For immediate release

4 October 2017

Avacta Group plc
("Avacta" or "the Group" or "the Company")

Preliminary Results for the Year Ending 31 July 2017

Further significant progress in the Affimer therapeutics programmes

Commercial traction for Affimer reagents building and multiple licenses agreed

Avacta Group plc (AIM: AVCT), the developer of Affimer® biotherapeutics and reagents, is pleased to announce its unaudited preliminary results for the year ending 31 July 2017.

Operating Highlights

Affimer Therapeutics

- Significant de-risking of the broader Affimer biotherapeutic opportunity
- Discovery programme delivering a pipeline of Affimers to important immuno-oncology targets
- Excellent progress in lead immuno-oncology programme (PD-L1 inhibitor): Programme remains on track to be ready for first-in-man clinical trials in 2019
- Partnership with Moderna expanded to include more drug targets
- Collaboration signed with Sloan Kettering Cancer Center to show potential of Affimer based CAR-T therapies: reporting H1 2018
- Collaboration with Glythera established to demonstrate suitability of Affimers as the targeting molecule in drug conjugates: reporting H2 2017

Affimer Research and Diagnostics Reagents

- Strong growth in pipeline of paid-for Affimer technology evaluations with order book up 91% YOY. Focus on licensing opportunities with pharma, biotech, diagnostic and reagents companies
- Evaluations now beginning to deliver licensing agreements and repeat business that will underpin medium and long term revenue growth

Financial Highlights

- Group revenues increase 26% to £2.74m (2016: £2.17m)
    - Avacta Life Sciences revenue £1.15m (2016: £0.70m), in line with market expectations
    - Avacta Animal Health revenue £1.59m (2016: £1.46m)
- Loss from continuing operations £6.37m (2016: £4.65m)
- Loss per share increased to 9.31p (2016: 6.86p)
- Cash balances at £13.17m (2016: £19.52m) well ahead of market expectations
- Net assets as at 31 July 2017 £29.89m (2016: £35.86m)

Other Highlights

- Affimer intellectual property portfolio expanded
- Two new facilities completed in Wetherby and Cambridge totaling around 20,000 sq ft

Dr Alastair Smith, Avacta Group Chief Executive Officer, commented:
"The past twelve months have been an exceptionally strong period of performance and we have never been more excited about the potential for the Affimer technology.

The commercial traction for Affimer reagents has continued to build which is reflected in the strong growth in the number of technology evaluations and license deals that have been agreed. The first license deal with a global diagnostics company represents a significant milestone and we are confident of delivering further license deals which are key steps on the path to building a profitable Affimer reagents business.

Major milestones that have been delivered in the past year include the positive outcome of the first animal efficacy data and excellent results from a major immunogenicity trial on human samples. The pipeline of immuno-oncology assets now includes Affimers for T-cell recruitment and co-stimulatory receptor agonists which plays to the key technical strengths of the Affimer technology for immuno-oncology. The progress with the lead PD-L1 inhibitor programme, and the overall de-risking of the Affimer therapeutic platform, has been outstanding.

These technical successes have, as expected, generated growing interest from potential partners and we continue to work with them providing data and supporting technology evaluations that will eventually lead to licensing deals.

Antibodies have become the dominant technology in markets worth in excess of $100 billion annually and this is despite some significant limitations. The opportunity therefore, for a competitive alternative such as the Affimer technology, is very large.

We believe that 2018 could be a very significant year for the Group and I look forward to further updating the market on future progress."

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To see the research report produced by Capital Network that analyses our preliminary results, please click on the link below:

Link to report: https://goo.gl/dpPeV2

About Avacta Group plc (www.avacta.com)

Avacta's principal focus is on its proprietary Affimer® technology which is a novel engineered alternative to antibodies that has wide application in Life Sciences for diagnostics, therapeutics and general research and development.

Antibodies dominate markets worth in excess of $50bn despite their shortcomings. Affimer technology has been designed to address many of these negative performance issues, principally; the time taken to generate new antibodies, the reliance on an animal's immune response, poor specificity in many cases, and batch to batch variability. Affimer technology is based on a small protein that can be quickly generated to bind with high specificity and affinity to a wide range of protein targets.

