hVIVO

better treatments, faster

Annual Report and Financial Statements 2017

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WHO WE ARE

Our vision:

to become the partner of choice for companies developing drugs in airways disease.

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.

OPERATIONAL HIGHLIGHTS 2017

- Expanded hVIVO's clinical services platform by integrating our biological insight to create new proprietary tools and services:
  - launched a novel asthma precision development capability for identifying responders and developed a Pathomics process into a service offering for customers;
    - future development and discovery collaborations will now be able to utilise these new capabilities and this is expected to enhance our fee-for-services revenues with further upside potential from development and commercialisation milestones and royalties; and
  - leveraged hVIVO's flu database to identify and guide the selection of symptom-based endpoints tailored to FLU-v's mechanism of action.
- Entered into a cost-sharing grant application with the US governmental agency Defense Advanced Research Projects Agency (DARPA) via its Prometheus programme to advance hVIVO's flu contagiousness predictor tool.
- Completed a placebo-controlled Phase IIb clinical challenge study of FLU-v, conducted by hVIVO and PepTcell Limited as part of the Imutex joint venture:
  - preliminary analysis of the primary endpoint revealed a trend to statistical significance. Further testing of samples ongoing that could affect the final outcome; and
  - this study demonstrated a statistically significant reduction in a symptom measure for flu in humans in a controlled clinical study. We believe this is the first time that any universal flu vaccine candidate has demonstrated successful symptom-based results.
- Initiated and completed a first-in-man Phase I study for Imutex's mosquito-borne illness vaccine platform (AGS-v) at the National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Health (NIH)
  - results are expected in H2 2018.
- Achieved efficiencies in hVIVO's operations to maximise cash reserves and prioritise investment spend to achieve near term value inflection milestones:
  - hVIVO finished the year with revenue and gross margin in line with market expectations for 2017, while year-end cash was markedly ahead.

FINANCIAL HIGHLIGHTS 2017

- Revenue of £10.9 million (2016: £19.9 million), includes £8.0 million (2016: £7.3 million) from third-party client engagements and £2.9 million (2016: £12.5 million) from equity investments (£2.6 million from the FLU-v Phase IIb clinical study). A further £1.3 million of other income from a cost-share grant with DARPA. Also, a £1.0 million scope change to the FLU-v study has not been recognised in the consolidated statement of comprehensive income as it was entirely funded by hVIVO through a royalty purchase.
- Gross profit of £3.6 million and gross profit margin of 32.7% (2016: gross profit of £4.2 million and gross profit margin of 21.3%), through improved volunteer recruitment funnel efficiencies, speed of performance delivery and headcount reduction.
- Research and development (R&D) expense was £6.1 million (2016: £6.3 million) due to more concentrated spend on a smaller number of prioritised projects, balanced by the flu contagiousness project (with DARPA cost-share grant included in other income).
- Administration expenses £11.4 million (2016: £13.8 million), driven by headcount reductions and continued drive to tighten third-party costs.
- Short-term deposits, cash and cash equivalents of £20.3 million at 31 December 2017 (2016: £25.7 million), as a result of our building client clinical study pipeline, invoicing milestones and good cash collection, together with operational efficiencies and cost savings initiatives.

EXECUTIVE CHAIRMAN'S STATEMENT

Dr Trevor Phillips
Executive Chairman

hVIVO is a revenue generating business, and an industry leader in clinical development and drug discovery services with over 15 years' experience conducting viral challenge studies using disease models on behalf of pharmaceutical and biotech customers.

hVIVO is a revenue generating business, and an industry leader in clinical development and drug discovery services with over 15 years' experience conducting viral challenge studies using disease models on behalf of pharmaceutical and biotech customers. We have pioneered a platform for the use of such studies to provide detailed insights into the human response to infection by viruses such as the influenza virus (flu), the respiratory syncytial virus (RSV) and the human rhinovirus (HRV) as well as the impact of potential treatments, uniquely informing clinical development programmes. By conducting these studies under tightly controlled conditions in our dedicated and quarantined facility, we are able to monitor what happens before, during and after infection helping us to define what we call 'disease in motion'. Ultimately we believe the rich insights this approach provides should accelerate timelines and reduce costs for the development of novel treatments for such viral diseases. It should also be applicable to other airway diseases where patients can have acute viral triggered exacerbation such as asthma and chronic obstructive pulmonary disease (COPD) and we have begun expanding our offering to capture these significantly larger opportunities.

2017 was a productive year for hVIVO, during which we expanded our services with the development of our precision development service that seeks to leverage the integration of our proprietary insights into relevant airways disease biology with our 'disease in motion' clinical trial platform. These biological insights played a vital role in advancing the universal flu vaccine candidate FLU-v, where, post period, we announced encouraging results on its impact on flu symptoms.

Bringing together our disease know-how and clinical expertise also enabled us to expand our service offerings into other new areas, such as drug target identification. Such extension to our services platform increases potential business development opportunities and it has already generated significant interest from global pharmaceutical companies. Additionally, work done during the period has provided several opportunities for hVIVO to generate novel intellectual property and patent filings are on-going. In time, we anticipate that this intellectual property will generate a future revenue stream from licensing deals.

Importantly hVIVO continues to focus on cost control. In 2017, we worked to gain operational efficiencies and to further develop our trial management that allows hVIVO to be agile and responsive to subject recruitment nuances. Subsequently the efficiency of recruitment and enrolment of subjects has increased by 26% since 2016. Together, these efforts have allowed hVIVO to maximise cash reserves and prioritise investment spend to achieve near-term value inflection point milestones.

An industry leader for the conduct of human challenge studies with the potential to expand further with asthma and other airways diseases.

Extending hVIVO's platform with its biological insight

In drug and vaccine development, the traditional clinical trials process is hampered by two key factors:(i) a limited ability to aim the pertinent biological target that will impact the course of a disease at the right time; (ii) lack of understanding of appropriate questions to ask that can effectively test a clinical hypothesis and yield relevant answers. hVIVO's biological insights and precision development approach can potentially help to address these issues, providing the tools to frame the right questions and measure results. The development of hVIVO's precision development service forms part of hVIVO's extension to its clinical services.

Leveraging hVIVO's 'disease in motion' database

As part of our clinical platform capturing disease in motion samples, we believe hVIVO has generated the largest human disease database in the industry, spanning a broad spectrum of viral infections and patient types. In 2017, we utilised the database to create proprietary means to stratify patients for more targeted drug development, tailor endpoint selection to a drug's mechanism of action (MOA), and turn subjective measures into non-subjective metrics to promote a more standardised basis for testing. Patent filing for these inventions is ongoing.

The first application of hVIVO's biological insights has demonstrated the value hVIVO can add to product development. The criteria for advancing universal flu vaccine candidates are not yet defined, including a lack of clinical and regulatory endpoints. Without the means to test these vaccines appropriately, the advancement of even the most promising candidates are in jeopardy. In 2017, a placebo-controlled Phase IIb clinical challenge study of FLU-v in over 120 subjects, was conducted by hVIVO and PepTcell Limited (trading as SEEK Group) (together as part of the Imutex joint venture) and in collaboration with the National Institutes of Allergy and Infectious Diseases (NIAID), part of the US National Institutes of Health (NIH). FLU-v is a universal flu vaccine candidate designed to minimise the impact of the virus by reducing symptoms – potentially relegating flu to a much milder disease – through stimulating an immune response mediated through T-cells, in contrast to seasonal flu vaccines that prevent infection through antibody protection against the virus itself.

The ability to tailor endpoints and study design to match the product MOA speaks directly to reducing the cost, risk and complexity of clinical trials. For the NIAID Phase IIb FLU-v study, our database's depth and granularity allowed us to locate suitable, clinically relevant symptom-based endpoints tailored to the vaccine's MOA and powered to the primary endpoint, a composite score of symptoms and viral load. Since it was the first time hVIVO had done this, it was reasonable that this wasn't the primary endpoint of the study. Post-period, in March 2018, the result of our insights was demonstrated when FLU-v achieved statistical significance in a key secondary endpoint pertaining to the reduction of flu symptoms ($p=0.02$). Our data-driven approach did match the drug to the right endpoint and achieved successful symptom based results, which we believe is a first for a universal flu vaccine candidate. While the initial analysis of the study's predetermined, non-hVIVO primary endpoint only trended to statistical relevance, this result was also consistent with FLU-v's MOA being aimed at symptom reduction and not reduction of viral load. The results also provide FLU-v the endpoints to use going forward in development as a universal flu candidate.

EXECUTIVE CHAIRMAN'S STATEMENT
CONTINUED

DARPA award for development of flu contagiousness tool

During the year, we entered into a cost-sharing grant application with the US governmental agency Defense Advanced Research Projects Agency (DARPA) via its Prometheus programme to advance one of our more prominent tools, the flu contagiousness predictor tool. With our patent application in progress, this invention is a biological based algorithm that predicts who will become contagious when infected with flu before symptoms commence. This approach has utility to improve the forecasting of infectious disease outbreaks, reduce the risk of deploying contagious military personnel, and inform border control during pandemic outbreaks. More immediately, the algorithm can be used in clinical trials to add flexibility to trial facilities, inform dosing decisions and provide pathway insights to create drugs specifically aimed at rendering infected people unable to spread virus. The work being undertaken with DARPA will refine and qualify our contagiousness predictor tool, and is expected to be completed in 2018. This is an example of the type of tools derived from our clinical platform and disease in motion samples that we can continue also use in our own service offerings to pharmaceutical customers. Given these types of tools often align with public health objectives, they also provide the ability to leverage non-dilutive funding through government grants to offset development costs.

Specific extended platform services

Along with our data generation, hVIVO has created two new service capabilities: a new drug target identification service and a drug 'responder' identification service.

