



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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COMPANIES HOUSE

TRUSTEES' REPORT

For year ended 31 March 2013

CHAIRMAN'S STATEMENT

In 2013-14 we are in the fourth year of our ten year Strategic Plan and continue to focus on promoting the public good by providing professional management of intellectual property that may lead to improvements in human healthcare, and by developing a pipeline of potential therapies, life science tools and diagnostics to meet areas of high unmet patient need. We therefore continue to successfully fulfil our charitable objectives in assisting and accelerating the translation of medical research to improve human health.

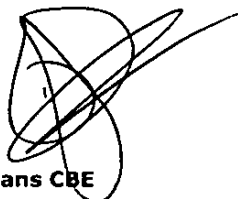
We are working closely with our main partner, the Medical Research Council (MRC), providing technology transfer expertise to increase the public benefit arising from MRC research, by managing the translation of novel ideas and inventions into commercial application. We are also supporting UK charities with a range of services to improve their impact on early stage medical research. We are continuing to build our links with the academic research community and actively participate in a number of initiatives to improve outcomes for early stage translational research in the sector.

We currently generate a substantial proportion of our income from a revenue share on the royalties generated by several successfully commercialised products. These royalties will decline in the near future as related patents expire. In recent years, our revenue share on these royalties has enabled us to build up substantial reserves that, together with any future surpluses, are available to fund our Strategic Plan. These reserves are appropriately invested and will be used to progress promising scientific leads in our research facility, the Centre for Therapeutics Discovery (CTD). The work that CTD is undertaking is expected to help to bring advances in medical science to the point where they can be of benefit to the public, in addition to generating products that can be commercialised through partnering to generate new income to fund our charitable work in the future.

During the year the Board of Trustees has continued to enhance the governance framework and develop the Board to improve its resilience and capabilities:

- A Scientific Subcommittee has been created to provide expert guidance and oversight to our investment in drug discovery.
- The Nominations Subcommittee has been created to provide a formal nomination process for new Trustees and a development and succession plan developed for all existing Trustees. During the year three new Trustees joined the Board and two Trustees retired.

MRC Technology held its first open Annual General Meeting in November 2012 followed by a showcase event attended by key stakeholders from academia, charities, government, the MRC and the commercial sector. The aim was greater engagement with stakeholders and to provide an opportunity to discuss the aims of the charity and the public benefit provided by our work with them.



D. John Jeans CBE

Chairman

MRC Technology

Date 20 June 2013

TRUSTEES' REPORT

For year ended 31 March 2013

The members of the Board, who are the Trustees of MRC Technology (the Charity) and the Directors of MRC Technology (the Charitable Company), present their report for the year ended 31 March 2013. In presenting this report, the Trustees have complied with the Statement of Recommended Practice, Accounting and Reporting by Charities (the Charities' SORP).

About us

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

We were established 13 years ago to handle the technology transfer needs of the UK's Medical Research Council. Today we work with universities, medical research charities, and pharmaceutical and biotechnology organisations around the world.

We have helped launch 12 drugs and form 18 start-ups, negotiated over 400 licences, and generated over £600 million in royalty revenues for our academic and charity partners, with global pharma revenues from this work being over £40 billion.

Objects

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

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

Vision and Mission Statements

Vision

- A strong public benefit company based on the identification and development of intellectual property from basic research linked to a highly professional licensing and project management capability
- The development of a global Centre of Excellence for
 - The humanisation of monoclonal antibodies,
 - early stage drug discovery, and
 - the design and development of prototype life science tools in medicine and diagnostics

Mission Statement

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

MRC Technology

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

TRUSTEES' REPORT

For year ended 31 March 2013

Public Benefit

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

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

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

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

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

Summary of Achievements

During 2012-13 we completed the third year of our ten year strategic plan to develop new healthcare targets and treatments for the public benefit. During the year we invested £8.3m directly in early stage drug discovery and the development of healthcare devices and diagnostics. We evaluated 56 new projects during the year progressing three to full drug discovery projects within our Centre for Therapeutics Discovery (CTD), focusing on areas of high unmet patient need. We have licensed one prospective treatment for prostate cancer and have three other potential drug candidates where commercial partners are now being sought.

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

- Assessed 86 potential inventions from scientists across a range of MRC units and institutes
- Filed 25 patents and had 29 patents granted
- Executed 16 licenses and seven evaluation agreements
- Managed the collection of royalty income of £85.5m and payments of £35.6m for the MRC whilst monitoring their portfolio of active assets

TRUSTEES' REPORT

For year ended 31 March 2013

Assisting the Translation of Medical Research

In November 2012, we held our first open Annual General Meeting, producing an exhibition to showcase our work and extend awareness of our charitable objects and capabilities with a range of existing and potential stakeholders. We also formalised PR arrangements to continue to promote and build engagement with our work.

We continue to build on our links with the UK charity sector through new, targeted marketing material, a programme of conference and seminar presentations and our supporter membership of the Association of Medical Research Charities (AMRC). We have assisted the Association of International Cancer Research (AICR), the MS Society and Parkinson's UK, and are in discussion with a total of 12 major UK charities to look at ways to enhance the impact of their funding of early stage translational research through a range of potential services.

- The review of the Terms and Conditions a charity applies in funding early translational research. This helps ensure funding awards can be managed to the highest standard.
- A portfolio review of the research being funded to ensure translational opportunities are being identified and progressed.
- Assisting in the procurement and evaluation of projects for future funding.

We aim to increase our impact on the UK university sector and are engaged in discussions with a number of institutions to establish how the commercialisation of their life science discoveries could be improved.

Grant Terms Review

We have reviewed the terms and conditions attached to research grants made by the MS Society, AICR and Parkinson's UK, to help ensure funding awards and any potential patient benefit arising from the research can be managed to the highest standard. These reviews resulted in improved terms and conditions.

We have been engaged by AICR to review and report on their funded research portfolio, which has required our Business Managers and Licensing Officers to monitor 24 AICR funded projects, including negotiation of appropriate revenue sharing agreements between AICR and the relevant host university.

We are founder members of a new drug discovery alliance, the Global Alliance of Leading Drug Discovery and Development Centres. The aim of this alliance is to strengthen the international academic and/or not-for-profit drug development and commercialisation network to ultimately improve the rate at which academic research is translated into new medicines.