Avacta has a pre-clinical biotech development programme with an in-house focus on immuno-oncology and bleeding disorders as well as partnered development programmes. Avacta is commercialising non-therapeutic Affimer reagents through licensing to developers of life sciences research tools and diagnostics.

Chairman and Chief Executive Officer's Statement

Overview

2017 has been a year of excellent technical and commercial progress for Affimer® research and diagnostic reagents together with substantial de-risking of the Affimer technology as a therapeutic platform.

Major steps forward have been taken with the substantial de-risking of the Affimer technology as a therapeutic platform through the excellent results from a large immunogenicity trial on human samples and through the first demonstration of efficacy in an animal model. The ongoing Affimer drug discovery programme is also delivering a pipeline of valuable Affimer binders to other important immuno-oncology targets that will be developed both in-house and through licensing.

In our lead immuno-oncology programme (a PD-L1 blocker) we are well on the way towards selecting a candidate Affimer to go into detailed pre-clinical studies. This progress keeps the company on track to be ready to begin first-in-man trials of an Affimer therapeutic in 2019 – a major milestone for the technology and Company.

The research partnership with Moderna has expanded to include more drug targets and the collaborations with Memorial Sloan Kettering Cancer Center and Glythera continue to progress towards important proof-of-concept data for Affimer based CAR-T therapy and drug conjugates that will create opportunities to license the Affimer technology for these applications.

The progress in the Group's therapeutic programme is also mirrored by strong commercial progress of the reagents business unit. There has been strong growth in the pipeline of paid-for Affimer technology evaluations for research and diagnostics applications with the order book up 91% YOY, including a growing number of repeat customers. These evaluations are now beginning to deliver licensing agreements and repeat business that will underpin medium and long-term revenue growth including the first license for development agreed with one of the top three global diagnostics companies.

Critical to delivering commercial license deals for both therapeutic and non-therapeutic applications is data demonstrating the benefits of Affimers compared with antibodies that will support significant licensing terms. The generation of these data in a wide range of application areas is the focus of the Group's activities in the near term.

Outlook

Antibodies have become the dominant technology in markets worth in excess of $100 billion annually and this is despite some significant limitations. The opportunity therefore, for a competitive alternative such as the Affimer technology, is very large.

Avacta is generating revenues and aims to build a profitable business unit over the medium term in the minimally regulated, low-risk life sciences research tools and diagnostics markets, and to deliver to shareholders a significant upside from its Affimer drug pipeline. The Group has made substantial technical and commercial progress towards these key strategic goals during the past twelve months.

We are very excited by the potential of the Affimer technology and look to the future with confidence of further technical and commercial progress.

Trevor Nicholls
Non-executive Chairman
3 October 2017

Alastair Smith
Chief Executive Officer
3 October 2017

Chief Executive's Review

Introduction to Avacta

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:

- antibodies are often not specific to the target and cross-react with other targets causing uncertainty in the results that are obtained;
- 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 signaling 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 some limitations arising from the nature of the target.

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 the small size leads to better sample penetration or a higher density of binding sites on a surface. Their small size and ease with which they can be modified means that the amount of time a therapeutic Affimer molecule stays in the blood stream 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. The opportunity therefore, 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 Business Model and Strategy

Avacta is addressing both therapeutic and non-therapeutic opportunities for Affimer technology. The Group is focused on building a profitable business through licensing of Affimer reagents to research tools and diagnostics developers to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and licensing.

Affimer Research and Diagnostics Reagents Business Review

Avacta has chosen to focus initially on three large application areas where Affimers have clear technical benefits over antibodies as research and diagnostics reagents. Those are: immunoassays, separations and rapid diagnostics.

The Group has also adopted a licensing business model and in order to secure licensing deals for Affimer reagents to build a longer term royalty based revenue stream we provide custom Affimers on a fee-for-service basis to allow the potential licensee to evaluate Affimers specific to their target in their application. In addition, the Group undertakes in-house R&D to generate technical marketing data demonstrating the benefits of Affimer reagents in various applications to support business development activities.