Drug target identification

Our clinical platform and disease in motion-based discovery research in flu has enabled us to identify the signalling pathways that we believe are active in severe flu and create a process for identifying what could be the true levers of this disease. Our pioneering work in identifying a drug target for the treatment of severe flu (HVO-001) led to a patent application in 2017, and, if possible, we plan to leverage non-dilutive funding to advance this invention through government grants and collaborations.

Advanced business development discussions are ongoing for this service to be used in asthma and we expected to complete the plan in 2018.

Asthma precision development

Recently, a number of highly visible failures in late stage clinical trials of once promising asthma drug candidates have occurred. These failures have resulted in pharmaceutical and biotech companies starting to look for novel approaches to help mitigate development risk. We believe hVIVO is well positioned to become the partner of choice in clinical development and drug discovery as these companies define their future clinical development strategies in asthma.

In 2017, we have also focused on addressing the gap in early stage development for good quality human disease models in asthma drug development that need to provide clinically relevant results for guiding future studies. In doing so hVIVO is creating tools we believe will allow the Company to progress the concept of precision development in asthma. In May 2017, we launched a novel asthma precision development service capability, utilising the hVIVO platform to define a potential 'responder toolkit' of patient characteristics and study designs for early drug development in asthma. hVIVO has had significant business development interest from pharmaceutical and biotechnology companies, with multiple discussions ongoing ranging from opportunities for drug candidates in the early stages of clinical development through to supporting marketed products. These bespoke programmes in 'asthma responders' have the potential to help create smaller, faster clinical trials for new ground-breaking therapies and we see this as an area of significant new growth and an additional revenue stream. We are expecting to sign a new deal during the course of 2018.

Shared ownership assets

hVIVO's development pipeline has been enhanced from equity investments with partners using our services and provide a potential opportunity for hVIVO to benefit from future upside and further development of these assets. hVIVO will continue to investigate non-dilutive funding such as grants from government and charitable sources to help facilitate and accelerate the development of these assets.

Imutex Limited
Universal flu vaccine – FLU-v

Imutex's asset, FLU-v, is a universal flu vaccine candidate that is designed to provide broad spectrum coverage against multiple flu strains. There were two FLU-v Phase IIb studies conducted in 2017.

One was the Phase IIb challenge study conducted by hVIVO with NIAID in 2017 that recently announced preliminary data results as outlined above. In addition to this study, FLU-v was investigated in a Phase IIb field study with the Universal Influenza Vaccines Secured Consortium. This trial also completed in 2017, with results expected later in 2018.

Imutex Limited
Mosquito-borne disease vaccine – AGS-v

Imutex's asset, AGS-v, is a mosquito-borne disease vaccine with a novel proposed dual action mechanism of preventing infection in humans whilst controlling the mosquito population. An AGS-v Phase I first-in-man study conducted at NIAID, began in early 2017, with results on track and expected in H2 2018. In addition, a paper authored by NIAID supporting the scientific basis of AGS-v has now been accepted for publication in 2018.

Imutex was also awarded a £3.0 million Small Business Research Initiative (SBRI) contract by the UK's innovation agency, Innovate UK, in September 2017 to accelerate the development of the AGS-v vaccine.

PrEP Biopharm Limited
Novel pan-viral prophylactic – PrEP-001

PrEP-001, is a novel, nasally administered, broad-spectrum agent designed to leverage the body's innate immune system to prevent respiratory tract viral infections. hVIVO has previously reported positive proof-of-concept challenge studies in healthy volunteers challenged with influenza and human rhinovirus 16, HRV-16 (common cold). Results of these studies were published in early 2018 in the peer reviewed journal Antiviral Research.

In February 2017, hVIVO announced data from two additional Phase IIa clinical studies, one that profiled PrEP-001 in asthmatics and another that explored additional dosing schedules. While these exploratory studies did not meet their primary endpoints, analysis of the results has provided valuable insights for PrEP-001's further development as well as our asthma precision development capability and can now be applied as a proprietary service within our services offering.

PrEP Biopharm also conducted and completed two additional biomarker studies to further investigate safety and dosing for planning future studies. hVIVO continues to work closely with PrEP Biopharm to further elucidate the development pathway for this drug.

Board changes

Dr Trevor Phillips was appointed to the Board of Directors in June 2017 and as Executive Chairman in November 2017, succeeding Jaime Ellertson who remains as a Non-Executive Director. Trevor has over thirty years of experience in the pharmaceutical industry and proven track record in corporate development as well as extensive experience in respiratory deals and has relationships with hVIVO's target clients.

In a separate announcement released on 19 April 2018, it was announced that Kym Denny is stepping down as Chief Executive Officer of the Company with immediate effect. We would like to thank Kym for her contribution to the Group and wish her well for the future.

Outlook

In 2018, hVIVO expects to build on its position as an industry leader for the conduct of human challenge studies and expand further into asthma and other airways diseases. By enhancing and growing our services platform to better support clinical trials, we believe we have the capability to address drug development more effectively.

This year we will focus on achieving revenue growth while continuing our attention on cost control as we aspire to become cash generative in the medium term. We will seek new business opportunities, including winning contracts to conduct new challenge studies. In addition, the business development team is actively targeting existing clients and partners to leverage services with hVIVO's extended platform. The continued development of our enhanced services will also be a key strategic focus in 2018.

In 2018, we anticipate progress of the FLU-v programme towards monetisation and/or non-dilutive funding for further development. The data and know-how generated in the FLU-v study is an example of how by integrating our insights into our expanded services platform, we have the potential to generate higher value revenues by addressing critical drug development issues, and potentially simplifying the path to market for airways disease products.

The Board is confident that the Company's strategy for growth will deliver significant shareholder value. We would like to thank our employees, customers, partners and investors for their continuing invaluable support.

Dr Trevor Phillips
Executive Chairman

18 April 2018

FINANCIAL REVIEW

Graham Yeatman
Chief Financial & Business Officer

During 2017, hVIVO made progress delivering against our financial KPIs and pursuing increased service revenues, operational efficiencies and improved gross profit margin.

During 2017, hVIVO made progress delivering against our financial key performance indicators (KPIs) and pursuing increased service revenues, operational efficiencies and improved gross profit margin. We continued to take steps to reduce our cost base and prioritise cash. As a result of our building client clinical study pipeline, invoicing milestones and good cash collections, cash as at 31 December 2017 was £20.3 million.

In the first half of 2017, hVIVO focused on our equity investment pipeline and completed the quarantines for the Imutex Phase IIb FLU-v clinical study, announcing initial results on 26 March 2018. A contracted asthma study was cancelled at very short notice due to a change in the client's strategic priorities, which created unutilised capacity in the quarantine unit in April and May 2017. Starting in the summer and during the second half of 2017, we commenced three client clinical studies together with our flu contagiousness research study, with cost-sharing grant from DARPA through its Prometheus programme. This achieved better overall utilisation of our platform capability in the second half of the year and, together with our continuing drive for operational efficiencies, contributed to our overall gross profit margin improvement.

Whilst prioritising increased service revenues, hVIVO continues to focus our investment spend to achieve near-term value inflection milestones, together with the development of our intellectual property and trial toolkits which will leverage our biological insight through precision development. We believe this will differentiate our significant capability and experience, build momentum in our sales pipeline and create barriers to entry for our services revenue capability.

Financial KPIs	**2017**	2016
Short-term deposits, cash and cash equivalents	**£20.3m**	£25.7m
Revenue	**£10.9m**	£19.9m
Gross profit	**£3.6m**	£4.2m
Gross profit margin	**32.7%**	21.3%
Research and development expense	**£(6.1)m**	£(6.3)m
Administrative expense	**£(11.4)m**	£(13.8)m
Share of loss of associates and joint ventures	**£(1.6)m**	£(7.4)m
Loss for the year	**£(12.9)m**	£(17.9)m

Income statement

Revenue for the year ended 31 December 2017 was £10.9 million (2016: £19.9 million). Revenue includes £8.0 million (2016: £7.3 million) from third-party client engagements and £2.9 million (2016: £12.5 million) from equity investments (£0.3 million from the PrEP-001 Phase IIa clinical studies and £2.6 million from the FLU-v Phase IIb clinical study). A further £1.3 million of other income was achieved from a cost-sharing grant with DARPA. There was also a £1.0 million scope change to the FLU-v Phase IIb clinical study, primarily conducted during 2017, which has not been recognised in the consolidated statement of comprehensive income as it was entirely funded by hVIVO through a royalty purchase.

Gross profit margin for the Group increased to 32.7% (2016: 21.3%) through improved volunteer recruitment funnel efficiencies, speed of performance delivery and headcount reductions. During the year, there was a consolidation of our volunteer recruitment capability to achieve cost savings including the closure of our Manchester site.

Administration expenses £11.4 million (2016: £13.8 million) were reduced driven by headcount reductions and the continued drive to tighten third-party costs, balanced in part by the exceptional one-off costs related to onerous lease and dilapidations provisions arising from the Manchester site closure and associated redundancy costs.

R&D expense lowered to £6.1 million (2016: £6.3 million) as a result of more concentrated spend on a smaller number of prioritised projects, balanced by the flu contagiousness project (with a cost-share grant from DARPA in other income).

Share of loss of associates and joint ventures was £1.6 million (2016: £7.4 million), reflecting the share of loss from hVIVO's investments in PrEP Biopharm Limited and Imutex Limited.

Research and development tax credits are claimed each year since hVIVO Services Limited has tax losses and elects to surrender these tax credits for a cash rebate from HM Revenue & Customs. 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 £1.9 million for the year ended 31 December 2017 (2016: £4.8 million).

Cash flow

The principal cash flows in the year were as follows:

Inflows:

- Finance income of £0.1 million (2016: £0.3 million).

