

PureTech Health plc  
Annual report and accounts 2017

**Building the biopharma  
company of the future**





### PureTech Health

PureTech Health, plc (HQ: Boston, MA; LSE: PRTC) ("PureTech Health", "PureTech" or the "Company") is developing novel medicines that target serious diseases resulting from dysfunctions in the nervous, immune, and gastrointestinal systems (brain-immune-gut or the "BIG" axis).

### Moving Medicine Forward

The PureTech Health team is dedicated to tackling some of the most important health issues facing society today in order to positively impact patients' lives and generate significant value for PureTech's shareholders. PureTech's entrepreneurial and capital-efficient innovation engine is pioneering new categories of medicine with a potentially superior risk-benefit profile over existing treatment options.

Built from our unique insights and those of our network of world-renowned collaborators, PureTech's novel therapeutics harness the brain-immune-gut (BIG) axis across a range of indications where the role of the immune system has not historically been appreciated. PureTech Health is building the biopharmaceutical company of the future with:

- a seasoned management team of business leaders with proven successes in developing new medicines and creating significant value, an outstanding Board of actively-engaged industry pioneers and academic stalwarts, and an extensive network of leading scientific experts from around the world;
- relationships with leading pharmaceutical companies or their investments arms, including Pfizer, Shire, Janssen Biotech Inc., Eli Lilly, Amgen Ventures, Merck Ventures BV<sup>2</sup>, and Novartis;
- an innovative and entrepreneurial culture poised to bring ground-breaking new medicines to patients; and
- a strong and growing IP portfolio providing long periods of exclusivity for our innovative product candidates.

<b>Overview</b>	Corporate and Social Responsibility	55
Highlights of the Year	Directors' Report	58
Pipeline	Report of the Nomination Committee	64
Letter from the Chairman	Report of the Audit Committee	65
	Directors' Remuneration Report	67
	Directors' Remuneration Policy	69
	Annual Report on Remuneration	73
<b>Strategic report</b>	<b>Financial statements</b>	
Letter from the Chief Executive Officer	Independent Auditor's Report to the Members of PureTech Health plc	80
Letter from the Chief Scientific Officer	Consolidated Statements of Comprehensive Income/(Loss)	88
How PureTech Health is building value for investors	Consolidated Statements of Financial Position	89
Programme snapshots	Consolidated Statement of Changes in Equity	90
	Consolidated Statements of Cash Flows	92
	Notes to the Consolidated Financial Statements	93
	PureTech Health plc Statement of Financial Position	132
	PureTech Health plc Statement of Changes in Equity	133
	PureTech Health plc Statement of Cash Flows	134
	Notes to the Financial Statements	135
	Directors, Secretary, and Advisors to PureTech Health plc	IBC
<b>Governance</b>		
Risk management		36
Viability		39
Key performance indicators		40
Financial review		41
Chairman's overview		45
Board of Directors		46
Management team		49
The Board		51

1 Group cash and short-term investments includes consolidated cash and short-term investments plus the cash and short-term investment position of Independent Affiliates which are not included in our consolidated statement of financial position

2 Merck Ventures BV, Amsterdam, The Netherlands, a subsidiary of Merck KGaA, Darmstadt, Germany, known as M Ventures in the United States and Canada, is the strategic, corporate venture capital arm of Merck KGaA, Darmstadt, Germany.

## Highlights of the Year – 2017

2017 PureTech cash and short-term investments

**\$126.7m<sup>3</sup>**

2016: \$192.1m  
2015: \$255.5m  
2014: \$53.2m

2017 consolidated cash and short-term investments

**\$188.7m<sup>3</sup>**

2016: \$281.5m  
2015: \$313.7m  
2014: \$62.7m

2017 group cash and short-term investments (APM)

**\$242.1m<sup>3,4</sup>**

2016: \$281.5m  
2015: \$313.7m  
2014: \$62.7m

Amount of funding secured for affiliates

**\$102.9m<sup>3,5</sup>**

2016: \$98.2m  
2015: \$74.6m  
2014: \$8m

Cumulative number of patents and patent applications

**521<sup>6</sup>**

2016: 288  
2015: 209  
2014: 111

Number of partnerships entered

**8<sup>5</sup>**

2016: 6  
2015: 4  
2014: 2

Number of theme-based technologies sourced<sup>5</sup>

**951<sup>5</sup>**

2016: 918  
2015: 776  
2014: 521

In 2017, PureTech Health made significant progress across its advanced pipeline of seven clinical and seven preclinical programmes focused on the crosstalk and biological processes associated with the brain-immune-gut (BIG) axis. The Group reported positive clinical results from two pivotal stage affiliates, Akili and Gelesis, and other affiliates continued to advance innovative candidates through clinical development:

- Akili achieved the primary endpoint in a pivotal trial of its investigational digital medicine for paediatric ADHD and plans to file for US FDA approval in the second quarter of 2018.
- Gelesis achieved significant weight loss with an excellent safety profile in its pivotal clinical trial with Gelesis100. The study achieved and exceeded one of two co-primary endpoints and Gelesis plans to file for US FDA approval in the second quarter of 2018 and for a European CE Mark in the second half of 2018. Gelesis also initiated a six-month efficacy proof-of-concept study in people with prediabetes or untreated diabetes for its second product candidate, Gelesis200.
- resTORbio initiated a Phase 2b clinical study in respiratory tract infections in the elderly, with results expected in the second half of 2018. In the January 2018 post-period, resTORbio successfully listed on NASDAQ (TORC) with gross proceeds of \$97.8 million.
- Vedanta Biosciences initiated a Phase 1a/1b clinical trial of VE303, its lead, orally-administered product candidate for recurrent *C. difficile* infection.
- Karuna developed a single capsule co-formulation of its proprietary product candidate (KarXT) for the treatment of schizophrenia and other disorders and is testing the co-formulation in a dose-ranging study in healthy volunteers.
- Sonde generated and analysed voice data from over 3,000 subjects as part of the ongoing validation of its vocal biomarker technology for the detection of depression, suicidality, and Parkinson's disease. Sonde has also initiated research and development to expand its proprietary technology in Alzheimer's disease, respiratory disease, cardiovascular disease, and other conditions.
- Follica progressed toward the initiation of the RAIN pivotal clinical study in androgenetic alopecia as well as the identification and testing of next-generation, proprietary compounds.

PureTech Health has also grown its immunology-focused internally-funded pipeline by generating compelling pre-clinical data, forging collaborations with leading experts, and securing key intellectual property for:

- an approach harnessing the lymphatic system that transports certain immunomodulatory drugs directly into the mesenteric lymph nodes where they can directly affect immune cell priming and proliferation. This approach has the potential to more effectively treat cancer and inflammatory and auto-immune diseases with an improved safety profile, while also enabling oral administration of medicines that otherwise would not be orally bioavailable;
- a milk exosome-based technology designed to enable the oral administration of biologics, nucleic acids (e.g. siRNA, mRNA, antisense oligonucleotides, CRISPR nucleic acid), and complex small molecules; and
- a novel cell therapy approach involving engineered immune cells recruited and activated in a tissue selective manner and programmed with disease modifying activities for the potential treatment of cancer, inflammation, autoimmune disorders, and neuroinflammatory disorders.

The Group continued to build on its leading intellectual property position, with more than 500 owned and licensed patents and patent applications as of 31 December 2017, including:

- 10 new foundational patents issued in the US and Japan for Vedanta Biosciences' microbiome platform technology;
- additional composition of matter, methods of use, and methods of making allowances in the EU, Japan, Russia, and South Korea for the Gelesis weight loss and gastrointestinal disorders technology;
- broad coverage for methods of assessing mental and physical conditions from human speech for the Sonde vocal biomarkers technology; and
- broad coverage in the US and Japan for Akili's unique digital mechanism for assessing and improving cognitive function (post-period).

3 PureTech's recent placing with gross proceeds of approximately \$100.0 million, resTORbio's IPO with \$97.8 million in gross proceeds and the Gelesis fundraising of \$30.0 million occurred in the 2018 post-period and are therefore not included in these figures.

4 Group Cash is an alternative performance measure (APM) which includes cash reserves held at Independent Affiliates of \$53.4 million that are not included in the consolidated statement of financial position. Group Cash is therefore considered to be more representative of the Group's cash available to advance product candidates within its independent affiliates, growth stage affiliates and project stage programmes, as the cash held at independent affiliates not included in Consolidated Cash will be invested in activities that could ultimately result in value accretion for the Group.

5 Number represents figure for the relevant fiscal year only and is not cumulative.

6 This number does not include issued patents or patent applications exclusively licensed or owned by independent affiliate, resTORbio.

# Our affiliate pipeline

For internally-funded pipeline, see page 9

Our affiliate pipeline — continued



## Brain

Mechanism	Indication(s)	Affiliate/ownership <sup>8</sup>	Preclinical	Phase 1	Phase 2	Phase 3
Cognitive Interference Processing	Paediatric ADHD, MS, Depression	Akili 54.3%	█	█	█	█
Selective Muscarinic Receptor Agonists	Schizophrenia, Alzheimer's Disease, Bipolar Disorder	Karuna 76.0%	█	█		
Vocal Biomarkers	Depression, Suicidality, and Parkinson's Disease	Sonde 93.1%	█	█		

## Immune

Selective mTORC1 Inhibitors	Immunosenescence and Ageing-Related Disorders, Respiratory Tract Infections	resTORbio 34.2%	█	█	█	
Abrasion Induced Neogenesis	Androgenetic Alopecia	Follica 55.6%	█	█	█	
Microbiome-Derived Immune Modulators	<i>C. difficile</i> , IBD, Food Allergy, Immuno-Oncology	Vedanta 71.5%	█	█		
Microbiome-Derived Immune Modulators (Paediatric)	Paediatric disorders and conditions, including Atopic Dermatitis, Asthma, and Allergy	Commense 90.0%	█			
Inflammation-Targeting Technology	Inflammatory Bowel Disease (IBD), Interstitial Cystitis/Bladder Pain Syndrome (IC/IBS)	Alivio 82.8%	█			
Targeted Therapies in Cancer	Acute Lymphoblastic Leukaemia (ALL), Acute Myeloid Leukaemia (AML)	Vor 81.3%	█			
Gamma Delta T-cells	Immuno-Oncology, Pancreatic Cancer	Nybo 93.5%	█			

## Gut

GI Modulating Tuneable Hydrogel	Obesity, Diabetes, Non-alcoholic Fatty Liver Disease (NAFLD), IBD	Gelesis 21.0%	█	█	█	█
Oral Administration of Biologics – Novel Hydrogel	Metabolic Disorders	Entrega 73.9%	█			

Potential value-driving catalysts expected over the next 12 months<sup>7</sup>:

- 2 FDA filings
- 1 Phase 2 read-out
- 2 Phase 1 initiations
- 2 POC read-outs
- 2 Phase 2 initiations
- Multiple financings, partnerships, and program initiations

<sup>7</sup> Company expectations

<sup>8</sup> Relevant ownership interests were calculated on a diluted basis as of 12/31/17 (resTORbio: 1/31/18), including issued and outstanding shares, outstanding options and warrants, and written commitments to issue options, but excluding unallocated shares authorised to be issued pursuant to equity incentive plans and any shares issuable upon conversion of outstanding convertible promissory notes.