During the reporting period, significant progress has been made both in building the pipeline of evaluations, which is reflected in an increase in custom Affimer order book of 91% YOY, and in generating the data packs that support business development.

Examples of the evaluations that are ongoing are:

- A large North American bioprocessing company is evaluating Affimer reagents that will allow them to separate therapeutic products from complex biological samples without cross-reacting against similar products in the samples. Affimers have been generated that are specific to the products of interest and do not cross react with other products. These Affimers have been assessed at small scale by the partner who is now scaling up the process for further evaluation.

- A global consumer test developer is evaluating Affimer reagents for point-of-care testing to make an existing consumer test more specific, sensitive and user friendly in the read-out format. Affimers have been identified that bind the target requested by the third party that convert the assay into the more user-friendly format. The evaluation of the Affimer reagents in the rapid diagnostic is ongoing.

Importantly, this pipeline of evaluations, that has been building for over a year, is now beginning to deliver licensing agreements and repeat business that will underpin medium and long-term revenue growth. A major milestone was achieved during the reporting period in that the first license for development was agreed with one of the top three global diagnostics companies. This followed successful evaluation of multiple Affimers which were developed to capture a particular marker of disease in blood whilst not cross-reacting with other markers to which existing antibodies do cross-react. This work should lead to a wider relationship with this larger global diagnostics company as well as the potential commercial exploitation of the licensed Affimers.

More than ten Affimer R&D licenses have been agreed following successful custom Affimer projects which allow the third party to use the Affimers generated for in-house R&D in assays to support clinical studies for example, or enabling new R&D experiments to be carried out, and repeat business is being generated.

Further evidence of the rapidly building momentum can be seen in the number of recent scientific publications from third parties using Affimers which in the past twelve months totals seven, double the number in the previous twelve months. These scientific papers include a wide range of imaging applications, biosensors and diagnostics and they have a very positive contribution to building awareness of the Affimer technology across the life sciences market.

With clear commercial traction established and momentum building, the key objectives for the Affimer reagents business unit in order to build a profitable revenue stream are:

- Conversion of evaluations into license deals that will ultimately lead to royalty revenue;
- Growing the evaluations pipeline and repeat custom Affimer business;
- Generation of technical marketing data supporting the business development efforts and opening up new applications outside of the three initial focus areas.

Affimer Therapeutics Development Review

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 which 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.
- 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 further partnering/licensing deals.

In order to meet the first objective and progress an Affimer into the clinic as quickly as possible the Group decided to select a drug target that was relatively well known and therefore presented lower risk in terms of the target biology. The immune checkpoint PD-L1 was selected for this purpose.

Partnering/licensing deals will be secured based on having Affimer proteins with beneficial clinical effects and having substantial data packs to support the valuations of those assets. The strategy to build the pipeline is to leverage the key technical benefits of Affimers listed above to create assets that are differentiated from antibody and other technologies. The strategy may be summarised as follows:

- Since Affimers are good for creating multimers, the Group has chosen to focus its in-house development programmes in two areas that require multimers: T-cell recruitment and agonism.

- Since Affimers are small, robust and easily produced by cells and tissues the Company has worked to secure collaborations in gene delivery, CAR-T and drug conjugates where these properties are key benefits. In order to keep resources focused on in-house programme milestones, Affimer proteins that are being developed for the in-house programme are being used where possible for these collaborations.

AVA-004 PD-L1 Programme Update

There has been excellent progress during the reporting period in the lead immuno-oncology programme – a PD-L1 inhibitor. PD-L1 (Programmed Death Ligand 1) is an immune-checkpoint protein that appears on the surface of a tumour cell to "fool" the immune system into "thinking" that the tumour cell is a healthy cell and should be left alone. By blocking the PD-L1 on the surface of a tumour cell, the cell cannot "hide" from the immune system which will then attack it as an aberrant cell.

The Group has now generated multiple Affimer PD-L1 inhibitors and formatted them to create therapeutic molecules that remain in the blood stream for long enough to have a therapeutic effect.