Outflows:

- Cash outflow from operating activities of £5.0 million (2016: £12.8 million);
- Equity investment in associates and joint ventures £nil (2016: £12.1 million); and
- Purchase of intangible assets (data management software platform) of £0.3 million (2016: £0.7 million).

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:

- 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, including asthma;
- the pursuit of collaboration opportunities with global pharmaceutical companies and government bodies, creating new income streams for hVIVO;
- development of precision development toolkits, and application in the hVIVO platform differentiating our significant capability, establishing barriers to entry and creating new income streams for hVIVO;
- 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;
- research and development in other disease areas; and
- performance of hVIVO's equity investments.

Graham Yeatman
Chief Financial & Business Officer

18 April 2018

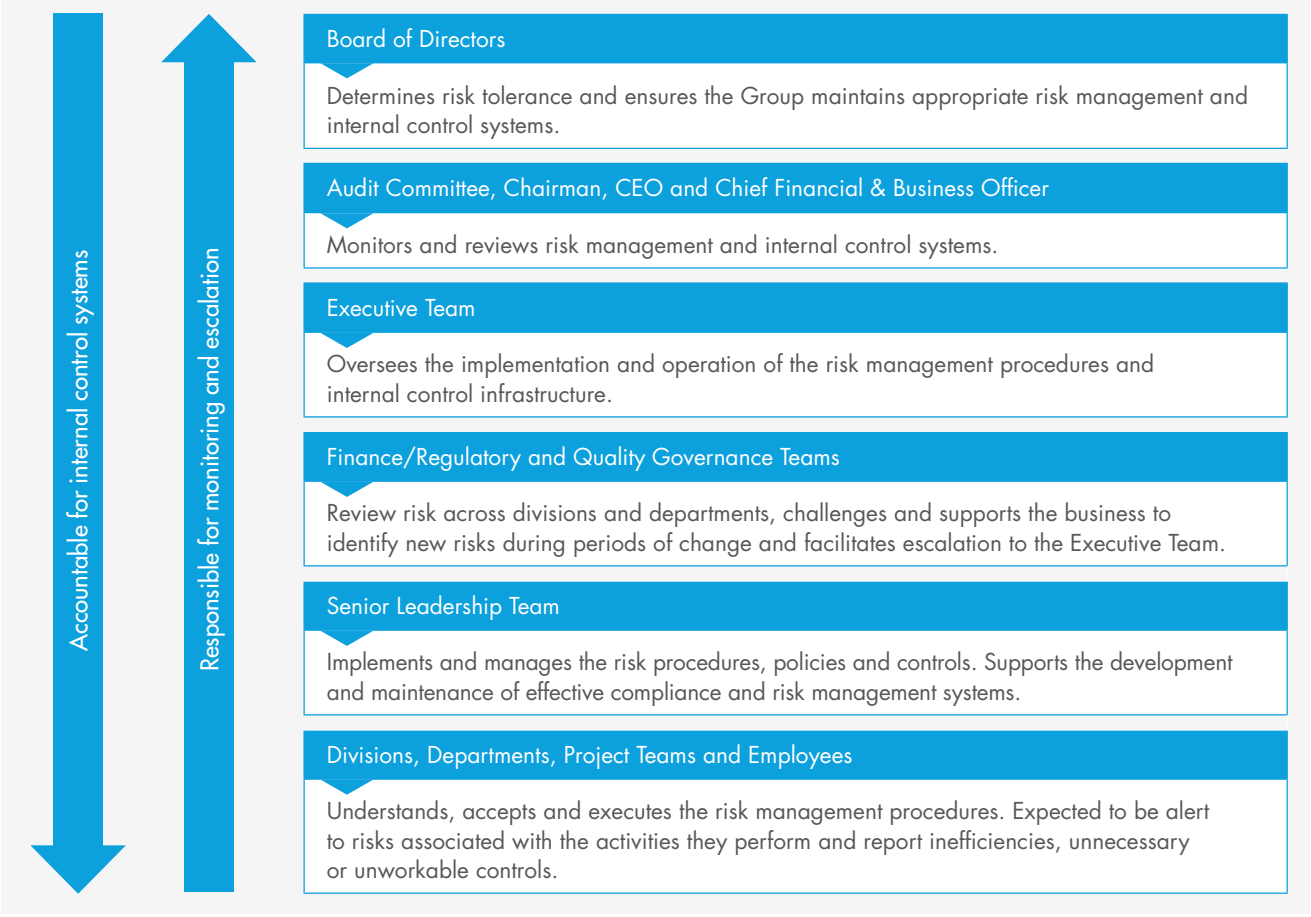
PRINCIPAL RISKS AND UNCERTAINTIES

Risk management at hVIVO is an integral part of decision making and is 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 an appropriate 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.



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 result in 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 respond to objections to new patent applications from Patent Offices 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.

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 hVIVO's ability to deliver on its objectives – resulting in an internal impact.
FINANCIAL	F	Financial risks which may impact the sustainability or liquidity of the Company – affected by internal or external risks.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Category	Mitigation
Competition to hVIVO's platform The life sciences industry is subject to rapid technological change which could affect hVIVO's product viability. The emergence of competitors could impact our market potential and/or lead to pricing pressures and demand shortfall. Failure to compete effectively could adversely impact 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 risk	Category	Mitigation
Research and early development Failure to realise hVIVO's scientific research would impede our strategic delivery and adversely impact on financial performance. Failure to focus research on commercially important areas would impact the 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 NIH and DARPA, 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.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Category	Mitigation
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.
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.

Principal risk	Category	Mitigation
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 in 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, 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 Pound 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 1 to 13 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 18 April 2018 and signed on its behalf by:

Trevor Phillips
Executive Chairman
18 April 2018

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.

Dr Trevor Phillips
Executive Chairman

Dr Trevor Phillips became a Non-Executive Director of hVIVO plc in June 2017 and Executive Chairman in November 2017. Trevor has over thirty years of experience within the pharmaceutical industry, including extensive international drug development and corporate development responsibilities. He was previously Chief Operations Officer and President of US Operations, as well as a member of the Board, at Vectura Group plc, a FTSE 250 company listed on the London Stock Exchange focused on respiratory diseases. Subsequent to joining Vectura in 2010, Trevor played an integral leadership role in the company's successful development, including the acquisition of Activaero GmbH in 2014 and the merger with Skyepharma plc in 2016.

Prior to joining Vectura, Trevor held the roles of Chief Executive Officer and Chief Operating Officer at Critical Therapeutics, Inc. (now Chiesi USA, Inc.), a US listed specialty pharmaceutical company, where he was involved in setting up commercial partnerships, product in-licensing and out-licensing, managing drug development, commercial product manufacturing and M&A activity. He led the merger of Critical Therapeutics with Cornerstone BioPharma Holdings. He has also held senior management positions at Sepracor, Inc. (now Sunovion Pharmaceuticals, Inc.), Accenture plc and GlaxoWellcome plc (now GlaxoSmithKline plc).

Trevor trained as a microbiologist at University of Reading, obtaining a PhD in microbial biochemistry from the University of Wales in 1986. He was awarded an MBA from Henley Management College in 1997.

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. From 2006 to 2010 he was at Neuropharm Group plc as Chief Financial Officer.

Graham has a first-class BSc in Economics and Maths from the University of Bristol.

Jaime Ellertson
Non-Executive Director

Jaime Ellertson was appointed Non-Executive Chairman of hVIVO plc in June 2014 until November 2017 when he was succeeded as Chairman by Dr Trevor Phillips. Jaime continues on the hVIVO plc Board as a Non-Executive Director.

Jaime has led numerous high growth, data and service-driven numerous companies through phases of rapid expansion, both in the private and public arena as both senior operating executive as well as an independent member various board of directors. 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).

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. (NASDAQ: SONE), the inventor of Internet Banking and a leading software provider to the financial services marketplace. Jaime also orchestrated the successful turnaround of Interleaf, Inc. (NASDAQ: LEAF), 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.

He lives in Massachusetts and is a citizen of the United States of America.

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 Oxagen 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 a Partner in IP Group's Life Science division. Mark also is 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, a 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.

CORPORATE GOVERNANCE STATEMENT

Principles of corporate governance

As a company admitted to trading on AIM, the Company is not mandated under the AIM Rules to adhere to the provisions of 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

Trevor Phillips was appointed as Executive Chairman on 13 November 2017 and Kym Denny stepped down as Chief Executive Officer on 18 April 2018. Accordingly, from 18 April 2018, the Board of hVIVO plc comprises two Executive Directors and four Non-Executive Directors. 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 Executive 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.

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, Executive Chairman, 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 Executive 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 on 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 relatively 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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 Executive Chairman 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 the 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 with 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.

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

Executive Directors

Trevor Phillips has a service agreement with hVIVO plc dated 27 October 2017 with effect from 13 November 2017. His appointment is terminable on six months' notice by either party.

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. Kym Denny stepped down as Chief Executive Officer on 18 April 2018.

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. Professional services were provided to the US based Non-Executive Directors for the preparation and submission of their annual UK Tax Return.

Remuneration

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

DIRECTORS' REMUNERATION REPORT
CONTINUED

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. The annual bonus may be payable partly as cash and partly as nominal cost options, vesting on the second anniversary of the date of grant, with split determined at the discretion of the Remuneration Committee.