Identifying and developing MRC IP

We monitor the research carried out by 25 MRC units, institutes and centres to ensure that any intellectual property arising from the research is promptly identified and evaluated for potential patient benefit. During the year, our Business Managers evaluated 86 potential inventions for the MRC, resulting in the further progression of over 20 potential new inventions.

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Accelerating the Translation of Medical Science

Scouting for Targets

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

During the year 56 potential projects were evaluated with three progressing for further development.

| | Source of Projects for Evaluation | | | |
|--------------|-----------------------------------|--------------|---------------|-----------|
| Source | Cancer | Inflammation | Fibrosis/Pain | Other |
| MRC | 4 | | | 2 |
| Other UK | 5 | 5 | 1 | 13 |
| Europe | 5 | | | 3 |
| USA | 5 | 1 | 1 | 7 |
| China | | | | 3 |
| Other | | 1 | | |
| Total | 19 | 7 | 2 | 28 |

Working with the UK charity sector we have initiated a joint 'Call for Targets' with the MS Society, specifically aimed at identifying targets for progressive MS and re-myelination.

In addition we continue to expand our global network of collaborations:

- A formal Memorandum of Understanding has been signed with the Chinese Academy of Sciences (CAS) Shanghai Institute of Biochemistry and Cell Biology, providing a framework for future drug discovery collaborations.
- A non-binding Memorandum of Understanding has been signed with the Tianjin International Joint Academy of Biotechnology and Medicine. This covers potential collaboration on antibody engineering.

Antibody Engineering and Small Molecule Drug Discovery

We are working on nine antibody and 12 small molecule drug discovery projects covering 29 separate primary and alternative indications, in a portfolio focused primarily but not exclusively in the areas of cancer, autoimmune/inflammatory and central nervous system diseases.

| | Number of projects By Indication | | | |
|-------------------------------------|----------------------------------|-------------------------|------------------------|----------|
| Project Status (Primary Indication) | Oncology | Autoimmune/Inflammation | Central Nervous System | Other |
| Target Validation | 1 | | | |
| Antibody Generation | 1 | 1 | | 1 |
| Hit Identification | 4 | 1 | 4 | 1 |
| Lead Identification | | 1 | 1 | |
| Lead Antibody Optimisation | 1 | 2 | | 1 |
| Pre New Drug Application | | | | 1 |
| Total Projects | 7 | 5 | 5 | 4 |

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For year ended 31 March 2013

These projects involve collaborations with a range of universities both in the UK and around the world

Devices and Diagnostics

We have undertaken a clinical proof of concept study looking at the use of optical projection tomography (OPT) imaging in the diagnosis of colon cancer from colon polyps, building on earlier work that lead to a development of an OPT instrument by CLT. The project in conjunction with Ninewells hospital in Dundee is due to report late in 2013. A review of the opportunities to invest in the diagnostics and biomarker area is underway to assess the potential to deliver impact in line with our charitable objects.

Research Capability and Networking

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

- We now perform affinity maturation and biophysical optimisation
- We are exploring multiple methodologies for accessing additional antibodies, which will significantly improve our ability to generate novel material
- The X-ray and nuclear magnetic resonance (NMR) structural capability based at Leicester University is now producing X-ray data of proteins of interest including both apo and liganded structures to drive our drug discovery programme

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

TRUSTEES' REPORT

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Intellectual Property Protection and Translation Funding

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

Patent Management

The principal focus for the Intellectual Property and Licensing team is the protection and exploitation of MRC research. During the year the team filed 25 new patents and saw 29 patents granted on behalf of the MRC. We also administered patent costs totalling £1.3m on behalf of the MRC.

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

MRC Development Gap Fund

We have a successful record of managing funding schemes for early stage research with commercial potential and continue to manage the MRC Development Gap Fund (DGF). The DGF is "pre seed" money, operating at the earliest possible stage of technology transfer. It is intended to strengthen new patent filings or to support patent applications from good, commercially interesting, ideas. We screened 17 DGF funding submissions during the year, resulting in 14 approved projects with total funding of £1m. The successful projects covered a range of technologies and inventions sourced from 11 different MRC/Academic Units and Institutes and supported 15 researchers. The projects had an average cost of £74k and an average duration of eleven months.

Licensing and Licence Performance Management

MRC Technology

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

- Teverelix, a treatment for prostate cancer, has been licensed to a biotechnology company and is undergoing further clinical development.
- Partners are being sought for the further development of the anti-TG2 antibody for the treatment of liver, lung and kidney fibrosis.
- Potential partners are being canvassed for the antibody to the VEGF co-receptor CD146. This project is a collaboration with a Chinese research institute and is a potential treatment for cancer.

In addition to commercialisation by our Licensing team, a potential cancer treatment (targeted to the integrin $\alpha v \beta 6$), has been completed for Cancer Research Technology, who are leading on commercialising this asset.

We continue to track eight active MRC Technology licences arising from our drug discovery programme with indications in Alzheimer's, cancer, Crohn's disease and macular degeneration. Five licences have progressed to Phase II clinical trials, one is at Phase III and two are in pre-clinical. Milestone payments were received during the year on two separate antibodies moving to Phase II trial, one targeting advanced melanoma and the other macular degeneration.

MRC

The protection, commercialisation and return on the investment in medical research by the MRC remain a core focus. We executed 16 licences and seven evaluation agreements on their behalf during the year.

Particular highlights include:

- Licensing a device for detecting Barrett's Oesophagus to a major medical device company.
- Executing a licence and research collaboration with a new subsidiary of Shield AG for the development of mineral supplement technologies, and continuing to assist the MRC scientist in developing multiple applications for this potentially significant platform technology.

We continue to monitor 267 active licences arising from the commercialisation of MRC research, with a wide range of indications.

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Management of IPR derived income

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

Structure, Governance and Management

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

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

The members of the Board act in the capacity of Directors of MRC Technology for the purposes of the Companies Act 2006 and in the capacity of Trustees in respect of its charitable objectives under the Charities Acts.

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

The members of the Board of MRC Technology are listed on page 31 together with the principal places of business and professional advisers of MRC Technology. The day to day management of MRC Technology is delegated by the Board to the CEO, Dr Dave Tapolczay.

