strain was successful in the timeframe. As it is likely that only one of these strains will be used in client studies going forward, the second strain has been fully provided against.

No additional provision was recognised during 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Current intangible asset

	2016 £'000	2015 £'000
At 1 January	**2,935**	—
Additions at cost	**3,475**	2,935
Recognised during the year	**(6,410)**	—
At 31 December	**—**	2,935

During 2015 hVIVO commenced the PrEP-001 flu and asthma clinical studies with a view to the study data generating future economic benefit through potential licensing arrangements. Accordingly, the costs of performing these studies were capitalised. On 1 November 2015, PrEP Biopharm Limited contracted to licence the study data for the flu and asthma studies (see note 29). The study data was completed and provided to PrEP Biopharm Limited during 2016, at which point these costs were transferred to cost of sales.

19. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Trade receivables	**1,001**	551
VAT recoverable	**260**	—
Other receivables	**399**	405
Prepayments	**1,343**	1,274
Accrued income	**701**	412
	3,704	2,642

Contractual payment terms with the Group's clients are typically 30 to 45 days.

The Group recognises an allowance for doubtful debts against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. No allowance was recorded in either period presented.

As at 31 December 2016 trade and other receivables of £37,000 (2015: £3,000) were past due but not impaired. The age profile of these balances is as follows:

	31 December 2016 £'000	31 December 2015 £'000
Up to three months	**33**	3
Three to six months	**4**	—
	37	3

The Directors believe that the carrying value of trade and other receivables represents its fair value. All trade receivables are denominated in Pounds Sterling (£). In determining the recoverability of trade receivables the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date.

For details on the Group's credit risk management policies, refer to note 25.

The Group does not hold any collateral as security for its trade and other receivables.

20. Short-term deposits

	31 December 2016 £'000	31 December 2015 £'000
Short-term deposits	**—**	37,031

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

21. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Cash at bank and in hand	**25,679**	14,205

All the Group's cash and cash equivalents at 31 December 2016 and 31 December 2015 are at floating interest rates. Included in the cash and cash equivalents of the Group at 31 December 2016 was the equivalent of £29,000 (31 December 2015: £70,000) denominated in US Dollars and £2,000 denominated in Euros (31 December 2015: £5,000). The remaining cash and cash equivalents balance was denominated in Pounds Sterling (£).

The Directors consider that the carrying value of cash and cash equivalents approximates fair value. For details on the Group's credit risk management, refer to note 25.

22. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Trade payables	**2,204**	2,265
Other taxes and social security	**350**	382
VAT payable	**–**	984
Other payables	**178**	5,134
Accruals	**1,347**	1,303
Deferred income	**3,064**	7,434
	7,143	17,502

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are non-interest bearing and are typically settled on 30 to 45 day terms.

The Directors consider that the carrying value of trade and other payables approximates fair value. Included within trade payables of the Group as at 31 December 2016 was the equivalent of £180,000 (31 December 2015: £173,000) denominated in US Dollars. The remaining trade and other payables are denominated in Pounds Sterling (£).

Other payables at 31 December 2015 included deferred consideration of £5.0 million in respect of the equity investment in PrEP Biopharm Limited which was paid in January 2016 (see note 29).

The Group has financial risk management policies in place to ensure that trade payables are settled within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the reporting periods presented herein (see note 25).

23. Other payables

	31 December 2016 £'000	31 December 2015 £'000
Amounts to be settled beyond one year	**400**	475

On 11 March 2013, the Group signed an Agreement for Lease with Queen Mary BioEnterprises Limited to develop the third floor of the QMB Innovation Centre with a five-year term and an option to extend for another five years. As part of the agreement, QMB advanced the Group a repayable interest-free lease incentive of £750,000 to develop the third floor, with £75,000 per annum repayable over a ten-year period. The lease incentive is recognised as a liability. In the event that the Group does not exercise its option to extend the lease agreement for another five years, the remaining unpaid principal of the advance (£375,000) must be repaid at the end of the five-year contractual lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. Provisions

	Onerous lease provision £'000	Dilapidations provision £'000	Total £'000
At 1 January 2016	3,000	140	3,140
Additional provision in the year	1,037	—	1,037
Used during the year	(1,046)	—	(1,046)
At 31 December 2016	**2,991**	**140**	**3,131**

Onerous lease provision of £3.0 million (31 December 2015: £3.0 million) represents management's best estimate of the costs to be incurred for the exit of premises leased by the Group after considering the likely outcomes. There is reasonable uncertainty around the likelihood and timing of the exit of the lease as negotiations will involve third parties. The provision is expected to be used between 2017 and 2019. Total expected costs to be incurred are £3.0 million.