Pensions
The Group operates a Group personal pension scheme which is a defined contribution scheme. The scheme is open to the Executive Directors and all employees. Under the scheme rules, the Group pays an employer pension contribution to the Executive Directors of 9% of base salary. 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	**2017 total excluding pensions £'000**	**2017 pensions £'000**	2016 total excluding pensions £'000	2016 pensions £'000
Trevor Phillips[2]	31	—	—	**31**	**—**	—	—
Kym Denny	262	1	38	**301**	**23**	302	23
Graham Yeatman	228	1	30	**259**	**—**	257	5
Executive Directors	521	2	68	**591**	**23**	559	28
Jaime Ellertson[3]	135	—	—	**135**	**—**	148	—
Trevor Nicholls	20	—	—	**20**	**—**	20	—
Trevor Phillips[2]	17	—	—	**17**	**—**	—	—
Mark Warne	20	—	—	**20**	**—**	14	—
James Winschel[4]	50	—	—	**50**	**—**	50	—
Alison Fielding[5]	—	—	—	**—**	**—**	8	—
David Norwood[5]	—	—	—	**—**	**—**	8	—
Non-Executive Directors	242	—	—	**242**	**—**	248	—
Total	763	2	68	**833**	**23**	807	28

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

2 Trevor Phillips was appointed as a Non-Executive Director on 19 June 2017, then became Executive Chairman on 13 November 2017.

3 Jaime Ellertson's disclosed remuneration includes an amount which is contractually committed by him quarterly to purchase shares of hVIVO plc. Jaime Ellertson stepped down as Non-Executive Chairman on 13 November 2017.

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.

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.

	Options as at 31 December 2016	Number of options granted during the year	**Options as at 31 December 2017**	Date of grant	Expiry of option	Exercise price	Percentage vested
Trevor Phillips	—	850,000	**850,000**	20 Dec 2017	19 Dec 2027	5.00p	—
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	—
Kym Denny	—	32,813[1]	**32,813**	17 May 2017	16 May 2027	5.00p	—
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	—
Graham Yeatman	—	26,250[1]	**26,250**	17 May 2017	16 May 2027	5.00p	—
Trevor Nicholls	26,540[2]	—	**26,540**	3 Mar 2014	18 Dec 2022	101.63p	100

1 Deferred bonus awards representing 50% of 2016 bonus awarded by the Remuneration Committee, with the other 50% paid as cash.

2 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.

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

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 2017.

Principal activities

hVIVO 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 50 clinical studies, inoculated over 2,500 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 32 and are explained in the financial review on pages 6 and 7. A detailed review of the business, its results and future direction is included in the Executive Chairman's statement on pages 2 to 5.

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 26.

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 24.

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 (2016: £nil).

Directors

The Directors of the Company are as follows:

Trevor Phillips
Kym Denny – stepped down as Chief Executive Officer on 18 April 2018
Graham Yeatman
Jaime Ellertson
Trevor Nicholls
Mark Warne
James Winschel

Trevor Phillips was appointed as a Non-Executive Director on 19 June 2017 and then as Executive Chairman on 13 November 2017, replacing Jaime Ellertson who remains a Non-Executive Director.

At 31 December 2017, the Directors had the following beneficial interests in the Company's shares:

	31 December 2017 Number	31 December 2016 Number
Executive Directors		
Trevor Phillips	**9,035**	–
Kym Denny	**347,680**	347,680
Graham Yeatman	**185,200**	185,200
Non-Executive Directors		
Jaime Ellertson	**112,413**	55,040
James Winschel	**50,123**	34,706
Mark Warne	**5,677**	5,677

Biographical details of the Directors who are not retiring are given on pages 14 and 15.

Directors' interests

The interests of Directors in the shares of the Company are given above and in the Directors' remuneration report on pages 19 to 21.

Directors' interests in contracts of significance, other than service contracts are disclosed in note 28 to the financial statements. Information regarding Directors' service contracts is given on page 19 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 2017, 72,790 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 2017, the issued share capital of the Company was:

	Number of ordinary 5p shares	Nominal value £
Issued and fully paid up	78,173,867	3,908,693

The average market price of the Company's ordinary shares at close of business on 31 December 2017 was 55 pence per share.

The maximum share price during the year was 237.5 pence per share (6 Feb 2017) and the minimum price was 52.5 pence per share (11 October 2017).

During 2018 to date, 42,270 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 18 April 2018, 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	18.6
Lansdowne Partners (UK) LLP	5,816,038	7.4
David Norwood	3,219,520	4.1
Janus Henderson Investors	2,788,645	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 29 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 23 May 2018 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
18 April 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 ("IFRSs") as adopted by the European Union ("EU") and have elected under company law to prepare the Company Financial Statements in accordance with IFRSs 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 IFRSs 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

Opinion

In our opinion:

- hVIVO plc's group financial statements and parent company financial statements (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 2017 and of the group's loss for the year then ended;
- the group 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of hVIVO plc which comprise:

Group	Parent company
Consolidated Statement of Financial Position as at 31 December 2017	Statement of Financial Position as at 31 December 2017
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 11 to the financial statements including a summary of significant accounting policies

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 to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Revenue recognition for service contracts • Carrying value of parent company investments in subsidiary
Audit scope	• We performed an audit of the complete financial information of one component and audit procedures on specific balances for a further two components. • The components where we performed full or specific audit procedures accounted for 100% of Operating expenses, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of £342k, which represents 2% of operating expenses.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition under the percentage of completion method (2017: £10.8m, 2016: £19.8m) Accounting policies (page 36); and Note 5 of the consolidated financial statements (page 45) The Group recognises revenue from clinical trial services provided to customers using the percentage of completion method. The percentage of completion is determined using output measures, being the level of work completed to date in respect of each individual element of the clinical services contract. This requires management to estimate both the allocation of revenue to milestones in the contract at contract inception date, and the percentage of completion of each milestone at each reporting date. We identified a risk of inaccurate or incomplete recognition of revenue due to the incorrect allocation to service contract milestones, and the application of incorrect percentages of completion in calculating revenue and cost of sales. The assumptions and judgements made in estimating the percentage of completion require a significant degree of management judgement and are susceptible to management override and represent a fraud risk. We therefore determined this to be a key audit matter.	We have performed the following audit procedures • Assessed the appropriateness of the Company's revenue recognition accounting policies • Performed a walkthrough of the process followed and related controls with regard to the recognition of revenue • Reviewed all contracts with customers and tested that the Company has correctly accounted for the revenue arising from these contracts in accordance with the accounting policies. • Performed detailed testing on individually significant contracts, including substantiating a sample of transactions with underlying documents such as contracts, progress metrics data, internal cost forecasts and project completion reports, as well as discussions with project managers. • Performed a recalculation of management's revenue model to determine project revenue recognised is appropriate and in line with the policy. • Evaluated whether revenue has been appropriately presented and disclosed in the financial statements.	Management have appropriately accounted for revenue in line with the accounting policy, with no exceptions noted by us in performing our audit procedures.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of hVIVO plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee

Impairment of parent company investment in subsidiaries – PARENT COMPANY FINANCIAL STATEMENTS ONLY
Note 3 Critical accounting estimates and judgements (page 43); and Note 2 of the Parent Company financial statements only (page 66)
We identified a risk that the investment of the Parent Company (hVIVO plc) in its subsidiary (hVIVO Services Limited) and amounts receivable, may be impaired.
Management's assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around assumptions used, including the cash flows to be generated from continuing operations. Changes to assumptions could lead to material changes in the estimated recoverable amount, impacting the value of impairment charges.
	We have performed the following audit procedures:
	• Reviewed management's identification of indicators of impairment under accounting standards.
	• Assessed the methodology used by management to estimate the recoverable value of the investment, in conjunction with any intra-group balances, to ensure that this is consistent with accounting standards.
	• Assessed the reasonableness of the assumptions used in management's estimates of recoverable value, in line with the economic and industry statistics relevant to the business, which included:
	  • Assessment of cash inflows from revenue generating activities and the assumptions applied in arriving at these, including the progress of research programmes; the number and value of clinical studies to be performed, and the market share of studies in key areas of disease focus.
	  • Assessment of the reasonability of cash outflows, including contract delivery costs, and research and capital spend.
	  • Assessment of the discount rate applied. We involved our valuations specialists to evaluate the valuation methodology and rate applied.
	  • Assessment of the long-term growth rate.
	• In addition, we confirmed that any adverse change in key assumptions would increase the impairment loss.
	• Audited management's disclosures of the impairment loss recognised in the parent company financial statements, including disclosures of the key judgements and assumptions, and sensitivity of the impairment loss recognised to any changes in assumptions.
		Management have appropriately accounted for the impairment loss recognised and disclosed on investments in and receivables from the subsidiary in the parent company financial statements only, in line with the accounting policy, with no exceptions noted by us in performing our audit procedures.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the three reporting components of the Group, we selected all three components covering entities within the United Kingdom and United States of America, which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information of one component ("full scope component") which was selected based on their size or risk characteristics. For the remaining two components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's Operating Expenses, 100% (2016: 100%) of the Group's Revenue and 100% (2016: 100%) of the Group's Total assets. For the current year, the full scope component contributed 96% (2016: 96%) of the Group's Operating Expenses, 100% (2016: 100%) of the Group's Revenue and 44% (2016: 39%) of the Group's Total assets. The specific scope component contributed 4% (2016: 4%) of the Group's Operating Expenses, 0% (2016: 0%) of the Group's Revenue and 56% (2016: 70%) of the Group's Total assets. The audit scope of these components may not have included the testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

We have audited all components within the group, and no unaudited components remain.

Changes from the prior year

There have been no changes in our scoping from the prior year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £342k (2016: £383k), which is 2% (2016: 2%) of operating expenses. We believe that operating expenses is an appropriate basis for materiality, as the Group is a development stage business and is reporting relatively modest revenue from sales of services (relative to the level of revenue anticipated for sustained profitability). The predominant focus of the entity is on product or service development and associated roll-out activities, which carry with it significant core infrastructure and admin costs. The Group is also incurring further research and development costs, to further develop the disease models seen as a critical success factor for the business.

