Shaping the future of medicine

2018 Annual Report & Accounts

Avacta®

Contents

Highlights 2017 to 2018

Affimer Therapeutics

Tufts University

Major therapeutic partnership with Tufts University School of Medicine announced which will develop a new class of Affimer drug conjugate therapies with a novel mode of action that combines Avacta's Affimer technology with drug conjugates developed at Tufts.

Oncosec

Collaboration established with Oncosec (NASDAQ: ONCS) on innovative gene delivery of therapeutic Affimers.

Iksuda Therapeutics

Positive outcome of initial work with Iksuda Therapeutics (formerly Glythera) leading to a new drug development collaboration for Affimer drug conjugates.

Solid progress with **partners**

Moderna

Moderna research collaboration extended and delivery of Affimer assets to Moderna for evaluation with a view to development.

In discussion with **multiple potential pharma and biotech partners** regarding Affimer Therapeutics opportunities.

Pipeline of opportunities continues to grow across multiple applications.

FIT Biotech

Research collaboration with FIT Biotech Oy successfully completed a proof-of-concept study with excellent data, showing sustained production of Affimer molecules by muscle tissue in mice.

Good progress with **in-house programmes**

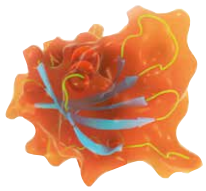
Significant progress in its second therapeutic programme, a LAG-3 inhibitor, has allowed the Group to leap-frog the planned clinical trials for a PD-L1 inhibitor on its own and, on a similar timescale, **aim for first-time-in-human clinical data** for a PD-L1/LAG-3 bispecific therapy – a potentially much more valuable asset.

Positive pharmacokinetic data obtained in mouse for Affimer XT™ half-life extension platform.

Discovery programme continues to deliver a pipeline of Affimer binders to other important immuno-oncology targets for future partnering or development.

Affimer research and diagnostic reagents

Continued focus on **multiple licensing opportunities** for reagents in pharma, biotech, diagnostic and research markets: progress has been made with a number of third-party technology evaluations and the Group is anticipating licensing deals in the near-term.



Substantial progress in generating more applications data packs (affinity separation, immunoassays) and in developing new applications, such as immunohistochemistry, that are important in supporting marketing efforts.

Third-party validation of the Affimer technology, key to building commercial traction, is growing

Covance presented Affimer data at an **international conference** and webinar that has helped to generate a number of custom Affimer reagent projects with large pharma.

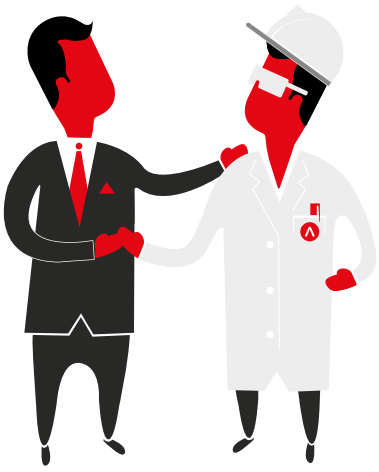
Heptares provided a testimonial for use in **business development meetings** regarding their very positive experience of using Affimers with GPCRs, an important class of drug target.

Appointment of **Dr Eliot Forster**, a highly experienced pharma/biotech professional as Non-executive Chairman.

Appointment of experienced, Boston-based **Dr Matt Vincent**, as Vice-President of Therapeutics Business Development.

People

Business development team established in US with personnel on both the east (Philadelphia) and west coasts (San Diego).



Fund-raise announced 30 July 2018 raising £11.6 million gross, **£10.9 million** (net of expenses), with funds received in August 2018.

Cash balances at 31 July 2018:
£5.2 million
(31 July 2017: £13.2million)

Financial highlights

Group revenues
£2.76 million
(2017: £2.74 million)

Loss per ordinary share: **13.49 pence**.
(2017: 9.77 pence)

Loss from continuing operations: **£8.83 million** reflecting accelerating R&D investment.
(2017: £6.37 million)

Strategic aims to deliver value growth for shareholders

Establishing significant **drug development partnerships**.

Ready for **first-in-man trial** of its PD-L1/LAG-3 bispecific therapy.

Growing revenue through **licensing of Affimer reagents** to developers of research tools and diagnostics.

Building a **substantial pipeline** of Affimer therapeutic assets for partnering.

Affimer Technology

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

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

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

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

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

New Affimer molecules are generated by screening through a pre-existing large library of approximately ten billion Affimer molecules to identify those that bind to the target of interest. This utilises an industry standard *in vitro* process which does not use animals and therefore it is quick, taking a matter of weeks, and circumvents limitations arising from the need for an immune response in an animal. This screening process can also be finely controlled to maximise the specificity and optimise other properties of the Affimer molecules that are pulled out of the library for a particular application.

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

Despite the limitations outlined above, antibodies have become the dominant technology in markets worth in excess of $100 billion annually. Therefore, the opportunity for an alternative such as the Affimer technology is very large with the potential to generate near-term revenue from minimally regulated, low-risk life sciences research tools and diagnostics applications, as well as potentially generating much higher rewards from therapeutics but with associated greater development risk.

Affimer®

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

Engineered specificity

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

Rapid development

Selection and characterisation of new custom Affimer binders typically takes just ten to twelve weeks using optimised and standardised processes.

Flexible functionalisation

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

Ease of manufacturing

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

Small size

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

"Affimer technology brings novel approaches to tackle the hostile tumour micro-environment, which has prevented the breakthrough for all cancer patients that we have been waiting for, and that will add to our treatment options in the fast-moving field of immuno-oncology."

Eliot Forster, Non-executive Chairman

Strategic Report

The past twelve months has been a period of strong operational progress for the Group with important advances made in its internal drug development programmes, good growth in its commercial pipeline and partnerships, and significant appointments to the Board and Senior Management Team.

Excellent progress in the Group's second therapeutic programme focusing on inhibitors of the immune checkpoint LAG-3 has led to the establishment of a PD-L1/LAG-3 bispecific development programme, leap-frogging the planned first step of a PD-L1 monotherapy.

The combination of these two checkpoint inhibitors should provide greater efficacy and improve overall patient response compared with PD-L1 alone. This bispecific will also be one of a very small number of such therapies in the clinic, and one of only two that combine the PD-L1/LAG-3 inhibition in a single molecule. The Affimer bispecific will therefore present a much better opportunity for out-licensing. This change should not delay phase 1 clinical data significantly, and the Group continues to work towards dosing of first patients in 2020.

The Group also recently announced a major drug development programme, in collaboration with Tufts University School of Medicine ('Tufts'), focusing on a novel form of drug conjugate that combines an immuno-oncology active Affimer to target powerful chemo-toxins developed at Tufts to the tumour microenvironment. These novel Affimer drug conjugates ('AfDCs') have a dual mode of action which should improve the efficacy and safety of the very potent chemo-toxin drugs. The feedback from potential pharmaceutical partners is very encouraging and the Group believes that this programme presents an opportunity for significant licensing deals at the pre-clinical stage over the next two years.

Good progress has also been made with existing collaborations. Most importantly, the Company has delivered lead molecules to Moderna Therapeutics for evaluation and potential development into the clinic. Other partnerships with Oncosec, Memorial Sloan Kettering Cancer Center and Glythera should hit meaningful progress milestones during the coming financial year.

The Group has also continued to grow its pipeline of evaluations of Affimer reagents. This growth is as a result of substantial R&D that has generated a large volume of data showcasing the superior performance of Affimers head-to-head with antibodies across a range of applications. The business development team has been expanded in the US in order to drive further growth in the sales pipeline. The Group anticipates evaluations leading to licensing deals that it will be able to publicise during 2018 and onwards.

Fund-raise

On 30 July 2018, the Group announced a successful fund-raise of £11.6 million (£10.9 million net of costs), which was concluded following the placing of new shares issued following the General Meeting which took place on 17 August 2018.

Corporate governance

During the year, Avacta has reviewed its Corporate Governance approach in the light of the changes to the AIM rules and has adopted the Quoted Companies Alliance's ('QCA') Corporate Governance Code for small and mid-size quoted companies. The Corporate Governance report sets out the Group's approach on how it seeks to comply with the QCA's ten broad principles of good corporate governance.

Board changes

Dr Eliot Forster was appointed to the Board of Directors as Non-executive Chairman in June 2018, succeeding Dr Trevor Nicholls, who remains as a Non-executive Director having served the Group as Chairman since August 2013. Eliot brings with him significant experience of biotech/pharmaceutical development, particularly in the therapeutics area where the Group's Affimer technology has vast potential to be a disruptive technology in the antibody markets.

Dr Michael Albin stepped down from the Board in March 2018 having been a Non-executive Director since February 2014 and the Board is grateful for his input in the development of the Affimer technology, particularly the research reagents and diagnostics.

Outlook

The recent fund-raise provides the Group with the financial runway to hit important near-term milestones in the coming two years. The funding will allow the Group to complete pre-clinical work for the lead PD-L1/LAG-3 programme, advance its new AfDC programme with Tufts and continue to build the pipeline of Affimer therapeutic assets. Most importantly, building on the growing body of positive data, the Group expects to secure significant therapeutic licensing deals and partnerships in the near future.

The investment in research and diagnostics applications and business development over the past two years has generated a strong pipeline of third-party evaluations of the Affimer technology. The recent placing will allow the Group to accelerate its business development activities and to deliver the long-term royalty-bearing licensing deals that will create a profitable Affimer reagents business unit.

The translation of the Affimer therapeutic platform into the clinic is an incredibly important transition for the Group because it de-risks the technology considerably. We are very confident that this transition can be made successfully, which will have a profound effect on the Group's valuation and its ability to secure lucrative therapeutic licensing deals.

Eliot Forster
Non-executive Chairman
2 October 2018

Alastair Smith
Chief Executive Officer
2 October 2018

Eliot Forster, Non-executive Chairman

Alastair Smith, Chief Executive Officer

Team Profile: Dr Eliot Forster, Non-executive Chairman

Professional background

Eliot Forster served as Chief Executive Officer of Immunocore from 2015 to 2018. He has more than 25 years of experience in the pharmaceutical and biotechnology industry and previously served as Chief Executive Officer of Creabilis. Prior to that he was Chief Executive Officer of US biotechnology company Solace Pharmaceuticals Inc. Other previous roles include Head of Development and Operations for the EU and Asia at Pfizer. Eliot is Non-executive Chairman of Avacta Group plc and of MedCity, which promotes life sciences in the 'Golden Triangle', and founding Chairman of Advanced Oxford, which aims to grow the innovation economy in the Oxford region. He is an Honorary Visiting Professor of the Pharmacology and Physiology Department at the University of Liverpool, a Board member of OSCHR (Office for Strategic Coordination of Health Research) and the National Genomics Board. He holds a PhD from University of Liverpool and an MBA from Henley Management College.

Eliot commented on joining as Chairman of the Board of Directors:

"In my opinion, the validated Affimer technology platform represents the next generation in targeted therapies and reagents. Over a number of years, the Avacta team have demonstrated the potential for Affimers to differentiate from other modalities and have reached a significant phase in this journey, with targeted immuno-oncology therapeutics emerging from the research pipeline that, I anticipate, will clearly differentiate from antibody and aptamer approaches. I can see that Affimer technology brings novel approaches to tackle the hostile tumour micro-environment, which has prevented the breakthrough for all cancer patients that we have been waiting for, and that will add to our treatment options in the fast-moving field of immuno-oncology. In addition, the power of the Affimer platform is further exemplified through the company's ability to provide a range of specific reagents for diagnostics and as research tools."

"Together the marriage of novel Affimer biotherapeutics with powerful reagents, all under one roof, brought me to Avacta without hesitation. I'm truly excited to be part of this journey, with the team, the board and our investors. Together I believe we will make a difference to patients' lives."

Operational Review: Affimer business model and strategy

Antibodies dominate the markets for affinity reagents in research, diagnostic and therapeutic markets despite their limitations. The technical and commercial benefits of Affimers apply to each of these antibody markets and Avacta is addressing both therapeutic and non-therapeutic opportunities for the Affimer technology.

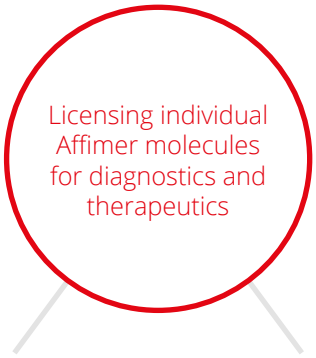
The Group is focused on building a profitable business through the licensing of Affimer reagents to developers of research tools and diagnostic tests to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and licensing.

The Group has four key strategic objectives to deliver increasing value for shareholders in the next two to three years:

- Establishing significant drug development partnerships to provide validation for the Affimer technology and partners who are capable of developing Affimer therapeutics
- Building a substantial pipeline of Affimer therapeutics to provide assets that can be licensed for substantial valuations
- Growing revenue through licensing of Affimer reagents to developers of research tools and diagnostics with a focus on longer term, royalty bearing commercial partnerships
- Successfully completing first-in-man clinical trial of its PD-L1/LAG-3 bispecific therapy

The Group's business model is entirely based on licensing. Avacta is focused on establishing licensing deals for Affimer reagents to underpin diagnostics, research tools and other life science products in order to generate a long-term royalty-based revenue stream.

The Group operates a fee-for-service to generate bespoke Affimers for customers so that they can evaluate the performance of these Affimer reagents alongside antibodies. Positive evaluations should result in commercial licences to develop and sell products powered by Affimers. In the therapeutics market, licensing deals can most easily be done for Affimer drugs for which a body of data has been generated to show their efficacy and safety. The Group is therefore investing significantly in R&D to generate this data for a pipeline of Affimer therapeutics and in business development to create the licensing opportunities.



Therapeutics
Developing multiple clinical candidates for development and/or licensing to major pharma

High value reagents
Royalties from licensing Affimers to research and diagnostic test developers

Affimer® is a platform technology not a single asset

Affimer Therapeutics

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

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

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

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

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

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

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

Progress towards the clinic

Summary:
The Group continues to make good progress towards first-time-in-human clinical trials in 2020 as described at the recent placing and, because of rapid progress in a second programme, it intends to develop a combined PD-L1/LAG-3 asset into the clinic on a similar time scale. This combined therapy will have much greater commercial and clinical value than the originally envisaged PD-L1 blockade alone.

The focus of the Group's therapeutic programme is in immuno-oncology ('IO') and it has selected an inhibitor of PD-L1, one of the immune checkpoints, as the lead programme. PD-L1 is a well-understood IO target and it was selected to minimise the risks in getting first-time-in-human data as quickly possible and, importantly, because PD-L1 will be the basis of future combined therapies with other IO targets for Avacta and the sector as a whole. The Group has now generated and characterised more than 50 Affimer inhibitors of PD-L1 and has selected several lead molecules for development.

Recently, substantial progress has also been made towards generating Affimer inhibitors of a second immune checkpoint called LAG-3. Targeting both PD-L1 and LAG-3 has been shown pre-clinically by others to be an effective combination and, in cancer models in mice, showed significantly greater reduction in tumour growth compared with an anti-PD-L1 monotherapy alone.

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There is considerable interest from large pharmaceutical companies in combining a LAG-3 blockade with an inhibitor of the PD-1/PD-L1 pathway. Bristol-Myers-Squib, Novartis and Regeneron amongst others are in the clinic with a combination of two separate antibody inhibitors of these two immune-checkpoints and F-star has partnered with Merck to create a single molecule, based on an antibody, that targets PD-L1 and LAG-3 and have recently initiated a phase I clinical study.

The Group has now successfully generated a panel of human LAG-3 antagonists which have been shown, by cell binding and functional assays, to inhibit this immune-checkpoint. Progress in the LAG-3 programme has been sufficiently encouraging that the Group has decided to leap-frog the first step of taking a simple PD-L1 inhibitor into the clinic to get safety and tolerability data, to take a PD-L1/LAG-3 bispecific into the clinic. The Group believes that an Affimer bispecific against these two targets should have considerable potential for partnering as well as providing the human safety, tolerability and ultimately efficacy data that will enhance deal value for other Affimer assets in the pipeline.

The Group has also generated multi-specific formats by combining PD-L1 and LAG-3 Affimers, with either Fc or Affimer-XT half-life extension, into single molecules. These are now being characterised in functional assays to see if further improvements need to be made before progressing into primary human cell-based assays, *in vivo* pharmacokinetic and pre-clinical cancer efficacy models during 2018 and into early 2019. The objective is to be able to select a candidate Affimer bispecific molecule for IND enabling studies early in 2019.

Whilst there are potentially greater challenges in developing a bispecific compared with a simple PD-L1 inhibitor, the Group believes that broadly the same timeline can be achieved leading to phase I clinical data in 2020 to 2021. The path to the clinic in 2020 involves completion of pre-clinical characterisation of this lead molecule, IND-enabling studies, transfer of manufacturing to a contract manufacturer and a regulatory submission to the appropriate body before the end of H1 2020.

Building a pipeline of valuable drug assets

Summary:
A potentially transformative pipeline of assets, beyond PD-L1 and LAG-3, is being built for partnering. This pipeline includes other immune-checkpoint targets but the Group believes that a novel drug conjugate platform, jointly invented with Tufts University School of Medicine, holds the greatest promise for early partnering deals. Additionally, Affimers that can extend the time that other drugs spend in the bloodstream (Affimer XT™) have also been developed and can be licensed as a stand-alone technology as well as used in in-house programmes.

Despite the great progress that has been made and the excitement surrounding immune-checkpoint targeting therapies, the fact remains that overall response rates across the patient population to monotherapies targeting a single immune-checkpoint are low. In order to improve that response rate pharmaceutical companies are investigating the combination of multiple immune-checkpoint inhibitors, or the combination of a monotherapy with chemotherapy, viral vaccines, radiotherapy or other approaches.

The Group is developing a PD-L1/LAG-3 bispecific therapy to address this need for an improvement in response rates and has also been considering the potential for drug conjugates in which an Affimer is used to deliver chemotherapy in a targeted way.

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In a ground-breaking co-invention with Tufts, the Group has devised a new class of targeted chemotherapy or 'drug conjugate' referred to as an 'Affimer drug conjugate' or AfDC. In this novel AfDC, an Affimer that binds to an immune-checkpoint such as PD-L1, which is increased in concentration on most cancer cells, serves to target the chemotherapy to the tumour. This improves the safety profile of the chemotherapy, reducing the side-effects of these powerful chemical toxins.