Buildings dilapidations of £140,000 (31 December 2015: £140,000) represent the present value of costs to be incurred for the restoration of premises occupied by the Group. The provision is expected to be used during 2018. Total expected costs to be incurred are £140,000.

25. Financial risk management

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Risk management is carried out by management under the supervision of the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the business' department heads.

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group is funded principally by equity although long-term and short-term loans have been utilised from time to time. As at 31 December 2016, a repayable lease incentive of £475,000 was outstanding (31 December 2015: £550,000).

Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

Financial assets

At the reporting date, the Group held the following financial assets:

	31 December 2016 £'000	31 December 2015 £'000
Cash and cash equivalents	**25,679**	14,205
Short-term deposits	**—**	37,031
Trade receivables	**1,001**	551
Other receivables	**399**	405
Accrued income	**701**	412
	27,780	52,604

Financial liabilities

At the reporting dates, the Group held the following financial liabilities, all of which were classified as other financial liabilities at amortised cost:

	31 December 2016 £'000	31 December 2015 £'000
Trade payables	**2,204**	2,265
Accruals	**1,347**	1,303
Repayable lease incentive from related parties	**475**	550
Other payables	**103**	5,059
	4,129	9,177

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. In the year ended 31 December 2016, both these risks are considered to have been minimal.

Credit risk

Credit risk arises principally from the Group's short-term deposits, cash and cash equivalents and trade and other receivables.

The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Group seeks to limit the level of credit risk on cash and cash equivalents by only depositing surplus liquid funds with counterparty banks that have high credit ratings.

The nature of the Group's business and the current stage of its development are such that individual customers can comprise a significant proportion of the Group's trade and other receivables at any point in time. The Group mitigates the associated risk by ensuring that its contracting terms provide for invoices to be raised in advance of the work being carried out and through the close monitoring of the debtor ledger. In addition, many of the Group's clients are either large, global, publicly listed companies or are owned by such entities.

There were no other significant concentrations of credit risk at the reporting date. At 31 December 2016, the Group's trade receivables balance was £1,001,000 (31 December 2015: £551,000).

The carrying amount of financial assets recorded in the Financial Statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. At 31 December 2016, the allowance for impairment losses totalled £nil (31 December 2015: £nil). In the opinion of the Directors, there has been £nil impairment of financial assets during the year ended 31 December 2016 (31 December 2015: £nil).

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

No collateral is held by the Group as security in relation to its financial assets.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board of Directors manages liquidity risk by regularly reviewing the Group's cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections.

At 31 December 2016, the Group had short-term deposits, and cash and cash equivalents of £25.7 million (31 December 2015: £51.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. Financial risk management continued

Foreign currency risk management

Historically, the Group's exposure to foreign currency risk has been limited, as all of its invoicing and the majority of its payments are in Pounds Sterling. US Dollar expenditure with US suppliers and employee headcount of hVIVO Inc resulted in a Group cash outflow of US$2.5 million during 2016 (2015: US$2.9 million). Foreign exchange risk is managed through the purchase of US Dollars throughout the year.

The balance held in foreign currencies at the end of the reporting period was not material and the Group has made no payments in foreign currencies other than US Dollars and Euros. As such, management has not presented any sensitivity analysis in this area as this is immaterial.

Maturity of financial assets and liabilities

With the exception of the lease incentive from a related party (see note 23), all of the Group's non-derivative financial liabilities and its financial assets at 31 December 2016 are either payable or receivable within one year.