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

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

Structure of Key Divisions

MRC Technology is split into 6 key divisions

| | |
|--|--|
| Centre for Therapeutics Discovery (CTD) | Promotes the public benefit by driving the development of early stage molecular targets emerging from academic research to deliver lead compounds or antibodies for clinical development by third parties. |
| Centre for Lifescience Technology (CLT) | Promotes the public benefit by facilitating and improving the commercial readiness of early medical stage devices and diagnostics that emerge from academic research. |
| Intellectual Property and Licencing (IPL) | Promotes the public benefit by focusing on the identification, protection, development and exploitation of MRC intellectual property and providing technology transfer services to UK charities. |
| Business Development (BD) | Supports charitable and fundraising activities through the identification and acquisition of potential projects for MRC Technology to work on and the marketing and sales of assets which have passed through CTD or CLT, seeking commercial partners. |
| Corporate Partnerships (CP) | Supports charitable and fundraising activities by developing and maintaining relationships with both the MRC and other key stakeholders, aiding the generation of new product income. |
| Corporate Resources (CR) | Provides support for charitable, governance and fundraising activities through the provision of ICT, finance, HR, legal and general management functions. |

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For year ended 31 March 2013

Statement of Trustees' Responsibilities

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

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

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

The Board of Trustees

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

The Board of Trustees met four times (June, September and November 2012 and March 2013). The June meeting was adjourned and reconvened in July to take account of requirements to gather further information. The Board of Trustees also met with the executive team in February 2013 to hold a strategy session and discuss the rolling ten year business plan.

The Board reserves all major strategic and policy decisions to itself but delegates oversight and assurance for key business functions to dedicated committees. In June 2012, the Board established a Nominations Committee and a Scientific Committee.

Changes to the Board of Trustees

During 2012/13 the following Trustees retired

- Dr Sir Hugh Pelham (June 2012)
- Dr Steve Smerdon (June 2012)

The following Trustees were elected

- Professor Sir Philip Cohen (June 2012)
- Dr Annette Doherty (June 2012)
- Mr Peter Keen (Feb 2013)

Trustee Induction

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

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

TRUSTEES' REPORT

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General Meetings

Two general meetings were held during 2012/13 to appoint new Trustees and Members to MRC Technology

Annual General Meeting

We are obliged under our revised Articles of Association to hold an Annual General Meeting (AGM) every calendar year. The AGM was held on 29 November 2012 for the purpose of retiring Trustees and electing new Trustees, to receive the annual report and accounts and to appoint the auditors. The meeting was followed by a showcase reception for invited stakeholders to highlight our work and the public benefit this creates.

Committees of the Board

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

- **Remuneration Committee (RC):** Deals with matters relating to remuneration policy and the annual review of remuneration, in particular with regard to senior executives. The RC met once during the year, inter alia to review the reward strategy and to agree bonus payments for the previous year.
- **Audit and Risk Management Committee (ARMC):** Provides assurance to the Board of Trustees on key issues around financial planning, capacity and reporting, internal control, risk and other related matters. The committee approves the appointment of the internal and external auditors, reviews the management accounts, provides oversight of the budget process, and scrutinises the annual accounts and internal audit programme. The key focus for ARMC for the next financial year will be to continue to improve risk management across the organisation. The committee met four times during the year and held an additional special meeting in February 2013 to scrutinise the budget proposal.
- **Investment Management Committee (IMC):** Separate delegated committee of the ARMC which provides assurance to ARMC and the Board of Trustees on the management of MRC Technology's invested funds and investment policy. The committee supervises the appointment and performance management of MRC Technology's investment fund managers. The committee met four times during the year.
- **Nominations Committee (NC):** Established in June 2012 and Terms of Reference approved by the Board of Trustees in September 2012. The main functions of the committee are to develop and maintain an active succession plan for the organisation. During the year the NC introduced a rolling retirement and replacement timetable for Trustees. The NC also conducted an internal review of Trustee skills to determine skills gaps to be addressed in future Board recruitment. In the coming year the committee will focus further on developing the recruitment strategy for new Trustees.
- **Scientific Committee (SC):** Established in June 2012 and Terms of Reference approved by the Board of Trustees in September 2012. The purpose of the committee is to provide assurance to the Board of Trustees on the management of MRC Technology's investment in drug discovery and diagnostic research through CTD and CLT.

The following table shows board and subcommittee attendance

| | Board | ARMC | IMC | RC | NC | SC |
|-----------------|-------|------|------|------|------|------|
| Michael Brooks | 4/4 | 4/4 | 4/4 | 1/1 | 1/1 | |
| Philip Cohen | 3/4 | | | | | 3/3 |
| Annette Doherty | 3/4 | | | | | 1/3 |
| Mark Edwards | 4/4 | | | | | 3/3 |
| John Jeans | 4/4* | | | 1/1* | 1/1* | |
| Peter Keen | 1/1 | | | | | |
| Diane Mellett | 3/4 | 3/4 | 3/4 | | | |
| Declan Mulkeen | 3/4 | | | | | |
| David Quysner | 4/4 | 4/4* | 4/4* | 1/1 | 1/1 | |
| Ian Skidmore | 4/4 | | | | | 3/3* |

* Chairman

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For year ended 31 March 2013

Principles of Governance

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

Performance

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

Internal Control

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

The internal audit programme provided by Moore Stephens has been running for three years. During the year audits were performed on the risk management framework, management of intellectual property and licensing and the management of the research environment. The agreed recommendations arising from all audits conducted are monitored through to successful implementation, with the status of outstanding recommendations reviewed by executive management on a quarterly basis with oversight by the ARMC.

Conflicts of Interest

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

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

Health and Safety

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

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

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

Employment

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

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

MRC Technology headcount was 130 employees as at the year-end.

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

TRUSTEES' REPORT

For year ended 31 March 2013

Financial Review

| Key numbers £'000's | 2012-13 | 2011-12 |
|---|---------|---------|
| Total incoming resources | 24,156 | 22,125 |
| Total resources expended | 15,649 | 14,205 |
| Net Movement in Funds belonging to MRC Technology | 10,575 | 7,877 |
| Funds Balance carried forward | 58,619 | 48,044 |

We continued to generate a surplus and to build our free reserves in line with the Reserve Policy set out below. Total Incoming Resources for the year were £24,156k (2012 - £22,125k) and included £4,200k (2012 - £4,338k) received from the MRC as a fee for services provided, and £19,087k (2012 - £16,684k) of contract and royalty income. The latter income derives principally from our share of royalties arising from the development of successful treatments for multiple sclerosis (Tysabri™) and rheumatoid arthritis (Actemra™) both of which were based on MRC research.