The toxin must be released from the Affimer once it is in the tumour microenvironment. In order to achieve this, the toxin is attached to the AfDC via a novel linker chemistry (see diagram opposite) designed by Tufts to release, only in the tumour, the highly potent toxins. This further improves the safety profile of the AfDC approach because the toxin is not released whilst in the circulation. An additional novel aspect of the AfDC is that, by targeting an immune checkpoint, the Affimer serves the dual purpose of localising the drug conjugate to the tumour, whilst also being immunologically active and assisting the immune system to destroy the cancer in response to the toxin.

Avacta and Tufts have jointly filed for broad patent protection for this inventive concept of combining a drug conjugate that is released in the tumour microenvironment with immuno-oncology active targeting. The patent covers Affimers, and a wide range of other binders against oncology, viral and inflammatory targets that are not conventional drug conjugate targets. It also covers a wide range of drugs to which the binders can be conjugated.

In the first example of the AfDC that is being developed with Tufts, a PD-L1 Affimer blockade will be combined with an I-DASH inhibitor toxin that is released from the Affimer by an enzyme called FAP which is increased in the tumour microenvironment. This drug, for which extensive pre-clinical and clinical data has already been generated by Tufts, creates a highly localised inflammatory event in the tumour which causes the recruitment of the immune system that is synergistic with the Affimer PD-L1 blockade.

The Group is working with Professor Bill Bachovchin at Tufts to make the PD-L1/I-DASH molecules and expects to have *in-vitro* proof-of-concept data during 2019 and first *in-vivo* data by 2020. Feedback from large pharmaceutical potential partners about the AfDC platform, and this initial embodiment combining PD-L1 with I-DASH inhibitors, is very positive and the Group believes that, based on this feedback, a pre-clinical licensing deal is likely.

Avacta has exclusive rights to commercialise these novel drug conjugates.

Affimer drug conjugates

During the past twelve months the Group has also achieved a key milestone – completion of its pre-clinical development of an Affimer half-life extension technology called Affimer XT™.

'Serum half-life' is a measure of the amount of time a drug remains in the bloodstream. With many drugs a longer serum half-life is desirable so that there is time for the drug to get to the site of action. However, there are several routes of clearance of drugs from the bloodstream and small molecules like Affimers and peptides may be rapidly cleared in under an hour, via the kidneys, in the urine. This rapid clearance, if the Affimer has not bound to its target, may be a major benefit for agonists and drug conjugates for example, where a long systemic exposure to the powerful and potentially toxic drug is not desirable. However, generally speaking, a long (days to weeks) serum half-life is desirable. It is therefore essential to extend the serum half-life of Affimers (and many other drugs) in some way.

The Group has already demonstrated the good serum half-life of Affimers that are attached permanently to the Fc portion of an antibody.

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Affimer drug conjugates

Immune Checkpoint Targeting

Target immune checkpoints (ICP) causes accumulation of AfDC in checkpoint over-expressing tumours and leads to **induction/maintainance of adaptive immune response overcoming immune evasion**.

Use of TME active warhead permits targeting of ICP not rapidly internalised from cell surface **including bispecific formats**.

Initial Embodiment

- PD-L1 (monomeric or dimeric)

TME Enzyme Cleved Linkers

Linker is the only cleaved by **enzymes that are upregulated in the tumour microenvironment** (TME).

TME enzyme requirement provides **secondary targeting mechanism**, and a basis for a biomarker supporting breakthrough designation.

Initial Embodiment

- Fibroblast Activation Protein (FAPa)

Toxins

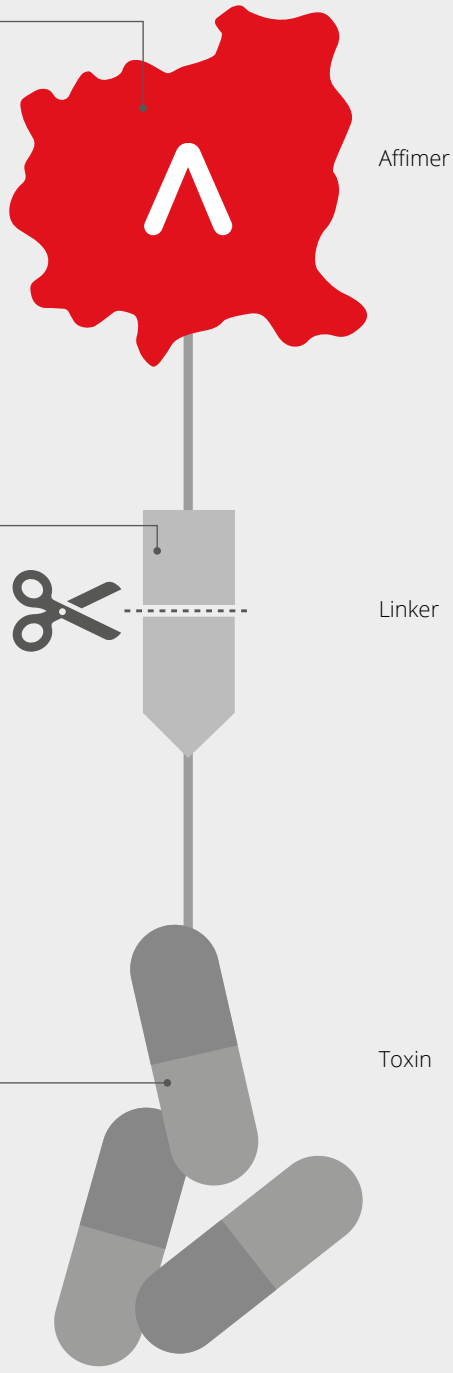
Utilisation of **"IO Active" warheads** targeting "bystander" cells, including macrophage, NK cells etc. and supporting tumor stroma (CAFs).

Induction of localised **innate immune response** potently primes tumor antigen-specific CD8+ T-cell responses.

Warhead inert when linked improving safety profile.

Initial Embodiment

- I-DASH inhibitor targeting tumour associated macrophage.
- The effects include potent priming of tumour antigen-specific CD8+ T-cell responses, enhanced trafficking of key effector immunocutes to the tumour, increased levels of dendritic cells and activated NK cells and accelerated expansion of tumour specific T-cells.



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The Fc is large and therefore is not cleared through the kidneys quickly, but, more importantly, the presence of an Fc allows the Affimer drug to interact with the patient's immune system when this is desirable. Affimer 'Fc fusions' are a very important class of Affimer drug for which a large body of pre-clinical data has now been generated by the Group.

A second way to extend the serum half-life of an Affimer, if the interaction with the immune system via an Fc is not required, is to bind temporarily to a large protein in the bloodstream such as albumin which does not get cleared quickly through the kidneys. The Group has now developed a range of Affimers that bind human serum albumin and cross-react with a number of other species including mouse, cynomolgus monkey and dog, which are important pre-clinical animal model species. A number of Affimer binders have been developed, each with a different affinity for serum albumin. The tighter the binding to serum albumin the longer the resulting serum half-life is, with an upper limit of the half-life of albumin itself, which is about two weeks. This range of Affimers, which allows the half-life to be tailored to suit the therapeutic application, is collectively referred to as the Affimer XT platform.

By combining an Affimer therapeutic, such as a PD-L1 inhibitor, with Affimer XT in a bispecific molecule, the serum half-life of the PD-L1 drug is also extended by 'piggy-backing' on serum albumin. Therefore, Affimer XT provides a powerful way of modulating the half-life of Affimer drugs, or indeed any third-party protein or peptide therapeutic. By way of example, Novo Nordisk recently received marketing approval for a half-life extended version of its type 2 diabetes treatment Victoza. The dosing regimen for Victoza, which is a small peptide, is once a day. By extending the serum half-life of Victoza through binding to serum albumin, Ozempic is suitable for once-weekly dosing, improving patients' experience and compliance. Avacta's Affimer XT platform could be used to extend the serum half-life of other similar peptide therapeutics and the Group is now actively seeking licensing partners for Affimer XT.

The Group is focusing the majority of its development resources on the pipeline above but continues to generate Affimer binders to other immuno-oncology targets of potential interest to partners such as CD40 and GITR, which are two important costimulatory agonist targets. During the reporting period the Group also demonstrated that Affimer molecules, in this case PD-L1 inhibitors that were already in hand, could be added to the c-terminus of a full monoclonal antibody to create a bispecific hybrid molecule. There are several examples in the past two years of significant licensing deals involving this type of antibody hybrid (Pieris/Seattle Genetics, Pieris/Sanofi, F-star/Merck) and the Group has shown with two examples (PD-L1 Affimer combined with anti-CTLA-4 and anti-VEGF antibodies) that this can be done with the Affimer technology. This opens the door to similar potential licensing deals for the Group in this area and these are now being sought.

Drug development collaborations

Summary:
As a platform technology, Affimers are broadly applicable. The Group's strategy is to tightly focus its in-house resources on a small number of programmes and use partnerships in other application areas to generate data through third parties that could lead to deals with large pharma. Gene delivery is an area in which the Group has received significant interest and has established partnerships.

The Affimer platform has the potential to deliver assets across a range of therapeutic modalities, but the Group's resources are limited and therefore collaborations play an important role in generating proof-of-concept data, with limited requirement for incremental in-house resources, that might enable licensing deals with larger partners.

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The delivery of a therapeutic protein to a patient by delivering the DNA or RNA blueprint of the protein rather than the protein itself is referred to as 'gene delivery'. There are multiple benefits of gene delivery, most notably that the expensive and difficult step of making a therapeutic protein to stringent quality standards is no longer required because the patient makes the protein inside his or her own body. The development time for gene-delivered protein therapeutics is also shorter because the manufacturing development time is reduced. Gene delivery directly into specific tumour tissues also means that a high local dose is achieved with a better safety profile through using a small protein like an Affimer that will be rapidly cleared from the body if it leaves the tumour microenvironment.

Avacta has a research partnership with Moderna Therapeutics ('Moderna') to provide Affimer molecules for mRNA gene delivery. The Group has worked on a number of targets with Moderna and the objective of providing Affimers to Moderna that meet their specifications for mRNA ("gene") delivery during 2018 has been met. The collaboration agreement with Moderna has been extended to allow Moderna time to evaluate the Affimers that have been provided to them. For reasons of confidentiality the Group is not able to provide further details.

If gene delivery is to be effective and a clinically relevant dose of the therapeutic is to be achieved, then the protein therapeutic must be easy for the patient's body to make and small proteins with simple structures, such as Affimers, are ideal for this. This has led to Avacta receiving considerable interest in gene delivery applications outside of the Moderna collaboration.

During the past year Avacta established two further collaborations in the area of gene delivery with Oncosec (NASDAQ: ONCS) and FIT Biotech Oy (FITBIO: FN Finland).

The collaboration with Oncosec is focused on combining Oncosec's proprietary intra-tumoral gene delivery platform using electroporation (ImmunoPulse) with gene delivery of Avacta's immuno-modulatory Affimers. Oncosec has demonstrated the safety and efficacy of their platform in a phase II clinical study that combined their gene-delivered IL-12 with Pembrolizumab (anti-PD-1 antibody) given systemically. The study reported a 50% best overall response rate and a 41% complete response rate in 22 patients unlikely to respond to anti-PD-1 therapy alone. Avacta is working with Oncosec to provide immuno-modulatory Affimers which may include the existing PD-L1 Affimer inhibitors for Oncosec to test in a pre-clinical cancer model to determine if therapeutic levels of protein can be achieved using ImmunoPulse, and that the Affimers are biologically active *in vivo*.

The level of Affimer in the bloodstream of mice generated by gene delivery using electroporation was successfully demonstrated through another collaboration with FIT Biotech. Sustained production of Affimer molecules by the muscle tissue of mice was achieved from a single dosing of the Affimer DNA using the FIT technology. The study showed clinically relevant levels of Affimer drug in the bloodstream of mice for over one month following a single dose of Affimer DNA into the leg muscle tissue, and measurable quantities of the Affimers in the bloodstream out to 90 days. The study showed significantly higher levels of Affimer production when compared with an antibody used in the study, which is due to the simple structure, and ease of production, of the Affimers. The Group is now using the results of this study to support business development activities in the wider gene delivery market.

Affimer molecules are ideal for creating drug conjugates in which a chemical toxin is linked to an Affimer that is used to target the toxin into the tumour.

Conventional drug conjugates target a marker on the tumour surface which gets taken into the cell taking the drug conjugate with it; this is in contrast with the novel AfDC concept which target immune checkpoints that do not get internalised. The toxin in a conventional drug conjugate is therefore designed to be released inside the tumour cell to kill it from within. The Group is collaborating with Glythera Ltd. to generate *in vitro* and *in vivo* data packages for a drug conjugate using Glythera's linkers and toxins. The Group is in the process of generating Affimers for Glythera to target an undisclosed tumour marker. Glythera will then use these Affimer molecules to create drug conjugates and carry out the *in vitro* and *in vivo* testing. This collaboration follows a successful proof-of-concept study in which the two companies reported that Affimers could be efficiently conjugated with Glythera's novel linkers without loss of function.

One area in which Affimers could have significant potential is in cellular therapies such as chimeric antigen receptor T-cells ('CAR-T'). This is an area of drug development that has generated huge excitement recently but requires specialist expertise and, therefore, Avacta has chosen to collaborate to demonstrate the potential of the Affimer platform rather than spread limited resources too thinly. The Group has established a collaboration with Memorial Sloan Kettering Cancer Center – one of the leading US cancer centres – to demonstrate the potential for Affimers to replace the currently used antibody-based technology. Avacta is carrying out screening of its Affimer libraries to identify Affimers suitable for targeting CAR-T cells to tumours and expects to provide its collaborators with suitable Affimer molecules in the coming months.

Case Study:
Tufts collaboration

Despite great progress and excitement surrounding immune-checkpoint targeting therapies, the fact remains that overall response rates across the patient population are low.

What approaches can be used to improve the response rate?

- Hitting more than one immune-checkpoint at once through combination therapies, bispecific and trispecific molecules
- Combining immune-checkpoint therapies with chemotherapy, viral vaccines, radiotherapy, and others
- Targeting chemotherapy using drug conjugates
- Harnessing the power of agonists

Avacta is actively addressing the opportunities for Affimers to create novel, safe and effective multispecific immune checkpoint inhibitors and drug conjugates.

Tufts University

Recently Avacta announced a collaboration with Tufts University School of Medicine to develop a novel and proprietary class of immuno-oncology active, dual mode of action drug conjugates which the Company has called Tomahawk™ drug conjugates.

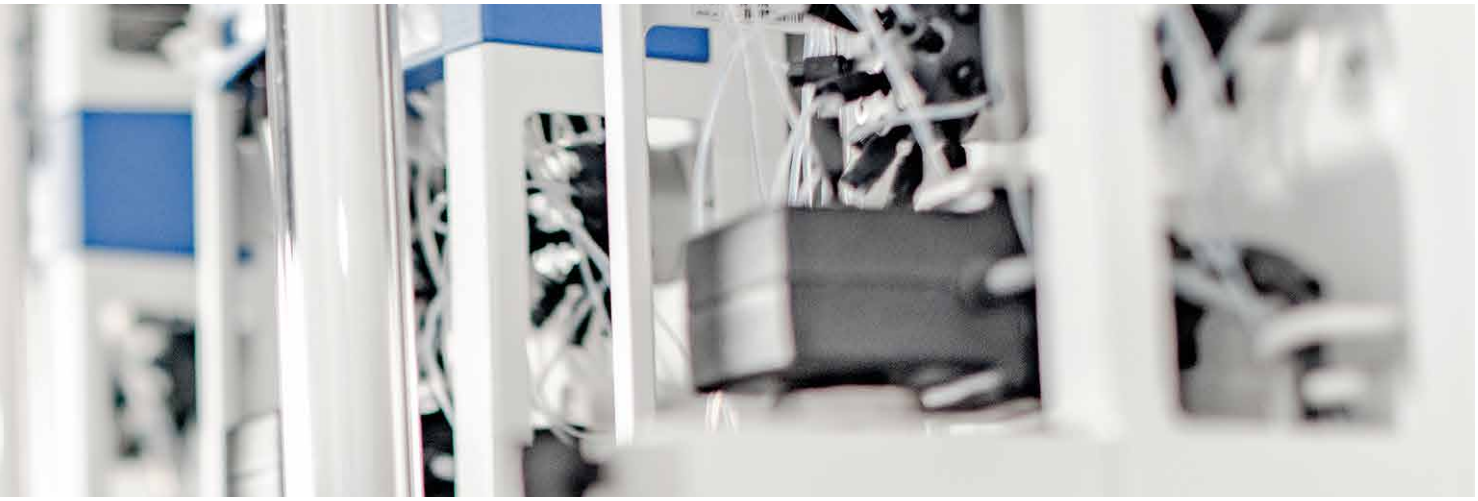
Conventional drug conjugates use a targeting mechanism such as an antibody or Affimer to deliver a drug, called a 'cytotoxin' (chemotherapy), specifically to the tumour cell. Once bound to the outside of the tumour cell, the drug conjugate, including the cytotoxin, is taken into or 'internalised' into the cell. The cytotoxin is then released from the antibody or Affimer by enzymes that cut the chemical linker and the toxin kills the tumour cell from inside. The antibody or Affimer is only used to target the tumour cell and has little or no additional therapeutic benefit.

Tomahawk™ is a new class of drug conjugates having a dual mode of action that combines the selective release of a potent drug in the tumour microenvironment ('TME') to induce a powerful immune response which draws the immune system to the tumour while utilising an Affimer targeting an immune checkpoint pathway to ensure that the immune response is not suppressed by the tumour. It is, in effect, a dual immuno-oncology therapeutic.

Inhibitors of immune checkpoint proteins such as PD-L1 would not normally be chosen to target a drug conjugate to a tumour because most are not internalised quickly enough for use with toxins that kill tumour cells from the inside. However, such immune checkpoint proteins can be used to target drugs to the tumour mass (or tumour microenvironment – 'TME').