26. Share capital

	Number	£'000
Issued and fully paid:		
At 1 January 2015	67,652,321	3,383
Issued pursuant to purchase by Non-Executive Directors – 9 January 2015	7,122	—
Issue of new ordinary shares – 4 March 2015	438,072	22
Issued pursuant to purchase by Non-Executive Directors – 8 April 2015	7,231	—
Employee share option exercise – 13 May 2015	716,871	36
Employee share option exercise – 26 June 2015	108,604	5
Issued pursuant to purchase by Non-Executive Directors – 6 July 2015	5,426	—
Issued pursuant to purchase by Non-Executive Directors – 5 October 2015	6,026	1
Issue under placing agreement – 15 December 2015	9,111,111	456
At 31 December 2015	78,052,784	3,903
Issued pursuant to purchase by Non-Executive Directors – 6 January 2016	7,520	—
Issued pursuant to purchase by Non-Executive Directors – 14 April 2016	9,935	—
Issued pursuant to purchase by Non-Executive Directors – 4 August 2016	9,946	1
Employee share option exercise – 23 September 2016	10,125	1
Issued pursuant to purchase by Non-Executive Directors – 12 October 2016	10,767	1
At 31 December 2016	**78,101,077**	3,906

During 2017 to date, 28,231 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson (Chairman of the Company) and James Winschel (Non-Executive Director) under the terms of their letters of appointment in part settlement of their Directors' fees.

Options

Share options outstanding at 31 December 2016 have the following expiry date and exercise prices:

Grant date	Number ('000)	Option price (pence)	Date from which exercisable	Expiry date
7 April 2009	101	5.0	7 April 2010	6 April 2019
7 April 2009	101	5.0	7 April 2011	6 April 2019
7 April 2009	102	5.0	7 April 2012	6 April 2019
14 September 2009	53	6.3	14 September 2010	13 September 2019
14 September 2009	53	6.3	14 September 2012	13 September 2019
14 September 2009	54	6.3	3 May 2012	13 September 2019
13 January 2010	48	6.3	13 January 2011	12 January 2020
13 January 2010	49	6.3	13 January 2012	12 January 2020
13 January 2010	49	6.3	3 May 2012	12 January 2020
23 December 2011	792	8.2	3 May 2012	22 December 2021
23 December 2011	797	8.2	23 December 2012	22 December 2021
23 December 2011	797	8.2	23 December 2013	22 December 2021
3 March 2014	63	101.6	3 March 2014	18 December 2022
21 April 2015	462	337.3	21 April 2018	20 April 2025
	3,521			

Details of share options are disclosed in note 27 to the Financial Statements.

Components of equity

The components of equity are as follows:

- share capital and the share premium account, both of which arise on the issue of shares;
- share-based payment reserve, which results from the Company's grant of equity-settled share options to selected employees and Directors;
- merger reserve, which was created as a result of the acquisition by the Company of the entire issued share capital of hVIVO Services Limited in 2012. This reserve is not considered to be distributable;
- other reserve, which relates to unexercised share options issued in respect of the acquisition of Activiomics Limited in 2014; and
- retained deficit, which reflects losses incurred to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. Share-based payments

hVIVO plc share option plans

The Group has share option plans under which it grants options and shares to certain Directors and employees of the Group.

On 21 April 2015, hVIVO implemented a new share scheme available to Executive Directors and key management. hVIVO granted 507,890 options over ordinary shares of 5.0 pence each in the Company to Directors and employees with an exercise price of £3.37 per share under a new share option plan.

Options are exercisable at a price equal to the estimated value of the Company's shares on the date of the grant. The options are settled in equity once exercised. If the options remain unexercised for a period after ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding during the period are as follows:

	31 December 2016		31 December 2015	
	Number ('000)	**WAEP £**	Number ('000)	WAEP £
Outstanding at the beginning of the year	**3,508**	**0.55**	3,832	0.08
Lapsed during the year	**(40)**	**3.37**	(6)	3.37
Exercised during the year	**(10)**	**0.08**	(826)	0.08
Granted during the year	**–**	**–**	508	3.37
Outstanding at the end of the year	**3,458**	**0.53**	3,508	0.55
Exercisable at year end	**2,996**	**0.1**	3,006	0.08

The options outstanding at 31 December 2016 had a weighted average exercise price of £0.53 and a weighted average remaining contractual life of 5.0 years. The weighted average share price on the dates of exercise during 2016 was £1.74.

No expense is recognised for awards that do not ultimately vest because service conditions have not been met. The Company's service conditions consist of continuous employment and satisfaction of individual performance conditions.