“This year, PureTech Health achieved something tremendous with the clinical validation of two new categories of medicine.”



This year, the experienced and entrepreneurial team at PureTech Health achieved something tremendous with the clinical validation of two new categories of medicine – Akili and Gelesis – for the treatment of serious medical needs. These positive pivotal trial results and their planned regulatory submissions represent an important transition point for both affiliates as they move towards commercialisation following potential regulatory approvals. As these and several other affiliates mature, PureTech Health remains focused on ways to unlock and realise value. For some affiliates, the path to value may be through initial public offerings that enable them to progress – as was the case for resTORbio in January 2018 (NASDAQ: TORC). For others, value realisation may involve partnerships, product launches, or trade sales. Though the specific path for each affiliate will be driven on a case-by-case basis in order to maximise shareholder value, PureTech

Health maintains its core mission of delivering important new categories of medicine that drive value.

Underlying PureTech’s unique approach is a deep understanding of the gap between what our bodies evolved to handle and the entirely different environment that the modern world presents. PureTech Health believes that this evolutionary disparity represents both a source of chronic disease and also an opportunity for innovation. An exemplary case study of this is Akili. Scientists are increasingly recognising that technological changes have far outstripped the rate of human evolution. Our brains are constantly bombarded by stimuli from smartphones, wearables, and multiple sources of information that were not present during human evolution. Our ancient bodies react to this modern world by having to process increased sensory stimuli interference, which can become debilitating in

patients with diseases in which cognitive function is impaired. Overcoming this is the foundation for Akili’s lead proprietary digital medicine, AKL-T01, which will be reviewed by the FDA for the treatment of paediatric ADHD. Products built on the same technology platform are currently being evaluated by Akili in a range of other neurological and psychiatric disorders.

Humans evolved multiple pathways to help us avoid starvation. The unfettered access to high caloric foods coupled with a sedentary lifestyle have resulted in one of the biggest burdens on our healthcare system. Obesity is a major driver of healthcare costs and contributes to serious diseases like diabetes, cardiovascular disease, NASH/NAFLD, and a number of cancers. Intervening with an orally administered mechanical therapeutic approach that stimulates multiple pathways in the GI while limiting the amount of food intake was an inspired idea that has now achieved clinical validation across a range of studies and will be reviewed soon by the FDA for a weight loss indication.

Our species also evolved at a time when hygiene standards and exposure to germs were vastly different than they are today. In fact, it is only in the past decade that the significance of the microbiome has begun to be appreciated, and only in the past few years that the microbiome has even been considered a parameter in disease modelling. PureTech’s Vedanta Biosciences was a first mover and has been working to decode the complex interactions between our immune system and the microbiome. It has also developed key intellectual property as well as clinical and manufacturing capabilities and is now in or nearing clinical testing across a range of indications from infection and cancer to autoimmune conditions, positioning the company at the forefront of translating this “novel parameter” into powerful medicine.

PureTech’s embedded advisory network and nimble development processes enable the company to harness these new tools and technologies and accelerate promising breakthrough science. The company recognises that the human body interacts with the environment in complex ways – as evidenced by the growing appreciation of new categories of medicine like digital, mechanotherapeutics, and microbiome. But rather than view the nervous, immune, and gastrointestinal systems as distinct parts, PureTech Health views these critical systems as part of a continuum. This understanding has been forged by systems biology, artificial intelligence, and machine learning, which have helped to unpack the complexity of our biology and interpret function at a molecular level, highlighting the interconnectedness across these systems and laying the foundation for PureTech’s core area of expertise: the brain-immune-gut (BIG) axis.

This fundamental interpretation of the human body as a dynamic network of systems has spurred internal efforts to develop entirely new approaches to solve major medical problems. For instance, a “holy grail” challenge is the ability to detect illness without requiring behaviour change on an out-patient basis before it progresses to permanent disease. Achieving this could lead to earlier interventions that greatly improve outcomes and result in cost savings across the system. One promising solution to this challenge is being developed by our affiliate Sonde Health. By leveraging artificial intelligence and machine learning, Sonde is progressing vocal biomarker technology to extract clinically meaningful health information from everyday voice interactions. This approach is based on the understanding that many conditions subtly affect the neurological, muscular, and respiratory systems required for speech production. Sonde’s proprietary,

voice-based technology is designed to harness this insight and analyse the subtle – yet quantifiable – changes in the vocal characteristics that may be caused by and indicate the presence of disease. Because the platform is based on how someone speaks, not what someone says, the approach can be applied across languages and lends itself to privacy preservation. As voice increasingly plays an important role in our daily lives – smartphones, smart speakers, etc. – Sonde’s technology is designed to work on commonly owned devices, and is being explored in conditions such as depression, Alzheimer’s disease, Parkinson’s disease, colds, and allergies.

PureTech’s culture of innovation and celebration of unexpected solutions foster these lines of thinking. As part of that strategy, PureTech Health continues to explore the full spectrum of opportunities available to accelerate the growth of its programmes and the development of their associated technologies. The company is committed not only to increasing shareholder value through the development of completely new approaches to medicine, but also to unlocking and realising value as programmes mature.

As we look towards 2018 and the next wave of innovation, I am excited to be involved as this excellent and accomplished team continues to deliver on its promise of creating new categories of medicine.

A handwritten signature in black ink, reading "Joichi Ito". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Joichi Ito  
Chairman

16 April 2018



## Letter from the Chief Executive Officer

“I am proud of our team for achieving significant milestones in 2017, which individually could represent significant value inflection points for any biotech company, and collectively demonstrate the unique value we are creating at PureTech Health.”



2017 was a pivotal year for PureTech Health. Among the many milestones successfully achieved, two that stand out from a clinical perspective are the positive pivotal trial results and planned regulatory submissions from our affiliates – Akili (paediatric ADHD) and Gelesis (obesity). We are delighted to have brought these two programmes from academic discovery to the verge of potential commercial launch where they could have a huge impact on people’s lives.

Last year I wrote that we would be focused on translating some of our exciting progress into value for shareholders and patients. I am very pleased to report that we are well on our way. An example of clinical progress driving value is our affiliate resTORbio which is developing a new class of medicines to target senescence across a range of ageing-related disorders. resTORbio successfully completed an initial public offering on NASDAQ (TORC) in January 2018, raising \$97.8 million in gross proceeds. We announced resTORbio’s in-license of its lead candidates in ageing-related indications from Novartis in March 2017. Six weeks following the

closing of this licensing transaction, we initiated a Phase 2b clinical study evaluating the effectiveness of these candidates in reducing the incidence of respiratory tract infections in elderly individuals at increased risk of morbidity and mortality related to those infections. It’s important to note that these candidates have previously demonstrated efficacy in these same indications in studies conducted by Novartis, and we are fortunate to have the leader of that programme from Novartis, Joan Mannick, as Co-founder and Chief Medical Officer at resTORbio, along with Chief Executive Officer Chen Schor. I look forward to the continued progress of this now independent affiliate, including the results of its Phase 2b clinical trial later this year, which could represent a major value inflection point not just for resTORbio, but for the healthcare system, as a potential broad-spectrum immunotherapy for the ageing immune system with application across a range of ageing-related indications.

Affiliate IPOs represent one avenue for us to advance our pipeline and generate value for our shareholders. Our other growth-stage affiliates (Gelesis, Akili, Karuna, Vedanta Biosciences, Follia,

Sonde, Alivio, Entrega, Vor, Nybo, and Commense) will access various avenues of funding to fuel their continued growth, including potential private rounds of equity financing, IPOs, strategic transactions, and industry partnerships at the global or regional levels. Our structure maximises optionality at the affiliate level, while creating near to mid-term value and a source of funding for PureTech Health to fuel our next wave of internally-funded pipeline programmes.

In addition to the key clinical milestones achieved with Gelesis, Akili, and resTORbio, we successfully executed on other planned clinical development including the initiation or continuation of eight clinical studies across a range of indications such as major depressive disorder, autism spectrum disorder, multiple sclerosis, Parkinson’s disease, recurrent *C. difficile* infections, obesity, and schizophrenia. We expect several of these studies to read out over the next 12-18 months, and we have plans to commence more than 10 additional clinical studies.

I am proud of our team for achieving these milestones, which individually could represent significant value inflection points for any biotech company, and collectively demonstrate the unique value we are creating at PureTech Health.

As the programmes at our affiliates continue to mature and independently generate value for patients and shareholders, the next wave of programmes originating from our innovation engine is quickly advancing. We have honed our discovery efforts over the past two years on immunology given the rich therapeutic opportunities and the unique expertise of our internal team and global collaborators. The majority of our next generation of programmes leverage the lymphatic system and immune cell trafficking, a vastly overlooked but critical immune transport framework. This breakthrough science forms the foundation for our internally-funded pipeline, which includes novel approaches for treating cancer, inflammation, autoimmune disorders, and neuroinflammatory disorders. Through a combination of new discoveries fostered both in-house and through collaborations established with leading immunologists and experts in lymphatic biology, we are

Letter from the Chief Executive Officer — continued



Team ringing the NASDAQ opening bell following the resTORbio 2018 IPO

poised to capitalise on these major areas of insight with potential to advance a new therapeutic paradigm. To date, we’ve generated compelling pre-clinical data and secured key intellectual property that will form the basis for our growing next wave of programmes that are highlighted in this report.