There were no sales of OPT machines during the year (2012 - £469k).

Total resources expended amounted to £15,649k (2012 - £14,205k) which included research costs and expenses related to technology transfer activities, both activities being directly related to our public benefit objective, in addition to the cost of generating funds, governance costs and general support costs that are not directly attributable to charitable activities. The increase over last year is principally due to an increase in resources invested in the drug development activities of the CTD.

- The overall surplus of £10,575k (2012 - £7,877k) included net realised and unrealised investment gains/(loss) of £1,550k (2012 - (£43k)) which were in line with expectations in the prevailing investment environment, a revaluation of land and buildings of £500k, and £220k write-down of the value of our subsidiary, AERES Biomedical Limited.
- Total funds available for charitable purposes at the year-end amounted to £58,619k (2011 - £48,044k).

Asset Valuation

The Mill Hill laboratory premises and site were valued as at 28 March 2013 at £5,055,000 using the Depreciated Replacement Cost (DRC) method of valuation. This is an increase of £509,000 on the depreciated value based on the previous valuation in September 2008.

Investment Policy and Performance

Investments are held for the purpose of generating funds for charitable activities and as a reserve against any future shortfall in income. The Investment Management Committee (IMC) monitors investment activities on behalf of MRC Technology. The IMC receives regular updates from the Investment Managers, and members of their charity investment teams attend and present at two IMC meetings each year, as part of the on-going monitoring of the performance of our investment portfolios. The IMC reports to the Audit and Risk Management Committee (ARMC) which reports to the Board on investment matters. The performance of the Investment portfolio for the year ended 31 March 2013 was in line with expectations in the prevailing investment environment.

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

Schroder's provide short term cash management services, investing in the money market for terms up to twelve months. HSBC manage a long term investment portfolio focused on equities and fixed interest securities.

Royal London Asset Management (RLAM) was appointed during the year and £5m was invested in the RLAM Ethical Bond Fund.

TRUSTEES' REPORT

For year ended 31 March 2013

Commercial Subsidiary Companies

AERES Biomedical Limited

AERES Biomedical Limited was established to undertake research, development and commercial exploitation in therapeutic antibody research. Although the company is not a charity its activities are entirely within the objects of MRCT. The company is free to undertake non-charitable activities but none were undertaken. While the company keeps its own internal accounting records, their financial activity is subject to the internal controls of MRC Technology, and MRC Technology continues to monitor and administer income from its projects. In November 2012 the Board of Trustees for MRC Technology approved the proposal from the executive management team to dissolve the company and transfer the activities of the company back to MRC Technology. The process for dissolution is being discussed and formalised with the minority shareholders in the company and the process is expected to be completed by the end of 2013.

Reserves Policy

We hold reserves to ensure that, so far as is reasonably possible, our future expenditure objectives can be met, given certain assumptions about future income streams. All of our reserves are held in pursuance of our charitable objects as stated above.

The level of free reserves that we held at 31 March 2013, defined as being those funds that are freely available for general purposes and excluding permanent and expendable endowment, funds and tangible fixed assets, was £46,147k (2012 - £33,926k).

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

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

Disclosure of Information to Auditors

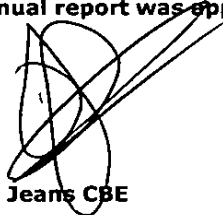
So far as each member of the Board is aware at the time of the approval of this board report

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

Auditors

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

This annual report was approved by the MRC Technology Board on 20 June 2013 and signed on its behalf by



D. John Jeans CBE
Chairman

INDEPENDENT AUDITOR'S REPORT

For year ended 31 March 2013

Independent Auditor's report to the members of Medical Research Council Technology

We have audited the Group and parent charitable Company financial statements of Medical Research Council Technology for the year ended 31 March 2013 which comprise the Consolidated Statement of Financial Activities, incorporating an Income and Expenditure Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charitable Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable Company and the charitable Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditors

As explained more fully in the Trustees' Responsibilities Statement, set out on page 9, the Trustees (who are also the directors of the charitable Company for the purposes of company law) are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

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

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

Scope of the audit of the Financial Statements

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

Opinion on the Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Group's and the parent charitable Company's affairs as at 31 March 2013, and of the Group's incoming resources and application of resources, including its income and expenditure, for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

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

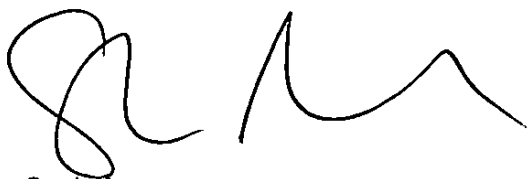
Matters on which we are required to report by exception

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

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

INDEPENDENT AUDITOR'S REPORT

For year ended 31 March 2013



Sarah Morrison
(Senior Statutory Auditor)

For and on behalf of
Littlejohn LLP
Statutory Auditors
1 Westferry Circus
Canary Wharf
London E14 4HD