We determined materiality for the Parent Company to be £572k (2016: £566k), which is 0.5% (2016: 0.5%) of Total Assets. Materiality for the parent company only audit is greater than that of the group. This is due to the use of Total Assets as a measurement basis, rather than operating expenses. We consider that Total Assets is an appropriate measurement basis for the parent company, as it is primarily an investment holding company with little to no stand-alone operations and activities.

During the course of our audit, we reassessed initial materiality and revised materiality due to the difference between actual measurement bases and the forecasted amounts used in determining planning materiality.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of hVIVO plc

Our application of materiality continued

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 50%) of our planning materiality, namely £257k (2016: £191k). We have set performance materiality at this percentage based on our evaluation of the past history of misstatements, our assessment that the likelihood of misstatements is limited based on our understanding of the Group, and our assessment of entity level controls. Our performance materiality was set at 50% in 2016 as this was our first year as auditors of the group, and we therefore did not have a basis for making an assessment of the likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £51k to £218k (2016: £38k to £163k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £13k (2016: £19k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 25, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Ernst & Young LLP

David Hales
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
Statutory Auditor Reading

18 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	**2017 £'000**	2016 £'000
Revenue		**10,878**	19,850
Cost of sales		**(7,316)**	(15,629)
Gross profit		**3,562**	4,221
Other income	6	**1,455**	276
Research and development expense		**(6,059)**	(6,282)
Administrative expense		**(11,379)**	(13,767)
Loss on provision of services to joint ventures	9	**(800)**	—
Share of loss of associates and joint ventures	17	**(1,613)**	(7,371)
Loss from operations	7	**(14,834)**	(22,923)
Finance income	10	**71**	310
Finance costs	11	**(54)**	(18)
Loss before taxation		**(14,817)**	(22,631)
Taxation	12	**1,934**	4,750
Loss for the year		**(12,883)**	(17,881)
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		**16**	207
Exchange differences arising on translating foreign operations		**(11)**	(65)
Total comprehensive loss for the year attributable to owners of the parent		**(12,878)**	(17,739)
Loss per share – basic (pence)	13	**(16.5p)**	(22.9p)
Loss per share – diluted (pence)	13	**(16.5p)**	(22.9p)

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 2017

	Note	**2017 £'000**	2016 £'000
Assets			
Non-current assets			
Goodwill	14	**1,722**	1,722
Intangible assets	15	**3,232**	3,375
Property, plant and equipment	16	**535**	1,552
Investment in associates and joint ventures	17	**12,553**	14,150
		18,042	20,799
Current assets			
Inventories	18	**1,742**	1,986
Trade and other receivables	19	**2,188**	3,704
Research and development tax credit receivable	12	**2,625**	4,558
Cash and cash equivalents	20	**20,289**	25,679
		26,844	35,927
Total assets		**44,886**	56,726
Equity and liabilities			
Equity			
Share capital	25	**3,909**	3,905
Share premium account		**93,290**	93,217
Share-based payment reserve		**382**	238
Merger reserve		**4,199**	4,199
Other reserve		**211**	211
Retained deficit		**(68,596)**	(55,718)
Total equity		**33,395**	46,052
Non-current liabilities			
Other payables	22	**–**	400
Provisions	23	**2,280**	3,131
		2,280	3,531
Current liabilities			
Trade and other payables	21	**9,211**	7,143
		9,211	7,143
Total liabilities		**11,491**	10,674
Total liabilities and equity		**44,886**	56,726

The consolidated financial statements of hVIVO plc (registered company number 08008725) on pages 32 to 62 were approved and authorised for issue by the Board on 18 April 2018 and signed on its behalf by:

Trevor Phillips
Executive Chairman

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 2017

	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 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
Share-based payment	—	—	144	—	—	—	144
Proceeds from shares issued:							
Issue of new shares	4	73	—	—	—	—	77
Total transactions with owners in their capacity as owners	4	73	144	—	—	—	221
Loss for the year	—	—	—	—	—	(12,883)	(12,883)
Share of other comprehensive income of associates and joint ventures	—	—	—	—	—	16	16
Exchange differences on translation of foreign assets	—	—	—	—	—	(11)	(11)
As at 31 December 2017	**3,909**	**93,290**	**382**	**4,199**	**211**	**(68,596)**	**33,395**

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 2017

	Note	2017 £'000	2016 £'000
Net cash used in operating activities	31	**(5,065)**	(12,832)
Cash flows from investing activities			
Acquisition of intangible assets		**(271)**	(660)
Acquisition of property, plant and equipment		**(50)**	(162)
Decrease in balances on short-term deposit		**–**	37,031
Investment in associates and joint ventures		**–**	(12,138)
Interest received		**71**	310
Net cash (used in)/generated from investing activities		**(250)**	24,381
Cash flows from financing activities			
Other payables repaid		**(75)**	(75)
Net cash used in financing activities		**(75)**	(75)
Net (decrease)/increase in cash and cash equivalents		**(5,390)**	11,474
Cash and cash equivalents at the start of year		**25,679**	14,205
Cash and cash equivalents at the end of year		**20,289**	25,679

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

A £5 million payment of deferred consideration in respect of PrEP Biopharm Limited has been reclassified from operating cash flows to investing cash flows due to an error in classification in the prior year.

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 50 clinical studies, inoculated over 2,500 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 Bio Enterprises Innovation Centre, 42 New Road, London E1 2AX, United Kingdom.

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 ("IFRSs") 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 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 1 to 13 and pages 22 to 24.

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 2017, the Group had short-term deposits, cash and cash equivalents of £20.3 million (2016: £25.7 million) and net current assets of £17.6 million (2016: £28.8 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 "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks 2016". 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 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 remeasured 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 remeasured 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 services 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 services 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 services 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 services 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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Summary of significant accounting policies continued

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

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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Summary of significant accounting policies continued

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.

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

The determination of whether an arrangement is a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is a lease if fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

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 26.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

3. Critical accounting estimates and judgements continued

Revenue from transactions with related parties, associates and joint ventures

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

hVIVO recognised revenue from transactions with related parties of £2.9 million during the year (2016: £12.5 million), of which PrEP Biopharm Limited £0.3 million (2016: £9.7 million) and PepTcell Limited £2.6 million (2016: £2.8 million).

Management has concluded that these transactions were at an arm's-length fair value (see note 28).

Impairment of intangible assets, investments and goodwill

The Group's balance sheet includes goodwill, investments 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.

Investments in associates and joint ventures

In assessing the level of control hVIVO holds in respect of its equity investments, management considers 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.

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 the associates and joint ventures.

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 were priced on an arm's-length basis.

Management have 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.

Management have 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.

Impairment of investments in associates and joint ventures

Management have assessed whether there are any indicators that the carrying amount of investments in associates and joint ventures may be impaired. In performing this assessment, management have considered the progress of the early stage clinical research programmes being conducted by the associates and joint ventures. Management considers that these are progressing positively, there are no impairment indicators at the present time and the carrying amount of the investments are fully recoverable.

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.

4. Interpretations of accounting standards

Amendments to published standards effective for the year ended 31 December 2017

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 preceding financial year.

New and revised IFRS 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 (effective date 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019);
- IFRS 17 Insurance Contracts (effective date 1 January 2021);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018); and
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).

The Directors are of the opinion that the application of these standards is unlikely to have a significant impact on the financial statements of the Group or Company.

Management has considered the impact of the adoption of IFRS 15 "Revenue from Contracts with Customers" and have concluded that the impact is not significant. The adoption of IFRS 15 means that revenue from clinical trial service contracts with customers will be recognised on the basis of contractual performance obligations. Revenue will continue to be recognised on a percentage of completion method as detailed in note 3 (recognition over time), as the Group has an enforceable right to payment for completion of services to date.

5. Segmental information

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'.

Kym Denny stepped down as Chief Executive Officer on 18 April 2018 and Trevor Phillips, the Executive Chairman, has taken over her responsibilities.

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 2017, the Group had three customers who each generated revenue greater than 10% of total revenue (2016: four customers). These customers generated 44%, 24% and 15% of revenue (2016: 49%, 24%, 14% and 11% of revenue).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

6. Other income

Other income includes £1.3 million of public health cost-share grants awarded by DARPA for a flu contagiousness R&D project and £0.1 million (2016: £0.3 million) accrued in respect of a Research and Development Expenditure Credit ("RDEC") claim for 2017. 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.

7. Loss from operations

Loss before tax is stated after charging:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Employee benefit expense (note 8)	**11,525**	14,933
Recruitment and other human resources	**151**	296
Agency and interim consultants	**2,587**	2,720
Premises and equipment	**2,065**	2,229
Volunteer costs	**1,499**	2,657
Inventories used	**832**	1,484
Virus inventory provision (note 18)	**(6)**	—
Insurance	**212**	225
Professional fees	**1,599**	2,099
Information technology, including telecommunications	**672**	1,031
Gain on forward contracts	**(10)**	—
Depreciation of property, plant and equipment	**1,068**	1,288
Amortisation of intangible assets	**414**	315
Dilapidations and onerous lease expense (note 23)	**611**	1,037

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Auditor fee:		
Fees payable to the Company's auditor for the 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	**20**	38
Total audit and audit-related fees	**120**	138
All other fees – other services	**56**	64
Total non-audit fees	**56**	64
	176	202

8. Employees

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
The average number of FTE employees (including Executive Directors) was:		
Management, administration and business development	**45**	57
hVIVO platform operation	**105**	172
Discovery and innovation	**14**	17
	164	246

In addition to the above, the Company employed four FTE employees (2016: nine) absent for maternity leave, paternity leave and long-term sickness.