At the same time, checkpoint inhibitors such as Affimer PD-L1 inhibitors that prevent a tumour from evading an immune system attack synergise with drugs that cause a localised inflammatory event in the TME which draws in the immune system. A key differentiating feature of Tomahawk™ drug conjugates is the novel linker which is cut by enzymes that are only upregulated in the TME and not in healthy tissue. Since the drug is inert until it is cleaved from the Affimer and the enzyme that does this is only upregulated in the tumour, this additional targeting mechanism improves overall safety and allows the most potent toxins to be used.

The Tomahawk™ drug conjugate concept is a joint invention between Avacta and Tufts University School of Medicine.

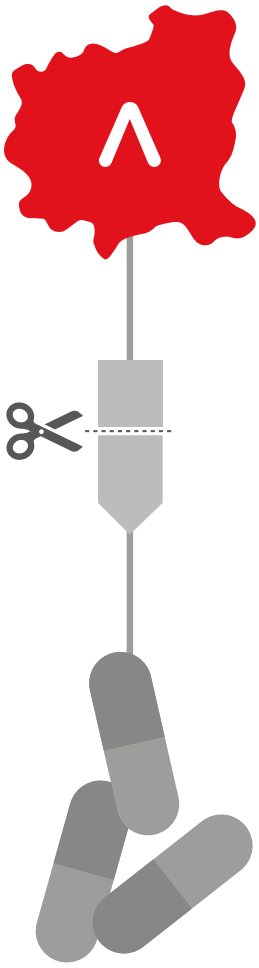


Bach BioSciences

Avacta has agreed a co-development partnership with Bach BioSciences, a company commercialising the research of William Bachovchin, Professor of Developmental, Chemical and Molecular Biology at Tufts University School of Medicine, Boston, to develop a new class of Affimer drug conjugate therapies called 'Tomahawk' with a novel mode of action that combine Avacta's Affimer technology with drug conjugates developed at Tufts.

Bach Biosciences LLP is the mission-driven development company associated with Dr William Bachovchin's laboratory at Tufts University School of Medicine. Bach Biosciences is accelerating breakthrough discoveries into therapeutics for patients, from its own drug development pipeline or by working in partnership with other life science companies. The company and its founders have established strategic partnerships with contract research organisations, investors, and pharmaceutical partners to support technology development. Dr Bachovchin is the inventor on 46 issued US patents, including reach-through patents covering the field of DPP-IV inhibitors for treating diabetes, a $10 billion market. This patent has been licensed by Merck, Novartis, Bristol-Myers Squibb and Boehringer Ingelheim.

In addition, three drugs first designed, synthesised and characterised in Dr Bachovchin's laboratory at Tufts University School of Medicine have been advanced into human clinical trials. Avacta has sole commercial rights to the Tomahawk™ platform.



Team Profile: Matt Vincent, Vice-President, Therapeutics Business Development

Professional background

Matt has over 30 years' experience in life sciences, in law firm settings and business development roles that provides him with a robust deal sheet developed through extensive transaction/negotiation lead experience. He has specialised in collaboration management and therapeutic development, and as Avacta's Vice-President of Business Development and Therapeutic Innovation Strategy he brings his overall background to bear through coordinating the company's business, intellectual property, drug pricing and regulatory strategies. Matt has shrewd analytical skills and market research capabilities founded on a broad science-based business background, as well as the ability to collaborate cross-functionally with scientific and legal teams. Areas of deep technical expertise include drug development (with particular strengths in immuno-oncology), inflammatory, autoimmune, metabolic and cardiovascular diseases, ophthalmology and cell therapies. At Ocata Therapeutics, he led business development, contract negotiations and due diligence through the acquisition of Ocata by Astellas Pharmaceuticals for an almost 100% premium over market cap.

Matt holds a BS in Chemistry from Worcester Polytechnic Institute, a PhD in Biochemistry from Tufts University School of Medicine and a JD from Suffolk University School of Law. He is also a co-inventor on a number of patents and a co-author on recent papers in high impact journals.

He has co-founded several companies, including one with Amazon founder Jeff Bezos.

What future do you see for Avacta?

"The future for Avacta, I believe, is a very bright one as Affimer® technology comes of age in the therapeutic setting and becomes a staple in the design of new therapeutics. The Affimer scaffold has characteristics that make it more versatile, stable and predictable in use than antibody fragments or other antibody mimetics. As we complete proof-of-concept experiments, these features will become more apparent to other companies and should drive the adoption of Affimer binders to modify existing polypeptide therapeutics (a 'biobetter' like approach), and create novel therapeutic formats that could not previously be engineered.

"I have always gravitated towards the cutting edge. At any point in time there are few new and applicable platforms for drug development – so working at Avacta and being able to participate in the creation of new therapeutic entities and the excitement of the business development process was an opportunity I could not pass up.

"In a short time I have learned that Avacta has assembled a truly talented team that are among the most proficient in protein therapeutics and are driven by the belief that their work will result in drugs that could have remarkable impacts on people's lives. After a year at Avacta I am delighted that my career has brought me here."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Affimer Research
Reagents and Diagnostics

The Affimer reagents business is being built upon key differentiating factors including specificity, stability, batch to batch consistency and speed of development without the use of animals.

The Affimer technology has significant commercial and technical benefits in markets outside of therapeutics; diagnostics and research reagents for example.

The Group is making good progress in securing licensing deals to generate long-term recurring revenue through the sale by third parties of products containing Affimers instead of antibodies. Momentum is building strongly, including third-party validation of the technology, and the Group anticipates further licensing deals being announced in 2018 and onwards.

The Group is commercialising the Affimer platform in non-therapeutic markets with lower regulatory hurdles based on a licensing business model. Affimer reagents may be used to develop products in a wide range of diagnostic and research applications. Over the past two years, the Group has begun to grow a revenue stream based on paid-for evaluations of bespoke Affimer reagents that have been generated for individual potential licensees in diagnostics and research markets, as well as for multiple pharma and biotech companies as research tools. These evaluations are intended to lead to licensing of the Affimer for product development to ultimately deliver a royalty, based on the third party's sales, or recurring revenue through supply agreements. The Group's objective is to build a profitable Affimer reagents business unit as quickly as possible.

The Group is initially focusing on applications/markets in which Affimer reagents are strongly differentiated from antibodies, namely diagnostics, bio-assays and affinity separations.

Applications data showing the performance of Affimer reagents in a range of applications is essential for successful business development. The recent acceleration in technology evaluations is due to the growing body of data that has been generated by the team in Wetherby that can be used to demonstrate the Affimer technology's performance.

Substantial progress has been made during the reporting period in generating data, particularly in the key application areas focused on by the Group, as well as in developing new applications, such as immunohistochemistry, to support future business development efforts.

For example:

- The Group has demonstrated the capability to quickly and routinely generate Affimer reagents that specifically bind to the functional part of therapeutic monoclonal antibodies – so called 'anti-idiotypic' binders. Such binders are important to allow drug-developers to accurately measure serum concentrations of therapeutic antibodies in pre-clinical and clinical development. The Group has estimated that the market size of this one application is tens of millions of dollars. Drug development programmes can often be expensively delayed due to the lack of good quality anti-idiotypic reagents. The significant technical benefits of Affimer reagents compared with antibody reagents in these pre-clinical and clinical assays has now been demonstrated in numerous case studies. In these case studies Affimers have been compared head-to-head with antibodies from the current market leading supplier, Bio-Rad, and the Affimers have been shown to have lower background signals allowing a simpler type of assay to be used, and have better overall assay performance.
- The Group has now produced a large body of data showing that Affimers can be used as affinity reagents in purification systems and have desirable characteristics versus industry-standard alternatives. For example, the high specificity of Affimers has allowed the Group to develop an Affimer that allows the user to distinguish between properly-folded and misfolded antibody products for which there is no other current solution.

- The Group has developed Affimer immunoassays for widely-used diagnostic biomarkers and demonstrated the superior performance of these assays compared with those based on antibodies. For example, the Group has developed an Affimer-based immunoassay to CRP, a widely use biomarker for assessing inflammation/infection, that works over a wide dynamic range with assay performance that meets the EMA and FDA guidelines for a clinical diagnostics. These Affimer reagents are now available for potential partners to evaluate either in their own technology platforms or for comparison with their existing antibody-based methods.

The continued development of new applications and data packs to support marketing has led to a substantial pipeline of technology evaluations which the Group believes will result in commercial agreements in 2018 and onwards. The Group does not make details of its sales pipeline public but by way of illustration of the progress being made a few selected and anonymised examples are as follows:

- Evaluation of an Affimer that binds antibodies in a manner that is of particular interest in bioprocessing (purification) by one of the global leaders in affinity purification systems. Positive progress with this evaluation has already led to a custom Affimer project for another bioprocessing application from the same global company. Both of these opportunities could lead to a long-term, royalty-bearing licensing deal of significant size.
- Evaluation of Affimers for use in immunohistochemistry ('IHC'), a large laboratory-based diagnostic/pathology market, by one of the top suppliers of automated IHC systems.

If successful, this evaluation could lead to a long-term collaboration to develop a range of Affimers for IHC with royalty-based revenue streams.

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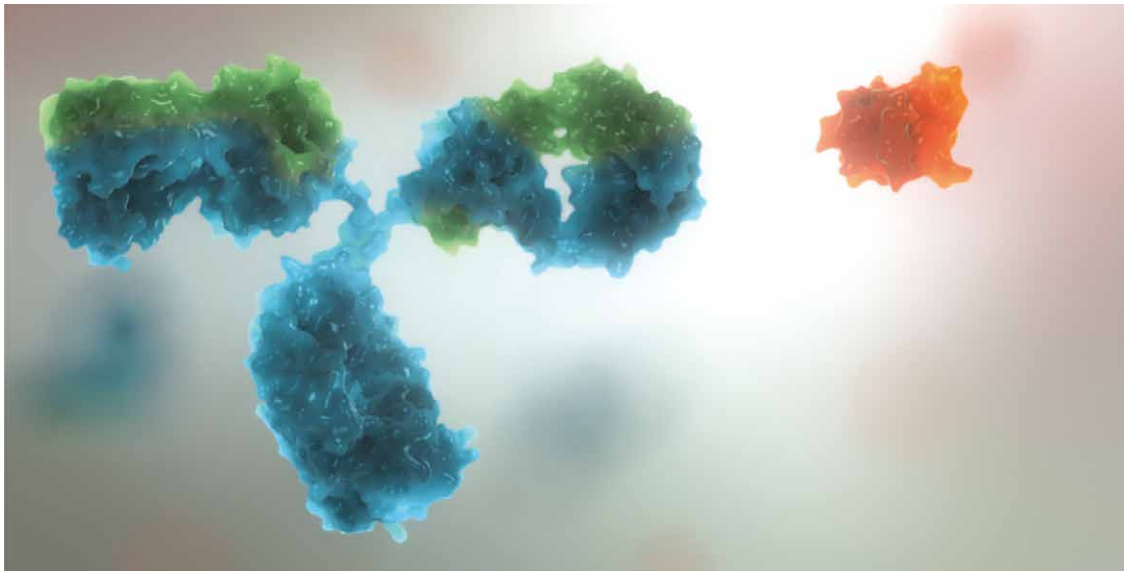

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- Evaluation by a medium-sized European diagnostic company of Avacta's existing human CRP Affimer binders for direct comparison with their existing diagnostic platform with a view to multiple custom Affimer projects for diagnostics.
- Successful delivery of an anti-idiotypic Affimer binder for major east coast US biotech. Follow-up projects are now underway.
- Successful delivery of Affimer binders with novel properties to a US-based life sciences company for a specific diagnostic application.
- Evaluation of the Affimer performance compared with an existing product is underway with a view to swapping in the Affimer to replace an existing reagent. Additional projects are already being discussed.
- Evaluation of novel K6 Affimer binders by a large reagents catalogue company with a view to a non-exclusive distribution agreement.

Third-party commercial validations of the Affimer technology are very important to building market awareness and revenue, but such validations by non-academic users are not easy to obtain. Two commercial users of Affimer reagents have now spoken publicly about the success that they have seen with the technology in the past year.

- Covance, part of LabCorp, one of the world's largest CROs, presented data at an international conference concerning anti-idiotypic Affimers. The success with Covance is helping to generate a number of custom Affimer reagent projects with large pharmaceutical companies in this application area, which in turn could lead to repeat business, supply deals or therapeutic collaborations.
- Heptares, a subsidiary of Sosei Pharmaceuticals, has provided a testimonial for use in business development meetings regarding its experience of using Affimers to bind to a class of drug target called GPCRs. It is not straightforward to find antibodies that bind members of this important class of drug targets and Affimers have been generated that bind the particular target of interest to Heptares without cross-reacting against other closely related targets.

The business development team has been expanded in the US to continue filling this pipeline of evaluations. The Group now has a business development presence on the east and west coasts of the US that targets non-therapeutic and therapeutic partners. Additionally, during the reporting period, the Group appointed a highly experienced biotech industry professional, Matthew Vincent, to the position of Vice-President Therapeutics Business Development and Strategy based in Boston. The business development activities in therapeutic and non-therapeutic applications is highly synergistic with multiple potential therapeutic opportunities now emerging because of Affimer reagents projects.

Case Study:
Covance and Anti-idiotypic Reagents

Therapeutic antibodies are the fastest growing class of drug, with the number of innovator molecules approaching the market continually increasing. In addition, as many of the major blockbuster antibody therapeutics are beginning to come off patent, a concomitant increase in the number of biosimilar antibodies under development has been noted. Last year the global market for these therapeutic molecules was valued at USD 108 billion and it is expected to generate revenue of USD 219 billion by 2023.

As the number of biotherapeutics undergoing development grows, there is a subsequent need to be able to effectively monitor the level and distribution of these drugs in pre-clinical and clinical trials. All of these molecules require the ability to specifically, sensitively and reproducibly track their concentration and bioavailability in pharmacokinetic assays.

The majority of biotherapeutics consist of human or humanised antibodies that are very similar to natural antibodies. The specific recognition of the therapeutic antibody, amongst up to a million-fold excess of natural antibody, requires highly sensitive reagents referred to as 'anti-idiotypic' binders. Anti-idiotypic antibodies and anti-idiotypic antibody mimetics are the specific tools that allow the industry to monitor therapeutic antibody levels and distribution within PK assays. An anti-idiotypic reagent can therefore specifically recognise and bind to the target therapeutic antibody to capture and detect these molecules within clinical samples.

Achieving high specificity of an anti-idiotypic binder to a therapeutic antibody is difficult with the use of traditional animal methods. However, the *in vitro* selection process for Affimer binders includes the ability to deselect against similar target molecules and serum constituents, focusing selection upon the specific biotherapeutic and preventing matrix issues arising during use.

For use in a clinical setting, anti-idiotypic reagents must fulfil high quality standards. High specificity, sensitivity and reproducibility in assay performance are key for any anti-idiotypic reagent, in addition to high batch-to-batch consistency, since the reagent may be used for several years over the lifetime of the drug evaluation process. Affimer reagents meet all of these requirements.

We are building a range of anti-idiotypic Affimer binders against therapeutic antibodies to allow pharmaceutical and biotechnology customers to rapidly develop PK assays against novel therapeutic antibodies or combination therapies. These will also serve CRO customers wanting to design relevant assays for the development of biosimilars.

Our standardised process, which takes about twelve weeks, has shown a 100% success rate in successfully identifying anti-idiotypic Affimer binders to ten therapeutic antibodies to date.

These include binders specific to both the unbound therapeutic antibodies and to antibody-target complexes. All of the anti-idiotypic Affimer binders have been validated to FDA and EMEA regulatory standards for critical assay reagents.

Furthermore, one of our binders has been validated by Covance Laboratories, a leading CRO, for use in clinical development assays.

Covance found that the anti-trastuzumab Affimer binder met all required regulatory

standards and outperformed the antibody equivalents used within their current regulatory assays in terms of both dynamic range, assay reproducibility and batch-to-batch consistency.

The benefits of Affimer anti-idiotypic binders demonstrate the potential for their use as critical reagents in PK assays for the development of therapeutic antibodies. Our proven track record in developing highly specific and sensitive reagents can advance drug development timelines and guarantee a secured supply of reagent throughout the pre-clinical and clinical development process.

Team Profile: Amanda Nicholl, Senior Assay Development Scientist

Professional background

Amanda is a molecular and cellular biologist by training. With 17 years' experience of practical assay work and project management in academic and small biotech company labs, she has experience in the development and optimisation of diagnostic and therapeutic assays across both pre-clinical and clinical projects. One of her most memorable professional achievements to date involved developing and reducing to practice several novel assays for the investigation of cancer stem cells at Pro-Cure Therapeutics. This work led to the first demonstration of the abolition of tumour initiation *in vivo* by target knockdown. She was also involved in the successful transfer of diagnostic assay technology from an academic lab to Cytox with subsequent additional assay optimisation to offer enhanced performance.

Amanda's role within the Company

As the Senior Assay Development Scientist at Avacta, Amanda is responsible for the development and optimisation of assays to demonstrate the diverse applications of Affimer technology. This includes the generation of data to exemplify the use of Affimer reagents in a range of assay formats. She is refining Affimer binder development processes to increase efficacy and offer increased stringency to emerging data.

Amanda is bringing her assay development experience along with her interest in the discovery and development of novel technologies to communicate the varied applications of Affimer technology to the wider community. She does this with the overall aim of helping Avacta to meet the goal of reaching licensing agreements for Affimer reagents for use in the development of diagnostics and as research tools.

Excited by Affimer technology

Affimers have several advantages over antibodies that can simplify the assay development process. Affimers have the benefit of being highly specific, very stable and exhibit reliable lot-to-lot consistency, making them good candidates for critical reagents in any research or diagnostic assay.

"Their simple structure and manufacturing process mean that they can also be easily modified to suit a particular assay."