20 June 2013

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED 31 MARCH 2013

| | Notes | UNRESTRICTED FUNDS Accumulated Funds £000's | ENDOWMENT FUNDS Expendable £000's | Permanent £000's | RESTRICTED FUND £000's | Total Funds 2013 £000's | Total Funds 2012 £000's |
|---|-----------|---|---|---------------------|---------------------------|-------------------------------|-------------------------------|
| Incoming Resources | | | | | | | |
| Incoming Resources from Generated Funds | | | | | | | |
| Activities for Generating Funds | 1 | 4,200 | - | - | - | 4,200 | 4,338 |
| Investment income | 2 | 819 | - | - | - | 819 | 544 |
| Other Income | 3 | 9 | - | - | - | 9 | 469 |
| Total Incoming Resources from Generated Funds | | 5,028 | - | - | - | 5,028 | 5,351 |
| Incoming Resources from Charitable Activities | | | | | | | |
| Research contracts and royalty income | 4 | 19,087 | - | - | - | 19,087 | 16,684 |
| Grants | 5 | - | - | - | 41 | 41 | 90 |
| Total Incoming Resources | | 24,115 | - | - | 41 | 24,156 | 22,125 |
| Outgoing Resources | | | | | | | |
| Costs of generating funds | 6 | 159 | - | - | 41 | 200 | 172 |
| Governance costs | 8 | 764 | - | - | - | 764 | 793 |
| Charitable activities | | 14,685 | - | - | - | 14,685 | 13,240 |
| Total Resources Expended | | 15,608 | - | - | 41 | 15,649 | 14,205 |
| Net Incoming resources before transfer | 9 | 8,507 | - | - | - | 8,507 | 7,920 |
| Gross transfer between funds | 10 | 2,237 | (2,082) | (155) | - | - | - |
| Net Incoming /(Outgoing) Resources | | 10,744 | (2,082) | (155) | - | 8,507 | 7,920 |
| Statement of Total Recognised Gains and Losses | | | | | | | |
| Realised investment (loss)/gains | 14 | | | | | | |
| - Listed | | 58 | - | - | - | 58 | (56) |
| - Other | | - | - | - | - | - | - |
| Unrealised investment gain | 14 | 1,712 | - | - | - | 1,712 | 13 |
| Investment Write Off | 15 | (220) | - | - | - | (220) | - |
| Revaluation of Land & Buildings | | - | - | 509 | - | 509 | - |
| Minority interest | | 9 | - | - | - | 9 | - |
| Net Movement In Funds belonging to MRCT | | 12,303 | (2,082) | 354 | - | 10,575 | 7,877 |
| Balance brought forward at 1 April | | 41,245 | 2,082 | 4,717 | - | 48,044 | 40,167 |
| Balance carried forward at 31 March | 19 | 53,548 | - | 5,071 | - | 58,619 | 48,044 |

MRCT has no recognised gains or losses other than as stated above

All of the activities other than in respect of the charitable company's subsidiary trading company, Aeres Biomedical Limited, represented continuing activities of MRCT

The accounting policies and notes on pages 19 to 29 form part of the Financial Statements

BALANCE SHEET

AS AT YEAR ENDED 31 MARCH 2013
COMPANY NUMBER: 2698321

| | Note | Group | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2013 £000's | 2012 £000's | 2013 £000's | 2012 £000's |
| Fixed Assets | | | | | |
| Tangible fixed assets | 13 | 7,278 | 7,319 | 7,278 | 7,319 |
| Investments | 14 | 23,565 | 11,753 | 23,565 | 11,978 |
| | | 30,843 | 19,072 | 30,843 | 19,297 |
| Current Assets | | | | | |
| Investments | 15 | 26,468 | 17,767 | 27,075 | 17,767 |
| Debtors | 16 | 5,763 | 13,708 | 5,763 | 13,706 |
| Cash at bank and in hand | | 1,082 | 3,322 | 301 | 2,755 |
| | | 33,313 | 34,797 | 33,139 | 34,228 |
| Creditors amounts falling due within one year | 17 | (4,983) | (5,614) | (4,960) | (5,612) |
| Net Current Assets | | 28,330 | 29,183 | 28,179 | 28,616 |
| Creditors amounts falling due after more than one year | 18 | (401) | (52) | (401) | (52) |
| Net Assets | | 58,772 | 48,203 | 58,621 | 47,861 |
| Funds | 19 | | | | |
| Unrestricted Funds | | | | | |
| Accumulated funds | | 52,941 | 40,620 | 53,550 | 41,062 |
| Trading company funds | | 607 | 625 | - | - |
| | | 53,548 | 41,245 | 53,550 | 41,062 |
| Permanent Endowment | | 5,071 | 4,717 | 5,071 | 4,717 |
| Expendable Endowment | | - | 2,082 | - | 2,082 |
| Funds belonging to MRCT | | 58,619 | 48,044 | 58,621 | 47,861 |
| Due to minority interests | | 153 | 159 | - | - |
| Total Funds | | 58,772 | 48,203 | 58,621 | 47,861 |

Approved by the MRCT Board of Trustees on 20 June 2013 and signed on its behalf by


D. John Jeans CBE
Chairman

The Accounting Policies and Notes on page 19 to 29 form part of these Financial Statements

CONSOLIDATED CASHFLOW STATEMENT

YEAR ENDED 31 MARCH 2013

| | 2013 £000's | 2012 £000's |
|--|------------------------|------------------------|
| Net cash inflow / (outflow) from operating activities | 7,784 | (10,353) |
| Returns on investments and servicing of finance | 819 | 544 |
| Capital expenditure and financial investment | (10,843) | (677) |
| Decrease in Cash in the Year | (2,240) | (10,486) |
| Reconciliation of Net Incoming Resources to Net Cash (Outflow)/Inflow from Operating Activities | | |
| Net incoming resources before other recognised gains and losses | 8,507 | 7,920 |
| Depreciation | 992 | 1,045 |
| Investment income | (819) | (544) |
| Decrease / (increase) in debtors | 7,945 | (7,980) |
| (Decrease) / increase in creditors | (631) | 396 |
| Increase in long term creditors | 349 | 26 |
| Increase in current investments | (8,701) | (11,259) |
| Loss on disposal of fixed assets | 142 | 43 |
| Net Cash Inflow / (Outflow) from Operating Activities | 7,784 | (10,353) |
| Analysis of Cash Flows for Headings Netted in the Cash Flow Statement | | |
| Returns on Investments and Servicing of Finance | | |
| Investments listed on a recognised stock exchange | 403 | 251 |
| Investments other | 408 | 280 |
| Bank interest | 8 | 13 |
| Net Cash Inflow from Returns on Investments and Services of Finance | 819 | 544 |
| Capital Expenditure and Financial Investment | | |
| Payments to acquire tangible fixed assets | (584) | (493) |
| Proceeds on disposal of investments | 8,997 | 10,407 |
| (Increase) / decrease in cash held for investment | (356) | 63 |
| Payments to acquired fixed assets investments | (18,900) | (10,654) |
| Net Cash Outflow of Capital Expenditure and Financial Investment | (10,843) | (677) |
| Analysis of Net Funds | 2013 £000's | 2012 £000's |
| Cash at bank at end of year | 1,082 | 3,322 |
| Cash at bank at start of year | 3,322 | 13,808 |
| Net Movement in Cash | (2,240) | (10,486) |

ACCOUNTING POLICIES

Basis of Preparation of Financial Statements

Accounting Convention

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

Basis of Consolidation

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

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

Incoming Resources

Incoming resources from generated funds include Technology Transfer Services income, and rental and other income.