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
The aggregate employee benefit expense comprised (including Directors):		
Wages and salaries	**9,913**	12,955
Social security costs	**1,006**	1,333
Pension cost – defined contribution plans	**462**	551
Share option expense	**144**	94
	11,525	14,933

The remuneration of the Executive Directors, who are the key management personnel of the Group, is shown within note 28.

9. Loss on provision of services to joint ventures

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Loss on provision of services to joint ventures	**800**	—

hVIVO Services Limited agreed in 2016 a £1.0 million change in the scope of the FLU-v study, increasing the number of volunteers in the study to power the primary and a selection of secondary endpoints. This was funded by hVIVO plc purchasing from Imutex Limited a right to future royalty upon the achievement of certain milestones (see note 3 to the Company financial statements).
The income from the scope change has not been recognised in the consolidated statement of comprehensive income as it was entirely funded by hVIVO. The quarantines for the FLU-v study completed during 2017 and the associated costs of the scope change, together with subsequent analysis of study data, have been recognised as a loss on provision of services to joint ventures.

10. Finance income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest received	**71**	310

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11. Finance costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Other bank charges	**13**	18
Other finance costs	**41**	—
	54	18

12. Taxation

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax:		
Current year research and development tax credit	**(2,261)**	(4,293)
Adjustments in respect of previous periods	**285**	(473)
Foreign current tax	**42**	16
	(1,934)	(4,750)

Corporation tax is calculated at 19.25% (2016: 20%) 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 2017 £'000	Year ended 31 December 2016 £'000
Loss before taxation	**(14,817)**	(22,631)
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	**(2,852)**	(4,526)
Expenses not deductible in determining taxable profit	**71**	18
Fixed asset temporary timing differences not recognised	**272**	7
Current year research and development tax credit	**(1,008)**	(1,681)
Movement in unrecognised deferred tax asset	**796**	1,524
Other temporary timing differences not recognised	**502**	381
Adjustments in respect of prior periods	**285**	(473)
Tax for the year	**(1,934)**	(4,750)

Factors affecting current and future taxation

On 1 April 2017, the corporation tax rate fell from 20% to 19%. It is expected to fall to 17% from 1 April 2020.

As at 31 December 2017, the Group had tax losses available for carry forward of approximately £29.96 million (2016: £26.26 million). The Group has not recognised deferred tax assets of £5.20 million (2016: £5.19 million) relating to carried forward losses and other temporary differences. 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 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.

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13. 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 2017 £'000	Year ended 31 December 2016 £'000
Earnings		
Loss for the year	**(12,883)**	(17,881)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	**78,141,096**	78,076,407
Effect of dilutive potential ordinary shares:		
– share options	**–**	–
Weighted average number of ordinary shares for the purposes of diluted EPS	**78,141,096**	78,076,407

In both years 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.

14. Goodwill

	2017 £'000	2016 £'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. The fair value of the cash generating unit is determined with reference to a Level 1 input, based on the quoted share price in an active market. As at 31 December 2017, the recoverable amount of the cash generating unit was considered to be significantly in excess of its book value.

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15. Intangible assets

	Acquired intellectual property £'000	Capitalised software development £'000	Total £'000
Cost:			
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
Additions at cost	—	271	271
Disposals	—	—	—
At 31 December 2017	**2,118**	**2,174**	**4,292**
Accumulated depreciation:			
At 31 December 2015	283	48	331
Charge for the year	282	33	315
Disposals	—	—	—
At 31 December 2016	565	81	646
Charge for the year	282	132	414
Disposals	—	—	—
At 31 December 2017	**847**	**213**	**1,060**
Carrying amount:			
At 31 December 2015	1,835	1,195	3,030
At 31 December 2016	1,553	1,822	3,375
At 31 December 2017	**1,271**	**1,961**	**3,232**

16. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost:				
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
Additions	17	29	4	50
Disposals	(8)	(935)	(136)	(1,079)
At 31 December 2017	**2,521**	**2,812**	**1,121**	**6,454**
Accumulated depreciation:				
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
Charge for the year	460	506	102	1,068
Disposals	(8)	(935)	(136)	(1,079)
At 31 December 2017	**2,453**	**2,410**	**1,056**	**5,919**
Carrying amount:				
At 31 December 2015	824	1,554	301	2,679
At 31 December 2016	511	879	163	1,553
At 31 December 2017	**68**	**402**	**65**	**535**

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17. Investment in associates and joint ventures

Management have assessed that there are no impairment indicators at the present time and have, therefore, not performed an impairment assessment. The carrying amount of investments are considered to be fully recoverable.

PrEP Biopharm Limited

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

	2017 £'000	2016 £'000
As at 1 January	**7,012**	14,254
Share of loss after tax recognised in the consolidated statement of comprehensive income	**(1,607)**	(7,371)
Share of other comprehensive income of associates and joint ventures	**16**	129
As at 31 December	**5,421**	7,012

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 2017 £'000	31 December 2016 £'000
Current assets	**1,460**	3,962
Non-current assets	**5,087**	5,090
Current liabilities	**(402)**	(366)
Net assets	**6,145**	8,686
Interest in the associate	**3,848**	5,439
Goodwill	**1,573**	1,573
Carrying amount of the Group's interest in the associate	**5,421**	7,012

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

Its loss after taxation of £3.4 million (2016: £11.3 million) for the year ended 31 December 2017 included £2.6 million of research and development expenditure (2016: £11.4 million) and £1.0 million of administrative expenditure (2016: £1.1 million), partially offset by income in respect of a research and development tax credit refund claim.

Imutex Limited

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

	2017 £'000	2016 £'000
As at 1 January	**7,138**	—
Additions	**—**	7,138
Share of loss after tax recognised in the consolidated statement of comprehensive income	**(6)**	—
As at 31 December	**7,132**	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 2017 £'000	31 December 2016 £'000
Current assets	**357**	383
Non-current assets	**14,247**	14,247
Current liabilities	**(371)**	(385)
Net assets	**14,233**	14,245
Interest in the joint venture	**6,974**	6,980
Goodwill	**158**	158
Carrying amount of the Group's interest in the joint venture	**7,132**	7,138

Imutex Limited generated no revenue during the period as the activity was that of clinical research.

It recorded a loss of £0.01 million for the period ended 31 December 2017.

18. Inventories

	31 December 2017 £'000	31 December 2016 £'000
Laboratory and clinical consumables	**70**	35
Virus – finished goods	**1,672**	1,951
	1,742	1,986

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.

19. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Trade receivables	**981**	1,001
VAT recoverable	**–**	260
Other receivables	**428**	399
Prepayments	**362**	1,343
Accrued income	**417**	701
	2,188	3,704

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.

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19. Trade and other receivables continued

As at 31 December 2017 trade and other receivables of £975,000 (2016: £37,000) were past due but not impaired, relating to one invoice denominated in US Dollars which was received in full post year end. The age profile of these balances is as follows:

	31 December 2017 £'000	31 December 2016 £'000
Up to three months	**—**	33
Three to six months	**975**	4
	975	37

The Directors believe that the carrying value of trade and other receivables represents its fair value. 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 24.

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

20. Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Cash at bank and in hand	**20,289**	25,679

All the Group's cash and cash equivalents at 31 December 2017 and 31 December 2016 are at floating interest rates. Included in the cash and cash equivalents of the Group at 31 December 2017 was the equivalent of £2,683,000 (31 December 2016: £29,000) denominated in US Dollars and £1,000 denominated in Euros (31 December 2016: £2,000). The remaining cash and cash equivalents balance was denominated in Pounds Sterling (£). Cash and cash equivalents includes short term deposits of £5.0 million (31 December 2016: £5.0 million).

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 24.

21. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	**1,103**	2,204
Other taxes and social security	**296**	350
VAT payable	**7**	—
Other payables	**446**	178
Accruals	**1,513**	1,347
Deferred income	**5,846**	3,064
	9,211	7,143

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 2017 was the equivalent of £94,000 (31 December 2016: £180,000) denominated in US Dollars. The remaining trade and other payables are denominated in Pounds Sterling (£).

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 24).

22. Non-current liabilities – other payables

	31 December 2017 £'000	31 December 2016 £'000
Amounts to be settled beyond one year	**–**	400

Other payables relate to a loan from Queen Mary Bio Enterprises Limited in respect of hVIVO's lease of the third floor of the QMB Innovation Centre. As part of the agreement, QMB advanced hVIVO 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 balance of loan was re-categorised as a current liability as at 31 December 2017, as repaid in 2018 under the terms of the lease.

23. Non-current liabilities – provisions

	Onerous lease provision £'000	Dilapidations provision £'000	Total £'000
At 1 January 2017	2,991	140	3,131
Additional provision in the year	404	207	611
Used during the year	(1,462)	–	(1,462)
At 31 December 2017	**1,933**	**347**	**2,280**

An onerous lease provision of £1.9 million (31 December 2016: £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 leases as negotiations will involve third parties. The additional provision was recognised due to the closure of the Manchester site during 2017. The provision is expected to be used between 2018 and 2019.

Buildings dilapidations of £347,000 (31 December 2016: £140,000) represent the present value of costs to be incurred for the restoration of premises occupied by the Group. £17,000 is expected to be used during 2018, £300,000 during 2019 and the remaining £30,000 during 2021 and 2022.

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24. 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 2017, a repayable lease incentive of £400,000 was outstanding (31 December 2016: £475,000). This was repaid in full in March 2018, post year end.

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 2017 £'000	31 December 2016 £'000
Cash and cash equivalents	**20,289**	25,679
Trade receivables	**981**	1,001
Other receivables	**428**	399
Accrued income	**417**	701
	22,115	27,780

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 2017 £'000	31 December 2016 £'000
Trade payables	**1,103**	2,204
Accruals	**1,513**	1,347
Repayable lease incentive from related parties	**400**	475
Other payables	**46**	103
	3,062	4,129

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 2017, 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 invoicing milestones 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 2017, the Group's trade receivables balance was £981,000 (31 December 2016: £1,001,000).