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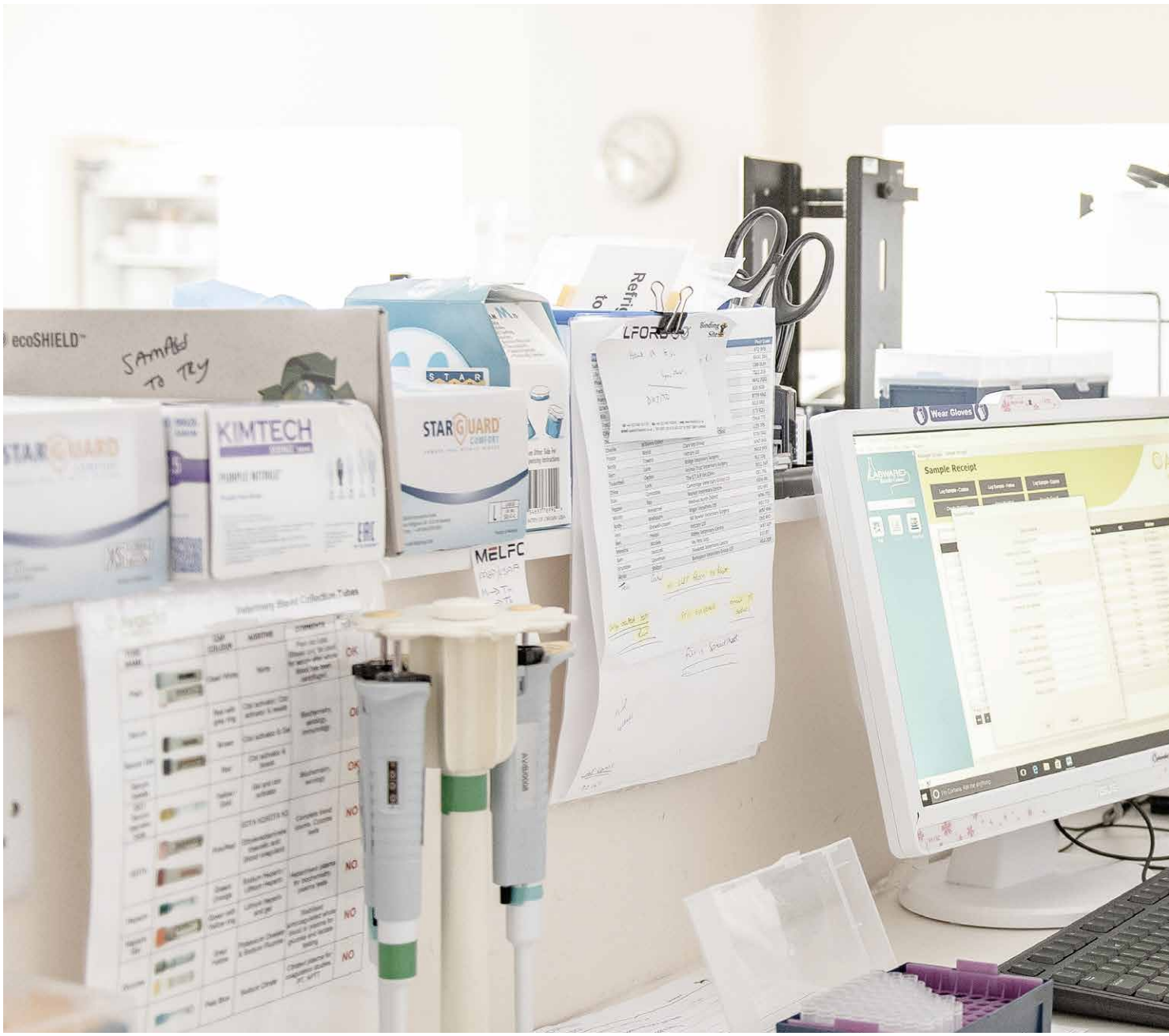
Animal Health



Providing veterinary laboratory services, diagnostic testing and associated therapies to help vets and owners care for their animals.

Avacta Animal Health provides veterinary laboratory services, and develops and delivers market-leading diagnostic tests, designed to help vets and owners care for their animals through more accurate diagnosis.

Avacta Animal Health's commitment to innovation within the field of allergy has remained its core focus over the last year, resulting in two abstracts being presented at the European Veterinary Dermatology Congress in September 2018.

While successfully competing in the global market, Avacta Animal Health has never lost sight of the need to be UK specific, both in terms of the allergen panels it offers and the level of support and service it provides to its customers.

Avacta Animal Health continued to maintain strong relationships with its authorised laboratories, whom it manufactures its testing kits for, so they can promote and sell its allergy kits outside the UK to a global audience. Over the coming year, Avacta Animal Health aims to strengthen its position as allergy specialists in the UK and globally, whist expanding its UK and export reach and customer base.

Competitive strengths

Avacta Animal Health's aim is to be different to its competitors in a number of ways, presenting value to its customers:

- It develops and manufactures its own products, allowing it to provide the highest level of insight and support.
- It provides a dedicated Technical Support team for assistance and advice, with additional support from its Veterinary Advisor and consultant Veterinary Dermatologists.
- It has a national Sales team with UK coverage to provide in-practice support for its customers.
- It delivers marketing campaigns and content throughout the year, which helps to build loyalty both with its customers and their clients.
- It has an innovative research and development team.
- It has access to proprietary Avacta Life Sciences Affimer technology.

Market focus

Avacta Animal Health's customers include veterinary professionals in the companion animal and equine field, as well as the laboratories serving them. Its authorised laboratories serve much of Continental Europe as well as parts of the Asian market. It has a programme of events across the UK and team members also attend international events such as the European Society of Veterinary Dermatology Congress, which enables the business to stay informed on developments within the industry and meet with its customers personally.

Development focus

Avacta Animal Health is working to strengthen its Avacta family ties by looking at new products for the veterinary market that use the patented Affimer technology. This will ensure that its core allergy products remain innovative and market-leading, but also provide supporting products in other areas of allergy diagnostics.

It has successfully completed a number of projects for (or with) external companies that utilise the business's knowledge and skills not only in allergy analysis and interpretation, but also protein biomarkers and veterinary diagnostics. Its R&D team have a vast wealth of skills and knowledge that can be deployed for successful contract projects.

Avacta Animal Health's internal development pipeline has resulted in two successful oral presentation submissions to this year's European Society of Veterinary Dermatology. 'IgE cross-reactivity between fish and chicken meats in dogs' looks to investigate the component resolved nature of allergenic immune reactions, where very specific proteins, that could be shared between different foods or environmental

allergens, are responsible for triggering the IgE allergy pathway. 'Inhibition of canine serum IgE binding to cross-reactive carbohydrate determinants in environmental allergens' investigates the importance of allergen mimicking glycopeptides present in weed and pollen allergens and their ability to elicit a serological IgE response when they are not true allergenic proteins. This work won the ESVD Dechra award for best Laboratory Study with an Independent Investigator and will lead to a major innovation in its environmental allergy test.

Avacta Animal Health's skills are not only limited to the laboratory. Its data scientist has employed novel analytical techniques to support its contract projects, internal developments and data mining for marketing and research.

Team Profile: Mary Bronserud, General Manager Animal Health

Professional background

Mary has led and developed teams throughout her career. Her wealth of experience in senior management positions within FMCG, animal health and retail industries provide a strong commercial perspective, alongside strategic leadership. Prior to joining Avacta Animal Health, Mary was working for a global management consultancy that specialised in organisation design, enabling companies to realise their potential. Mary's passion for the veterinary industry, business acumen and drive provide a strong foundation for business growth within Avacta Animal Health.

Mary's role within the Company

At Avacta Animal Health, Mary's role as General Manager involves implementing the strategy that will see the company expand its portfolio and increase the customer base we serve globally.

She leads the company's management team to ensure all efforts are aligned and a true reflection of the high value proposition Avacta Animal Health offers its customers.

Mary has oversight of all business activities within Avacta Animal Health and forms part of the wider Group Senior Management Team.

Why are you excited by Avacta Animal Health?

"It was clear from my first meeting with the team that the future here is very exciting. The team is unbelievably self-motivated, hard-working and prepared to do what it takes to be a true leader in the veterinary industry. We strive to deliver outstanding products and services with a personal touch that will set us apart in an increasingly competitive industry."

"There are exciting times ahead for Avacta Animal Health in the development of our existing portfolio and the potential of incorporating Affimer technology."

"We strive to deliver outstanding products and services with a personal touch that will set us apart in an increasingly competitive industry."

Mary Bronserud, General Manager Animal Health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Financial Review

Reported Group revenues increased to £2.76 million (2017: £2.74 million).

Revenue

Revenues for the Affimers business, Avacta Life Sciences, increased to £1.19 million (2017: £1.15 million) as the number of custom Affimer projects and funded FTE development projects transitioned during the year following the completion of a major funded FTE project and transfer across to the customer's in-house development team for the next stage of development. Revenues in Avacta Animal Health remained consistent at £1.57 million (2017: £1.59 million) as the division re-focused on its core pet/equine allergy tests, with certain non-core tests/services gradually phased out during the year.

Research and development costs

During the year, the Group expensed through the income statement £3.78 million (2017: £2.60 million) in relation to research and development costs. Within the amount expensed, £2.64 million (2017: £1.94 million) relates to the costs associated with the in-house Affimer therapeutic programmes which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £1.14 million (2017: £0.66 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programmes and new Animal Health allergy tests.

Furthermore, development costs amounting to £1.94 million (2017: £1.41 million) were capitalised within intangible assets.

Administrative expenses

Administrative expenses have increased during the year to £8.52 million (2017: £7.18 million) as the scale of the Affimer business operations in development, production and sales teams continued to build. Depreciation remained consistent at £0.97 million (2017: £0.93 million). Within administration expenses, an impairment charge of £0.82 million (2017: £nil) was recognised against goodwill in relation to the Avacta Animal Health business unit following an impairment review as the division phased out certain non-core tests/services during the year.

Losses before taxation

Losses before taxation from continuing operations for the year were £10.39 million (2017: £7.89 million).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £1.56 million (2017: £1.53 million). The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years.

Cash flow

The Group reported cash and short-term deposit balances of £5.22 million at 31 July 2018 (2017: £13.17 million).

Operating cash outflows from operations amounted to £5.47 million (2017: £4.24 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.26 million (2017: £1.75 million) which represented the tax refund for the 2017 financial year, with the prior year reflecting tax refunds for both the 2015 and 2016 financial years.

During the year, capital expenditure remained at consistent levels at £0.58 million (2017: £0.66 million).

Financial position

Net assets as at 31 July 2018 have reduced to £21.41 million (2017: £29.89 million) as a result of the losses incurred during the year of £8.83 million and the corresponding reduction in cash and short-term deposits.

Events since the end of the financial year

On 30 July 2018, the Group announced that it had completed a fundraising of £11.6 million gross (£10.9 million net) through the placing of 38,952,724 Placing Shares and 7,520,000 Subscription Shares with new and existing institutional investors at a price of 25 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received during August 2018.

Principal Risks and Uncertainties

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

Research and development

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

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

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

Timing

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

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

Intellectual property

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

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

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

The Board regularly reviews the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories. The Board is also monitoring the Brexit position and what impact the UK leaving the European Union will have on the Group's patent portfolio and how this will impact its protection.

Funding

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

As at 31 July 2018, the Group had cash and short-term deposits of £5.2 million and during August 2018 the fundraising announced on 30 July 2018 contributed a further £10.9 million (net of expenses) which will provide sufficient funds over the next 18 to 24 months to continue the current programmes.

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

Key staff

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

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

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

Recruitment of skilled staff from European countries to increase the Affimer development team has become more challenging given the uncertainty that surrounds the Brexit and the UK's decision to leave the European Union.

Loss of facilities

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

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

Key Performance Indicators

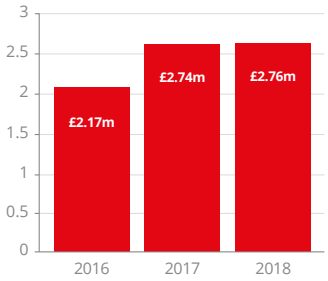
At this stage of the Group's development, the non-financial key performance indicators focus around the development of the Affimer technology and customer projects, together with the progress of the first Affimer drug candidate into Phase I clinical trials.

In addition, the number of customers evaluating the Affimer technology, which may lead to commercial licensing agreements, is seen as a growing acceptance of the technology. Both of these are discussed in more detail within the Operational Review on pages 16 to 51.

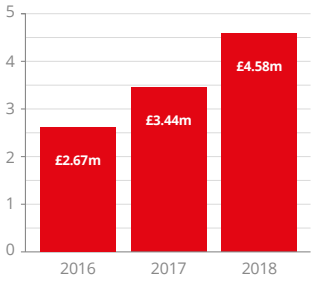
The financial key performance indicators focus around three areas:

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

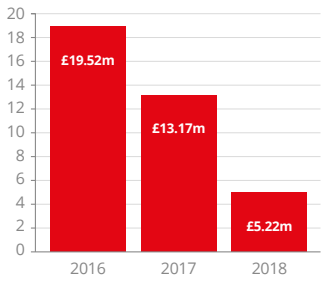
Group revenues



Research and Development expenditure



Cash and short-term deposits



This Strategic Report was approved by the Board on 2 October 2018 and signed on its behalf.

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Governance

Board of Directors

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

Top row:
Dr Eliot Forster
Dr Alastair Smith

Middle row:
Tony Gardiner
Dr Mike Owen

Bottom row:
Dr Trevor Nicholls
Alan Aubrey

Dr Eliot Forster
Non-executive Chairman

Eliot was appointed to the Board in June 2018 as Non-executive Chairman, bringing over 25 years of experience in the pharmaceutical and biotechnology industry. This includes leading Immunocore as CEO to become a world-leading immuno-oncology biotech, raising over £230 million in equity and non-dilutive funding as well as securing partnerships with AstraZeneca and the Bill & Melinda Gates Foundation.

Previously at GSK, Elliot went on to hold a number of senior roles in Pfizer, where he was responsible for drug development activities and bringing several drugs to market, including Celebrex® (celecoxib) and Relpax® (eletriptan). Since leaving Pfizer Eliot's roles have included the CEO of Creabilis.

Eliot holds a PhD in neurophysiology from Liverpool University and an MBA from Henley Management College. He is Chairman of the MedCity project, promoting life sciences in the London/Cambridge/Oxford 'Golden Triangle'. He is an Honorary Visiting Professor of Pharmacology at the University of Liverpool, a Board member of the Office for Strategic Coordination of Health Research and of the National Genomics Board.

Eliot is a member of the Remuneration Committee and the Audit Committee.

Dr Alastair Smith
Chief Executive Officer

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

Tony Gardiner
Chief Financial Officer

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

Dr Mike Owen
Senior Independent Director

Mike was Senior Vice-President and global Head of Research of the Biopharmaceuticals R&D Unit at GlaxoSmithKline and was responsible for initiating and rapidly growing GSK's robust pre-clinical and clinical therapeutic antibody pipeline during the last decade through in-house development as well as through acquisitions such as Domantis. He left GSK in 2010 to establish Kymab, which is developing biotherapeutics using its novel transgenic mouse platform. Mike is an immunologist by training and he had a highly successful scientific career at Imperial Cancer Research, during which he was elected a member of the European Molecular Biology Organisation and a fellow of the Academy of Medical Sciences. Mike is also an independent board member at Zealand Pharma, Chairman and Non-executive Director of Ossianix Inc., and a Non-executive Director of ReNeuron plc, GammaDelta Therapeutics and Glythera. He also advises the private equity CRT Pioneer Fund. Mike is Chairman of the Scientific Advisory Board and a member of the Remuneration Committee and the Audit Committee.

Dr Trevor Nicholls
Non-executive Director

Trevor is currently Chief Executive Officer of CAB International, a not-for-profit intergovernmental organisation owned by 47-member countries whose mission is to improve lives worldwide by providing information and applying scientific expertise to solve problems in agriculture and the environment. He is also Non-executive Chairman of Iota Sciences Limited, a company spin-out from the University of Oxford which is commercialising innovative microfluidic technology for the life sciences sector. In addition, he is a Non-executive Director at hVivo plc and Conidia Bioscience. Trevor brings considerable experience in the commercialisation of life science systems and reagents from his previous roles as Chief Commercial Officer at Affymetrix, founder and Chief Executive Officer of UK biotech company Oxagen Ltd. and Commercial Director of the Life Sciences business at Amersham International (now part of GE Healthcare). Trevor is Chairman of the Remuneration Committee and a member of the Audit Committee.

Alan Aubrey
Non-executive Director

Alan is the Chief Executive Officer of IP Group plc, a FTSE 250 company that specialises in commercialising intellectual property. He is also a Non-executive Chairman of Ceres Power Holdings plc, a manufacturer of advanced solid oxide fuel cells, a Non-executive Chairman of PROACTIS Holdings plc, an AIM listed company that provides specialist Spend Control software to global organisations, and a Non-executive Director of Oxford Nanopore Technologies, a company that provides DNA sequencing technologies. Alan is a fellow of the Institute of Chartered Accountants of England and Wales and was a partner in KPMG, where he specialised in providing advice to fast-growing technology businesses.

Alan is the Chairman of the Audit Committee and a member of the Remuneration Committee.

Senior Leadership Team

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

Top row:
Dr Amrik Basran

Middle row:
Emma Wright
Dr Philippe Cotrel

Bottom row:
Dr Matt Vincent
Dr Matt Johnson

Dr Amrik Basran
Chief Scientific Officer

Amrik has over 14 years' experience in biotech and pharma. He completed his degree and PhD at the University of Leicester and has a background in protein biochemistry/engineering. After six years as a post-doctoral researcher at Cambridge University, in 2002 Amrik joined Domantis, a start-up biotech company based in Cambridge developing domain antibodies (dAbs), a novel antibody fragment technology. As Director of Protein Sciences, he was responsible for characterizing dAbs from for drug development, supporting pre-clinical evaluations and tech transfer to CMOs. Domantis was acquired by GSK in 2006, after which Amrik became Head of Topical Delivery supporting the development of biotherapeutics across GSK, with a focus on therapeutic antibodies, dAbs and proteins for delivery into the eye, skin and lung. This included developing formulation and delivery strategies for biotherapeutics for Phase I clinical studies. Amrik joined Avacta as Chief Scientific Officer to develop the Affimer platform for therapeutic use, focusing on immuno-oncology where there is a high unmet medical need for new novel drugs for cancer patients.

Emma Wright
In-house Counsel

Emma has 20 years' experience in advising on, drafting and negotiating commercial and intellectual property contracts. She joined Avacta in 2014 from Walker Morris Solicitors, where she headed the Life Sciences and Pharmaceuticals Group. Emma has previous in-house experience at Smith & Nephew. She was also a member of the Legal and Regulatory Committee and Adjudication Panel of the Association of British Healthcare Industries. Emma has a wealth of experience in commercial contracts relating to research, development and commercialisation in the life sciences sector, including cross jurisdictional research and collaboration agreements; supply agreements; manufacturing and outsourcing agreements; and multi-jurisdictional intellectual property licensing.