- Activities for generating funds are Technology Transfer Services fees receivable from the Medical Research Council which are invoiced in line with the service level agreement,
- rental income represents receipts from researchers occupying MRCT facilities. Income recognised represents amounts invoiced in the year, and
- investment income is recognised on an accruals basis, together with recoverable tax.

Incoming Resources from Charitable Activities comprises research contract and development income, grants and royalty income.

- Research contract and development income is recognised according to the terms of the contract upon completion of agreed milestones, royalty income is recognised on an accruals basis, and
- grant income is recognised when MRCT has the right to receive the money. Grants received which are restricted by the donor to work to be carried out in future accounting periods are deferred.

All income is recognised exclusive of any applicable VAT.

Resources Expended

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

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

Fund Accounting

The **Permanent Endowment Fund** is to be used in accordance with specific restrictions imposed by the donor, the Medical Research Council. This fund relates to the long leasehold land and buildings, title to which was transferred from the Medical Research Council to MRCT on its incorporation. Movements relate to the depreciation charge and any revaluation losses and gains on the long leasehold buildings.

The **Expendable Endowment Fund** relates to laboratory equipment and other non-tangible assets and liabilities transferred to MRCT by the Medical Research Council. A fund balance has been transferred in full to the Accumulated Fund at 31 March 2013.

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

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

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

ACCOUNTING POLICIES

Accounting for Tangible Fixed Assets

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

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

Accounting for Intangible Fixed Assets

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

Depreciation of Tangible Fixed Assets

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

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

Fixed Asset Investments

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

Current Asset Investments

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

Investments in subsidiary undertakings are stated at net asset value

Stock

Consumable stocks and short term work in progress are valued at the lower of cost and net realisable value

Operating Leases

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

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

Foreign Currencies

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

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

Pension Costs

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

Impairment Reviews

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

ACCOUNTING POLICIES

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

1. Activities for Generating Funds

| | Unrestricted funds £000's | Restricted funds £000's | Total 2013 £000's | Total 2012 £000's |
|--|------------------------------|----------------------------|----------------------|----------------------|
| IP management and technology transfer services | 4,200 | - | 4,200 | 4,338 |
| | 4,200 | - | 4,200 | 4,338 |

2. Investment Income

| | 2013 £000's | 2012 £000's |
|---|----------------|----------------|
| Investments listed on a recognised stock exchange | 403 | 251 |
| Bank term deposit interest | 408 | 280 |
| Other Bank interest | 8 | 13 |
| | 819 | 544 |

3. Other Income

| | | |
|----------------------|---|-----|
| OPT machine sales | - | 423 |
| Miscellaneous income | 9 | 46 |
| | 9 | 469 |

4. Incoming Resources from Charitable Activities

| | Grants £000's | Other income £000's | Total 2013 £000's | Total 2012 £000's |
|---|------------------|------------------------|----------------------|----------------------|
| Research contracts and development income | - | 946 | 946 | 1,011 |
| Grants (see note 5) | 41 | - | 41 | 90 |
| Royalty income | - | 18,141 | 18,141 | 15,673 |
| | 41 | 19,087 | 19,128 | 16,774 |

Turnover – Research Contracts

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

| | 2013 £000's | 2012 £000's |
|-------------------|----------------|----------------|
| United Kingdom | 26 | 905 |
| Rest of the World | 920 | 106 |
| | 946 | 1,011 |

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

5. Grants Receivable

| | 2013 £000's | 2012 £000's |
|------------------------------|----------------|----------------|
| MRC non drug discovery grant | - | 46 |
| Development Gap Fund (DGF) | - | 44 |
| Other | 41 | - |
| | <u>41</u> | <u>90</u> |

6. Resources Expended

| | Staff £000's | Depreciation £000's | Direct £000's | Support £000's | Total 2013 £000's | Total 2012 £000's |
|---------------------------|-----------------|------------------------|------------------|-------------------|----------------------|----------------------|
| Costs of generating funds | 46 | - | 154 | - | 200 | 172 |
| Governance costs | Note 8 407 | - | 208 | 149 | 764 | 793 |
| Charitable activities | 6,751 | 817 | 4,270 | 2,847 | 14,685 | 13,240 |
| | <u>7,204</u> | <u>817</u> | <u>4,632</u> | <u>2,996</u> | <u>15,649</u> | <u>14,205</u> |

Support costs are allocated to activities as described in note 7

7. Support Costs

| | 2013 £000's | 2012 £000's |
|---------------------|----------------|----------------|
| Staff | 1,090 | 1,005 |
| Depreciation | 175 | 173 |
| Other Support Costs | <u>1,731</u> | <u>1,024</u> |
| | <u>2,996</u> | <u>2,202</u> |

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

8. Governance Costs

| | 2013 £000's | 2012 £000's |
|--------------------------------------|----------------|----------------|
| Staff Costs | 407 | 390 |
| Direct Costs | | |
| Other Legal and Professional Charges | 40 | 66 |
| Audit Fees | 25 | 26 |
| Other fees | 19 | 10 |
| Bank Charges | 8 | 9 |
| Insurance | 67 | 50 |
| Security and Business Continuity | - | 90 |
| Other Governance Costs | 49 | 42 |
| Support Costs | <u>149</u> | <u>110</u> |
| | <u>764</u> | <u>793</u> |

Staff costs included within Governance costs comprise the salaries and associated costs of the Director of Corporate Resources, the Company Secretary and the CEO.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

9. Net Incoming Resources

| Net Incoming Resources | 2013 £000's | 2012 £000's |
|-----------------------------------|----------------|----------------|
| This is stated after charging | | |
| Depreciation | 992 | 1,045 |
| Operating leases - property | 247 | 248 |
| - equipment | 208 | 198 |
| Auditors' remuneration | 25 | 26 |
| Fees payable to internal auditors | 16 | 14 |

10. Transfer between Funds

Assets and liabilities totalling £2,082k were transferred by the Medical Research Council to MRCT at the latter's inception in 2000. The consumption of these assets and the settlement of these liabilities have historically been dealt with through the Accumulated Funds. It is now considered that these assets have been fully consumed economically and the liabilities discharged. Consequently the balance of £2,082k on the Expendable Endowment Fund has been transferred to the Accumulated Funds.

£155k has been transferred from the permanent endowment fund to unrestricted funds being the charge for depreciation on long Leasehold Land and Building.