During the reporting period, the efficacy of an Affimer PD-L1 inhibitor was demonstrated in an animal model showing a reduction in tumour growth rate comparable with the benchmarking antibody that was used in the study. This is the first time that the efficacy of an Affimer has been demonstrated *in vivo* and as such is a major technical milestone for the technology. It shows that the Affimer remained functional *in vivo,* and was available in the serum for long enough to have a clinical effect and that it had the desired clinical effect. The study also went on to show that the biological effect of the Affimer antagonist was observed as expected, i.e. there was an increase in certain immune system cells in the environment of the tumour comparable again with the biological effects of the benchmarking antibody.

A lead Affimer inhibitor of PD-L1 has now been selected for further development during 2018 which includes further *in vivo* studies and manufacturing development with the objective of being ready for the first-in-man clinical trial beginning in 2019.

Affimer Technology Development Update

Excellent progress has been made in expanding the pre-clinical dataset that demonstrates the performance benefits of Affimer technology and answers key questions that significantly de-risk the broader Affimer biotherapeutic opportunity.

A second major development milestone for the technology was achieved during the reporting period with the excellent results of the first major immunogenicity trial on human samples. This trial, which used human peripheral blood mononuclear cells in a standard industry trial format, showed that the basic Affimer technology was not immunogenic i.e. did not produce an unwanted immune response from human cells. This is a significant de-risking of the Affimer platform in the eyes of potential large pharma partners and collaborators.

As mentioned above, the first animal efficacy data for an Affimer was generated which showed that the Affimer therapeutics (in this case a PD-L1 inhibitor) had the pharmacokinetic profile (time spent in the blood stream) and was functional *in vivo* to produce a clinical effect of reducing the tumour growth rate in a CT26 syngeneic tumour model. This was the first demonstration of an Affimer having a clinical effect in an animal and is another major step in de-risking the technology from the perspective of potential licensees. The Affimers for this study were generated, characterized, put into an animal model and the data analysed in only nine months. This very rapid time scale from discovery to animal efficacy data is a major advantage of the technology compared with antibodies and other non-antibody technologies.

A range of different formats (ways of combining Affimer molecules with each other and with other proteins) have been produced and the production yields of several important therapeutic Affimer formats have been confirmed.

The serum half life (time spent by the molecule in the blood stream after injection) is a critical factor in the success of a therapeutic. Small proteins like Affimers are below the renal cut-off and are therefore cleared from the blood stream by the kidneys into the urine very quickly. In many therapeutic applications in which the drug is delivered systemically (by injection) the result of this is that the drug does not spend enough time in the blood stream for a clinically relevant dose to reach the site of action. The serum half-life must therefore be extended in some way and it is essential to demonstrate that this can be done with a new platform technology such as Affimer proteins.

The Group has shown that by formatting Affimer proteins (attaching them to a larger protein such as the Fc region of an antibody) an acceptable serum half-life can be obtained. It is also highly beneficial to be able to tailor the half-life within a range and in order to do this the therapeutic Affimer is "piggy-backed" on a large protein in the blood (serum albumin) but attached only weakly so that it drops off the serum albumin when the therapeutic Affimer engages with its target. The serum half-life extension produced by this "piggy backing" can be tailored by controlling how tightly it binds to the serum albumin.

The Group has therefore initiated a programme to generate serum albumin binding Affimers and has successfully generated a range of Affimers with different affinities for this target which are now going into pharmacokinetic studies to measure the effects on serum half-life.

Pipeline Update

Avacta has an ongoing drug discovery programme delivering a pipeline of Affimer proteins that bind to other important IO targets. The pipeline development strategy is based on the key technical benefits of

Affimer technology as described above and focuses on T-cell recruitment and agonism.
CD3e (T-cell targeting) and CD19 (tumour targeting) are the primary T-cell recruitment programmes and are in the early discovery phase. Selections are also beginning with other tumour targets (CD22, 5T4) to facilitate the development of dual targeting T-cell recruiters in the longer term.