Bridging the novel approaches of our late-stage affiliate programmes with the discoveries driving our next wave of pipeline programmes is our scientific focus on the brain-immune-gut (BIG) axis. PureTech Health is at the forefront of understanding and addressing the biological processes and crosstalk associated with the BIG axis, and this emerging field of human biology is what underscores and unifies our pipeline.

Harnessing this critical and promising biological nexus is what enables us to pioneer new categories of medicine with the potential to have great positive impact on people struggling with serious diseases.

I’m delighted with the progress we’ve made in 2017, and I look enthusiastically towards 2018 and beyond. We are poised for multiple value-driving catalysts and significant growth in the near-term, and I am confident that our entrepreneurial and flexible structure will continue to yield successes in the years to come. I am thankful for our seasoned and dedicated team, board, and passionate collaborators who have worked so diligently to advance our pipeline and help bring important medicines to people in need. I am also grateful for the continued support of

our new and existing shareholders – evidenced by the successful completion of our \$100 million raise just this past month – who share our vision of building the biopharma company of the future.

Daphne Zohar  
Chief Executive Officer

16 April 2018

“The majority of our next generation of programmes leverage the lymphatic system and immune cell trafficking, a vastly overlooked but critical immune transport framework.”

## Letter from the Chief Scientific Officer

“As we think of cancer, autoimmunity, and neurological disorders, we view the lymphatic system as a key node for tackling disease progression. This insight offers us an opportunity to tackle serious chronic diseases in a unique way.”



by late-stage clinical trial results or progressing through the clinic. Importantly, through this pioneering research and development, we have gained a new understanding of an underappreciated biological network that ties together recent discoveries on immune function and yields insights on previously unknown connections between the brain-immune-gut axis: the lymphatic system.

Until very recently, the lymphatic system was mostly studied in the context of tissue waste clearance and cancer metastases. An emerging body of work supports the significant transport capacity of this system, including the trafficking of immune cells, which connects the gastrointestinal tract, lymph nodes, and the central nervous system, and underscores the lymphatic system’s vital role in proper immune function. This new layer of sophistication challenges us to revisit the rules of human biology and think creatively about the design of novel categories of therapeutics that could harness the pervasiveness and unique characteristics of this system. As we think of cancer, autoimmunity, and neurological disorders, we view the lymphatic system as a key node for tackling disease progression. This insight offers us an opportunity to tackle serious chronic diseases in a unique way.

PureTech’s understanding of the lymphatic network, gained both through in-house activities and external collaborations with leading immunologists, has matured to where we believe it is now possible to manipulate immune cell trafficking and behaviour

PureTech Health had an exciting 2017. We achieved two pivotal clinical milestones, advanced research and development across multiple clinical and preclinical pipeline programmes, and deepened our understanding of the multi-faceted interactions of the nervous, immune, and gastrointestinal systems. These interactions, and a growing appreciation of the interplay between these systems in disease, inform our

differentiated scientific strategy. Rather than viewing each of these systems in isolation, we are focused on the latest scientific discoveries that harness the connections between these networks to offer promising new targets and approaches for drug development.

This systems-based approach has enabled us to bring forth new categories of medicine that are now validated

Letter from the Chief Scientific Officer — continued

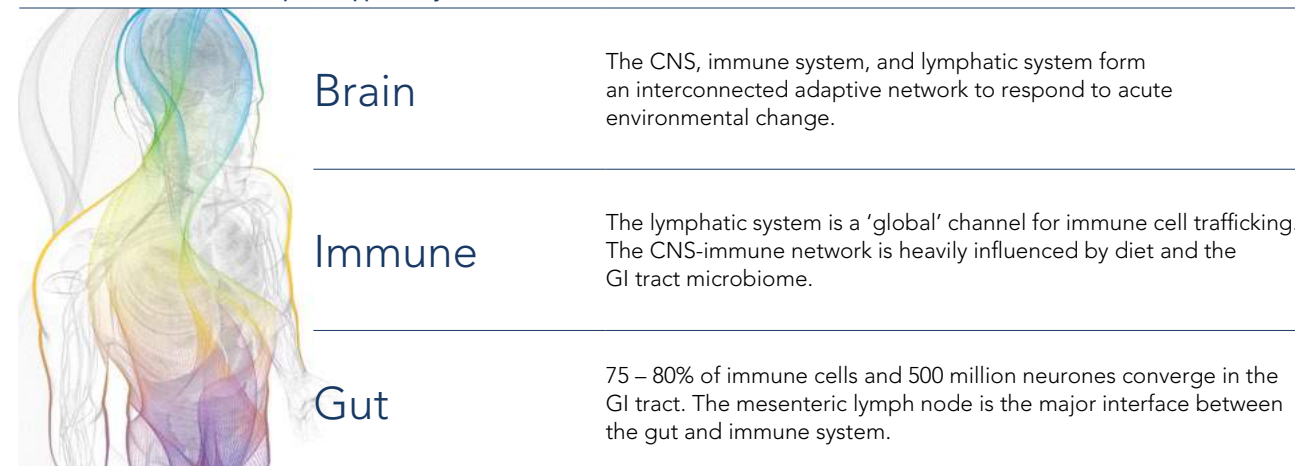
for therapeutic benefits. With this knowledge, we are enabling certain drugs to directly target lymph nodes, potentially resulting in greater efficacy in the treatment of inflammatory and autoimmune diseases and cancer. We are also advancing a milk exosome-based technology, which is designed to enable oral administration of biologics, nucleic acids, and complex small molecules to the lymph nodes and other parts of the body.

Related to this work, we have assembled and developed a group of powerful technologies as well as forged relationships with key academic leaders to better address the processes underlying local immune microenvironments in oncology, autoimmunity, and neuroinflammation. We are advancing therapeutic approaches that target newly discovered local immunosuppressive mechanisms in pancreatic cancer and other solid tumours and are also developing a technology that targets inflammation locally to achieve a therapeutic effect without systemic immunosuppression.

I am truly excited about this next chapter of innovation at PureTech Health and see great potential to selectively reach targets and tissues locally to treat serious immunological disorders. I feel that PureTech Health is uniquely positioned to bring forth new medicines that target the lymphatic and immune systems, and I look forward to sharing further progress on this new frontier.

Dr Joseph Bolen  
Chief Scientific Officer  
16 April 2018

### The ‘BIG’ axis is rich with therapeutic opportunity



**Internally-funded Immunology-focused Programmes**

- Neuroinflammatory disorders
- Oncology: Acute Myeloid Leukaemia, Pancreatic Cancer, Breast Cancer, and Other Cancers
- Inflammation and Autoimmune Disorders: Rheumatoid Arthritis, IBD, Other Autoimmune Diseases



“PureTech Health has a rich pipeline of programmes that have made excellent progress over the course of 2017, with multiple programmes advancing in clinical development and approaching commercialisation.”

PureTech Health is building the biopharma company of the future, with a mission to improve and extend the lives of people with serious disease and a focus on driving significant value for shareholders. PureTech’s innovative structure enables two paths towards value realisation.

The first leverages our internally-funded pipeline. This pipeline is centred around immunological disorders and leverages the emerging body of knowledge and data on lymphatic biology and immune cell trafficking to develop novel therapeutics. As these early-stage programmes mature, they have the potential to yield novel, safe and effective approaches to treating cancer, inflammation, autoimmune disorders, and neuroinflammation. As PureTech Health intends to internally develop this next generation of programmes, a myriad of monetisation options is available to generate the maximum value for our shareholders.

While these earlier-stage programmes advance through research and enter development, PureTech Health plans to advance one or more internally-funded

clinical-stage programmes that are complementary to this immunology focus. PureTech Health believes this will provide additional growth opportunities.

The second path towards value realisation stems from PureTech’s advantageous position of having significant ownership in an advanced clinical-stage pipeline of affiliates. These affiliates include two programmes that are heading towards regulatory filings with US and EU authorities (Akili and Gelesis), the now publicly-listed independent affiliate resTORbio (NASDAQ: TORC), as well as Vedanta Biosciences, Karuna, Follica and Sonde Health. In addition to equity ownership, PureTech Health is entitled to receive royalties from the commercialisation of products at some of these affiliates. This structure offers a potential source of significant value for shareholders as well as a future supply of funding to fuel PureTech’s next wave of internally-funded programmes.

#### An advanced pipeline

PureTech Health has a rich pipeline of programmes that have made excellent progress over the course of 2017, with

multiple programmes advancing in clinical development and approaching commercialisation.

#### Clinical stage affiliates

In 2017, PureTech Health reported positive clinical results from two pivotal stage programmes of its affiliates, Akili and Gelesis, and anticipates regulatory filings from both affiliates with the US Food and Drug Administration (FDA) in the second quarter of 2018.

In addition to its successful pivotal study with its lead investigational digital medicine, AKL-T01, Akili is advancing its pipeline of programmes based on its industry-leading digital medicine platform technology in Phase 2 and pilot clinical trials across a variety of neurological and psychiatric conditions, including major depressive disorder (MDD), autism spectrum disorder (ASD), multiple sclerosis (MS), and various other neurodegenerative and inflammatory diseases. Additionally, Akili is developing complementary and integrated clinical monitors and measurement-based care applications.

Building on its success with Gelesis100, Gelesis is also advancing a broad pipeline of additional product candidates using its novel and tuneable, orally-administered mechanotherapeutics platform. This pipeline includes Gelesis200, which is being investigated to treat type 2 diabetes. Gelesis has initiated a six-month efficacy proof-of-concept study (LIGHT-UP) of Gelesis200 in people with prediabetes or untreated diabetes, with results expected within the next 12 months. In addition, Gelesis is advancing product candidates for treating liver diseases such as non-alcoholic steatohepatitis (NASH) and non-alcoholic fatty liver disease (NAFLD) (GS300), and gastrointestinal (GI) disorders such as inflammatory bowel disease (IBD) and intestinal mucositis (GS400).