Dr Philippe Cotrel
Chief Commercial Officer

Philippe has over 20 years' commercial experience in sales, marketing and customer support in the life sciences sector, having held senior positions in Amersham Pharmacia Biotech, Oxford Glycosciences, Affymetrix and Abcam. Whilst at Affymetrix Philippe was appointed General Manager and Vice-President of Commercial Operations with responsibility for European commercial operations, generating £65 million in sales made up of capital equipment, consumables and services. Philippe joined Abcam in 2008 as Commercial Director and was responsible for sales and marketing, successfully growing revenue from £36 million to £144 million over seven years. He managed regional offices in Boston, Tokyo, Hong Kong and Shanghai and was responsible for all global customer-facing functions, as well as business development for the service and *in vitro* diagnostics divisions of the business. Philippe now leads Avacta's commercial strategy and business development, and drives the commercialisation of Affimer technology, as both research reagents and biotherapeutics.

Dr Matt Vincent
Vice-President Therapeutics Business Development

Matt has over 30 years' experience in life sciences, in law firm settings and business development roles that provides him with a robust deal sheet developed through extensive transaction/negotiation lead experience. He has specialised in collaboration management and therapeutic development, and as Avacta's Vice-President of Business Development and Therapeutic Innovation Strategy he brings his background to bear through coordinating the company's business, intellectual property, drug pricing and regulatory strategies. Matt's skills are founded on a broad science-based business background and he has the ability to collaborate cross-functionally with scientific and legal teams. Areas of deep technical expertise include drug development (with particular strengths in immuno-oncology), inflammatory, autoimmune, metabolic and cardiovascular diseases, ophthalmology and cell therapies. At Ocata Therapeutics, he led business development, contract negotiations and due diligence through the acquisition of Ocata by Astellas Pharmaceuticals. Matt holds a BS in Chemistry from Worcester Polytechnic Institute, a PhD in Biochemistry from Tufts University School of Medicine and a JD from Suffolk University School of Law. He is also co-inventor on a number of patents and co-author on papers in high impact journals. He has co-founded several companies, including one with Amazon founder Jeff Bezos.

Dr Matt Johnson
Chief Technical Officer

Matt studied Genetics and Microbiology at the University of Sheffield and completed a PhD there in Molecular Biology with Dr Anne Moir. As part of his PhD, he completed a fellowship at the Pasteur Institute in Paris with Dr Michele Mock. After completing his PhD, Matt took a Postdoctoral position at Cambridge University with Professor George Salmond. Matt joined Abcam in 2005 as a development scientist producing and characterising antibodies. He held several roles over his eight years at the company, culminating in the post of Head of R&D. His experience at Abcam includes building an imaging team for ICC and IHC, being responsible for managing the antibody characterisation group, running a team responsible for process improvements and QA, project managing the implementation of a new LIMS system and management of the Product Development and Manufacturing. As Head of R&D he built and ran a research group with interests in recombinant antibody technologies, alternative detection methodologies, immunoassay development and antibody characterisation. He also contributed to M&A strategy, licensing and technology scouting. He completed a Postgraduate Certificate in Intellectual Property Law in 2012.

Scientific Advisory Board

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

Top row:
Professor Adrian Hayday

Middle row:
Professor Terence H Rabbitts
Professor Paul Moss

Bottom row:
Professor Gerard Evan

Professor Adrian Hayday
(FMedSci)

Professor Hayday is the Kay Glendinning Professor of Immunobiology at the Francis Crick Institute, King's College London, co-Leader of the Clinical Academic Grouping in Genetics, Rheumatology, Immunology, Infection, and Dermatology at Guy's Hospital, and a Senior Group Leader at the London Research Institute of Cancer Research UK.

Professor Terence H Rabbitts
(FMedSci, FRS)

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

Professor Paul Moss
(MRCP, FRCPath)

Professor Moss leads the University of Birmingham's world-class cancer research as Director of the School of Cancer Sciences. His research is centred on the application of translational immunological research in the study of human malignancies. His group is particularly interested in developing strategies to optimise stem cell transplantation for patients with haematological malignancies.

Professor Gerard Evan
(FRS)

Professor Evan's research focuses on the molecular basis of cancer. He has developed a novel class of genetically engineered mouse in which individual oncogenes / tumour suppressor genes may be toggled off and on, reversibly and at will. In this way the most effective therapeutic targets can be identified. His research has directly ascertained the therapeutic impact, efficacy and side effects of Myc inhibition and p53 restoration.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Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 July 2018.

Principal activity

The principal activity of the Group is to provide high quality Affimer reagents for licensing into third-party research and diagnostic products, and to create new Affimer medicines for development in-house and licensing to large pharmaceutical companies.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 12 to 54. This report includes sections on strategy and markets and considers key risks and key performance indicators.

Financial results

Details of the Group's financial results are set out in the Consolidated Income Statement and other components on pages 78 to 109.

The Directors have reviewed the results for the years ended 31 July 2018 and 31 July 2017, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the Directors considered the work and recommendations of management as well as the report from the external auditor.

Financial key performance indicators ('KPIs')

A review of the Group's KPIs are included within the Financial Review on page 54.

Dividends

The Directors do not recommend the payment of a dividend (2017: £nil).

Going concern

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

Directors

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

- Dr Eliot Forster - Appointed 11 June 2018
- Dr Trevor Nicholls
- Dr Mike Owen
- Alan Aubrey
- Dr Michael Albin - Resigned 30 March 2018
- Dr Alastair Smith
- Tony Gardiner

Under the Articles of Association of the Company, Directors are subject to re-election at the Annual General Meeting following their appointment. In addition, one third of the Directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Annual Report & Accounts. Eliot Forster having been appointed as a Director since the last Annual General Meeting will also be due for re-election by shareholder vote. The Directors retiring by rotation at the forthcoming Annual General Meeting are Alan Aubrey and Trevor Nicholls. Alan Aubrey having served on the Board for twelve years as representative of IP Group plc, the largest shareholder, will not be seeking re-election. Both Eliot Forster and Trevor Nicholls, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that both of these Directors continue to be effective and to demonstrate commitment to the Company. Details of the Directors offering themselves for re-election or re-appointment at the forthcoming Annual General Meeting can be found on pages 56 and 57.

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

Substantial shareholders

The Company is informed that, at 2 October 2018, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued ordinary share capital
IP Group plc	20,958,315	18.2%
Baillie Gifford & Co	9,861,089	8.5%
JO Hambro Capital Management	9,101,321	7.9%
Carlton International Holdings	8,400,000	7.3%
Fidelity Worldwide Investment	6,798,612	5.9%
Aviva	6,505,646	5.6%
Ruffer LLP	5,426,087	4.7%
Lombard Odier Asset Management	5,343,827	4.6%
Unicorn Asset Management	4,000,000	3.5%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2018 and at 2 October 2018 were as follows:

	31 July 2018 number of shares	2 October 2018 number of shares
Non-executive Directors		
Eliot Forster	-	120,000
Trevor Nicholls	35,000	75,000
Mike Owen	7,763	7,763
Alan Aubrey	191,334	271,334
Executive Directors		
Alastair Smith	606,309	646,309
Tony Gardiner	-	-

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

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Remuneration Committee Report on pages 68 to 71.

The middle market price of the Company's ordinary shares on 31 July 2018 was 24.7p and the range during the year was 81.0p to 24.7p with an average price of 53.8p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 68 to 71.

Research and development

During the year the Group expensed through the income statement £3.78 million (2017: £2.60 million) in relation to research and development costs. Within the amount expensed, £2.64 million (2017: £1.94 million) relates to the costs associated with the in-house Affimer therapeutic programme which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £1.14 million (2017: £0.66 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

In addition, development costs amounting to £1.94 million (2017: £1.41 million) were capitalised within intangible assets.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments is set out at Note 19.

Employee involvement

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

Supplier payment policy and practice

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

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 31 July 2018 and the amount owed to its trade creditors at 31 July 2018, was 22 days (2017: 25 days).

Disclosure of information to auditor

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

Re-appointment of auditors

A resolution for the re-appointment as auditors of KPMG LLP and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 21 January 2019.

By order of the Board

Tony Gardiner
Company Secretary

Avacta Group plc (Registered number – 4748597)
2 October 2018

Corporate Governance Report

Our approach to corporate governance, and how the Board and its committees operate, is explained in the statement below.

Chairman's Statement on Corporate Governance

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of the Company's stakeholders, including shareholders, staff, customers and suppliers.

Changes to AIM rules on 30 March 2018 require AIM companies to apply a recognised corporate governance code by 28 September 2018. The corporate governance framework which the Company operates, including Board leadership and effectiveness, Board remuneration, and internal control is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances. The Board considers that it does not depart from any of the principles of the QCA Code.

Establishing a strategy and business model which promotes long-term value for shareholders

The purpose of the Group is to unlock the enormous potential of the Affimer technology and gain a share of the antibodies market which across therapeutic and other markets is worth tens of billions of US dollars.

The Group has established two ways of addressing these opportunities through shorter-term and longer-term opportunities.

The first shorter-term area is the building of a profitable business through licensing of Affimer reagents to developers of research tools and diagnostic tests in order that they can power their products with Affimers.

The second longer-term opportunity is to develop a pipeline of Affimer therapeutic candidates for in-house development and licensing. The key value driver is the progression of the first Affimer into the clinic to demonstrate safety and tolerability in man. This will validate the Affimer platform technology and provide the opportunity to develop higher value partnering and licensing deals with large pharmaceutical company across the world.

The Board believes it has the right strategy in place and the support of shareholders, as demonstrated by the recent fund-raise to deliver the significant value growth over the next few years.

Board structure, skills and compliance

The Board has a collective responsibility and legal obligation to promote the interests of the Company and to define the corporate governance arrangements. At 31 July 2018, the Board comprised four Non-executive Directors and two Executive Directors. The profiles of the Directors are set out on pages 56 to 57.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chairman is not involved in the day-to-day business of the Group. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

The Chairman, Dr Eliot Forster, was appointed as Chairman to the Board in June 2018. Prior to his appointment to the Board, he was not involved with any part of the Avacta Group and has been considered to be independent since his appointment. Eliot has significant experience within life science companies, in particular in the therapeutics area where the Group's Affimer technology has a significant focus. Eliot's time commitment is one to two days per month.

The Chief Executive Officer, Dr Alastair Smith, was appointed to the Board in September 2007. Alastair has eleven years' experience as Chief Executive Officer of an AIM-listed business, having founded the business and has been responsible for the strategic development of the Group, leading fund-raising and M&A activities during this time. Alastair's time commitment is full time.

Dr Mike Owen was appointed as a Non-executive Director in September 2015 and has undertaken the role of Senior Independent Director since September 2017. The Board determines him to be independent of the executive management and free from any relationship that could materially affect the exercise of his independent judgement. Mike also chairs the Avacta Life Sciences Scientific Advisory Board, which comprises independent key opinion leaders who provide a challenging review of the ongoing therapeutic programmes and areas such as immuno-oncology target selection. Mike has significant experience within large pharmaceutical companies and a broad range of experience as a non-executive within life science companies. Mike's time commitment is one to two days per month.

Dr Trevor Nicholls, was appointed as Non-executive Director in August 2013 and was Chairman from August 2013 to June 2018. Prior to his appointment to the Board, he was not involved with any part of the Avacta Group and has been considered to be independent since his appointment. Trevor has a vast experience with life science and reagents companies and has provided significant oversight into the development of the Affimer reagents and diagnostics proposition. Trevor's time commitment is one to two days per month.

Alan Aubrey was appointed as a Non-executive Director in August 2006. He is also the Chief Executive Officer of IP Group plc, a significant shareholder in the Company, which means that he cannot be considered as an independent non-executive. Alan's vast experience of working with fast-growing technology companies is considered to add significantly to the Board. Alan is due to retire by rotation at the forthcoming Annual General Meeting and has indicated to the Board that he will not be standing for re-election. The Board is in the process of recruiting another Non-executive Director with an extensive financial background within the life sciences sector who will replace Alan and also become the Chairman of the Audit Committee. Alan's time commitment is one day per month.

Tony Gardiner was appointed as an Executive Director in January 2016 and fulfils the role of Chief Financial Officer for the Group. Tony has over 20 years' experience in senior financial and operational roles across small and large organisations and has previously served as CFO in an AIM-listed business. In addition to this role, Tony is also Company Secretary and provides advice and guidance to the Board and Non-executive Directors. The Board acknowledges that best corporate governance practice would not combine the role of an Executive Director and Company Secretary; however, given the relative size of the Group at this stage the Board is comfortable with Tony performing both roles but will review the position as the Group grows. Tony's time commitment is full time.

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

Board evaluation and performance

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

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

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

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

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

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

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

Corporate Governance Report (continued...)

	Board meetings		Committee meetings			
			Audit		Remuneration	
	Position	Attended	Position	Attended	Position	Attended
Trevor Nicholls	Non-executive Chairman	6/6	Member	1/1	Chairman	1/1
Eliot Forster[1]	Non-executive	-	Member	-	Member	-
Mike Owen	Non-executive	6/6	Member	1/1	Member	1/1
Alan Aubrey	Non-executive	5/6	Chairman	1/1	Member	1/1
Michael Albin	Non-executive	3/4	Member	1/1	Member	1/1
Alastair Smith	Executive CEO	6/6	-	1/1	-	1/1
Tony Gardiner	Executive CFO	6/6	-	1/1	-	1/1

1 *Eliot Forster was appointed as Non-executive Chairman on 11 June 2018 and there were no Board or Committee meetings between his appointment and 31 July 2018.*

Audit Committee

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

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

Alan Aubrey is the Chair of the Committee. Whilst he is not considered an independent Non-executive Director by the nature of his position as Chief Executive Officer of IP Group plc, a significant shareholder in the Company, and having served for 12 years on the Board, he is a Fellow of the Institute of Chartered Accountants in England and Wales and brings significant breadth of recent and relevant financial experience. The Board is in the process of recruiting a new independent Non-executive Director who will succeed Alan as Chair of the Audit Committee on their appointment. The other members of the Committee, Eliot Forster, Trevor Nicholls, Mike Owen and Michael Albin (up to his resignation on 30 March 2018), all of whom are Non-executive Directors, have gained wide experience in regulatory, commercial and risk issues.

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

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

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

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

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

Remuneration Committee

The Remuneration Committee is chaired by Trevor Nicholls and the other members of the Committee are Eliot Forster, Alan Aubrey, Mike Owen and Michael Albin (up to his resignation on 30 March 2018), all of whom are Non-executive Directors. The Committee meets at least once a year with the Chief Executive in attendance as appropriate.

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

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

Risk management

The Board is responsible for risk management and reviewing the internal controls systems. The internal control systems 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. Given the relative size of the Group there is not currently a separate internal audit function.

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

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

Shareholder communications and engagement

Responsibility for investor relations sits with the Chief Executive Officer, supported by the Chief Financial Officer and input from other members of the Senior Leadership Team as required.

The Company is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the Annual General Meeting (AGM), and we encourage shareholders' participation in face-to-face meetings.

A range of corporate information (including the Annual Report & Accounts) is also available to shareholders, investors and the public on our website, **www.avacta.com**. The Company uses intermediaries such as Proactive Investors and Hardman Research to ensure that key updates provided via RNS releases are relayed to as many shareholders as possible.

The Directors encourage the participation of all shareholders, including private investors, at the AGM and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting and published on the Company's website.

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

During the year, the Company also held a private shareholder day, where private shareholders and interested investors were provided with an update on the Group's activities including technical and commercial progress by members of the Board and Senior Leadership Team.

Share dealing code

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

Corporate culture and social responsibility

The Executive Directors provide regular updates to staff, most of whom are either shareholders or holders of share options, on the progress of the Group. These updates follow key events within the financial reporting calendar and aim to give staff the same level of insight provided to institutional shareholders and analysts, providing details of the business objectives, strategy and business model, together with sharing of technical progress across the various teams within the Group. Senior management work across all the Group's facilities and actively seek regular feedback from staff to ensure that the strategy and aims of the Group are readily understood.

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

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

Dr Eliot Forster
Chairman
2 October 2018

Remuneration Committee Report

This report sets out the remuneration policy for the year ended 31 July 2018.

Introduction

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

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

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

Remuneration Committee

The Remuneration Committee consists of Trevor Nicholls (Chairman), Eliot Forster, Mike Owen, Alan Aubrey and Michael Albin (up to his resignation on 30 March 2018). All members of the Committee are Non-executive Directors of the Company and all with the exception of Alan Aubrey are considered by the Board to be independent. Non-executive Directors have no personal financial interest in the Company, except the holding of shares, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the Company.

The Remuneration Committee has responsibility for the following:

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

Remuneration policy of Executive Directors

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

Executive Directors – Short-term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual Director's experience, responsibilities and performance. Individual salaries of Directors are subject to review annually on 1 November. The increase applied on 1 November 2017 was 2.7% based on an RPI measure and consistent with other staff across the Group.

Performance-related bonus

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

Benefits in kind

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

Pensions

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

Executive Directors – Long-term incentives

Share interests

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

The individual interests and joint interests (where applicable) of the Directors in the share capital of the Company are set out on page 63 and their interests in options held over shares in the Company are set out on pages 70 to 71.

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

The Committee, following approval by shareholders at the previous AGM, has agreed the framework for a Long-Term Incentive Plan ('LTIP') for Executive Directors and certain senior executives. Share options may be granted from time to time. The number of share options awarded will relate to the Executive Director's base salary. The first LTIP award is expected to be awarded later in 2018.

The option vesting will be based on a combination of achievement of commercial and technical strategic objectives together with the performance of the Company's share price. The share price performance targets will be calculated based on the average share price in the preceding 30-day period, with lower and upper share price targets set in order to trigger the vesting on the third anniversary. Vested options can be exercised at any time, but may not be disposed of until at least the fifth anniversary of the award grant.

The Company has the ability to grant share options under its share option schemes subject to a cap, which has recently been agreed with shareholders to be up to 15% of total issued share capital in any ten-year period.