The fair values of options granted were calculated using the Black Scholes pricing model. The Group used historical data to estimate expected period to exercise, within the valuation model. Expected volatilities of options outstanding granted prior to the Company's admission to AIM were based on implied volatilities of a sample of listed companies based in similar sectors. The risk-free rate for the expected period to exercise of the option was based on the UK gilt yield curve at the time of the grant.

The Group recognised a charge of £94,000 (31 December 2015: £78,000) related to equity-settled share-based payment transactions during the year.

Acquisition of Activiomics

Under the terms of the agreement to purchase 100% of the ordinary shares of Activiomics Limited in 2014, the options of Activiomics Limited were exchanged for options on 69,229 shares in the Company on a like-for-like basis. As at 31 December 2016, 62,735 of the share options were fully vested and unexercised.

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding during the period are as follows:

	31 December 2016		31 December 2015	
	Number ('000)	**WAEP £**	Number ('000)	WAEP £
Outstanding at the beginning of the year	**63**	**1.02**	69	1.02
Expired during the year	**–**	**–**	(6)	1.02
Exercised during the year	**–**	**–**	–	–
Granted during the year	**–**	**–**	–	–
Outstanding at the end of the year	**63**	**1.02**	63	1.02
Exercisable at year end	**63**	**1.02**	63	1.02

28. Pensions

The Group operates a defined contribution pension scheme whose assets are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group and amounted to £551,000 for the year (31 December 2015: £583,000). Contributions totalling £98,000 were payable to the fund at the year end and are included within trade and other payables (31 December 2015: £43,000).

29. Related party transactions

Remuneration of key personnel

The remuneration of the Directors, who are the key management personnel of the Group, is shown below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Executive Directors – aggregate		
Short-term employee benefits and fees	**559**	595
Employer's National Insurance contributions	**82**	81
Post-employment benefits	**28**	37
Share-based compensation charge	**45**	31
	714	744
Non-Executive Directors – aggregate		
Short-term employee benefits and fees	**248**	242
Total short-term employee benefits and fees	**248**	242
Total Directors' remuneration	**962**	986

Remuneration and benefits paid to the highest paid Director totalled £302,000 (31 December 2015: £327,000).

As indicated in note 26, ordinary shares are allotted pursuant to the quarterly purchase of shares by Jaime Ellertson and James Winschel under the terms of their letters of appointment. These shares are issued at fair market value.

Amounts outstanding to key personnel

As at 31 December 2016, £4,000 was due in relation to employer pension contributions (31 December 2015: £3,000).

Transactions with the Group related parties

PrEP Biopharm Limited

On 1 November 2015, PrEP Biopharm Limited contracted with hVIVO Services Limited for the licence of PrEP-001 flu and PrEP-001 asthma clinical study data and also to conduct a PrEP-001 durability clinical study under a client services agreement for a total consideration of £10.0 million.

During the year, £9.7 million (2015: £0.2 million) was recognised as revenue in relation to this programme of work, including £6.4 million in respect of the delivery of the PrEP-001 flu and PrEP-001 asthma clinical study data. In assessing the appropriate revenue recognition policy for these licences, management reviewed the contracted deliverables and judged that it was not appropriate to recognise revenue over time but instead at a point in time. Accordingly, whilst these licences were contracted in 2015, the revenue associated with these licences was deferred until the delivery of the study data in 2016.

hVIVO owns 62.62% of the share capital of PrEP Biopharm Limited and the hVIVO contracts with PrEP Biopharm Limited were priced on an arm's-length basis.

As at 31 December 2016, all amounts invoiced and due from PrEP Biopharm Limited to hVIVO in respect of the flu and asthma licences and the durability study were fully paid.

29. Related party transactions continued

Transactions with the Group related parties continued

Imutex Limited

On 21 April 2016, PepTcell Limited contracted with hVIVO Services Limited for a Phase IIb FLU-v clinical study to the value of £5.5 million. During the year, £2.8 million was recognised as revenue in relation to this clinical study. hVIVO owns 49.0% of the share capital of Imutex Limited, which is a joint venture jointly controlled by PepTcell Limited and hVIVO, and the hVIVO contract with PepTcell Limited was priced on an arm's-length basis.

As at 31 December 2016, all amounts invoiced and due from PepTcell Limited to hVIVO in respect of the clinical study were fully paid.