11. Staff

| | 2013 £000's | 2012 £000's |
|-----------------------|----------------|----------------|
| Salaries | 6,835 | 6,109 |
| Social security costs | 670 | 599 |
| Pensions | 789 | 660 |
| Total | 8,294 | 7,368 |

12. Trustees and Employees

The average number of employees, analysed by function, was

| | 2013 | 2012 |
|---------------------|------|------|
| Management | 6 | 5 |
| Research | 64 | 59 |
| Technology Transfer | 27 | 28 |
| Administration | 31 | 30 |
| Total | 128 | 122 |

No remuneration or other benefits have been paid or are payable to any charity trustee or connected persons. Expenses reclaimed are disclosed in note 21.

The number of employees whose emoluments, excluding employer's pension contribution, exceeded £60,000 was

| | 2013 | 2012 |
|---------------------|------|------|
| £60,000 - £70,000 | 11 | 13 |
| £70,000 - £80,000 | 5 | 6 |
| £80,000 - £90,000 | 3 | 3 |
| £90,000 - £100,000 | 2 | - |
| £100,000 - £110,000 | - | 3 |
| £110,000 - £120,000 | 3 | 2 |
| £120,000 - £200,000 | - | - |
| £200,000-£210,000 | - | 1 |
| £210,000-£220,000 | 1 | - |

All of these members of staff were accruing benefits under the Medical Research Council defined benefit pension scheme. Pension contributions payable on behalf of these members of staff amounted to £271,884 (2012 £242,860).

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

13. Tangible Fixed Assets

| | Assets Under Construction | Land and Building | Laboratory Equipment and Plant | Fixture, Fittings and Computers | Total |
|---------------------------------|---------------------------|-------------------|--------------------------------|---------------------------------|--------|
| | £000's | £000's | £000's | £000's | £000's |
| Group and Company | | | | | |
| Cost or Valuation | | | | | |
| At 1 April 2012 | - | 6,178 | 3,548 | 1,221 | 10,947 |
| Revaluation impairment | - | (266) | - | - | (266) |
| Additions | 158 | - | 316 | 110 | 584 |
| Disposals | - | (3) | (319) | (523) | (845) |
| At 31 March 2013 | 158 | 5,909 | 3,545 | 808 | 10,420 |
| Accumulated Depreciation | | | | | |
| At 1 April 2012 | - | 775 | 2,076 | 777 | 3,628 |
| Reclassifications | - | - | (74) | 74 | - |
| Charge for year | - | 243 | 562 | 187 | 992 |
| Revaluation | - | (775) | - | - | (775) |
| Disposals | - | (1) | (191) | (511) | (703) |
| At 31 March 2013 | - | 242 | 2,373 | 527 | 3,142 |
| Net Book Value | | | | | |
| At 31 March 2013 | 158 | 5,667 | 1,172 | 281 | 7,278 |
| At 31 March 2012 | - | 5,403 | 1,472 | 444 | 7,319 |

Long leasehold land and buildings were valued by Edward Symmons, Chartered Surveyors on 28 March 2013 on a depreciated replacement cost basis. As at this date the valuation was £5,055,000 which has been reflected in the financial statements. In the opinion of the Trustees there is no impairment to the valuation of the leasehold land and buildings.

MRCT had no capital commitments at 31 March 2013 and 2012.

14. Fixed Asset Investments

| Company | 2013 £000's | 2012 £000's |
|-------------------------------------|----------------|----------------|
| Subsidiary Undertakings | | |
| AERES Biomedical Limited | - | 443 |
| Investments at market value | 23,565 | 11,535 |
| Total Fixed Asset Investment | 23,565 | 11,978 |

During the year and at the year-end MRCT held 79.7% of the shares in AERES Biomedical Limited. The company is incorporated in the United Kingdom. The principal activity of AERES Biomedical Limited is that of commercial exploitation of intellectual property rights and products in the area of therapeutic antibodies. In November 2012 the Board of Trustees of MRCT agreed a proposal from the executive management team to dissolve the company and transfer the activities of the company back to MRCT. The process for dissolution is being discussed and formalised with the minority shareholders in the company and the process is expected to be completed by the end of 2013. Consequently the company's investment in AERES Biomedical Limited has been reclassified as a current asset investment (refer note 15) and valued at current value.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

14. Fixed Asset Investments (continued)

| Listed investments | 2013 £000's | 2012 £000's |
|---|----------------|----------------|
| Market value at 1 April | 10,973 | 10,769 |
| Acquisitions | 18,900 | 10,654 |
| Sale proceeds | (8,995) | (10,407) |
| Unrealised gains | 1,712 | 13 |
| Realised gains(losses) | 58 | (56) |
| Market value at 31 March | 22,648 | 10,973 |
| Investment held by AERES Biomedical Limited | - | 220 |
| Group market value at 31 March | 22,648 | 11,193 |
| Historical cost at 31 March | 20,553 | 10,454 |

Portfolio Analysis

| | | | |
|---------------------------|---------------|--------|--------|
| Equities | within the UK | 5,252 | 2,960 |
| | overseas | 4,710 | 2,780 |
| Fixed interest securities | within the UK | 8,390 | 1,703 |
| | overseas | 1,109 | 1,190 |
| Alternative investment | | 3,187 | 2,560 |
| | | 22,648 | 11,193 |
| Cash | | 917 | 560 |
| | | 23,565 | 11,753 |

15. Current Asset Investments

| | 2013 £000's | 2012 £000's |
|--|----------------|----------------|
| Term Bank deposits at 1 April | 17,767 | 6,508 |
| Capital invested | 8,330 | 11,000 |
| Interest received | 371 | 259 |
| Market value at 31 March | 26,468 | 17,767 |
| Current Asset Investments - Group | 26,468 | 17,767 |

Subsidiary Undertaking

| | | |
|--|---------------|---------------|
| AERES Biomedical Limited | 443 | - |
| Revaluation | 164 | - |
| | 607 | - |
| Current Asset Investments - Company | 27,075 | 17,767 |

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

15. Current Asset Investments (continued)

A summary of the results of this subsidiary company for the year ended 31 March 2013 is shown below

| | Aeres Biomedical Ltd | |
|---|-----------------------------|---------------|
| | 2013 | 2012 |
| | £000's | £000's |
| Capital and reserves | 760 | 787 |
| Turnover | 221 | - |
| Administrative expenses | (11) | (3) |
| Interest | 2 | 2 |
| Extraordinary item – Investment write off | (220) | - |
| Tax | (19) | - |
| Loss for the year | (27) | (1) |