Executive Directors' service agreements

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

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

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

Non-executive Directors

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

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

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

	Date of service contract	Initial term of contract	Notice period following initial term
Eliot Forster	11 June 2018	Nil	1 month
Trevor Nicholls	2 August 2013	Nil	1 month
Mike Owen	17 September 2015	Nil	1 month
Alan Aubrey	13 July 2006	12 months	3 months

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

External appointments

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

Remuneration Committee Report (continued...)

Directors' remuneration – audited

The remuneration of each of the Directors of the Company for the year ended 31 July 2018 is set out below. These values are included within the audited accounts.

	2018 Basic salary and fees £000	2018 Bonus £000	2018 Benefits in kind £000	**2018 Total £000**	**2018 Pension contributions £000**	2017 Total £000	2017 Pension contributions £000
Non-executive Directors							
Eliot Forster[1]	12	-	-	**12**	**-**	-	-
Trevor Nicholls	35	-	-	**35**	**-**	35	-
Alan Aubrey	25	-	-	**25**	**-**	25	-
Michael Albin[2]	20	-	-	**20**	**-**	32	-
Mike Owen	30	-	-	**30**	-	27	-
Executive Directors							
Alastair Smith	193	-	3	**196**	**12**	191	10
Tony Gardiner	151	-	1	**152**	**9**	148	8
Craig Slater[3]	-	-	-	**-**	**-**	66	3
	466	-	4	**470**	**21**	524	21

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

1 Eliot Forster was appointed as a Director on 11 June 2018.

2 Michael Albin resigned as a Director on 30 March 2018.

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

The number of Directors accruing benefits under money purchase pension schemes was two (2017: three).

The share-based payments charge to the Consolidated Income Statement in respect of Directors share options was £71,000 (2017: £134,000). The aggregate gain made by Directors on the exercise of share options was £nil (2017: £nil).

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

	At 31 Jul 2017	Granted	Waived	Exercised	At 31 July 2018	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Alastair Smith	141,176	-	-	-	141,176	50.0p	9 Jan 2016	9 Jan 2012	9 Jan 2022
Alastair Smith	128,764	-	-	-	128,764	118.5p	Note 1	15 Feb 2016	15 Feb 2026
Alastair Smith	74,325	-	-	-	74,325	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Alastair Smith	520,550	-	-	-	520,550	72.5p	Note 2	27 Jan 2017	27 Jan 2027
	864,815	**-**	**-**	**-**	**864,815**				
Tony Gardiner	210,968	-	-	-	210,968	118.5p	Note 1	15 Feb 2016	15 Feb 2026
Tony Gardiner	22,973	-	-	-	22,973	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Tony Gardiner	306,000	-	-	-	306,000	72.5p	Note 2	27 Jan 2017	27 Jan 2027
	539,941	**-**	**-**	**-**	**539,941**				

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

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

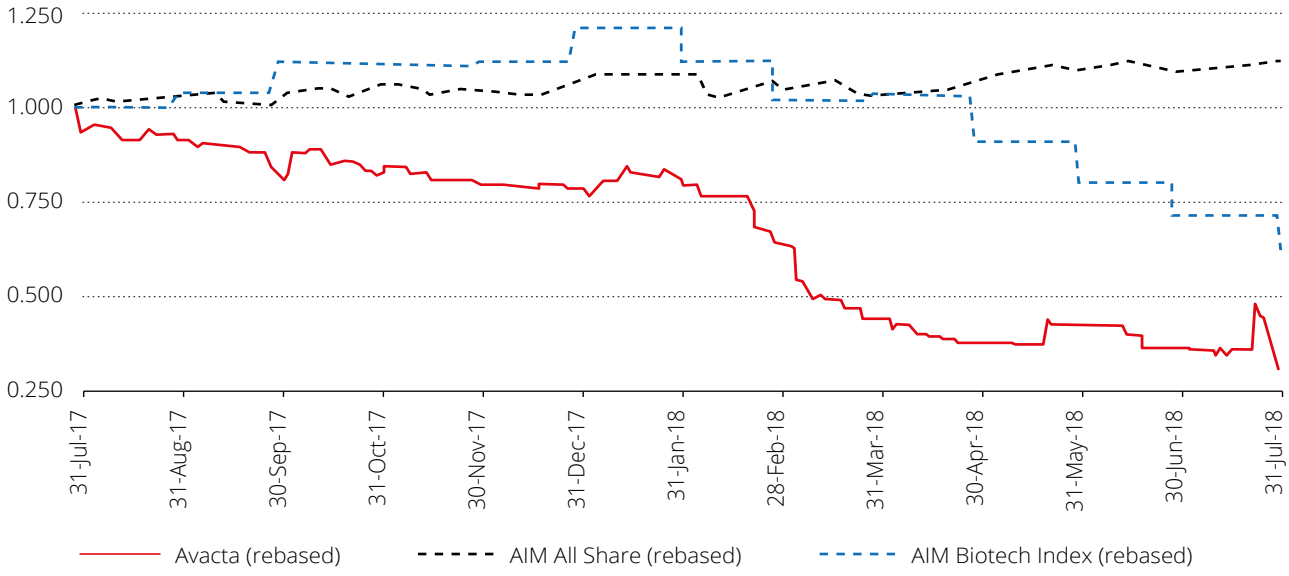
Details of Directors' joint interests in the Joint Share Ownership Plan ('JSOP') – audited

	At 31 July 2017	Granted	Waived	Exercised	At 31 July 2018	Date of agreement
Alastair Smith	1,144,149	-	-	-	1,144,149	9 Jan 2012
Alastair Smith	495,851	-	-	-	495,851	15 Feb 2016
	1,640,000	-	-	-	1,640,000	-
Tony Gardiner	150,000	-	-	-	150,000	15 Feb 2016

Alastair Smith and Tony Gardiner hold an interest in the shares of the Company, which are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the Joint Share Ownership Agreements between the individual, Avacta Group Trustee Limited and Avacta Group plc are described within Note 4.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE AIM (rebased) and a comparator group of FTSE AIM Biotech companies (rebased) for the year ended 31 July 2018.



The Remuneration Committee has selected the above comparators because they are most relevant for the Company's size and sector.

This report was approved by the Board of Directors and authorised for issue on 2 October 2018 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee
2 October 2018

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

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

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

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

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

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

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

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

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

1 Our opinion is unmodified

We have audited the financial statements of Avacta Group plc ("the Company") for the year ended 31 July 2018 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2018 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Materiality: group financial statements as a whole	£450k (2017:£390k) 4.3% (2017: 4.9%) of loss before tax
Coverage	99.8% (2017:99.6%) of group loss before tax

Risks of material misstatement vs 2017

Recurring risk	Valuation of intangible assets	▲
	Completeness and existence of capitalised development costs	◀▶
	Recoverability of investments and intercompany receivables	◀▶

Independent Auditor's Report to the Members of Avacta Group plc (continued...)

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2017):

The risk		Our response
Valuation of intangible assets (£12,204,000; 2017: £12,299,000) *Refer to pages 83 to 84 (accounting policy) and pages 95 to 96 (financial disclosures).*	**Forecast-based valuation** Goodwill and other intangibles are significant and the estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	**Our procedures included:** • sensitivity analysis: reviewed the cash flow model and performed breakeven analysis to identify the inputs to which it was most sensitive for further assessment; • comparing valuations: comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows; • assessing forecasts: critically evaluating the pace and acceleration of the Group's projected revenue growth based on our knowledge and understanding of the status of the ongoing projects; • historical comparisons: evaluating track record of forecast assumptions used against the actual results and market expectations; • assessing transparency: assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.
Completeness and existence of capitalised development costs (£1,942,000; 2017: £1,414,000) *Refer to page 84 (accounting policy) and pages 95 to 96 (financial disclosures).*	**Accounting treatment** The Group conducts a significant level of development activity. Project development costs are capitalised if they meet the criteria of relevant accounting standards which require, among other things, an assessment of the technical stage of the project. Due to this, assessing whether the capitalisation criteria are met is inherently judgemental and there is a risk that the relevant point in time for capitalisation is not identified appropriately.	**Our procedures included:** • testing application: we reviewed the status of projects to which the majority of research and development spend relates. We identified the technical status of these projects and critically assessed how the status of each type of project compared to the capitalisation criteria of the accounting standard. We corroborated the status of projects through discussion with project management staff. We tested a sample of capitalised consumables and staff costs in the year to ensure they adhered to the capitalisation criteria.
Valuation of investment in and intercompany receivables from subsidiaries (parent company only) (£39,232,000; 2017: £32,937,000) *Refer to page 84 (accounting policy) and pages 107 to 108 (financial disclosures).*	**Forecast-based valuation** The parent company balance sheet includes a significant investment in subsidiaries and a significant receivable from those subsidiaries. The Company's assessment of potential impairment of the investments in and/or the receivables from trading subsidiaries is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. A risk also exists that the investments in and/or receivables from non-trading subsidiaries are not recoverable.	**Our procedures included:** • tests of details: compared the carrying amount of the investment in and the receivables from the non-trading subsidiaries with the respective net asset values to identify whether, being an approximation of their minimum recoverable amount, these net asset values were in excess of the carrying amount; and • assessing forecasts: the work done on the Group's forecasts, to assess the recoverability of investments in and/or receivables due from the trading subsidiaries, is as described in the intangibles risk above.

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

Materiality for the Group financial statements as a whole was set at £450,000 (2017: £390,000), determined with reference to a benchmark of Group loss before tax of £10,390,000 (2017: £7,893,000), of which it represents 4.3% (2017: 4.9%).

Materiality for the parent company financial statements as a whole was set at £400,000 (2017: £350,000), determined with reference to a benchmark of company net assets of £43,628,000 (2017: £44,799,000), of which it represents 0.9% (2017: 0.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £23,000 (2017: £20,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 5 (2017: 10) reporting components, we subjected 3 (2017: 8) to full scope audits for Group purposes and 1 (2017: 0) to audit procedures over one or more account balances.

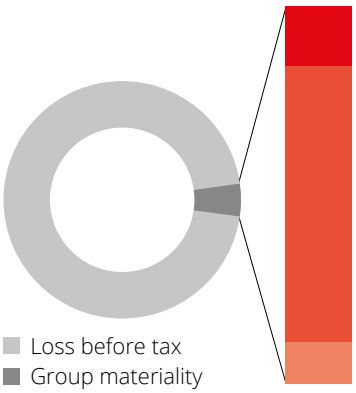
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 0.5% (2017: 0.4%) of total Group revenue, 0.2% (2017: 0.4%) of Group loss before tax and 0.5% (2017: 0.6%) of total Group assets is represented by 1 (2017: 2) reporting component, which individually represented less than 0.5% (2017: 0.6%) of any of total Group revenue, Group profit before tax or total Group assets. For the residual component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Component materialities ranged from £21,000 to £400,000 (2017: £6,000 to £350,000), having regard to the mix of size and risk profile of the Group across the components. The work on all components, including the audit of the parent company, was performed by the Group team.

Loss before tax
£10,390,000 (2017: £7,893,000)

Group materiality
£450k (2017: £390k)

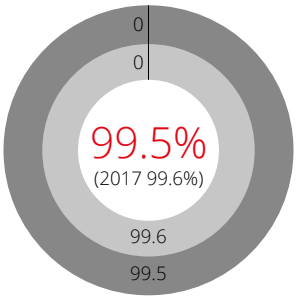


£450k
Whole financial statements materiality (2017: £390k)

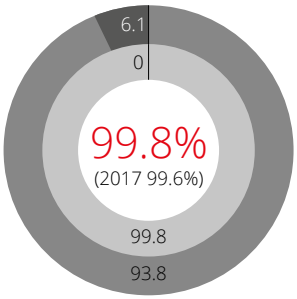
£400k
Range of materiality at 4 components (£21k-£400k) (2017: £21k to £350k)

£23k
Misstatements reported to the audit committee (2017: £20k)

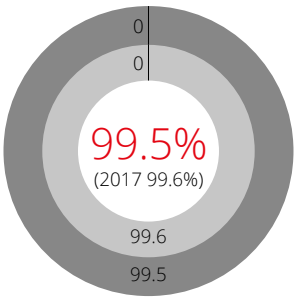
Group revenue



Group profit before tax



Group total assets



- Full scope for Group audit purposes 2018
- Audit procedures over one or more account balances 2018
- Full scope for Group audit purposes 2017
- Residual components

Independent Auditor's Report to the Members of Avacta Group plc (continued...)

4 We have nothing to report on going concern

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

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

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

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit. We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 72, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

2 October 2018

Financial Statements

Consolidated Income Statement for the Year Ended 31 July 2018

	Note	2018 £000	2017 £000
Revenue		**2,763**	2,735
Cost of sales		**(893)**	(941)
Gross profit		**1,870**	1,794
Research and development costs		**(3,783)**	(2,597)
Administrative expenses		**(8,518)**	(7,178)
Operating loss	5	**(10,431)**	(7,981)
Financial income	6	**41**	88
Loss before taxation from continuing operations		**(10,390)**	(7,893)
Taxation	7	**1,561**	1,526
Loss and total comprehensive loss for the year attributable to equity shareholders		**(8,829)**	(6,367)
Loss per ordinary share:			
• Basic and diluted	8	**(13.49p)**	(9.77p)

All activities relate to the continuing operations of the Group.

The notes on pages 82 to 103 form an integral part of these financial statements.

Consolidated Balance Sheet as at 31 July 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	9	**12,204**	12,299
Property, plant and equipment	10	**3,054**	3,453
		15,258	15,752
Current assets			
Inventories	11	**187**	158
Trade and other receivables	12	**1,288**	1,277
Income taxes		**1,500**	1,200
Short-term deposits	13	**-**	4,000
Cash and cash equivalents	14	**5,220**	9,166
		8,195	15,801
Total assets		**23,453**	31,553
Current liabilities			
Trade and other payables	15	**(2,040)**	(1,664)
Total liabilities		**(2,040)**	(1,664)
Net assets		**21,413**	29,889
Equity attributable to equity holders of the Company			
Share capital	17	**6,976**	6,917
Share premium	18	**770**	633
Capital reserve	18	**1,899**	1,899
Other reserve	18	**(1,729)**	(1,729)
Reserve for own shares	18	**(2,802)**	(2,651)
Retained earnings	18	**16,299**	24,820
Total equity		**21,413**	29,889

The notes on pages 82 to 103 form an integral part of these financial statements.

The financial statements on pages 78 to 109 were approved by the Board of Directors on 2 October 2018 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the Year Ended 31 July 2018

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2016	6,915	621	(1,729)	1,899	(2,651)	30,801	35,856
Total transactions with owners, recorded directly in equity:							
Issue of shares	2	12	-	-	-	-	14
	2	12	-	-	-	-	14
Total comprehensive loss for the period	-	-	-	-	-	(6,367)	(6,367)
Share-based payment charges	-	-	-	-	-	386	386
At 31 July 2017	**6,917**	**633**	**(1,729)**	**1,899**	**(2,651)**	**24,820**	**29,889**
Total transactions with owners, recorded directly in equity:							
Issue of shares	2	9	-	-	-	-	11
Exercise of share options	34	-	-	-	-	-	34
Own shares acquired	23	128	-	-	(151)	-	-
	59	137	-	-	(151)	-	45
Total comprehensive loss for the period	-	-	-	-	-	(8,829)	(8,829)
Share-based payment charges	-	-	-	-	-	308	308
At 31 July 2018	**6,976**	**770**	**(1,729)**	**1,899**	**(2,802)**	**16,299**	**21,413**

Details of the nature of each component of equity are given at Note 18.
The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 July 2018

	2018 £000	2017 £000
Cash flow from operating activities		
Loss for the year	**(8,829)**	(6,367)
Amortisation and impairment losses	**1,885**	651
Depreciation	**971**	932
Loss on disposal of property, plant and equipment	**6**	11
Loss on disposal of intangible assets	**155**	-
Equity-settled share-based payment charges	**308**	386
Financial income	**(41)**	(88)
Income tax credit	**(1,561)**	(1,526)
Operating cash outflow before changes in working capital	**(7,106)**	(6,001)
(Increase)/decrease in inventories	**(29)**	110
Increase in trade and other receivables	**(11)**	(125)
Increase/(decrease) in trade and other payables	**376**	(58)
Operating cash outflow from operations	**(6,770)**	(6,074)
Finance income received	**41**	88
Income tax received	**1,261**	1,745
Cash flows from operating activities	**(5,468)**	(4,241)
Cash flows from investing activities		
Purchase of plant and equipment	**(578)**	(658)
Development expenditure capitalised	**(1,945)**	(1,470)
Decrease in balances on short-term deposit	**4,000**	6,000
Net cash flow from investing activities	**1,477**	3,872
Cash flows from financing activities		
Proceeds from issue of shares	**45**	14
Net cash flow from financing activities	**45**	14
Net decrease in cash and cash equivalents	**(3,946)**	(355)
Cash and cash equivalents at the beginning of the year	**9,166**	9,521
Cash and cash equivalents at the end of the year	**5,220**	9,166

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Avacta Group plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

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

Basis of preparation

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

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

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

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

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

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

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed at Note 21.

Going concern

The Strategic Report on pages 12 to 54 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 52 along with details of its cash flow and liquidity. Note 19 to the financial statements sets out the Group's financial risks and the management of those risks.

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

The Financial Reporting Council issued *'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks - Guidance for Directors of companies that do not apply the UK Corporate Governance Code'* in April 2016, and the Directors have considered this when preparing these financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 31 July 2018. The Directors have taken steps to ensure that they believe the going concern basis of preparation remains appropriate, and that the carrying value of intangibles remains supported by future cash flows. The key conclusions are summarised below

- The Group continues to develop its Affimer platform technology. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.
- As at 31 July 2018 the Group's short-term deposits and cash and cash equivalents were £5.22 million (2017: £13.17 million).
- In August 2018, following completion of a fund fund-raise, a further £10.9 million (net of expenses) was raised to support the development of the Affimer platform technology.
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2020. These show that the Group has sufficient funds available to meet its obligations as they fall due into the 2020 calendar year.
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the group Group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

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

New standards and interpretations not applied

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

- IFRS 2 Share-based Payment Amendments to clarify the classification and measurement of share-based payment transactions (effective date 1 January 2018).
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from 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).