In 2017, resTORbio made significant advancements in its clinical development pipeline and advanced its RTB101 and RTB101+everolimus candidates into a Phase 2b clinical study in respiratory tract infections (RTIs) in the elderly. The study is evaluating the effectiveness of RTB101 alone or in combination with everolimus in reducing the incidence of RTIs in elderly patients at increased risk of morbidity and mortality related to RTIs. Results are expected to read out in the second half of 2018. resTORbio’s RTB101 and everolimus, along with more than 75 issued patents, were in-licensed from Novartis in March 2017 for ageing-related indications. These proprietary and selective mTORC1 inhibitors have potential broad application to conditions associated with ageing, including immunosenescence (ageing of the immune system), neurodegenerative diseases, and organ dysfunction. resTORbio has one of the most advanced clinical-stage anti-ageing programmes globally.

Karuna is progressing the development of its proprietary single capsule co-formulation of xanomeline and trospium chloride

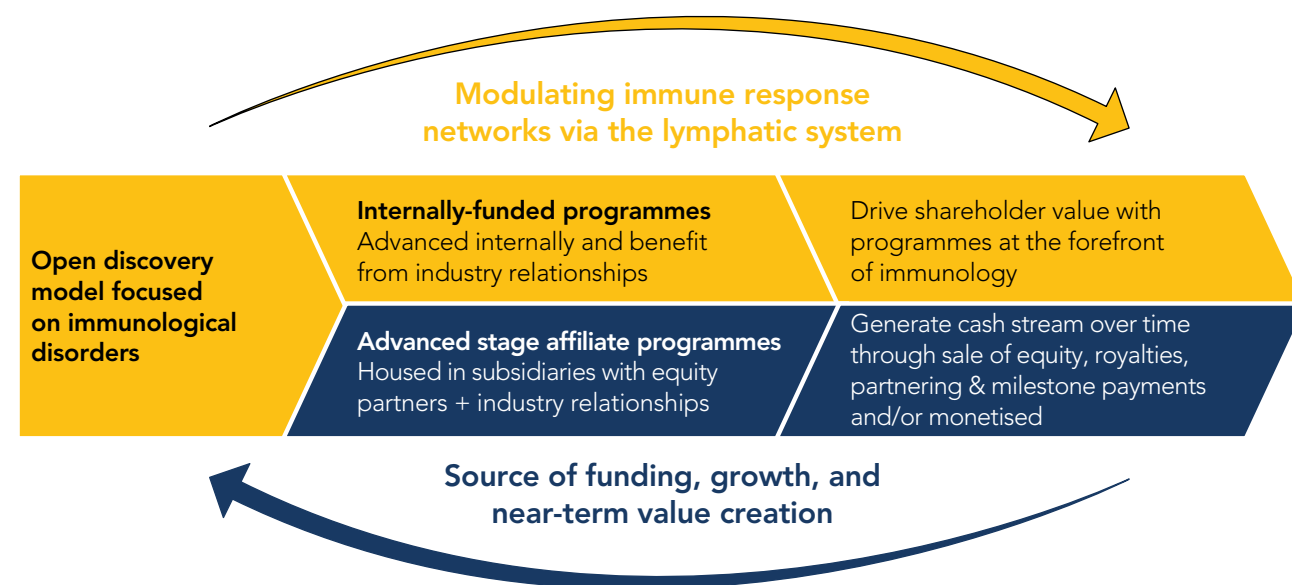
(KarXT) for the treatment of cognition and psychosis in serious disorders like schizophrenia, Alzheimer’s disease, and bipolar disorder. A dose-ranging study in healthy volunteers using the single capsule formulation is underway, and a Phase 2 clinical trial for schizophrenia is planned to begin in the third quarter of 2018.

During the past year, Vedanta Biosciences advanced its pipeline of product candidates with the initiation of a Phase 1a/1b clinical trial for VE303, its lead, orally-administered, human microbiome-derived product candidate for the treatment of recurrent *C. difficile* infection. VE303 is the first known investigational drug consisting of rationally-defined bacterial consortium in powder form to enter the clinic. Key in-house manufacturing milestones have also been achieved, which places a Phase 2 study of VE303 on track to start in 2018. In collaboration with Janssen Biotech, Inc., VE202 is anticipated to enter the clinic in the second half of 2018 for the treatment of IBD. Vedanta Biosciences is also working in collaboration with leading oncology researchers around the world to gather data from interventional human clinical studies of checkpoint inhibitors for its immuno-oncology platform. In collaboration with its co-founder, Dr Kenya Honda, Vedanta Biosciences is advancing VE800, consisting of a rationally-defined bacterial consortium that potentiates cytotoxic CD8+ T-cells, which are key modulators of checkpoint therapy responses. Vedanta Biosciences intends to file an investigational new drug (IND) application for VE800 in 2018. Vedanta Biosciences is also planning to initiate a Phase 1 clinical trial in food allergy for its candidate, VE416, in the second half of 2018. In 2017, Vedanta Biosciences received issuances of foundational patents in the microbiome field in the US, Europe, Japan and other major markets.

In 2017, Follica continued to develop its innovative platform to address androgenetic alopecia, making additional progress toward the initiation of the RAIN pivotal study in androgenetic alopecia. The company also identified and tested next-generation, proprietary compounds based on the Follica’s intellectual property. The Follica RAIN pivotal study is expected to commence following the completion of an ongoing optimisation study.

Sonde Health has advanced its vocal biomarker technology, which has demonstrated the potential to effectively screen and monitor for disease using information obtained from an individual’s voice on commonly-owned devices. This year, Sonde’s scalable cross-platform mobile research app and administrator interface were made available to academic collaborators and study participants. This allowed for the collection of voice data from over 3,000 subjects for the detection of depression, suicidality, and Parkinson’s disease. The Company has also initiated research and development to expand its proprietary technology in Alzheimer’s disease, respiratory and cardiovascular disease, and other health and wellness conditions.

In the February 2018 post-period, The Sync Project was acquired by Bose Corporation as part of a strategic decision to move that technology to a more consumer-facing path. As a result of the transaction, the Group recovered almost all of the invested capital in The Sync Project, demonstrating the Group’s disciplined approach to managing its portfolio and strict focus on capital allocation.



“In 2017, PureTech Health grew its internally-funded, immunology-focused pipeline by generating compelling pre-clinical data and filing for and securing key intellectual property for several programmes.”

“The Board believes that the value of PureTech’s holdings in its growth stage affiliates increased in a very significant way from 31 December 2016 to 31 December 2017, driven by the positive progress made over the year.”

**Pre-clinical affiliates**

Commense, Entrega, Alivio, Vor and Nybo have all made significant progress towards human clinical trials in 2017.

This year, Commense, our affiliate developing human microbiome-based products for the prevention and treatment of early childhood diseases, initiated preclinical studies for COM-101 based on technology licensed in from the laboratory of Dr B. Brett Finlay at the University of British Columbia, Canada. This work includes full characterisation of bacterial strains, in vitro and in vivo mechanism of action studies, and early development studies to inform manufacturing for the potential treatment of atopic dermatitis, allergy, and asthma.

Entrega has generated proof-of-concept data demonstrating delivery of therapeutic peptides into the bloodstream of large animals to validate its technology. In December 2017, Entrega entered into a research collaboration agreement with Eli Lilly to advance its technology platform for the oral administration of certain Eli Lilly products and therapeutic candidates.

Alivio continued to advance its proprietary technology that targets local inflammation to achieve a therapeutic effect without systemic immunosuppression in a number of serious inflammatory diseases, including IBD, rheumatoid arthritis, and organ transplant rejection. Data on Alivio’s lead candidate, ALV-107, were presented at the 2017 Drug Discovery and Therapy World Congress, showing durable pain control throughout a 24-hour study period, lasting at least 12 times longer than lidocaine at a comparable dose, in a validated preclinical model for

the treatment of interstitial cystitis/ bladder pain syndrome (IC/BPS). In March of 2017, the Bill & Melinda Gates Foundation awarded a \$1.2 million grant to Professor Jeff Karp’s Lab at Brigham and Women’s Hospital (BWH) to support additional research on the underlying technology. In the April 2018 post-period, a preclinical study of the Alivio technology was published in *Nature Communications*. The study showed that an immunomodulatory drug, administered locally using the Alivio technology, substantially reduced measures of arthritis disease activity. By the last day of the study (day 14), the Alivio technology had reduced nearly all of the inflammation in the affected tissue, with a 5.7-fold improvement in the clinical score vs control, as compared to only 1.4-fold for the free drug. These findings further support Alivio’s proprietary therapeutics platform and provide proof-of-concept for the potential application of the technology in inflammatory arthritis.

Vor continued to advance its proprietary approach of using antigen-modified haematopoietic stem cells (amHSCs) for treating a number of B-cell as well as other haematologic malignancies.

In April 2017, Nybo publicly disclosed its programme concurrently with a publication in *Nature Medicine* supporting its approach by Dr George Miller, one of the co-founders of Nybo. Nybo’s monoclonal antibody therapeutic approach aims to target newly discovered immunosuppressive mechanisms involving gamma-delta T-cells in pancreatic cancer and other solid tumours. Proof-of-concept data has been generated in both mouse and human cancer pre-clinical models.

**Internally-funded programmes**

In addition to its affiliate programmes, PureTech Health is advancing an internally-funded pipeline consisting of new categories of immunomodulatory therapeutics based on a deep understanding of three key areas: immune cell trafficking, cellular activity, and diseased immune microenvironments. Novel insights into these mechanisms have the potential to yield a pipeline of transformative new therapies for patients with cancer, autoimmune, inflammatory, and neuroinflammatory diseases. Through a combination of in-house discoveries and collaborative innovation, PureTech Health is poised to capitalise on these major emerging areas of biology and insight.

In 2017, PureTech Health grew its internally-funded, immunology-focused pipeline by generating compelling pre-clinical data and filing for and securing key intellectual property for several programmes. One of these technologies is a milk exosome-based technology, which is designed to enable oral delivery of biologics, nucleic acids, and complex small molecules. Another technology uses a lipid prodrug approach that leverages the body’s natural lipid transport mechanisms to substantially enhance the transport of compounds into the lymphatic system from an oral route, bypassing firstpass metabolism by the liver.