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 2017, the allowance for impairment losses totalled £nil (31 December 2016: £nil). In the opinion of the Directors, there has been £nil impairment of financial assets during the year ended 31 December 2017 (31 December 2016: £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 2017, the Group had cash and cash equivalents of £20.3 million (31 December 2016: £25.7 million).

Foreign currency risk management

Historically, the Group's exposure to foreign currency risk has been limited, as the majority of its invoicing and payments are in Pounds Sterling. US Dollar expenditure with US suppliers and employee headcount of hVIVO Inc was offset by one project which was invoiced in US Dollars, resulting in a Group net cash inflow of $1.8 million (2016: outflow of $2.5 million). Foreign exchange risk is managed through the purchase and sale of US Dollars throughout the year.

Maturity of financial assets and liabilities

All of the Group's non-derivative financial liabilities and its financial assets at 31 December 2017 are either payable or receivable within one year.

25. Share capital

	Number	£'000
Issued and fully paid:		
At 1 January 2016	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
Issued pursuant to purchase by Non-Executive Directors – 4 January 2017	12,598	—
Issued pursuant to purchase by Non-Executive Directors – 4 April 2017	15,633	1
Issued pursuant to purchase by Non-Executive Directors – 7 June 2017	21,363	1
Issued pursuant to purchase by Non-Executive Directors – 4 October 2017	23,196	1
At 31 December 2017	**78,173,867**	**3,909**

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25. Share capital continued

Nominal value of share – 5 pence per share.

The rights are as follows:

- each ordinary share is entitled to one vote at any General Meeting of the Company;
- the ordinary shares are entitled to participate pro-rata in any distribution of the Company as if they constituted one and the same class;
- the holders of the ordinary shares are entitled to participate with equal ranking upon a return of capital; and
- the ordinary shares are not to be redeemed and are not liable to be redeemed at the option of either the Company or the shareholder.

During 2018 to date, 42,270 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson (Non-Executive Director) 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 2017 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 – Activiomics	26	101.6	3 March 2014	18 December 2022
21 April 2015	444	337.3	21 April 2018	20 April 2025
17 May 2017 – deferred bonus	141	5.0	17 May 2019	16 May 2027
20 December 2017	2,205	5.0	20 December 2020	19 December 2027
	5,812			

Details of share options are disclosed in note 26 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.

26. 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 10 May 2017, the Board adopted the hVIVO plc Long Term Incentive Plan 2017 as a new share scheme available to the Executive Directors and key employees, enabling the grant of options over ordinary shares of 5.0 pence each in the Company:

- on 17 May 2017, hVIVO granted 141,147 options, with a fair value of £1.19 per option, in respect of deferred 2016 bonus awards to the Executive Directors and other senior employees. The options will normally vest on the second anniversary of date of grant, subject to continued employment but no other performance condition. The options represent 50% of 2016 bonus awards by the Remuneration Committee, with the other 50% paid as cash in May 2017. The exercise price payable per share is the nominal price of a share (currently 5 pence); and
- on 20 December 2017 and 15 January 2018, hVIVO granted a further 2,204,548 and 136,364 options respectively, with a fair value of 50 pence per option, over ordinary shares of 5.0 pence each in the Company to Directors and employees with an exercise price of £0.05 per share. The options will normally vest on the third anniversary of date of grant, subject to continued employment but no other performance condition. The exercise price payable per share is the nominal price of a share (currently 5 pence).

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 2017		31 December 2016	
	Number ('000)	**WAEP £**	Number ('000)	WAEP £
Outstanding at the beginning of the year	**3,521**	**0.54**	3,571	0.56
Lapsed during the year	**(55)**	**1.79**	(40)	3.37
Exercised during the year	**–**	**–**	(10)	0.08
Granted during the year	**2,346**	**0.05**	–	–
Outstanding at the end of the year	**5,812**	**0.32**	3,521	0.54
Exercisable at year end	**5,227**	**0.26**	3,059	0.10

The options outstanding at 31 December 2017 had a weighted average exercise price of £0.32 and a weighted average remaining contractual life of 6.4 years.

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 £144,000 (31 December 2016: £94,000) related to equity-settled share-based payment transactions during the year.

The assumptions used in the valuation of the options at the grant date are as follows:

	31 December 2017
Expected option life (years)	**6.4**
Risk free interest rate	**1.09% to 1.32%**
Expected volatility	**35.6% to 37.7%**
Expected dividend yield	**0.0%**

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27. 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 £462,000 for the year (31 December 2016: £551,000). Contributions totalling £36,000 were payable to the fund at the year end and are included within trade and other payables (31 December 2016: £98,000).

28. 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 2017 £'000	Year ended 31 December 2016 £'000
Executive Directors – aggregate		
Short-term employee benefits and fees	**591**	559
Employer's National Insurance contributions	**79**	82
Post-employment benefits	**23**	28
Share-based compensation charge	**45**	45
	738	714
Non-Executive Directors – aggregate		
Short-term employee benefits and fees	**242**	248
Total Directors' remuneration	**980**	962

Remuneration and benefits paid to the highest paid Director totalled £301,000 (31 December 2016: £302,000).

As indicated in note 25, 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 2017, £2,000 was due in relation to employer pension contributions (31 December 2016: £4,000).

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, £0.3 million (2016: £9.7 million) was recognised as revenue in relation to this programme of work.

During 2017, hVIVO Services Limited provided accounting services to PrEP Biopharm Limited to the value of £0.06 million.

As at 31 December 2017, all amounts invoiced and due from PrEP Biopharm Limited to hVIVO were fully paid.

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, £2.6 million (2016: £2.8 million) was recognised as revenue in relation to this clinical study.

During 2016-17, hVIVO Services Limited agreed a £1.0 million change in the scope of the FLU-v study, increasing the number of volunteers in the study to power the primary and a selection of secondary endpoints. This was funded by hVIVO plc purchasing from Imutex Limited a right to future royalty upon the achievement of certain milestones. The income from the scope change has not been recognised in the consolidated statement of comprehensive income as it was entirely funded by hVIVO. The quarantines for the FLU-v study completed during 2017 and the associated costs of the scope change, together with subsequent analysis of study data, have been recognised as a loss on provision of services to joint ventures of £0.8 million (2016: £nil).

As at 31 December 2017, all amounts invoiced and due from PepTcell Limited and Imutex Limited to hVIVO were fully paid.

hVIVO plc and PepTcell Limited have provided a loan of £24,500 and £25,500 respectively to Imutex Limited. Interest on the loan is charged at 5% above the base rate of the Bank of England per annum, the loan is unsecured and is repayable on demand by both parties.

Everbridge Inc

Everbridge Europe Limited is a subsidiary of Everbridge Inc, for whom the Group's Non-Executive Director Jaime Ellertson acts as Chairman and CEO. During the year, £45,000 (2016: £75,000) of costs were recognised by the Group and as at 31 December 2017, Everbridge invoices of £27,000 (2016: £nil) were outstanding.

Prostratex Limited

In addition to his role as a Non-Executive Director from June 2017, Trevor Phillips also provided consulting services to hVIVO through Prostratex Limited during the period from July to October 2017 and prior to his appointment as Executive Chairman on 13 November 2017. Costs of £94,000 were recognised by the Group in relation to this service and as at 31 December 2017 all amounts invoiced and due from Prostratex Limited were fully paid.

Gryon Consulting Limited

During the year, £36,000 (2016: £nil) of costs were recognised by the Group for the consulting services of Dr Clive Page who is a Non-Executive Board member of PrEP BioPharm Limited. As at 31 December 2017, an invoice of £3,000 (2016: £nil) was outstanding.

29. 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 2017 £'000	31 December 2016 £'000
Within one year	**1,354**	2,249
In the second to fifth years inclusive	**1,323**	3,446
After five years	**131**	197
	2,808	5,892

The operating lease commitments include £1.8 million in respect of two leases which have been identified as being onerous at year end and accordingly, a provision has been made (see note 23).

30. Capital commitments

At the reporting date, the Group had no capital commitments (31 December 2016: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

31. Note to the consolidated statement of cash flows

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flow from operating activities		
Loss before income tax	**(14,817)**	(22,631)
Adjustments for:		
Share of loss of associates and joint ventures	**1,613**	7,371
Depreciation of property, plant and equipment	**1,068**	1,288
Amortisation of intangible assets	**414**	315
Payment of Non-Executive Director fees by issue of shares	**77**	74
Share-based payment expense	**144**	94
Finance costs	**54**	18
Finance income	**(71)**	(310)
Research and Development Expenditure Credit included in other income	**(90)**	(267)
Decrease in provisions	**(851)**	(9)
Changes in working capital:		
Decrease in inventories	**244**	155
Decrease in current intangible asset	**—**	2,935
Decrease/(increase) in trade and other receivables	**1,507**	(1,062)
Increase/(decrease) in trade and other payables	**1,711**	(5,359)
Cash used in operations	**(8,997)**	(17,388)
Finance costs	**(54)**	(18)
Income tax refund	**4,000**	4,574
Foreign tax paid	**(14)**	—
Net cash used in operating activities	**(5,065)**	(12,832)

A £5 million payment of deferred consideration in respect of PrEP Biopharm Limited has been reclassified from operating cash flows to investing cash flows due to an error in classification in the prior year.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2017

	Note	**2017 £'000**	2016 £'000
Assets			
Non-current assets			
Investments in subsidiaries	3	**21,020**	19,876
Investments in associates and joint ventures	4	**21,543**	21,543
		42,563	41,419
Current assets			
Trade and other receivables	5	**45**	22
Amounts due from Group undertakings		**32,258**	48,505
Cash and cash equivalents	6	**11,746**	23,429
		44,049	71,956
Total assets		**86,612**	113,375
Equity and liabilities			
Equity			
Share capital	9	**3,909**	3,905
Share premium account		**93,290**	93,217
Share-based payment reserve		**382**	238
Merger reserve		**16,530**	16,530
Other reserve		**211**	211
Retained deficit		**(27,890)**	(1,023)
Total equity		**86,432**	113,078
Current liabilities			
Trade and other payables	7	**180**	297
Total liabilities		**180**	297
Total equity and liabilities		**86,612**	113,375

The financial statements of hVIVO plc (registered company number 08008725) on pages 63 to 69 were approved and authorised for issue by the Board on 18 April 2018 and signed on its behalf by:

Trevor Phillips
Executive Chairman

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 2017 was a loss of £26,867,000 (2016: loss of £566,000).