Affimer selections have begun with two agonist targets (CD27 and GITR) and Affimer binders have been generated to a second immune checkpoint (LAG3) which can be combined with PD-L1 in a bispecific format.

A number of other Affimer binders to other IO targets have been generated to demonstrate the speed and broad applicability of the Affimer platform.

Partnerships Update

In 2015 Avacta entered into a collaboration, licensing and option agreement with Moderna Therapeutics. Under the terms of the agreement, Moderna made an upfront payment of $500,000 which provides them with exclusive access to Affimer molecules that bind certain targets which may be extended to include additional targets by a further payment. Moderna is also making certain payments to Avacta for research services to deliver pre-clinical development milestones.

Moderna has the option to enter into exclusive license agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.

The Group is limited by confidentiality in what it can say about the progress within the Moderna collaboration but the programme is progressing well and, during the reporting period, expanded to include more drug targets.

Avacta Animal Health Review

Business and strategy

Our strategy is to provide vets, directly and through partner laboratories, with solutions that enable them to diagnose and treat companion animals more effectively. Avacta Animal Health has an established specialism in allergy diagnostics, a growing expertise in the use of data in diagnostics and ongoing developments in antimicrobial resistance.

To do this we develop, manufacture or source, then market and support diagnostic solutions and related treatments. We work closely with leading experts in academia and industry (Key Opinion Leaders or "KOLs") and aim to present vets with well researched and evidenced tools that enable faster and more reliable decisions in practice.

Competitive strengths

Our aim is to be different to our competitors in a number of ways, each presenting value to our customers: -

- we develop and manufacture most of our own products allowing us to provide the highest level of insight and support
- we add to established services to provide a more complete solution
- we provide especially strong frontline customer service, with in-house veterinary support and specialist KOL assistance
- we have an innovative and well-resourced research and development team, and
- we have access to proprietary Avacta Life Sciences technology.

Market focus

Our customers are companion animal vets and the laboratories serving them. We listen to their feedback through surveys, our sales and customer services teams and our Veterinary Advisory Board.

We are privileged to work with Jason Atherton, Laura Playforth, Mark Dunning and Kirsten Pantenburg as our Veterinary Advisory Board members and they help to inform our development and commercial choices.

Our partner laboratories serve much of Continental Europe as well as parts of the Asian market and the US.

Development focus

Our development priorities are increasingly set by market feedback and then driven by our R&D team towards new assays, algorithms or delivery methods. We involve and work closely alongside industry KOLs from the UK and the US to ensure our work is based upon the latest and best research available.

During this financial year our immediate development efforts have been increasingly focused on allergy and this has led to additional offerings, launched in September. We now offer a more complete allergy service supporting vets through much of their work up process.

Long term development ambitions are to deliver more data-led innovations and to provide one or more point of care tests that help achieve the appropriate use of antibiotic treatments.

Financial Review

Revenue

Reported Group revenues grew to £2.74 million, an increase of 26% (2016: £2.17 million). Revenues for the Affimers business, Avacta Life Sciences, increased to £1.15 million (2016: £0.70 million) as the number of custom Affimer projects increased. Revenues in Avacta Animal Health increased to £1.59 million (2016: £1.46 million) as a result of growing sales from pet/equine allergy tests.

Research and development costs

During the year the Group expensed through the income statement £2.60 million (2016: £1.50 million) in relation to research and development costs. Within the amount expensed, £1.94 million (2016: £0.93 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 £0.57 million (2016: £0.57 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

Furthermore, development costs amounting to £1.41 million (2016: £1.73 million) were capitalised within intangible assets.

Administrative expenses

Administrative expenses have increased during the year to £7.18 million (2016: £5.43 million) as the scale of the Affimer business operations continued to increase, with full year costs of the increased development, production and sales teams. Depreciation increased to £0.93 million (2016: £0.60 million) following the completion of the new laboratory facilities in Cambridge and Wetherby at the end of the prior year.

Losses before taxation

Losses before taxation from continuing operations for the year were £7.89 million (2016: £5.57 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 £1.53 million (2016: £0.92 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 £13.17 million at 31 July 2017 (2016: £19.52 million).