**Valuation of PureTech Health**

The Board believes that the value of PureTech’s holdings in its growth stage affiliates (“Growth Stage Holdings Value”) increased in a very significant way from 31 December 2016 to 31 December 2017, driven by the positive progress made over the year.

Upcoming Catalysts



This sizable increase was due in large part to (i) the positive results from the Akili pivotal trial of its lead product candidate, (ii) the positive results from the Gelesis pivotal trial of its lead product candidate, (iii) the resTORbio programme launch with an in-license of lead clinical candidates from Novartis, clinical advancement of those candidates, private financings and – post period end – a successful initial public offering, (iv) advancement of important new internally-developed and funded immunology programmes not included in the 2016 Growth Stage Holdings Value, (v) the initiation of

**Potential Value-driving Catalysts for Affiliates Expected in the Next 12 Months**

<b>Cognitive Interference Processing (Akili EVO™)</b> Potential FDA filing	<b>Microbiome Derived Immune Modulators (VE202)</b> Initiation of Ph 1 trial in IBD
<b>Cognitive Interference Processing (Akili EVO™)</b> Proof-of-concept results in depression	<b>Microbiome Derived Immune Modulators (VE303)</b> Ph 1 trial results in <i>C. difficile</i>
<b>Selective Muscarinic Receptor Agonists (KarXT)</b> Initiation of Ph 2 trial in schizophrenia	<b>Microbiome Derived Immune Modulators (VE303)</b> Initiation of Ph 2 trial in <i>C. difficile</i>
<b>GI Modulating Hydrogel (Gelesis100)</b> Potential FDA filing	<b>Microbiome Derived Immune Modulators (VE416)</b> Initiation of Ph 1 trial in food allergy
<b>GI Modulating Hydrogel (Gelesis200)</b> Proof-of-concept readout	<b>Microbiome Derived Immune Modulators (VE800)</b> IND filing for cancer immunotherapy candidate
	<b>mTORC1 Inhibitors (RTB101 &amp; RTB101+everolimus)</b> Ph 2b trial results in elderly patients at increased risk of respiratory tract infections

← Financings and strategic transactions likely →

Vedanta Biosciences’ Phase 1a/1b clinical trial for the treatment of recurrent *C. difficile* infection and in-licensing of an immuno-oncology candidate, (vi) clinical advancement of the Karuna affiliate, (vii) clinical advancement of the Sonde affiliate, and (viii) Entrega’s collaboration with Eli Lilly and Company, among other positive developments.

Despite the notable growth in value, the Board, in consultation with its strategic advisors and key shareholders, has decided not to disclose its detailed internal valuations of its growth stage

affiliates going forward, as noted in the interim results report and the recent Trading Update. The Company’s view is that such disclosure, on balance, may not be in the best interests of PureTech Health and its shareholders. The Company maintains a balanced approach to valuation and the Company believes that such disclosure may set an artificially low external benchmark for the programmes and affiliates that may otherwise be ascribed substantially higher valuations by potential partners, investors and acquirers.



# Akili

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Cognitive Interference Processing	Paediatric ADHD, MS, Depression				

### Digital medicine platform for the treatment and assessment of cognitive dysfunction across several neurology and psychiatry indications

PureTech's Akili is pioneering the development of treatments with direct therapeutic activity, delivered not through a traditional pill but via a high-quality action video game experience. Developed through the collaboration of world-renowned cognitive neuroscientists and acclaimed entertainment and technology designers, Akili has created a proprietary technology platform that represents an entirely new category of medicine. The platform is enabled by a patented technology that selectively targets and activates specific cognitive neural systems in the brain. Based on this platform, Akili's products undergo rigorous clinical studies across various medical conditions and are validated across a number of peer-reviewed publications.

Akili is advancing a broad pipeline of programmes to treat cognitive deficiency and improve symptoms associated with medical conditions across neurology and psychiatry, including attention-deficit hyperactivity disorder (ADHD), major depressive disorder (MDD), autism spectrum disorder (ASD), multiple sclerosis (MS) and various other neuroinflammatory diseases. Akili is also developing associated clinical monitors and measurement-based care applications.

The lead, patented technology platform is exclusively licensed from the lab of Dr Adam Gazzaley at the University of California, San Francisco (UCSF), and augmented by proprietary adaptive algorithms developed by the Akili team.

#### Patient need and market potential

- Cognitive deficiency is a key feature of ADHD, autism, multiple sclerosis, Alzheimer's disease and depression. The markets for treatment of these conditions are currently only partially served by centrally-acting drugs with challenging safety profiles or by in-person behavioural therapy.
- The market for ADHD therapeutics is projected to be approximately \$10 billion by 2020, and PureTech Health believes that this market – and other markets where Akili's cognitive-dysfunction targeting products may act as a stand-alone medical treatment, add-on therapy, or digital biomarker – represent significant opportunities for Akili.

#### Innovative approach to solving the problem

- Akili's platform is based on a new patented technology that deploys sensory and motor stimuli to the neurological systems known to play a key role in cognitive function, including attentional control. By improving neural processing, symptoms related to cognitive deficiencies are improved. The treatment is delivered through an immersive action video-game, resulting in non-invasive, patient-friendly medicine that can be used at home.
- By leveraging medical-grade science and consumer-grade engagement, Akili is seeking to produce a new type of medical product that can potentially offer safe and effective scalable and personalised treatment and better monitoring for patients across a range of mental health and neurological conditions.

#### Intellectual property

- Akili has broad intellectual property coverage worldwide, currently owning or having exclusive rights to a total of seventy-eight (78) patent applications and issued patents in seventeen (17) families of patent filings.
- In April 2018, Akili announced the issuance of multiple patents broadly covering Akili's proprietary platform technology that uses algorithm-controlled stimuli to engage targeted neural networks in the brain.
- Akili's IP portfolio covers digital intervention that targets interference processing through a proprietary mechanism with adaptive algorithms to treat cognitive deficiency and improve symptoms associated with neurological and psychiatric conditions, including ADHD, PD, ASD, MS, and various inflammatory diseases.

#### Team

- Advisory board members include Dr Adam Gazzaley (UCSF), Dr Daphne Bavelier (University of Geneva, University of Rochester), Dr Stephen Faraone (SUNY Upstate Medical University), Dr Robert Schultz (University of Pennsylvania School of Medicine), Dr Geraldine Dawson (Duke University), and Dr Scott Kolins (Duke University).
- Dr Eddie Martucci (previously PureTech Health, Yale), Mr Matthew Omernick (previously LucasArts), Mr LeRoux Jooste (previously Ocata Therapeutics, Antares Pharma, Cephalon), and Mr Scott Kellogg (previously PureTech Health, Sontra Medical, and UltraCision) serve as Chief Executive Officer, Chief Creative Officer, Chief Commercial Officer, and SVP of Medical Devices, respectively. Rob Perez (Previously CEO of Cubist, acquired by Merck \$8.4B) is Executive Chairman.
- The Board of Directors consists of Dr Eric Elenko (PureTech Health), Jamie Gates (TPG Founder and Managing Director), Dr Adam Gazzaley (UCSF), Joi Ito (PureTech Health, MIT Media Lab Director), Dr Eddie Martucci (Akili, previously PureTech Health, Yale), Dr Ben Shapiro (PureTech Health, formerly Merck), John Spinale (JAZZ Venture Partners) and Dr Bharatt Chowrira (PureTech Health).

#### Milestones achieved

- Akili achieved the primary endpoint in a pivotal study of an investigational digital medicine for paediatric ADHD. AKL-T01, the lead investigational digital medicine from the Project:EVO™ platform, successfully showed a statistically significant improvement compared to an active control (p=0.006) on the predefined primary endpoint, a composite score from the Test of Variables of Attention (T.O.V.A.®), an objective measure of sustained attention and inhibitory control.
- In collaboration with Pfizer, Akili presented positive data in 2016 at the International Conference on Clinical Trials for Alzheimer's (CTAD) showing that the Akili technology differentiated between older healthy subjects positive for amyloid deposits in their brains (a primary biomarker for Alzheimer's risk) vs. an age-matched comparison group of amyloid-negative subjects, both in change over time (p=0.04) and at the completion visit after a 28-day remote self-administration protocol (p<0.008).
- Akili's cognitive interference targeting technology also achieved efficacy data and symptom benefit in a group of children with sensory processing and attention impairments.
- Academic investigators published two pilot research studies in peer-reviewed journals in 2016 showing the potential benefit of the core cognitive treatment technology in targeting cognition and mood in depressed individuals, and targeting cognition and ADHD symptoms in children with sensory processing dysfunction.
- Proof-of-concept double blind, sham-controlled study treatment data on Akili's patented platform technology was published as the cover story in the top tier medical science journal, *Nature*.

#### External validation

- Akili has relationships with four major biopharma companies or their investment affiliates including Shire Pharmaceuticals' (SHPG) Strategic Investment group, Pfizer, Inc., Merck Ventures BV, and Amgen Ventures, in addition to a strong group of venture investors with expertise in neuroscience, medical devices and drug development.
- In January 2016, Akili raised \$30.5 million in a Series B financing round from new investors, including JAZZ Venture Partners and Canepa Advanced Healthcare Fund.
- Akili has executed a clinical partnership with Autism Speaks, a leading autism advocacy organisation, in which Autism Speaks supported work towards a randomised, controlled efficacy study of AKL-T01 in children and adolescents affected by autism and co-morbid attention deficits.
- In July 2016, Akili increased its Series B financing round to over \$42 million, including investments by Merck Ventures BV, Amsterdam, The Netherlands, a subsidiary of Merck KGaA, Darmstadt, Germany (known as M Ventures in the United States and Canada), and Amgen Ventures.

#### Expected milestones and timing

- A regulatory filing for the ADHD digital therapeutic is anticipated with the FDA in the second quarter of 2018.
- Results are anticipated from Akili's proof-of-concept clinical trial studying effects of AKL-T01 on cognition in depression in the second half of 2018.
- Akili is currently conducting multiple clinical trials across a variety of patient populations, including autism spectrum disorder, depression, multiple sclerosis and Parkinson's disease.