Everbridge Inc

During 2015, the Group entered into a three year contract with Everbridge Europe Limited for the provision of communication services payable in three fixed annual payments of £85,000 per annum. Everbridge Europe Limited is a subsidiary of Everbridge Inc, for whom the Group's Chairman Jaime Ellertson acts as Chairman and CEO. During the year, £75,000 (2015: £11,000) of costs were recognised by the Group in relation to the contract and as at 31 December 2016, Everbridge invoices of £nil (2015: £102,000) were outstanding.

30. Operating lease arrangements

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

	31 December 2016 £'000	31 December 2015 £'000
Within one year	**2,249**	2,056
In the second to fifth years inclusive	**3,446**	4,037
After five years	**197**	—
	5,892	6,093

The operating lease commitments include £3.0 million in respect of a lease which had been identified as being onerous at year end and accordingly, a provision has been made (see note 24).

31. Capital commitments

At the reporting date, the Group had no capital commitments (31 December 2015: £nil).

32. Note to the consolidated statement of cash flows

	Year ended 2016 £'000	Year ended 2015 £'000
Cash flow from operating activities		
Loss before income tax	**(22,631)**	(21,625)
Adjustments for:		
Share of loss of associates and joint ventures	**7,371**	146
Depreciation of property, plant and equipment	**1,288**	1,342
Amortisation of intangible assets	**315**	318
Payment of Non-Executive Director fees by issue of shares	**74**	68
Share-based payment expense	**94**	78
Finance costs	**18**	17
Finance income	**(310)**	(387)
Loss/(gain) on foreign exchange	**–**	(8)
Research and Development Expenditure Credit included in other income	**(267)**	(352)
(Decrease)/increase in provisions	**(9)**	10
Changes in working capital:		
Decrease in inventories	**155**	1,590
Decrease/(increase) in current intangible asset	**2,935**	(2,935)
(Increase)/decrease in trade and other receivables	**(1,062)**	249
(Decrease)/increase in trade and other payables	**(10,359)**	7,885
Cash used in operations	**(22,388)**	(13,604)
Finance costs	**(18)**	(17)
Income tax refund	**4,574**	3,775
Net cash used in operating activities	**(17,832)**	(9,846)

As at 31 December 2016, a £267,000 (31 December 2015: £352,000) asset has been recognised in respect of a Research and Development Expenditure Credit. This amount is presented within the research and development tax credit receivable section in the consolidated statement of financial position. The remaining tax credit is presented below loss from operations in the consolidated statement of comprehensive income.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Investments in subsidiaries	2	**19,876**	19,781
Investments in associates and joint ventures	3	**21,543**	14,405
		41,419	34,186
Current assets			
Trade and other receivables	4	**22**	164
Amounts due from Group undertakings		**48,505**	37,335
Short-term deposits	5	**–**	37,031
Cash and cash equivalents	6	**23,429**	10,159
		71,956	84,689
Total assets		**113,375**	118,875
Equity and liabilities			
Equity			
Share capital	9	**3,905**	3,903
Share premium account		**93,217**	93,145
Share-based payment reserve		**238**	144
Merger reserve		**16,530**	16,530
Other reserve		**211**	211
Retained deficit		**(1,023)**	(457)
Total equity		**113,078**	113,476
Current liabilities			
Trade and other payables	7	**297**	5,399
Total liabilities		**297**	5,399
Total equity and liabilities		**113,375**	118,875

The Financial Statements of hVIVO plc (registered company number 08008725) on pages 72 to 78 were approved and authorised for issue by the Board on 19 April 2017 and signed on its behalf by:

Kym Denny
Chief Executive Officer

Graham Yeatman
Chief Financial & Business Officer

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's income statement. The Parent Company's result for the period ended 31 December 2016 was a loss of £566,000 (2015: loss of £176,000).

The audit fee for the Company is set out in note 7 to the Group's Financial Statements.