The audit fee for the Company is set out in note 7 to the consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	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 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
Proceeds from shares issued:							
Issue of new shares	4	73	—	—	—	—	77
Total transactions with owners in their capacity as owners	4	73	—	—	—	—	77
Loss for the year	—	—	—	—	—	(26,867)	(26,867)
Share-based payment	—	—	144	—	—	—	144
As at 31 December 2017	**3,909**	**93,290**	**382**	**16,530**	**211**	**(27,890)**	**86,432**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flow from operating activities		
Loss before income tax	**(26,867)**	(566)
Adjustments for:		
Payment of Non-Executive Director fees by issue of shares	**77**	74
Finance income	**(63)**	(310)
Changes in working capital:		
Increase in trade and other receivables	**(9,887)**	(11,028)
Impairment provision for trade receivable	**26,111**	—
Decrease in trade and other payables	**(117)**	(102)
Net cash used in operating activities	**(10,746)**	(11,932)
Investing activities		
Capital contribution to subsidiary	**(1,000)**	—
Decrease in balances on short-term deposits	**—**	37,031
Investment in associates and joint ventures	**—**	(12,139)
Interest received	**63**	310
Net cash (used in)/generated from investing activities	**(937)**	25,202
Financing activities		
Net proceeds from issue of shares	**—**	—
Net cash generated from financing activities	**—**	—
Net (decrease)/increase in cash and cash equivalents	**(11,683)**	13,270
Cash and cash equivalents at the start of year	**23,429**	10,159
Cash and cash equivalents at the end of year	**11,746**	23,429

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 consolidated 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 consolidated 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. Critical accounting estimates and judgements

Impairment of investment in subsidiaries

Management considers that the decline in hVIVO plc's share price represents an indicator that the carrying amount of its investment in hVIVO Services Limited may be impaired. Management have completed an impairment assessment to determine whether any impairment loss should be recognised. Critical judgements applied in performing this assessment relate to assumptions around:

- revenues from the continued performance of clinical research services for customers;
- future income streams from leveraging hVIVO's disease in motion database, drug target identification services and asthma precision development services;
- future income streams from the monetisation of hVIVO's intellectual property, including clinical trial tool kits and diagnostics; and
- additional income streams from expanding the above capability into other respiratory disease indications.

Further detail on the assumptions and estimates applied in performing the impairment assessment have been disclosed in note 3. Based on the assessment performed, an impairment loss of £26.1 million has been recognised. However, Management acknowledges that should any of the future events and cash flows upon which Management have based their assumptions not occur, then a greater impairment of the Parent Company's investment in hVIVO Services Limited would be necessary.

3. Investment in subsidiaries

	31 December 2017 £'000	31 December 2016 £'000
Balance at beginning of year	**19,876**	19,781
Capital contribution to subsidiary	**1,000**	—
Share-based compensation contribution	**144**	95
Balance at end of year	**21,020**	19,876

hVIVO Services Limited agreed a £1.0 million change in the scope of the FLU-v study, increasing the number of volunteers in the study to power the primary and a number of secondary endpoints. This was funded by hVIVO plc by purchasing from Imutex Limited a right to future royalty upon the achievement of certain milestones.

Details of the Company's subsidiaries at 31 December 2017 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

Management have noted an indicator that the carrying amount of the investments of the Parent Company in its subsidiary, hVIVO Services Limited, may be impaired and have recorded an impairment of £26.1 million against amounts receivable from group undertakings. The recoverable amount of the investments has been determined to be the value in use of the cash flows generated from the continuing operations of the entity. In performing this assessment, Management have applied the following assumptions and estimates:

- cash flows have been projected over a period of ten years from 31 December 2017, which Management considers appropriate due to the long-term nature of its clinical research services business and related returns;
- cash inflow projections reflect the following key assumptions:
  - revenues from the continued performance of clinical research services for customers;
  - future income streams from leveraging hVIVO's disease in motion database, drug target identification services and asthma precision development services;
  - future income streams from the monetisation of hVIVO's intellectual property, including clinical trial tool kits and diagnostics;
  - additional income streams from expanding the above capability into other respiratory disease indications;
  - revenues in the short to medium term are based on contracted amounts, contracts currently in negotiation and estimates of clinical research services to be performed in hVIVO's key areas of respiratory disease focus. hVIVO's key areas of respiratory disease focus are currently flu, RSV and asthma, with the expectation that services will expand into other respiratory disease indications including COPD;
  - for financial modelling purposes, it has been assumed that total revenue increases from 2018 and for the five years to 2022, with total revenue for 2022 of approximately £50 million per annum, which is then assumed to remain constant for the remainder of the projected period;
- cash outflows, which include contract delivery costs, operating expenses, research spend and capital spend are assumed to be consistent with current experience;
- cash flows beyond the ten-year period were extrapolated using a terminal growth rate of 2%, which is Management's estimate of the long-term average growth rate for the UK market, the principal geography in which the entity operates; and
- a pre-tax discount rate of 11.49% has been applied in discounting cash flows to their present value, which has been benchmarked against available sources for comparable companies.

Cash flow projections are most sensitive to the assumptions regarding:

- revenue and margins from clinical research services, including:
  - number of client studies and contract values;
  - number, and price, of volunteers per study;
  - mix of studies across disease indications;
  - expansion of the clinical research services market for each disease indication;
  - building and conversion of hVIVO's sales funnel across disease indications, including consideration of changing market share and threat from competition;
- development of a market and customer uptake from;
  - leveraging hVIVO's disease in motion database, drug target identification services and asthma precision development services;
  - monetisation of hVIVO's intellectual property, including clinical trial tool kits and diagnostics; and
- changes in the discount rate.

At 31 December 2017 there is limited headroom in respect of the carrying value of the Parent Company's investment in hVIVO Services Limited. Should any of the future events and cash flow assumptions upon which management have based their value in use calculation not occur or change adversely, a greater impairment of the investment in hVIVO services Limited would be necessary.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

4. Investment in associates and joint ventures

Management have considered the progress of the early stage clinical research programmes being conducted by the associates and joint ventures. Management considers that these are progressing positively, there are no impairment indicators at the present time and the carrying amount of investments are fully recoverable.

PrEP Biopharm Limited

There was no movement in the Company's investment in PrEP Biopharm Limited during the year (2016: nil):

	2017 £'000	2016 £'000
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 28 of the consolidated financial statements).

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

	2017 £'000	2016 £'000
As at 1 January	**7,138**	—
Additions	**—**	7,138
As at 31 December	**7,138**	7,138

5. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Other receivables	**34**	13
Prepayments and accrued income	**11**	9
	45	22

6. Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Cash at bank and in hand	**11,746**	23,429

All of the Group's cash and cash equivalents at 31 December 2017 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 24 to the consolidated financial statements.

7. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	**51**	58
Social security and other taxes	**45**	41
Accruals	**84**	198
	180	297

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
- cash and cash equivalents.

Financial assets

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

	31 December 2017 £'000	31 December 2016 £'000
Cash and cash equivalents	**11,746**	23,429
Other receivables	**34**	13
	11,780	23,442

Financial liabilities

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

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	**51**	58
Accruals	**84**	198
	135	256

Refer to note 24 to the consolidated financial statements for more information.

9. Share capital

Refer to note 25 to the consolidated financial statements.

10. Share-based payments

Refer to note 26 to the consolidated 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 28 to the consolidated financial statements.

GLOSSARY

antiviral a drug effective against viruses which cause disease

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

DARPA the Defense Advanced Research Projects Agency is an agency of the United States Department of Defense responsible for the development of emerging technologies for use by the military

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

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

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

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

NIAID the National Institute of Allergy and Infectious Diseases, a part of the US National Institutes of Health. A US public health agency that conducts and supports basic and applied research to better understand, treat, and ultimately prevent infectious, immunologic, and allergic diseases

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

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

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

Precision development targeted drug development based on the underlying pathology of disease and disease subtype characterisation, enabling the identification of the right drug for the right patient

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

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

R&D Research & Development

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

Target identification identifying the biological origin of a disease, and the potential targets (cellular or molecular structures involved in the disease pathology) for intervention by a drug. It is the first step in the discovery of a medicine

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

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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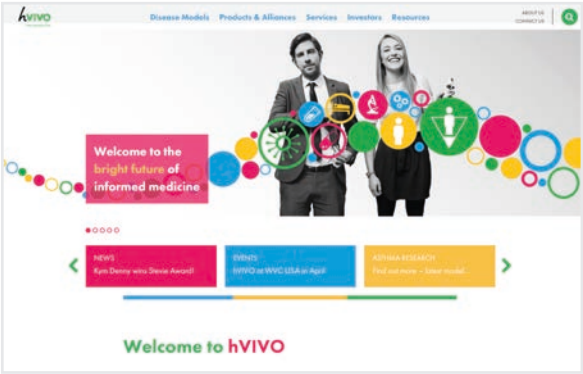

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