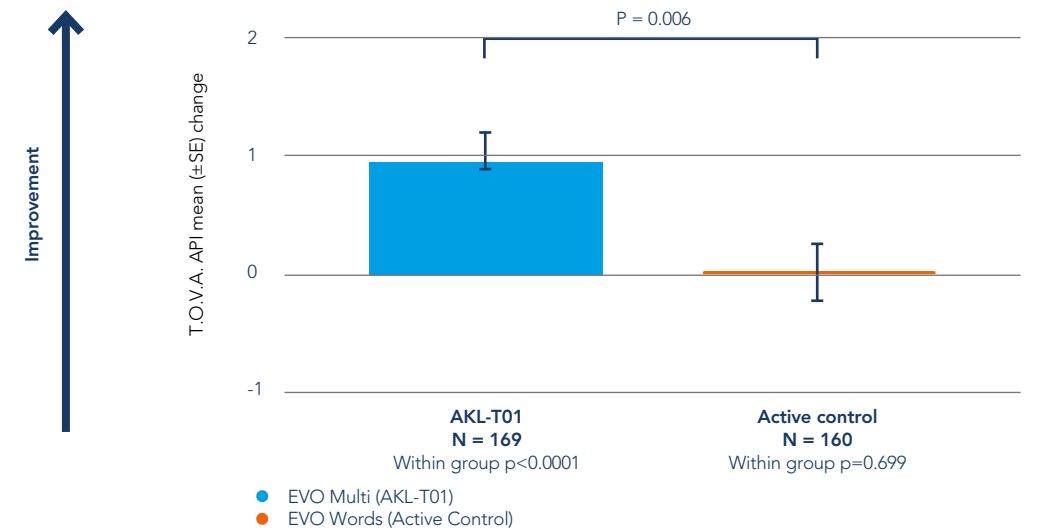
Akili's Eddie Martucci and Adam Gazzaley and PureTech Health CEO Daphne Zohar accept the CNS Summit 2017 Innovation Award recognising Akili as a pioneer in digital medicine.



CNBC reporter Meg Tirrell demos AKL-T01, Akili's investigational digital medicine for paediatric ADHD, with Akili CEO Eddie Martucci.

### Positive Top-line Results From Pivotal Study in Paediatric ADHD (Dec 2017)

- AKL-T01 successfully showed a statistically significant improvement compared to an active control (p=0.006)
- Predefined primary endpoint was the Test of Variables of Attention (T.O.V.A.®), an FDA cleared objective measure of sustained attention and inhibitory control
- Excellent safety profile



### Akili pipeline

Mechanism	Indication	Programme	Preclinical	Feasibility	Pilot Efficacy Trials	Pivotal Trials
Cognitive Interference Processing	Paediatric ADHD	AKL-T01 (Treatment)				
Cognitive Interference Processing	Paediatric Autism	AKL-T02 (Treatment)				
Cognitive Interference Processing	Major Depression	AKL-T03 (Treatment)				
Cognitive Interference Processing	Multiple Sclerosis	AKL-T (Treatment)				
Cognitive Interference Processing	Parkinson's / MCI	AKL-T (Treatment)				
Cognitive Interference Processing	Traumatic Brain Injury	AKL-T (Treatment)				

# Gelesis

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
GI Modulating Tunable Hydrogel	Obesity, Diabetes, NAFLD, IBD				

### A novel mechanobiology platform to treat obesity and other chronic diseases related to the GI pathway

Gelesis is developing first-in-class mechanotherapeutics to treat chronic diseases related to the gastrointestinal (GI) pathway. Gelesis' proprietary approach leverages rheological properties to act mechanically in the GI pathway to potentially alter the course of chronic diseases safely and effectively. In September 2017, Gelesis announced positive results from a pivotal trial for weight loss evaluating its lead product candidate, Gelesis100. Based on these results, as well as existing data, Gelesis plans to submit Gelesis100 for regulatory approval in the US and Europe in 2018.

Additionally, Gelesis recently initiated a proof-of-concept study for its second product candidate, Gelesis200, which is optimised for weight loss and glycaemic control in patients with type 2 diabetes or prediabetes. Gelesis is advancing a broad pipeline of programmes using its novel and tuneable orally-administered hydrogel platform for the treatment of additional obesity-related co-morbidities, including liver diseases such as non-alcoholic steatohepatitis (NASH) and non-alcoholic fatty liver disease (NAFLD), along with GI disorders such as inflammatory bowel disease (IBD) and intestinal mucositis.

### Patient need and market potential

- In the US, more than two thirds of adults are overweight or have obesity. Globally there are more than 1.9 billion adults 18 years of age or older who were overweight or have obesity.
- Obesity-related conditions include heart disease, stroke, type 2 diabetes, NASH/NAFLD and certain types of cancer, some of the leading causes of preventable death.
- Approved oral therapies for weight loss have side-effects that limit their overall utility and effectiveness.
- Although effective, mechanical interventions such as bariatric surgery, lap bands and stomach balloons are very invasive and carry significant risks from the procedures, including death.

### Innovative approach to solving the problem

- Given the challenges associated with pharmacological and invasive surgical treatments for obesity, Gelesis designed an approach with an oral, non-invasive, non-systemic mechanism of action (mechanical) with a strong safety and efficacy profile. In particular, Gelesis focused on a product profile with a natural cycling effect similar to ingested food that would be non-invasive and require no procedure for introduction or removal.
- Gelesis' product candidates work in the GI tract and pass through the body without being absorbed. They are made from two natural food ingredients (citric acid and cellulose) that form a novel three-dimensional structure composition that is proprietary (patent protected) and occupies volume in the stomach and small intestine to induce weight loss and other benefits.
- Because the Gelesis technology acts mechanically and is not systemically absorbed, the product candidates are treated as devices for regulatory approval purposes.

### Intellectual property

- The Gelesis platform has broad intellectual property coverage worldwide, including 176 patent applications and issued patents in twelve (12) families of patent filings in the US and numerous foreign jurisdictions, including EU, Canada, Japan, Russia, and South Korea.
- The filings cover pharmaceutical composition of matter, methods of use, and methods of making polymer hydrogels for use in weight management and glycaemic control, as well as predicting weight loss and treating obesity.

### Team

- Advisory members include Dr Caroline Apovian (Boston University), Dr Louis J. Aronne (Weill-Cornell), Dr Lee M. Kaplan (Massachusetts General Hospital), Dr Arne Astrup (University of Copenhagen), Dr Ken Fujioka (Scripps Clinic), Dr Allan Geliebter (St Luke's-Roosevelt Hospital), Dr James Hill (University of Colorado), and Angelo Tremblay (Laval University).
- The Board of Directors consists of Dr John LaMattina (PureTech Health, formerly Pfizer), Mr Elon Boms (Launch Capital), Dr Meghan M. FitzGerald (L1 Health), Mr Robert Forrester, LL.B (Verastem), Mr Stephen Muniz (PureTech Health), Dr Raju Kucherlapati (PureTech Health and Harvard Medical School), and Mr Yishai Zohar (Founder, Co-inventor, previously PureTech Health, Zeta Ltd.).
- Mr Yishai Zohar (Founder, Co-inventor, previously PureTech Health, Zeta, Ltd.), Dr David Pass (previously Boehringer Ingelheim), Dr Hassan Heshmati (previously Sanofi), Dr Elaine Chiquette (previously Amylin) serve as CEO, COO, CMO, and Executive Vice President of Science, respectively. Dr Alessandro Sannino (inventor of Gelesis' technology platform) serves as Chief Project Scientist.

### Milestones achieved

- Gelesis achieved significant weight loss with an excellent safety profile in its pivotal clinical trial with Gelesis100. The study achieved and exceeded one of two co-primary endpoints, with 59 per cent of adults in the Gelesis100 treatment arm achieving 5 per cent or more weight loss compared to placebo (59 per cent vs. 42 per cent, p=0.0008). Additionally, almost twice as many adults on Gelesis100 lost 10 per cent or more of their body weight compared to the placebo group (26 per cent vs. 16 per cent, p=0.027). Gelesis100 showed no increased safety risk, no serious adverse events, and a lower dropout rate compared to placebo.
- In 2016, Gelesis presented positive safety and satiety efficacy data from a first-in-human study of Gelesis200, showing that Gelesis200 was generally well-tolerated with no serious adverse events. Based on these positive results, Gelesis initiated a six-month efficacy proof-of-concept study in people with prediabetes or diabetes, with results expected within the next 12 months.
- To date, Gelesis has completed seven clinical trials with more than 550 people treated with either Gelesis100 or Gelesis200, demonstrating no increased safety risks and no serious adverse events.

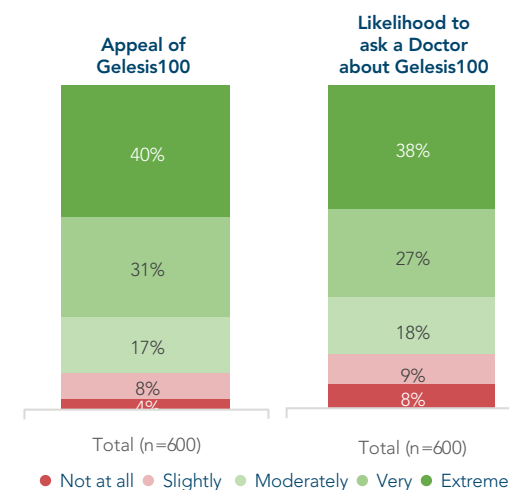
### External validation

- In March 2018, Gelesis completed a private fundraising round with gross proceeds of \$30 million. The proceeds from the financing will be used to support commercial-stage manufacturing, product launch preparations, company operations, and the clinical advancement of the Gelesis pipeline of additional product candidates for gastrointestinal disorders, including type 2 diabetes and NASH/NAFLD.
- The Italian Ministry of Economic Development awarded €2.9 million to the Gelesis research and development subsidiary in Italy for the advancement of Gelesis' novel hydrogel platform for the treatment of type 2 diabetes.
- Further investigation of Gelesis' hydrogel technology platform has led to an international collaboration with leading obesity and nutrition experts – and subsequent publication in the *American Journal of Clinical Nutrition* – building on a novel and proprietary biomarker approach for people with prediabetes, and a paper in the *International Journal of Obesity* showing that pre-treatment microbial ratio determines body fat loss success during a 6-month randomised controlled diet intervention.
- In 2015, Gelesis raised over \$50 million in equity financing, with more than \$40 million of that coming from external investors.