During the year the investment in Crescendo Biologics Limited held by the subsidiary company was written off

16. Debtors

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £000's | £000's | £000's | £000's |
| Trade debtors | 27 | 19 | 27 | 19 |
| Amounts due from Medical Research Council | 428 | 8,597 | 428 | 8,595 |
| Prepayments and accrued income | 5,109 | 5,063 | 5,109 | 5,063 |
| Other debtors | 28 | 29 | 28 | 29 |
| Deferred Dilapidations Provision | 171 | - | 171 | - |
| | 5,763 | 13,708 | 5,763 | 13,706 |

17. Creditors: amounts falling due within one year

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £000's | £000's | £000's | £000's |
| Trade creditors | 425 | 274 | 425 | 274 |
| Amounts due to Medical Research Council | 459 | 1,442 | 459 | 1,442 |
| Accruals and deferred income | 2,333 | 2,285 | 2,329 | 2,283 |
| Tax creditor | 1,509 | 1,395 | 1,490 | 1,395 |
| PAYE & NI creditor | 257 | 218 | 257 | 218 |
| | 4,983 | 5,614 | 4,960 | 5,612 |

No deferred income had been brought forward at 1 April 2012 or carried forward at 31 March 2013

18. Creditors: amounts falling due after more than one year

| | Group & Company | |
|------------------------------------|----------------------------|---------------|
| | 2013 | 2012 |
| | £000's | £000's |
| Provision for contractual payments | 401 | 52 |

Included in creditors falling due after more than one year are dilapidations provisions for the Edinburgh site and Lynton House

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

19. Analysis of Total Funds as at 31 March 2013

| | Tangible fixed assets | Investments | Net current assets | Creditors due in more than one year | Due to minority interest | Total |
|---------------------------|-----------------------|---------------|--------------------|-------------------------------------|--------------------------|---------------|
| | £000's | £000's | £000's | £000's | £000's | £000's |
| Endowed Funds | | | | | | |
| Permanent Endowment | 5,071 | - | - | - | - | 5,071 |
| Unrestricted funds | | | | | | |
| Accumulated funds | 2,207 | 23,565 | 28,330 | (401) | (153) | 53,548 |
| | <u>7,278</u> | <u>23,565</u> | <u>28,330</u> | <u>(401)</u> | <u>(153)</u> | <u>58,619</u> |

20. Financial Commitments

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

| | Equipment | 2013 Property | Equipment | 2012 Property |
|----------------------------|------------|---------------|------------|---------------|
| | £000's | £000's | £000's | £000's |
| On leases expiring | | | | |
| Within one year | 16 | - | 259 | - |
| Between two and five years | 250 | 30 | 221 | 476 |
| Over five years | - | 236 | - | - |
| | <u>266</u> | <u>266</u> | <u>480</u> | <u>476</u> |

21. Related Party Transactions

- The members of the Board received no remuneration from MRCT for their services as Trustees during the year. However, reimbursements for travel expenses with an aggregate value of £10,807 (2012 - £7,903) were made to five members (2012 - five members). These transactions were carried out on normal commercial terms.
- Trustee Indemnity Insurance was purchased in the year at a cost of £2,092 including insurance premium tax (2012 - £2,072).
- MRCT is associated with the Medical Research Council and received fees of £4,200,000 (2012 - £4,338,000) during the year for the management of the MRC patent portfolio.

At the year end, £428,329 (2012 - £8,957,000) was due from the MRC to MRCT and £458,840 (2012 - £1,442,000) was due to the MRC from MRCT.

22. Pension Commitments

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

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

The total pension contribution charge for the year was £788,950 (2012 - £660,000) and £64,133 was outstanding as contributions at the year end.

The contribution rate for MRCT during the year was 14.9% (2012 - 12.9%). The contribution rates of the employees range from 2.5% to 6.5% depending upon length of service with the weighted average normal contribution rate for members being 6.45%.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

23. Limited Liability

MRCT is limited by guarantee and thus has no share capital

In the event of MRCT being wound up, every member of MRCT undertakes to contribute no more than £1 to the assets of MRCT while they are a member, or within one year after they cease to be a member, for the debts and liabilities of MRCT contracted before they cease to be a member. The number of members at 31 March 2013 was 10 (2012 – 9)

24 Charitable Status

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

25. Contingent Liabilities

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

26. Ultimate Controlling Party

The charitable company is controlled by its members

PRINCIPAL ADVISERS

Auditors

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

Bankers

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

Solicitors

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

Charity Law Advisers

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

Investment Managers and Advisers

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

Schroder and Co , Limited
3rd Floor
100 Wood Street
London, EC2V 7ER

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

Internal Auditors

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

BOARD OF DIRECTORS

Board of Directors

John Jeans (Chairman)
Michael Brooks
Peter Keen Appointed 5 February 2013
Diane Mellett
Declan Mulkeen
Sir Hugh Pelham Resigned 28 June 2012
David Quysner
Ian Skidmore
Stephen Smerdon Resigned 28 June 2012
Sir Philip Cohen Appointed 28 June 2012
Annette Doherty Appointed 28 June 2012
Mark Edwards

Subcommittees of the Board

Audit and Risk Management Committee

David Quysner (Chairman)
Michael Brooks
Diane Mellett

Investment Management Committee

David Quysner (Chairman)
Michael Brooks
Diane Mellett

Remuneration Committee

John Jeans (Chairman)
Michael Brooks
David Quysner

Nominations Committee (Established June 2012)

John Jeans (Chairman)
Michael Brooks
David Quysner

Scientific Committee (Established June 2012)

Ian Skidmore (Chairman)
Sir Philip Cohen
Annette Doherty
Mark Edwards

Executive Management

Justin Bryans - Director, Drug Discovery
Peter Crowne - Director, Finance (Appointed 19 June 2012)
Michael Dalrymple - Director, Business Development
Mike Johnson - Director, Corporate Partnerships
Carol Moore - Director, Intellectual Property and Licensing
Neil Shearer - Director, Corporate Resources (Resigned 31/01/13)
Dave Tapolczay - C E O

Company Secretary

Jane Fisher (Resigned 20 April 2013)
Erica Wilkinson (Appointed 20 April 2013)