COMPANY STATEMENT OF CHANGES OF EQUITY

for the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserve £'000	Retained deficit £'000	Total equity £'000
As at 31 December 2014	3,383	72,498	249	16,530	921	(281)	93,300
Proceeds from shares issued:							
Acquisition of subsidiary – settlement of deferred consideration	11	699	–	–	(710)	–	–
Exercise of warrants and share options	52	360	(183)	–	–	–	229
Issue of new shares	1	67					68
Placing net of related expenses	456	19,521	–	–	–	–	19,977
Total transactions with owners in their capacity as owners	520	20,647	(183)	–	(710)	–	20,274
Loss for the year	–	–	–	–	–	(176)	(176)
Share-based payment	–	–	78	–	–	–	78
As at 31 December 2015	3,903	93,145	144	16,530	211	(457)	113,476
Proceeds from shares issued:							
Issue of new shares	2	72	–	–	–	–	74
Total transactions with owners in their capacity as owners	2	72	–	–	–	–	74
Loss for the year	–	–	–	–	–	(566)	(566)
Share-based payment	–	–	94	–	–	–	94
As at 31 December 2016	**3,905**	**93,217**	**238**	**16,530**	**211**	**(1,023)**	**113,078**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Loss before income tax	**(566)**	(176)
Adjustments for:		
Payment of Non-Executive Director fees by issue of shares	**74**	68
Finance income	**(310)**	(380)
Changes in working capital:		
Increase in trade and other receivables	**(11,028)**	(280)
(Decrease)/increase in trade and other payables	**(102)**	207
Cash used in operations	**(11,932)**	(561)
Net cash used in operations	**(11,932)**	(561)
Investing activities		
Loans to subsidiaries	**–**	(13,500)
Decrease/(increase) in balances on short-term deposits	**37,031**	(9,024)
Investment in associates and joint ventures	**(12,139)**	(9,405)
Interest received	**310**	391
Net cash generated from/(used in) investing activities	**25,202**	(31,538)
Financing activities		
Net proceeds from issue of shares	**–**	20,205
Net cash generated from financing activities	**–**	20,205
Net increase/(decrease) in cash and cash equivalents	**13,270**	(11,894)
Cash and cash equivalents at the start of year	**10,159**	22,053
Cash and cash equivalents at the end of year	**23,429**	10,159

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Principal accounting policies

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union.

The Financial Statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the Group's Financial Statements, except where noted below.

Investments

Investments are initially recorded at cost including directly attributable acquisition costs. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Share-based payments

Refer to note 2 to the Group's Financial Statements for the principal accounting policy relating to share-based payments.

Any share-based payment expense arising in relation to employee share options is recharged to the Company's trading subsidiary, hVIVO Services Limited.

2. Investment in subsidiaries

	31 December 2016 £'000	31 December 2015 £'000
Investments in subsidiaries:		
Balance at beginning of year	**19,781**	19,703
Additions	**–**	–
Dividend in specie	**–**	–
Share-based compensation contribution	**95**	78
Balance at end of year	**19,876**	19,781

Details of the Company's subsidiaries at 31 December 2016 are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
hVIVO Services Limited	UK	Ordinary shares	100%	Medical and scientific research services
hVIVO Inc	USA	Ordinary shares	100%	Sales and marketing services
Activiomics Limited	UK	Ordinary shares	100%	Dormant

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

3. Investment in associates and joint ventures

PrEP Biopharm Limited

On 1 November 2015, the Company acquired 62.62% of the share capital of PrEP Biopharm Limited for cash consideration of £14.0 million, of which £5.0 million was deferred consideration at 31 December 2015 and paid in January 2016. Acquisition costs of £0.4 million have been capitalised as part of the cost of the investment. PrEP Biopharm Limited is a UK-based development stage biopharmaceutical company which is developing infectious disease products. At the same time as the investment, PrEP Biopharm Limited entered into contractual arrangements with hVIVO Services Limited to the value of £10.0 million (see note 29 to the Group's Financial Statements).

The following table summarises the movements in the Company's investment in PrEP Biopharm Limited during the year:

	2016 £'000	2015 £'000
As at 1 January	**14,405**	–
Additions	**–**	14,405
As at 31 December	**14,405**	14,405

Imutex Limited

On 21 April 2016, the Company acquired 49.0% of the share capital of Imutex Limited for £7.0 million consideration under the terms of a Joint Venture Agreement with PepTcell Limited. Acquisition costs of £0.2 million have been capitalised as part of the investment. Imutex Limited is a UK-based company developing vaccines against influenza and mosquito-borne diseases. At the same time as the investment, PepTcell Limited entered into a contractual arrangement with hVIVO Services Limited for a FLU-v clinical study to the value of £5.5 million (see note 29 of the Group's Financial Statements).