### Expected milestones and timing

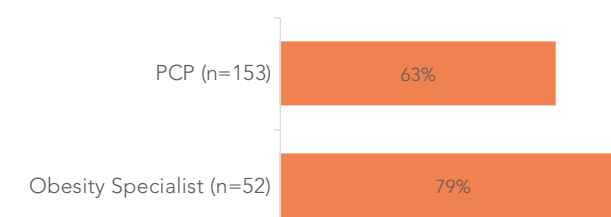
- Regulatory filings are anticipated in the US and Europe in 2018 for Gelesis100.
- Results are anticipated from the Gelesis200 LIGHT-UP study for weight loss and glycaemic control in people with prediabetes or type 2 diabetes within the next 12 months.
- Pilot clinical study for additional products targeting indications such as NASH/NAFLD or chemotherapy induced mucositis are anticipated to start in second half of 2018.

~70% very strong appeal, with 90% of those likely to ask a doctor for Gelesis100\*



### Likelihood to Rx with Patient Request

(HCPs, % selecting "extremely likely" or "very likely" to prescribe)



Source: Internal market research data (HawkPartners)

\* Target product profile tested was with GLOW trial results

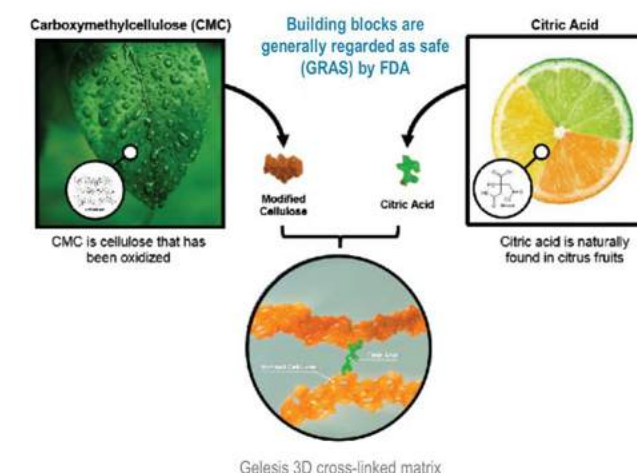
### Gelesis100 & Gelesis200 efficacy & safety summary

#### 7 completed and 3 on-going clinical trials

Total number of patients treated with Gelesis100: **560**

- 6 month pivotal regulatory study (Gelesis100)**
  - Statistically significant weight loss over placebo
  - 59% achieving 5% or more weight loss** (59% vs. 42%, p=0.0008)
  - 26% achieving greater than 10% weight loss** (26% vs. 16%, p=0.027)
  - Prediabetics and untreated diabetics had **7 times higher chances (OR)** for achieving weight loss of 10% or more
  - No increased risks** and a lower overall dropout rate versus placebo. **No serious adverse events**
- 3 month human pilot study (Gelesis100):**
  - 6.1% total body weight loss**
- Clinical mechanism & drug interaction studies (Gelesis100 & Gelesis200):**
  - Increased satiety**, including second meal effect, in two separate studies (Gelesis100: n=95, Gelesis200: n=24)
  - DDI study indicates metformin interaction with Gelesis100 is similar to metformin interaction with food

### Proprietary Gelesis platform



### Gelesis pipeline

Mechanism	Indication(s)	Programme	Preclinical	Clinical	Pivotal
GI Modulating Hydrogel	Weight Loss in Overweight and Obese Adult Patients	Gelesis100			
GI Modulating Hydrogel	Weight Loss in Overweight and Obese Paediatric Patients	Gelesis100			
GI Modulating Hydrogel	Glycaemic Control and Weight Loss in Adults with Prediabetes and Type 2 Diabetes	Gelesis200			
GI Modulating Hydrogel	NAFLD/NASH	GS300			
GI Modulating Hydrogel	Mucositis/IBD	GS400			



# resTORbio

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Selective mTORC1 Inhibitors	Immunosenescence and Ageing-Related Disorders, Respiratory Tract Infections				

### First-in-class immunotherapies to address immunosenescence and ageing-related disorders

resTORbio is developing therapeutics to address ageing-related diseases. mTOR (mechanistic target of rapamycin) inhibition has been shown in model organisms to extend lifespan and ameliorate ageing-related pathologies, including immunosenescence, heart failure, and neurodegenerative diseases. Many of the beneficial effects of mTOR inhibition on ageing may be mediated by inhibition of the target of rapamycin complex 1 (TORC1), a downstream signalling complex of mTOR. resTORbio's lead programme is focused on selective TORC1 inhibitors, with a first-in-class immunotherapy designed to enhance the immune system of the elderly in order to reduce the incidence of respiratory tract infections (RTIs). RTIs, the majority of which are caused by unknown viruses, are a leading cause of death in the elderly, and few therapies exist to treat them. resTORbio intends to leverage learnings from its clinical study in RTIs to expand its programme into additional ageing-related indications.

In 2017, resTORbio advanced its RTB101 and RTB101+everolimus product candidates for the selective inhibition of the TORC1 pathway into a Phase 2b clinical study in RTIs in the elderly. The study, which is expected to read out in the second half of 2018, will evaluate the effectiveness of RTB101 alone or in combination with everolimus in reducing the incidence of RTIs in elderly patients at increased risk of morbidity and mortality related to RTIs.

### Patient need and market potential

- Immunosenescence, the age-dependent decline in immune function, is associated with a decreased ability to fight infections, an increase in cancer incidence, and a decline in organ function in the elderly. With a rapidly ageing population, there is an urgent need to address these and other ageing-related diseases.
- RTIs are the fifth leading cause of death in people aged 85 and over (US), and seventh for those 65 and older.
- The majority of RTIs are caused by unknown viruses, with few therapies to treat them.
- The very elderly (age 80 and over) is the fastest growing population in the US.
- resTORbio intends to leverage learnings from its clinical study in RTIs to expand its programme into additional ageing-related indications.

### Innovative approach to solving the problem

- mTOR is a protein serine/threonine kinase that regulates multiple cell functions, including cell growth and metabolism, via two complexes: TORC1 and TORC2.
- TORC1 inhibition has been shown to have many beneficial effects on ageing, including increased lifespan in preclinical models, while TORC2 inhibition has been associated with adverse events, including decreased lifespan, hyperglycaemia, and hypercholesterolemia.
- resTORbio's product candidates selectively inhibit TORC1 and may therefore have therapeutic potential to ameliorate multiple ageing-related conditions with a favourable safety profile. Preclinical data suggests that TORC1 inhibitors may enhance immune response to vaccines and improve tendon stiffening, cardiac dysfunction, cognitive dysfunction, ageing-related mobility issues, and laminopathies.

### Milestones achieved

- On 30 January 2018, resTORbio announced the closing of its initial public offering (IPO) on NASDAQ, raising gross proceeds of \$97.8 million.
- In November 2017, resTORbio completed an oversubscribed \$40 million Series B financing led by OrbiMed, with participation from Fidelity Management and Research Company, Rock Springs Capital, Quan Capital and Nest Bio.
- In October 2017, resTORbio completed its Series A financing, with PureTech Health, Novartis, and OrbiMed, with gross proceeds of \$25 million.
- resTORbio advanced its RTB101 and RTB101+everolimus product candidates for the selective inhibition of the TORC1 pathway into a Phase 2b clinical study in RTIs in the elderly.
- RTB101 and everolimus, along with more than 75 issued patents, were in-licensed from Novartis in March 2017 for ageing-related indications.
- Data from a Phase 2a clinical trial conducted by Novartis became available in 2016 and showed the following:
  - In the RTB101 monotherapy and RTB101+everolimus combination treatment arms in the intent-to-treat population, statistically significant and clinically meaningful reductions in the annual rate of infections of 33 per cent (p=0.008) and 38 per cent (p=0.001), respectively, compared to placebo, were observed, despite only six weeks of treatment.
  - Both RTB101 monotherapy and the RTB101+everolimus combination therapy were observed to reduce the incidence of RTIs at one year by 42 per cent (p=0.006) and 36 per cent (p=0.01), respectively, in the intent-to-treat population.
  - Both RTB101 monotherapy and the RTB101+everolimus combination therapy were observed to reduce the incidence of RTIs at 16 weeks following initiation of therapy by 45 per cent (p=0.039) and 50 per cent (p=0.013), respectively, in the intent-to-treat population. The typical winter cold and flu season is approximately 16 weeks.

### Intellectual property

- resTORbio has broad intellectual property coverage worldwide, having exclusive rights to a patent portfolio licensed from Novartis International Pharmaceutical Ltd. directed to composition of matter of RTB101 and its salts, formulations of everolimus, and methods of using RTB101 in combination with everolimus to enhance the immune response, among treatment of other diseases and conditions.
- resTORbio's patent portfolio also includes a recently-filed patent application owned by resTORbio which is directed to compositions of matter for novel mTOR inhibitors.

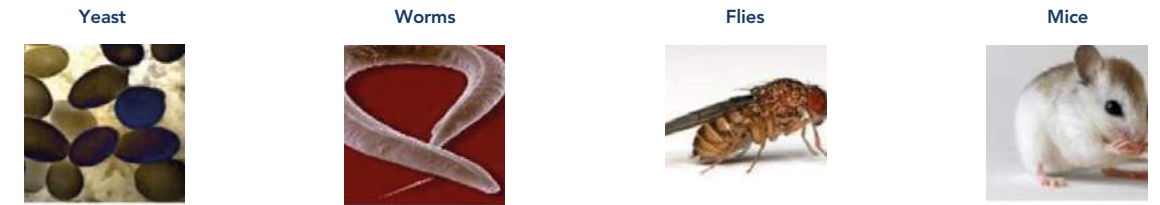
### Team

- The Board of Directors consists of Mr Chen Schor (resTORbio), Mr Jonathan Silverstein, JD (Managing Director, OrbiMed Advisors), Mr Paul Fonteyne (Chief Executive Officer Boehringer Ingelheim USA Corporation), Ms Daphne Zohar (PureTech Health), Mr David Steinberg (PureTech Health), and Ms Lynne Sullivan (Senior Vice President, Biogen).
- Mr Chen Schor (previously Madrigal (NASDAQ: MDGL), Teva Pharmaceuticals), and Dr Joan Mannick (previously Novartis Institutes of Biomedical Research, Genzyme, Harvard Medical School and University of Massachusetts Medical School) serve as CEO and Chief Medical Officer, respectively. The team includes Ms Sarb Shergill (previously Akebia Therapeutics and Genzyme), Mr Abdallah Sentissi (previously TransMolecular, Biovest International and Diacrin/Genvec), Ms Karen Jauregui (previously Akebia Therapeutics, EMD Serono and Repligen Corporation), Mr John McCabe (previously Eleven Biotherapeutics, Clinical Data, Interleukin Genetics, PricewaterhouseCoopers LLP), and Dr Grace Teo (previously PureTech Health, MIT).