Operating cash outflows from operations amounted to £4.24 million (2016: £4.23 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.75 million (2016: £0.57 million) which represented tax refunds for the 2015 and 2016 financial years.

During the year capital expenditure of £0.66 million (2016: £2.86 million) was significantly lower than the prior year when the new facilities at the Cambridge and Wetherby sites were completed.

Financial position

Net assets as at 31 July 2017 have reduced to £29.89 million (2016: £35.86 million) as a result of the losses incurred during the year of £6.37 million and the corresponding reduction in cash and short-term deposits.

Events since the end of the financial year

There are no events to report which have occurred since the end of the financial year.

Principal Risks and Uncertainties

The principal risks and uncertainties which 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 review the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories.

Funding

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

As at 31 July 2017 the Group had cash and short-term deposits of £13.17 million which would provide sufficient funds over the next 18 – 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 management 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 which will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies.

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 recently relocated to 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.

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

Alastair Smith
Chief Executive Officer
3 October 2017

Tony Gardiner
Chief Financial Officer
3 October 2017

Consolidated Income Statement for the year ended 31 July 2017

	Note	**2017** **£000**	2016 £000
Revenue		**2,735**	2,165
Cost of sales		**(941)**	(895)
Gross profit		**1,794**	1,270
Research and development costs		**(2,597)**	(1,500)
Administrative expenses		**(7,178)**	(5,434)
Operating loss		**(7,981)**	(5,664)
Financial income		**88**	99
Loss before taxation from continuing operations		**(7,893)**	(5,565)
Taxation		**1,526**	918
Loss and total comprehensive loss for the year attributable to equity shareholders		**(6,367)**	(4,647)
Loss per ordinary share:			
- Basic and diluted	4	**(9.31p)**	(6.86p)

Consolidated Balance Sheet as at 31 July 2017

	2017	2016
	£000	£000
Non-current assets		
Intangible assets	**12,299**	11,480
Property, plant & equipment	**3,453**	3,738
	15,752	15,218
Current assets		
Inventories	**158**	268
Trade and other receivables	**1,277**	1,128
Income taxes	**1,200**	1,418
Short term deposits	**4,000**	10,000
Cash and cash equivalents	**9,166**	9,521
	15,801	22,335
Total assets	**31,553**	37,553
Current liabilities		
Trade and other payables	**(1,324)**	(1,357)
Contingent consideration	**(340)**	(340)
Total liabilities	**(1,664)**	(1,697)
Net assets	**29,889**	35,856
Equity attributable to equity holders of the Company		
Share capital	**6,917**	6,915
Share premium	**633**	621
Capital reserve	**1,899**	1,899
Other reserve	**(1,729)**	(1,729)
Reserve for own shares	**(2,651)**	(2,651)
Retained earnings	**24,820**	30,801
Total equity	**29,889**	35,856

Consolidated Statement of Changes in Equity for the year ended 31 July 2017

	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 2015	5,057	35,756	(1,729)	2,669	(1,590)	(21,031)	19,132
Total transactions with owners, recorded directly in equity:							
Placing net of related expenses	1,760	19,255	-	-	-	-	21,015
Exercise of share options	8	76	-	-	-	-	84
Share premium cancellation	-	(55,437)	-	-	-	55,437	-
Own shares acquired	90	971	-	-	(1,061)	-	-
	1,858	(35,135)	-	-	(1,061)	55,437	21,099
Total comprehensive loss for the period	-	-	-	-	-	(4,647)	(4,647)
Share based payment charges	-	-	-	-	-	272	272
Transfer[1]	-	-	-	(770)	-	770	-
At 31 July 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**

1 - The transfer of equity from the capital reserve to retained earnings relates to share option warrants which expired.