The following table summarises the movements in the Company's investment in Imutex Limited during the year:

	2016 £'000
As at 1 January	**–**
Additions	**7,138**
As at 31 December	**7,138**

4. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Other receivables	**13**	54
Prepayments and accrued income	**9**	110
	22	164

5. Short-term deposits

	31 December 2016 £'000	31 December 2015 £'000
Short-term deposits	**–**	37,031

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

6. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Cash at bank and in hand	**23,429**	10,159

All of the Group's cash and cash equivalents at 31 December 2016 are at floating interest rates and are all denominated in Pounds Sterling (£).

The Directors consider that the carrying value of cash and cash equivalents approximates their fair value. For details on the Company's credit risk management, refer to note 25 to the Group's Financial Statements.

7. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Trade payables	**58**	268
Social security and other taxes	**41**	39
Accruals	**198**	92
Other payables	**–**	5,000
	297	5,399

Other payables as of 31 December 2015 included deferred consideration of £5.0 million in respect of the equity investment in PrEP Biopharm Limited which was paid in January 2016.

8. Financial instruments

Principal financial instruments

The Company's financial instruments that principally expose it to financial risks are as follows:

- trade and other receivables;
- trade and other payables; and
- short-term deposits and cash and cash equivalents.

Financial assets

At the reporting date, the Company held the following financial assets:

	31 December 2016 £'000	31 December 2015 £'000
Short-term deposits, cash and cash equivalents	**23,429**	47,190
Other receivables	**13**	111
	23,442	47,301

Financial liabilities

At the reporting dates, the Company held the following financial liabilities, all of which were classified as other financial liabilities:

	31 December 2016 £'000	31 December 2015 £'000
Trade payables	**58**	268
Accruals	**198**	92
Other payables	**–**	5,000
	256	5,360

Refer to note 25 to the Group's Financial Statements for more information.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

9. Share capital

Refer to note 26 to the Group's Financial Statements.

10. Share-based payments

Refer to note 27 to the Group's Financial Statements.

11. Related party transactions

Remuneration of key personnel

The remuneration of the Directors, who are the key management personnel of the Group, is shown in note 29 to the Group's Financial Statements.

Transactions with the Group's shareholders

The amounts paid to shareholders and their connected parties (including VAT) were as follows:

	31 December 2016 £'000	31 December 2015 £'000
Non-Executive Director fees	**–**	–
Other expenses recharged	**–**	–
	–	–

No balances were outstanding to shareholders at the end of the year (2015: £nil).

GLOSSARY

antiviral a drug effective against viruses which cause disease

biological algorithm biomarker-based clinical algorithm

biomarker characteristic genes or proteins associated with the disease or treatment response

challenge study clinical study where challenge agents, such as respiratory viruses, are utilised to elicit common self-limiting diseases such as flu, cold and RSV in human volunteers; human volunteer subject is then given therapy or a placebo and monitored to measure response

clinical study (or clinical trial) a formal study of a therapeutic in order to demonstrate safety and efficacy and required for obtaining regulatory approval of a therapeutic

COPD (chronic obstructive pulmonary disease) a disease of the lungs in which the airways narrow over time, limiting airflow to and from the lungs, causing shortness of breath

correlation analysis a method of statistical evaluation used to study the strength of a relationship between two, numerically measured, continuous variables

disease in motion illumination of the entire disease life cycle from healthy to disease and symptom flare and back again

efficacy the ability of a drug to produce a desired outcome or effect

endotype a subtype of a condition, such as asthma, which is defined by a distinct functional or pathobiological/disease mechanism

EU European Union

exacerbation an increase in the severity of the signs or symptoms of disease

FDA (Food and Drug Administration) the US government body responsible for regulation, testing and approval of therapeutics and medical devices

field-based trials for cold and flu research, studies where volunteers already showing symptoms of cold or flu are recruited – often via a patient's presentation at a clinic, hospital or pharmacy

full-time equivalent ("FTE") a unit to measure hours worked by employees in a way that makes them comparable even though they may work a different number of hours per week or have commenced or ceased employment during the course of the year. The unit is obtained by comparing an employee's average number of hours worked to the average number of hours of a full-time worker. A full-time person is therefore counted as one FTE, while a part-time worker is in proportion to the hours he works. For example, a part-time worker employed for two days a week whereas full-time work consists of five days a week, is counted as 0.4 FTE