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

IFRS15 Revenue from Contracts with Customers – effective for the year ended 31 July 2019

The review of IFRS 15 is ongoing and the Directors have undertaken an assessment of the impact of the standard on the Group based on the standard's latest authoritative guidance. The Group will adopt IFRS 15 on 1 August 2018 and will restate any comparative figures for the year ended 31 July 2018 where relevant.

IFRS 15 provides a single, principles-based five-step model to be applied for an entity to recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In order to do this the nature, amount, timing and certainty of revenue from a customer contract needs to be identified via a five-step model framework as follows:

1. Identify a contract

2. Identify performance obligations

3. Determine the transaction price

4. Allocate price to performance obligations

5. Recognise revenue as performance obligations are fulfilled

The Group has carried out a review of all the services and products the Company provides, and the main types of commercial arrangements used with each service and product. Within the Life Sciences business there are three main categories, covering custom Affimer development projects, research and development licences and commercial licences. The Animal Health business has four main categories, covering allergy diagnostic tests, immunotherapy vaccine sales, export sales and contract research organisation ('CRO') services.

The underlying business models of the Group are not affected by the implementation of IFRS15 nor is cash generation of the business. The directors are finalising the assessments of the review and expect these to show that there will be no material impact on the way revenues are recognised across the Group.

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

Basis of consolidation

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

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

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

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

Property, plant and equipment

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

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

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

Intangible assets – Goodwill

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

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

Intangible assets – Research and development

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

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

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

The amortisation basis has been changed during the current period to the following:

- Development expenditure relating to reagent or diagnostic products in the Life Sciences business are amortised on a straight-line basis over a period reducing from 15 years down to 10 years.
- Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised on a straight-line basis over five years.

During the prior period the amortisation basis had been calculated as set out below:

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

The impact of the change in amortisation basis has increased the charge in the current period by £129,000.

Acquired intangible assets – Business combinations

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

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

Impairment

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

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

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

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

Financial instruments

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

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

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

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

Inventories

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

Financial assets

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

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

Financial liabilities

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

Segmental reporting

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

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

Revenue recognition

The Group derives revenue from the sale of products, granting of licences and the provision of services. Revenue represents the fair value of consideration received or receivable in respect of products, licences or services supplied to third parties in the period, excluding sales-related taxes and trade discounts. Revenue is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer; this is usually when products are delivered and title passes to the customer. Revenue from the provision of services is recognised on services when the service has been performed. Revenue from licences comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing revenue stream are as follows:

- Exclusivity arrangements, technology access fees and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction.
- Certain services include milestone and royalty payments which are recognised as the service is provided to the extent that it is probable they will be received.

Share-based payments

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

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

Non-recurring items

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

Leases

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

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

Post-retirement benefits

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

Taxation

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

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

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

2 Segment reporting

Operating segments

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

The principal activities of each reportable segment are as follows:

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

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

The Group's revenue to destinations outside the UK amounted to 60% (2017: 54%) of total revenue.

Operating segment analysis 2018	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	825	**825**
Provision of services	1,194	744	**1,938**
Revenue	**1,194**	**1,569**	**2,763**
Cost of goods sold	(367)	(526)	**(893)**
Gross profit	**827**	**1,043**	**1,870**
Research and development costs	(3,323)	(460)	**(3,783)**
Administrative expenses	(4,648)	(1,261)	**(5,909)**
Segment operating loss	**(7,144)**	**(678)**	**(7,822)**
Corporate and other unallocated items			**(2,609)**
Operating loss			**(10,431)**
Finance income			**41**
Loss before taxation			**(10,390)**
Taxation			**1,561**
Amount attributable to equity holders of the Company			**(8,829)**
Segment intangible assets	9,096	3,103	**12,199**
Segment other assets	5,259	537	**5,796**
Segment assets	**14,355**	**3,640**	**17,995**
Corporate and other unallocated items			**5,458**
Total assets			**23,453**
Segment liabilities	**(1,216)**	**(255)**	**(1,471)**
Corporate and other unallocated items			**(569)**
Total liabilities			**(2,040)**

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

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

3 Employees

Staff costs:	2018 £000	2017 £000
Wages and salaries	**5,092**	4,231
Social security costs	**484**	454
Pension charges	**234**	172
Share-based payment charges	**308**	386
	6,118	5,243

Average number of employees (including Directors) during the year:		
Commercial and operational	**100**	89
Administrative	**14**	14
	114	103

The remuneration of the Directors (including the details of the highest paid Director) is set out within the audited sections of the Remuneration Committee Report on pages 68 to 71.

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

4 Share-based payments

The Group operates an HM Revenue and Customs ('HMRC') approved executive incentive plan ('EMI scheme'), an unapproved share option plan ('Unapproved scheme') and a Joint Share Ownership Plan ('JSOP'). Options have also been granted to certain individuals dependent upon the future sales performance of any products or services resulting from certain acquired intellectual property and assets related to the development of the Group's animal health diagnostic test menu. During the year, the Group also established an HMRC share incentive plan ('SIP') for all eligible staff.

The Group recognised a total share-based payment charge to the income statement of £308,000 (2017: £386,000), which was charged within administrative expenses.

Grant date	Employees entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee (or consultant) benefits						
23 June 2009	1	16,000	Time served	187.5	Note 1	22 June 2019
12 November 2010	1	35,913	Time served and share price performance	76.0	Note 2	11 November 2020
12 November 2010	1	16,000	Time served	76.0	Note 3	11 November 2020
6 September 2011	1	20,689	Contractual performance	72.5	6 September 2011	6 September 2021
9 January 2012	1	141,176	Time served	50.0	Note 4	9 January 2022
21 December 2012	17	8,500	Unconditional	106.5	21 December 2012	21 December 2022
8 March 2013	1	12,269	Time served	120.0	Note 5	8 March 2023
16 September 2013	1	250,000	Time served	81.5	Note 6	16 September 2023
4 November 2013	5	125,000	Time served	88.5	Note 7	4 November 2023
4 November 2013	15	13,000	Unconditional	88.5	4 November 2013	4 November 2023
21 February 2014	1	200,000	Time served	118.0	Note 8	16 June 2024
16 June 2014	1	111,607	Time served and commercial performance	118.0	Note 9	16 June 2024
21 September 2014	1	18,000	Time served	86.0	Note 10	21 September 2024
3 November 2014	1	18,000	Time served	75.0	Note 11	3 November 2024
10 November 2014	1	25,000	Time served	73.0	Note 12	10 November 2024
25 November 2014	21	18,000	Unconditional	66.0	25 November 2014	25 November 2024
15 May 2015	1	138,366	Time served	85.5	Note 13	15 May 2025
13 November 2015	2	50,000	Time served	134.5	Note 14	13 November 2025
13 November 2015	42	46,000	Unconditional	134.5	13 November 2015	13 November 2025
15 February 2016	4	589,172	Time served	118.5	Note 15	15 February 2026
1 November 2016	37	40,500	Unconditional	89.5	1 November 2016	1 November 2026
1 November 2016	12	456,760	Time served	89.5	Note 16	1 November 2026
1 November 2016	2	83,487	Time served and technical milestones	89.5	Note 17	1 November 2026
1 November 2016	2	238,296	Time served and technical milestones	89.5	Note 18	1 November 2026
16 December 2016	3	128,650	Unconditional	74.0	16 December 2016	16 December 2026
27 January 2017	2	826,550	Share price performance	72.5	Note 19	27 January 2027
2 March 2017	1	180,450	Time served and technical milestones	66.5	Note 20	2 March 2027
31 July 2017	2	110,500	Time served	81.0	Note 21	31 July 2027

Grant date	Employees entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee (or consultant) benefits (continued)						
31 July 2017	1	49,400	Time served and technical milestones	81.0	Note 22	31 July 2027
8 January 2018	1	80,866	Time served	63.5	Note 23	8 January 2028
8 January 2018	1	62,994	Time served and technical milestones	63.5	Note 24	8 January 2028
8 January 2018	1	275,589	Time served and technical milestones	63.5	Note 25	8 January 2028
Options granted to individuals in consideration for business combinations						
14 May 2013	2	297,450	Note 26	10.0	14 May 2013	14 May 2018
8 December 2014	1	854	Note 26	10.0	8 December 2014	7 December 2015
28 July 2015	2	2,419	Note 26	10.0	28 July 2015	27 July 2016
21 June 2016	2	4,438	Note 26	10.0	21 June 2016	20 June 2017
20 June 2017	2	8,532	Note 26	10.0	20 June 2017	19 June 2018
22 June 2018	2	9,393	Note 26	10.0	22 June 2018	21 June 2019

Note 1 – Each of these options provides that they can, if they have not lapsed, be exercised as to 16,000 at 31 July 2018.

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

Note 3 – This option provides that they can, if they have not lapsed, be exercised as to 16,000 at 31 July 2018.

Note 4 – This option provides that they can, if they have not lapsed, be exercised as to 141,176 at 31 July 2018.

Note 5 – This option provides that they can, if they have not lapsed, be exercised as to 12,269 at 31 July 2018.

Note 6 – This option provides that they can, if they have not lapsed, be exercised as to 250,000 at 31 July 2018.

Note 7 – This option provides that they can, if they have not lapsed, be exercised as to 125,000 at 31 July 2018.

Note 8 – This option provides that they can, if they have not lapsed, be exercised as to 200,000 at 31 July 2018.

Note 9 – This option provides that they can, if they have not lapsed, be exercised as to 111,607 at 31 July 2018.

Note 10 – This option provides that they can, if they have not lapsed, be exercised as to 18,000 at 31 July 2018.

Note 11 – This option provides that they can, if they have not lapsed, be exercised as to 18,000 at 31 July 2018.

Note 12 – This option provides that they can, if they have not lapsed, be exercised as to 25,000 at 31 July 2018.

Note 13 – This option provides that they can, if they have not lapsed, be exercised as to 138,366 at 31 July 2018.

Note 14 – This option provides that they can, if they have not lapsed, be exercised as to 50,000 at 31 July 2018.

Note 15 – This option provides that they can, if they have not lapsed, be exercised as to 294,586 at 31 July 2018, as to 147,293 on or after 15 February 2019 and as to 147,293 on or after 15 February 2020.

Note 16 – This option provides that they can, if they have not lapsed, be exercised as to 228,380 at 31 July 2018 and as to 228,380 on or after 1 November 2018.

Note 17 – This option provides that they can, if they have not lapsed, be exercised as to 27,829 once the first technical milestone is achieved, 27,829 once the second technical milestone is achieved and 27,829 on or after 1 November 2019.

Note 18 - This option provides that they can, if they have not lapsed, be exercised as to 79,432 once the first technical milestone is achieved, 79,432 once the second technical milestone is achieved and 79,432 on or after 1 November 2021.

Note 19 – This option provides that they can, if they have not lapsed, be exercised as to 413,275 if the share price is 200p on a sliding scale up to 826,550 if the share price is 250p on 27 January 2020.

Note 20 - This option provides that they can, if they have not lapsed, be exercised as to 60,150 once the first technical milestone is achieved, 60,150 once the second technical milestone is achieved and 60,150 on or after 2 March 2022.

Note 21 - This option provides that they can, if they have not lapsed, be exercised as to 55,250 at 31 July 2018 and as to 55,250 on or after 31 July 2019.

Note 22 - This option provides that they can, if they have not lapsed, be exercised as to 16,467 once the first technical milestone is achieved, 16,467 once the second technical milestone is achieved and 16,466 on or after 31 July 2020.

Note 23 – This option provides that they can, if they have not lapsed, be exercised as to 40,433 on or after 8 January 2019 and as to 40,433 on or after 8 January 2020.

Note 24 - This option provides that they can, if they have not lapsed, be exercised as to 20,998 once the first technical milestone is achieved, 20,998 once the second technical milestone is achieved and 20,998 on or after 8 January 2021.

Note 25 - This option provides that they can, if they have not lapsed, be exercised as to 91,863 once the first technical milestone is achieved, 91,863 once the second technical milestone is achieved and 91,863 on or after 8 January 2023.

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

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

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

Fair value is measured by use of the Black-Scholes or Monte Carlo option pricing model depending on which is most appropriate to the conditions attached to the employee benefit. Expected volatility was determined by calculating the historical volatility of the Group's share price over a period commensurate with the expected life of the option. The expected life used in the model has been adjusted, based on management's best estimate at the date of grant, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

	2018	2017
Weighted average share price at date of grant	**63.50p**	79.95p
Weighted average exercise price	**63.50p**	79.95p
Expected volatility	**48.3%**	58.2%
Expected life	**5.0 years**	5.0 years
Risk-free rate	**1.0%**	1.0%
Expected dividends	**Nil**	Nil

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

	Year ended 31 July 2018		**Year ended 31 July 2017**	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	4,816,953	81.98	2,672,831	90.33
Granted during the year	428,842	62.33	2,266,306	79.69
Exercised during the year	(219,956)	10.00	(1,000)	77.75
Forfeited or lapsed during the year	(316,019)	108.09	(121,184)	223.22
Outstanding at end of period	**4,709,820**	**81.80**	**4,816,953**	**81.98**
Exercisable at end of period	**2,298,059**	**83.27**	**2,130,915**	**74.68**

The options outstanding at 31 July 2018 had a weighted average exercise price of 81.80p (2017: 81.98p), and a weighted average remaining contractual life of 7 years and 4 weeks (2017: 7 years and 20 weeks).

Joint Share Ownership Plan

The Joint Share Ownership Plan ('JSOP') covers certain employees who have a joint interest in shares with Avacta Group Trustee Limited as trustee of The Avacta Employees' Share Trust. At 31 July 2018, six employees (2017: six) had joint interests in 3,232,306 (2017: 3,232,306) ordinary shares in the Company. The Joint Share Ownership Agreements are dated 15 February 2016, or 21 February 2014, or 9 January 2012 between each employee individually, Avacta Group Trustee Limited and Avacta Group plc. Each employee has purchased 1% of the ordinary shares and the Avacta Group Trustee Limited owns 99% of the ordinary shares. The agreements operate when a Capital event occurs, being the sale or partial sale of the Company's ordinary shares. If the proceeds per ordinary share are in excess of the original market price on the date the agreement was entered into then a formula sets out the sharing of the gain between the employee and Avacta Group Trustee Limited.

These joint interests have been treated as employee benefits and the fair value at the date of issue of the shares based on the Group's estimate of the number of shares that will eventually be sold and the price at which they will be sold on a straight-line basis from the date that a sale becomes probable to the date at which they are anticipated to be sold.

Share Incentive Plan

During the year, the Group established an HMRC approved Share Incentive Plan (SIP). The SIP is operated on behalf of the Group by Link Market Services Trust Limited as trustee for the SIP. Certain employees based on eligibility criteria were issued free shares up to a maximum £3,000 as part of their annual performance review. On 30 November 2017 229,521 ordinary shares of 10p each were issued in relation to the free share award based on the previous day's closing middle market price of 65.8p.

During the year a Matching and Partnership Share arrangement was also introduced whereby for each one share purchased by the employee via salary deduction a matching share was awarded by the Group. The maximum amount that can be subscribed for by employees via salary deduction is £1,800 per annum. As at 31 July 2018, 35 eligible employees,

had made binding commitments to subscribe for partnership shares during the year ending 31 July 2019.

Free share and matching share awards to date have generally been met from continued on market purchases by Link Market Services Trustees Limited as trustee of the SIP. To the extent that ordinary shares are not available in the volume required through the market, the Company will issue new ordinary shares to meet these awards.

5 Operating loss

Operating loss is stated after charging/(crediting):	**2018 £000**	2017 £000
Grant income	**-**	(42)
Operating lease rentals:		
· Land and buildings	**245**	261
Depreciation of property, plant and equipment (see Note 10):		
· On owned assets	**971**	932
Loss on disposal of property, plant and equipment	**6**	11
Amortisation of intangible fixed assets (see Note 9)	**1,063**	651
Loss on disposal of intangible fixed assets (see Note 9)	**155**	-
Impairment of intangible fixed assets (see Note 9)	**822**	-
Employee benefit expense, including share-based payment charges (see Note 3)	**6,118**	5,243
Auditors remuneration:		
· Audit services in respect of the Company's financial statements	**25**	19
· Audit services in respect of the Company's subsidiaries' financial statements	**20**	18
· Tax compliance services	**11**	11
· Tax advisory services	**4**	7

6 Finance income

	2018 £000	2017 £000
Interest received	**41**	88

7 Taxation on loss on ordinary activities

	2018 £000	2017 £000
Corporation tax:		
Current year	**(1,500)**	(1,200)
Prior years	**(61)**	(326)
Deferred taxation:		
Current year	**-**	-
Tax on loss on ordinary activities	**(1,561)**	(1,526)

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

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.7%). The differences are explained below.

	2018 £000	2017 £000
Loss on ordinary activities before taxation	**(10,390)**	(7,893)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2017: 19.7%)	**(1,974)**	(1,555)
Effects of:		
• Expenses not deductible for tax purposes	**89**	114
• Deferred tax losses not recognised	**1,885**	1,441
• Government tax incentives	**(1,561)**	(1,526)
• Deferred tax (Note 16)	**-**	-
	(1,561)	(1,526)

8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue excluding own shares held jointly by the Avacta Employees' Share Trust and certain employees and the shares held within the Avacta Share Incentive Plan ('SIP').

The Company has issued options to employees over 4,709,820 ordinary shares (2017: 4,816,953) which are potentially dilutive, further details are set out in Note 4. The earnings per ordinary share are the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive given there is a loss for each of the periods.

	2018	2017
Loss (£000)	**(8,829)**	(6,367)
Weighted average number of shares (number)	**65,437,007**	65,157,533
Basic and diluted loss per ordinary share (pence)	**(13.49p)**	(9.77p)

The prior year loss per ordinary share has been restated from 9.31p as a result of 3,232,306 shares held within the Avacta Employees' Share Trust during the prior year being removed from the calculation of the weighted average number of shares.