Consolidated Statement of Cash Flows for the year ended 31 July 2017

	2017	2016
	£000	£000
Cash flow from operating activities		
Loss for the year	**(6,367)**	(4,647)
Amortisation and impairment losses	**651**	642
Depreciation	**932**	604
Loss on disposal of property, plant and equipment	**11**	67
Reduction of contingent consideration	**-**	(443)
Equity settled share based payment charges	**386**	272
Financial income	**(88)**	(99)
Income tax credit	**(1,526)**	(918)
Operating cash outflow before changes in working capital	**(6,001)**	(4,522)
Decrease in inventories	**110**	65
Increase in trade and other receivables	**(125)**	(361)
Decrease in trade and other payables	**(58)**	(80)
Operating cash outflow from operations	**(6,074)**	(4,898)
Finance income received	**88**	99
Income tax received	**1,745**	566
Cash flows from operating activities	**(4,241)**	(4,233)
Cash flows from investing activities		
Purchase of plant and equipment	**(658)**	(2,863)
Development expenditure capitalised	**(1,470)**	(1,762)
Decrease/(increase) in balances on short term deposit	**6,000**	(10,000)
Net cash flow from investing activities	**3,872**	(14,625)
Cash flows from financing activities		
Proceeds from issue of shares	**14**	21,049
Net cash flow from financing activities	**14**	21,049
Net (decrease)/increase in cash and cash equivalents	**(355)**	2,191
Cash and cash equivalents at the beginning of the year	**9,521**	7,330
Cash and cash equivalents at the end of the year	**9,166**	9,521

Notes to the unaudited preliminary results to 31 July 2017

1 General information

These preliminary results have been prepared on the basis of the accounting policies which are to be set out in Avacta Group plc's annual report and financial statements for the year ended 31 July 2017.

The consolidated financial statements of the Group for the year ended 31 July 2017 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU ("adopted IFRSs") and applicable law.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 July 2017 or 2016 but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2017 will be respectively delivered and distributed on or before 1 December 2017. The auditors have reported on those financial statements and their reports were:

(i) unqualified;
(ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect if the financial statements for 2016 or 2017.

2 Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

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.

The Group's activities, together with the factors likely to affect its future development, performance and position are set out in the Joint Chairman's and Chief Executive Officer's Statement and Operational Review. The financial position of the Group, its financial performance and its cash flows and liquidity position are described there also and within the financial statements presented.

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 Group is able to meet its liabilities as they fall due for the foreseeable future.

The Financial Reporting Council issued "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" in 2009, 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 2017. 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 2017 the Group's short-term deposits and cash and cash equivalents were £13.17 million (2016: £19.52 million).
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2019. These show that the Group has sufficient funds available to meet its obligations as they fall due into the 2019 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 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.

3 Segmental Reporting

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)**

	Life Sciences £000	Animal Health £000	**Total £000**
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)**

Operating segment analysis 2016

	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	674	**674**
Provision of services	704	787	**1,491**
Revenue	**704**	**1,461**	**2,165**
Cost of goods sold	(451)	(444)	**(895)**
Gross profit	**253**	**1,017**	**1,270**
Research and development costs	(1,306)	(194)	**(1,500)**
Administrative expenses	(2,671)	(1,113)	**(3,784)**
Segment operating loss	**(3,724)**	**(290)**	**(4,014)**
Corporate and other unallocated items			**(1,650)**
Operating loss			**(5,664)**
Finance income			**99**
Loss before taxation			**(5,565)**
Taxation			**918**
Amount attributable to equity holders of the Company			**(4,647)**

	Life Sciences £000	Animal Health £000	**Total £000**
Segment intangible assets	7,481	3,999	**11,480**
Segment other assets	5,986	362	**6,348**
Segment assets	**13,467**	**4,361**	**17,828**
Corporate and other unallocated items			**19,725**
Total assets			**37,553**
Segment liabilities	**(946)**	**(173)**	**(1,119)**
Corporate and other unallocated items			**(578)**
Total liabilities			**(1,697)**

4 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. 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.

	2017	2016
Loss (£000)	**(6,367)**	(4,647)
Weighted average number of shares (number)	**68,389,839**	67,713,817
Basic and diluted loss per ordinary share (pence)	**(9.31p)**	(6.86p)

- Ends -