GCP (Good Clinical Practice) an international quality standard for clinical studies host response defence mechanism of the host (human) against exogenous microorganisms such as viruses or human disease/injury

HRV (human rhinovirus) the group of viruses predominantly responsible for causing the common cold

human disease model controlled study to observe the entire disease life cycle from healthy to symptom and disease flare and back again to generate high-quality, longitudinal data at each phases of disease. Can be used to study the efficacy of new therapies such as antiviral drugs and vaccines and also to study the target disease itself

IAS International Accounting Standards

IASB International Accounting Standards Board

IFRS International Financial Reporting Standards

Imutex Limited ("Imutex") a private independent drug development company developing two clinical stage vaccine platforms in universal flu (FLU-v) and mosquito-borne disease (AGS-v)

influenza (or flu) a contagious virus infection that affects the respiratory system

IP (intellectual property) a work or invention that is the result of creativity, such as a scientific discovery or product design, to which one has rights and for which one may apply for a patent, copyright, trademark, etc.

MHRA (Medicines and Healthcare Products Regulatory Authority) the UK government body responsible for the regulation of, testing and approval of therapeutics and medical devices in the UK

pathomics describes the identification of the physiological pathways that are activated or inactivated as a result of an insult to a specific point within a biological circuit

pathomics map describes the key biological pathways involved in the host (human) response to disease

pathophysiology conditions and mechanisms observed in the host (human) during disease state

pathway series of actions among molecules in a cell that leads to a certain product or a change in a cell

GLOSSARY CONTINUED

Phase I phase of the approval process for a new therapeutic in which it is first given to healthy volunteers and tests are carried out for safety and adverse effects

Phase II the phase of the approval process for a new therapeutic in which clinical studies are performed on larger groups to assess how well the therapeutic works, as well as to continue Phase I safety assessments in a larger group. Phase II studies may be divided into:

- **Phase IIa** intended primarily to investigate what is the most effective dose
- **Phase IIb** further work to investigate and demonstrate efficacy

Phase III the phase of the approval process for a new therapeutic that in Phase I and Phase II has been shown to be efficacious with tolerable side effects

phenotype clinical subtype

predictive modelling a process that uses data mining and probability to forecast outcomes

PrEP Biopharm Limited ("PrEP Biopharm") a private independent drug development company for respiratory infectious disease products

prophylactic medicine or course of action used to prevent disease

protocol detailed plan for the design of a clinical study

QMB Queen Mary BioEnterprises Innovation Centre, 42 New Road, London E1 2AX or, in a separate context, the landlord Queen Mary BioEnterprises Limited

quarantine the stage of a challenge study in which volunteers are screened for infection and studied within a residential unit under controlled conditions, quarantined from infectious contamination from the environment or from persons other than their fellow volunteers.

quarantine cohort group of volunteers simultaneously undertaking a quarantine for a clinical study

reprofiling the repurposing or cultivation of new uses for existing drugs

RMP plan for identifying, assessing, responding to, monitoring and controlling, and reporting risks

RSV (respiratory syncytial virus) a type of virus which causes infections of the nose and throat and is a major cause of pneumonia in young children

sponsor a company or organisation which commissions a clinical study or related work on its behalf

therapeutic a drug used for treatment or cure of a disease – may also refer to a drug with a prophylactic effect

URVIs upper respiratory viral infections

vaccine a biological preparation that improves immunity to a particular disease

virology the study or science of viruses

virus an infective agent generally consisting of a nucleic acid molecule within a protein shell, only able to multiply within the cells of a host

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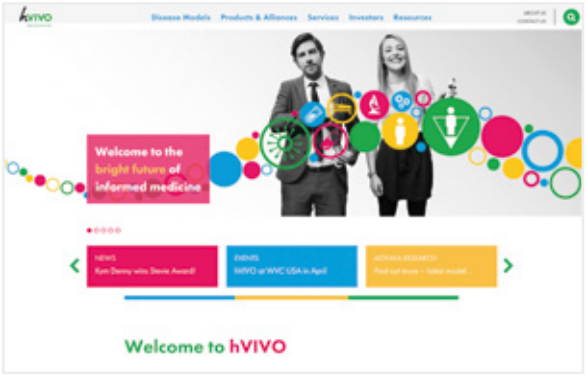

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