9 Intangible fixed assets

	Goodwill £000	Customer related intangible assets £000	Development costs £000	Patents £000	Total £000
Cost					
At 1 August 2016	4,655	210	7,467	56	12,388
Internally developed/additions	-	-	1,414	56	1,470
Disposals	-	(60)	-	-	(60)
At 31 July 2017	4,655	150	8,881	112	13,798
Internally developed/additions	-	-	1,942	3	1,945
Disposals	-	-	(236)	-	(236)
At 31 July 2018	**4,655**	**150**	**10,587**	**115**	**15,507**
Amortisation and impairment					
At 1 August 2016	-	210	688	10	908
Charge for the year	-	-	643	8	651
Disposals	-	(60)	-	-	(60)
At 31 July 2017	-	150	1,331	18	1,499
Charge for the year	-	-	1,053	10	1,063
Impairment	822	-	-	-	822
Disposals	-	-	(81)	-	(81)
At 31 July 2018	**822**	**150**	**2,303**	**28**	**3,303**
Net book value					
At 31 July 2018	**3,833**	**-**	**8,284**	**87**	**12,204**
At 31 July 2017	4,655	-	7,550	94	12,299
At 31 July 2016	4,655	-	6,779	46	11,480

Development costs

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

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

Development expenditure relating to reagent or diagnostic products in the Life Sciences business are amortised on a straight-line basis over a period reducing from 15 years down to 10 years.

Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised on a straight-line basis over five years.

Patents

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

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

Goodwill

Goodwill arising on business combinations is allocated to the Group's separate Cash Generating Units ('CGUs') based on an assessment of which CGUs will derive benefit from each acquisition. A CGU is the smallest group of assets which generate cash inflows independently from other assets. A CGU can be smaller than an Operating Segment. In the view of the Directors, the Group currently has two (2017: two) CGUs reflecting the core areas of technological focus. Goodwill is not amortised, but tested annually for impairment. The goodwill can be allocated, on an operating segment (see Note 2) basis, as follows:

	2018 £000	2017 £000
Animal Health	**2,295**	3,117
Life Sciences	**1,538**	1,538
Goodwill	**3,833**	4,655

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 July 2018. An impairment charge of £822,000 (2017: £nil) was recognised against goodwill within the Animal Health CGU, with the charge recorded within Administrative Expenses in the Consolidated Income Statement. The impairment charge within the Animal Health CGU arose as the business unit re-focused on its core pet/equine allergy tests, with certain non-core tests/services being phased out during the year, which has resulted in revised estimates on short-term revenue growth.

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

Value-in-use calculations include detailed budgets and three-year forecasts, followed by modelling of expected cash flows reflecting the expected life cycle of each product and extrapolation of 'steady state' performance at growth rates given below. The long-term growth rates reflect the long-term expectation for each CGU and have been estimated at 2.5% (2017: 2.5%) in each case. Gross and operating margins have been assumed to remain constant based on budget and past experience. All cash flows are discounted back to present value using a post-tax discount rate of between 12.5% and 15.0% (2017: between 12.5% and 15.0%) that considers the individual risks of each particular asset and revenue stream. The impairment charge with the Animal Health CGU arose when using the 12.5% discount rate had been applied. If the discount rate had been increased by 1% to 13.5% an additional impairment charge of £462,000 would have been incurred.

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

The tangible and intangible non-current assets at 31 July 2018 following the impairment review can be allocated as follows:

	Tangible £000	Goodwill £000	Development costs £000	Patents £000	**Total £000**
Animal Health	82	2,295	808	-	**3,185**
Life Sciences	2,961	1,538	7,471	87	**12,057**
	3,043	**3,833**	**8,279**	**87**	**15,242**

10 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	Total £000
Cost	1,060	601	3,334	197	5,192
At 1 August 2016	63	73	431	91	658
Additions	(1,114)	1,114	-	-	-
Disposals	(9)	-	(57)	-	(66)
At 31 July 2017	-	1,788	3,708	288	5,784
Additions	3	46	481	48	578
Disposals	-	-	(73)	(25)	(98)
At 31 July 2018	**3**	**1,834**	**4,116**	**311**	**6,264**
Depreciation					
At 1 August 2016	-	70	1,274	110	1,454
Charge for the year	-	215	666	51	932
Disposals	-	-	(55)	-	(55)
At 31 July 2017	-	285	1,885	161	2,331
Charge for the year	-	226	680	65	971
Disposals	-	-	(67)	(25)	(92)
At 31 July 2018	-	511	2,498	201	3,210
Net book value					
At 31 July 2018	**3**	**1,323**	**1,618**	**110**	**3,054**
At 31 July 2017	-	1,503	1,823	127	3,453
At 1 August 2016	1,060	531	2,060	87	3,738

11 Inventories

	2018 £000	2017 £000
Raw materials and components	**173**	147
Finished goods	**14**	11
	187	158

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

12 Trade and other receivables

	2018 £000	2017 £000
Trade receivables	**304**	247
Prepayments and accrued income	**810**	851
Other taxes and social security	**174**	179
	1,288	1,277

Trade and other receivables denominated in currencies other than sterling comprise £73,000 (2017: £56,000) of trade receivables denominated in US dollars and £8,000 (2017: £7,000) denominated in euros. The fair values of trade receivables are the same as their book values.

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

	2018 £000	2017 £000
Under 30 days overdue	**19**	49
Between 30 and 60 days overdue	**18**	6
Over 90 days overdue	**10**	-
	47	55

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

13 Short-term deposits

	2018 £000	2017 £000
Short-term deposits	**-**	4,000

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

14 Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents	**5,220**	9,166

15 Trade and other payables

	2018 £000	2017 £000
Trade payables	**831**	645
Other taxes and social security	**158**	150
Accruals and other creditors	**1,051**	869
	2,040	1,664

Trade and other payables denominated in currencies other than sterling comprise £84,000 (2017: £56,000) of trade payables denominated in US dollars and £100,000 (2017: £4,000) denominated in euros. The fair values of trade payables are the same as their book values.

Accruals and other creditors contain £nil (2017: £8,000) in respect of contingent consideration arising from the acquisition of certain assets relating to the development of the animal health diagnostic test menu based and the subsequent revenues generated over a five-year period ended 14 May 2018.

16 Deferred tax liabilities

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

	2018 £000	2017 £000
Deferred tax asset/(liability)		
Development costs	**(1,408)**	(1,287)
Trading losses	**838**	856
Property, plant and equipment	**570**	431
	-	-

Movement in deferred tax year ended 31 July 2018	At 1 August 2017 £000	Income statement £000	At 31 July 2018 £000
Development costs	(1,287)	(121)	(1,408)
Trading losses	856	(18)	838
Other items	431	139	570
	-	-	-

There is no liability to corporation tax in the year.
There is an unprovided deferred tax asset of approximately £5,569,000 due to trading losses in prior financial years (2017: £4,645,000). This asset has not been recognised because of uncertainty around future utilisation of losses.

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

17 Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid:		
• 68,989,487 (2017: 68,397,933) ordinary shares of 10p each	**6,899**	6,840
• 19,327,344 deferred shares of 0.4p each	**77**	77
	6,976	6,917

Share issues

On 30 November 2017, 229,591 ordinary shares of 10p each were allotted and issued at 65.7p per share to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 4).

On 18 December 2017, 340,502 ordinary shares of 10p each were allotted and issued at 10p per share following the exercise of 219,596 founder incentive share options over ordinary shares of 10p each and the conversion of founder preference shares in Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) into 120,546 ordinary shares of 10p each by a former director and two consultants of Avacta Health Limited as set out within the Share Purchase Agreement dated 14 December 2007.

On 9 October 2017, 4 January 2018, and 9 April 2018, 21,461 ordinary shares of 10p each in total were allotted and issued at a weighted average price of 52.4p per share to Michael Albin, a Non-executive Director in settlement of 50% of the fees due for his services as a Non-executive Director up to his resignation on 30 March 2018 as per an agreement dated 22 February 2016.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, **www.avacta.com**. The holders of the deferred shares shall not, by virtue or in respect of their holdings of deferred shares, have the right to receive notice of any General Meeting, nor the right to attend, speak or vote at any such General Meeting. Save as required by law, the Company need not issue share certificates to the holders of the deferred shares in respect of their holding thereof. The deferred shares shall not entitle their holders to receive any dividend or other distribution. The deferred shares shall on a return of assets in a winding up entitle the holders only to the repayment of the amounts so paid up on such deferred shares after repayment of the capital paid up on the ordinary shares plus the payment of £10,000,000 per ordinary share. The Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the deferred shares a transfer thereof and/or an agreement to transfer the same to such person as the Company determines as custodian thereof, without making any payment to the holders thereof, and/or to cancel the same (in accordance with the provisions of the Companies Acts) without making any payment to or obtaining without making any payment to or obtaining the sanction of the holders thereof, and pending such transfer and/or cancellation, to retain the certificate for such shares. The Company may, at its option at any time purchase all or any of the deferred shares then in issue, at a price not exceeding 1 pence for each holding of deferred shares so purchased.

18 Capital and reserves

Share premium

The share premium account of £770,000 (2017: £633,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. This reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2017: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve is not distributable.

Other reserve

The other reserve of negative £1,729,000 (2017: negative £1,729,000) arose from the application of reverse acquisition accounting principles to the financial statements at the time of the reverse takeover of Avacta Group plc by Avacta Limited. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,802,000 (2017: negative £2,651,000) increased during the year following the issue of 229,591 (2017: nil) ordinary shares of 10p each being issued to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 4). In addition, 3,232,306 (2017: 3,232,306) ordinary shares of 10p each are held jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Group. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

19 Capital and financial risk management

Capital management

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

The Group has only one form of debt: credit card debt. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. The Group does not have long-term gearing ratio targets.

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

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

Financial risk management

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

Financial instruments policy

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

Financial assets and liabilities

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

	2018	2017
	£000	£000
Financial assets		
Trade receivables	**304**	247
Short-term deposits	**-**	4,000
Cash	**5,220**	9,166
	5,524	13,413
Financial liabilities		
Trade payables	**831**	645
Maturity profile of financial liabilities		
In one year or on demand	**831**	645

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

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

Interest rate risk

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

Interest rate and currency profile

At 31 July 2018 and throughout the year, the Group maintained sterling cash at bank and short-term deposits. The current book value of interest-bearing assets and liabilities is as follows:

	2018 £000	2017 £000
Financial assets		
Short-term deposits	**-**	4,000
Cash at bank (floating interest rate)	**5,220**	9,166

Cash at bank attracted interest at floating rates, which were between nil% and 0.57% at 31 July 2018 (2017: nil% and 0.32%). Short-term deposits were £nil at 31 July 2018 (interest was at fixed rates which were between 0.55% and 0.80% at 31 July 2017).

Credit risk

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

Fair value of financial instruments

At 31 July 2018, the difference between the book value and the fair value of the Group's financial assets and liabilities was £nil (2017: £nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 July 2018.

20 Pensions

The Group operates a defined contribution pension scheme for its employees. The pension cost charge for the year represents contributions payable by the Group to the scheme and other personal pension plans and amounted to £234,000 (2017: £172,000). There were outstanding contributions at 31 July 2018 of £37,000 (2017: £35,000).

21 Accounting estimates and judgements

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

The Directors consider that the key judgements made in preparation of the financial statements are the following:

Going concern

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

Intangible assets

The carrying value of intangible assets has been tested for impairment. Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made in order to estimate the assets' value in use in order to test the carrying amounts as described within Note 9. An impairment was recorded against the Animal Health business, with details of the impairment described in Note 9.

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

The Directors consider that the main sources of estimation made in preparation of the financial statements are the following:

Deferred tax recognition

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

Intangible assets

The Directors have undertaken tests and financial modelling using commercial judgements and a number of assumptions and estimates have been made in order to estimate the assets' value in use in order to test the carrying amounts as described within Note 9. An impairment was recorded against the Animal Health business, with details of the impairment described in Note 9.

22 Commitments

(a) Capital commitments

At 31 July 2018, the Group had £nil capital commitments (2017: £nil).

(b) Operating lease commitments for land and buildings

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

	2018 £000	2017 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**240**	243
• Between one and five years	**744**	527
• Over five years	**192**	257
	1,176	1,027

23 Related party transactions

Intra Group transactions

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

Remuneration of key management personnel

The Group considers the Directors to be its key management personnel. Full details of their compensation are set out in the Remuneration Committee Report on pages 68 to 71.

24 Post balance sheet events

On 30 July 2018, the Group announced that it had completed a fundraising of £11.6 million gross (£10.9 million net) through the placing of 38,952,724 placing shares and 7,520,000 subscription shares with new and existing institutional investors at a price of 25p per share. The issue of the new shares and receipt of the proceeds from the fundraising were received during August 2018.

Company Balance Sheet as at 31 July 2018 – Registered number 4748597

	Note	2018 £000	2017 £000
Fixed assets			
Property, plant and equipment	25	**15**	25
Investments	26	**3,275**	3,059
		3,290	3,084
Current assets			
Debtors	27	**36,180**	30,077
Cash and cash equivalents		**4,366**	12,779
		40,546	42,856
Current liabilities	28	**(568)**	(1,141)
Net current assets		**39,978**	41,715
Net assets		**43,268**	44,799
Capital and reserves			
Called-up share capital	29	**6,976**	6,917
Share premium account	30	**770**	633
Capital reserve	30	**1,899**	1,899
Reserve for own shares	30	**(2,802)**	(2,651)
Retained earnings	30	**36,425**	38,001
Shareholders' funds		**43,268**	44,799

The notes on pages 106 to 109 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 2 October 2018 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the Year Ended 31 July 2018

	Share capital £000	Share premium £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 31 July 2016	6,915	1,027	1,899	(2,651)	37,678	44,868
Issue of shares	2	12	-	-	-	14
Total comprehensive loss for the period	-	-	-	-	(1,613)	(1,613)
Share-based payment charges	-	-	-	-	177	177
Dividends received from subsidiary undertakings	-	-	-	-	1,353	1,353
Transfer[1]	-	(406)	-	-	406	-
At 31 July 2017	6,917	633	1,899	(2,651)	38,001	44,799
Issue of shares	2	9	-	-	-	11
Exercise of share options	34	-	-	-	-	34
Own shares acquired	23	128	-	(151)	-	-
Total comprehensive loss for the period	-	-	-	-	(2,323)	(2,323)
Share-based payment charges	-	-	-	-	747	747
At 31 July 2018	**6,976**	**770**	**1,899**	**(2,802)**	**36,425**	**43,628**

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

The accompanying notes form an integral part of the financial statements.

Notes to the Company Balance Sheet

Basis of preparation

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

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

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

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

Property, plant and equipment

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

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

- Fixtures and fittings – 3 to 10 years

Investments

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

Taxation

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

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

Share-based payments

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

Share-based payments made to employees of subsidiary undertakings are treated as capital contributions to subsidiary undertakings from the parent company.

25 Property, plant and equipment

	Total £000
Cost	
At 31 July 2017	**104**
Additions	**13**
Disposals	**(3)**
At 31 July 2018	**114**
Depreciation	
At 31 July 2017	**79**
Charge for the year	**24**
Disposal	**(4)**
At 31 July 2018	**99**
Net book value	
At 31 July 2018	**15**
At 31 July 2017	**25**

26 Investments

	Total £000
Cost	
At 1 August 2017	14,053
Additions	623
Disposal	(6,565)
At 31 July 2018	8,111
Provision	
At 1 August 2017	10,994
Charge for the year	407
Disposal	(6,565)
At 31 July 2018	4,836
Net book value	
At 31 July 2018	**3,275**
At 31 July 2017	3,059

Additions in the year are capital contributions relating to share-based payments to employees of subsidiary undertakings.

Curidium Medica Limited, Curidium Limited and TheraGenetics Limited were all dissolved during the year.

The companies in which Avacta Group plc has an interest at 31 July 2018 and form part of the consolidation Group financial statements are as follows:

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

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

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

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

3 *Dormant status accounts will be filed for the year ended 31 July 2018*

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

27 Debtors

	2018 £000	2017 £000
Other taxes and social security	**15**	30
Prepayments and accrued income	**208**	169
Amounts owed by subsidiary undertakings	**35,957**	29,878
	36,180	30,077

28 Current liabilities

	2018 £000	2017 £000
Trade creditors	**51**	62
Other taxes and social security	**28**	39
Amounts owed to subsidiary undertakings	**-**	569
Accruals and deferred income	**489**	471
	568	1,141

29 Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid:		
• 68,989,487 (2017: 68,397,933) ordinary shares of 10p each	**6,899**	6,840
• 19,327,344 deferred shares of 0.4p each	**77**	77
	6,976	6,917

Share issues

On 30 November 2017, 229,591 ordinary shares of 10p each were allotted and issued at 65.7p per share to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 4).

On 18 December 2017, 340,502 ordinary shares of 10p each were allotted and issued at 10p per share following the exercise of 219,596 founder incentive share options over ordinary shares of 10p each and the conversion of founder preference shares in Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) into 120,546 ordinary shares of 10p each by a former director and two consultants of Avacta Health Limited as set out within the Share Purchase Agreement dated 14 December 2007.

On 9 October 2017, 4 January 2018, and 9 April 2018, 21,461 ordinary shares of 10p each in total were allotted and issued at a weighted average price of 52.4p per share to Michael Albin, a Non-executive Director in settlement of 50% of the fees due for his services as a Non-executive Director up to his resignation on 30 March 2018 as per an agreement dated 22 February 2016.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, **www.avacta.com**. The rights of the holders of the deferred shares are set out at Note 17.

30 Reserves

Share premium

The share premium account of £770,000 (2017: £633,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. During the prior year £406,000 was transferred from share premium to retained earnings relating to the elimination of the original acquisition accounting in 2009 of a subsidiary company which was dormant and for which the Directors have subsequently had dissolved. This reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2017: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,802,000 (2017: negative £2,651,000) increased during the year following the issue of 229,591 (2017: nil) ordinary shares of 10p each being issued to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 4). In addition, 3,232,306 (2017: 3,232,306) ordinary shares of 10p each are held jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Company. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

31 Commitments

(a) Capital commitments

At 31 July 2018, the Company had £nil capital commitments (2017: £nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2018 was £nil (2017: £nil).

(c) Operating lease commitments

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

	2018 £000	2017 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**240**	240
• Between one and five years	**744**	523
• Over five years	**192**	257
	1,176	1,020

32 Post balance sheet events

On 30 July 2018, the Group announced that it had completed a fundraising of £11.6 million gross (£10.9 million net) through the placing of 38,952,724 placing shares and 7,520,000 subscription shares with new and existing institutional investors at a price of 25p per share. The issue of the new shares and receipt of the proceeds from the fundraising were received during August 2018.

Secretary and Advisers

Secretary and Registered Office

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