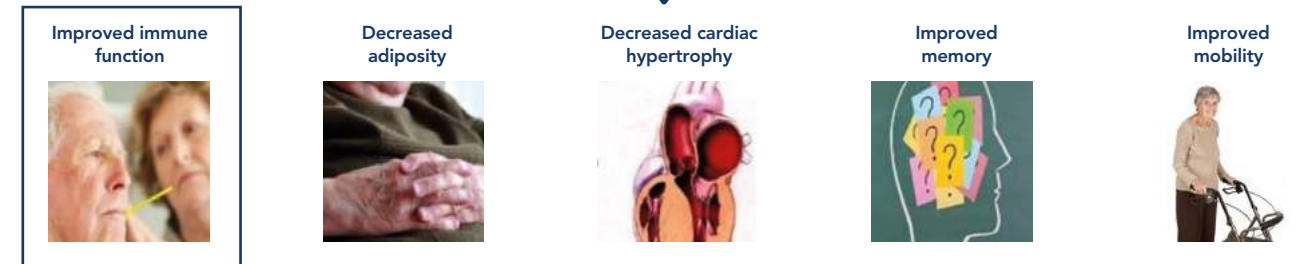
### Expected milestones and timing

- The Phase 2b clinical study is expected to read out in the second half of 2018 and will evaluate the effectiveness of RTB101 alone or in combination with everolimus in reducing the incidence of RTIs in elderly patients at increased risk of morbidity and mortality related to RTIs.

### mTOR is an evolutionarily conserved pathway that regulates ageing



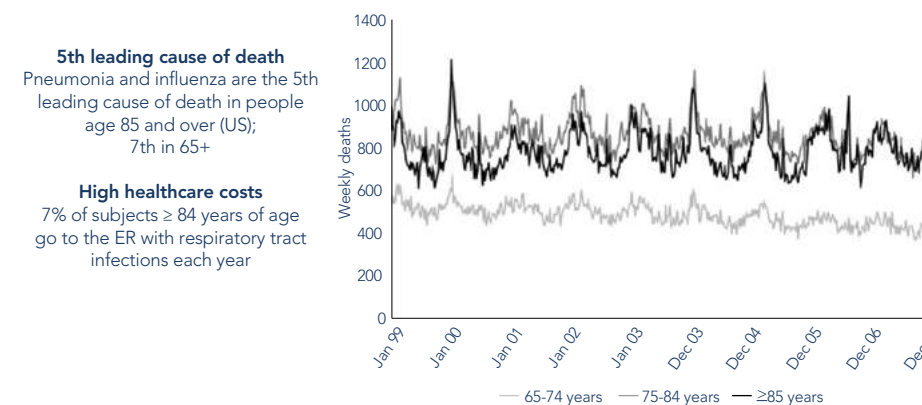
mTOR inhibition extends lifespan and improves the following ageing-related conditions:



As a first step in translating these findings to humans, Novartis determined that mTOR inhibitors improve immune functions in elderly humans

### Why the very elderly need a drug that reduces respiratory tract infections

Overall weekly mortality by age group 1999 – 2007



**5th leading cause of death**  
Pneumonia and influenza are the 5th leading cause of death in people age 85 and over (US); 7th in 65+

**High healthcare costs**  
7% of subjects ≥ 84 years of age go to the ER with respiratory tract infections each year

**No therapy**  
Viruses for which there is no therapy cause the majority of community-acquired pneumonia in subjects ≥ 80 years

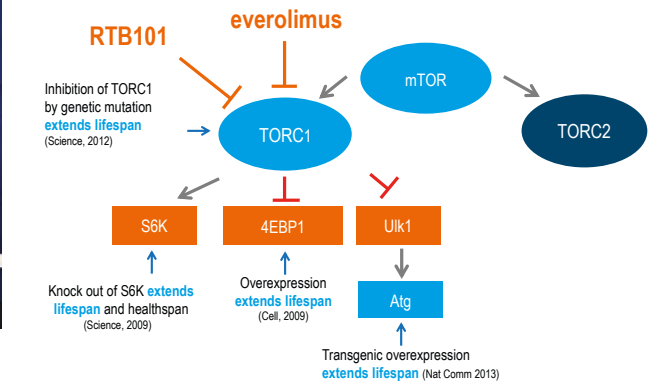
**Fastest growing population**  
The very elderly (80+) is the fastest growing population

**High healthcare burden**  
One third of subjects age ≥ 85 who are hospitalised are admitted to a nursing home



resTORbio CEO Chen Schor and CMO Joan Mannick ring the NASDAQ opening bell following the successful 2018 IPO

### RTB101/everolimus in combination provide more selective and complete TORC1 inhibition than either agent alone (Nyfeler et al 2012)



# Karuna

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Selective Muscarinic Receptor Agonists	Schizophrenia, Alzheimer's Disease, Bipolar Disorder				

## Targeting muscarinic receptors for the treatment of central nervous system disorders

PureTech's Karuna is advancing its selective muscarinic receptor agonist programme for the treatment of psychosis and cognition across multiple central nervous system (CNS) disorders including schizophrenia and Alzheimer's disease. KarXT (Karuna-Xanomeline-Tropium), the lead product candidate, selectively targets M1/M4 muscarinic receptors in the brain while blocking their activation in peripheral tissues to significantly improve the tolerability profile. This approach is designed to unlock the therapeutic potential of muscarinic receptors, which have long been of interest to the pharmaceutical industry based on previous efficacy data in placebo-controlled human studies but have previously been held back by tolerability concerns associated with the activation of muscarinic receptors in peripheral tissues.

This novel product candidate has the potential to be one of the most promising new mechanisms for the treatment of people with psychosis and cognitive impairments in serious CNS disorders that affect tens of millions of people. If successful, KarXT could provide a new mechanism for treating schizophrenia, a field in which treatments have relied on the same fundamental mechanisms for the last half-century.

In December 2016, Karuna reported positive results from its tolerability proof-of-concept study and is currently conducting a Phase 1 study using a proprietary co-formulation of xanomeline and tropium. A Phase 2 trial to evaluate the efficacy and safety of KarXT in people with schizophrenia is expected to begin in the third quarter of 2018.

### Patient need and market potential

- Psychosis and cognitive impairments are debilitating features of schizophrenia and Alzheimer's disease and other mental illnesses that affect tens of millions of people, but there are no existing medicines that sufficiently and safely treat psychosis and cognition impairments.
- Antipsychotics are the mainstay therapy; however, drugs currently in use all rely on the same fundamental mechanism of action and, despite widespread use, the prognosis for patients remains poor – only 30 per cent live independently, 10-20 per cent maintain full time employment, and tragically 5 per cent end their life with suicide.
- Current antipsychotics only address positive symptoms, but patients often experience residual positive symptoms throughout their lives; negative and cognitive symptoms are left untreated. There are no approved treatments for the negative or cognitive symptoms of schizophrenia, or the treatment of psychosis associated with Alzheimer's disease.
- Current antipsychotics are associated with serious side effects, including potentially irreversible movement disorders (tardive dyskinesia), metabolic dysfunction, glucose intolerance, weight gain, sedation, and cardiovascular mortality in the elderly.
- There is a desperate need for new treatments in schizophrenia that not only address the positive, negative, and cognitive symptoms but are free of the problematic safety issues with existing medicines.

### Innovative approach to solving the problem

- Xanomeline, a muscarinic agonist Karuna has exclusively licensed, was previously studied (by Eli Lilly & Co) in double-blind, placebo-controlled trials in schizophrenia and Alzheimer's disease, demonstrating efficacy in the treatment of psychosis and beneficial effects on cognition. To PureTech's knowledge, xanomeline is the only muscarinic agonist that has demonstrated human efficacy in either schizophrenia or Alzheimer's disease.
- Eli Lilly discontinued development of xanomeline given tolerability issues associated with the activation of peripheral muscarinic receptors (but did not observe the serious side effects associated with the current anti-psychotics).
- By pairing xanomeline with tropium chloride, a muscarinic antagonist that acts only in the periphery (outside the brain or CNS) and has been approved in the US and Europe for the treatment of overactive bladder, Karuna believes KarXT could potentially alleviate the tolerability issues seen with xanomeline alone while maintaining the excellent efficacy profile previously demonstrated. In the Karuna tolerability proof-of-concept study, KarXT was significantly better tolerated than xanomeline alone and no serious or severe adverse events were reported.

### Intellectual property

- Karuna has broad intellectual property coverage worldwide, including exclusive rights to five (5) patent applications which cover pharmaceutical compositions of its clinical candidate and methods of use for the treatment of disorders ameliorated by muscarinic receptor activation.

### Team

- The Board of Directors consists of Dr Edmund Harrigan (previously SVP at Pfizer), Dr Atul Pande (PureTech Health, previously SVP at GSK), Dr Bennett Shapiro (PureTech Health, previously EVP at Merck), Dr Eric Elenko (PureTech Health), Mr Stephen Muniz (PureTech Health), Dr Bharatt Chowrira (PureTech Health) and Dr Andrew Miller (PureTech Health).
- Dr Andrew Miller (PureTech Health), Dr Alan Breier (Indiana University, formerly CMO at Eli Lilly, NIMH, and Maryland Psychiatric Research Center), and Dr Stephen Brannan (PureTech Health, former VP at Takeda), serve as Chief Executive Officer, Chief Clinical Advisor, and Chief Medical Officer, respectively.

### Milestones achieved

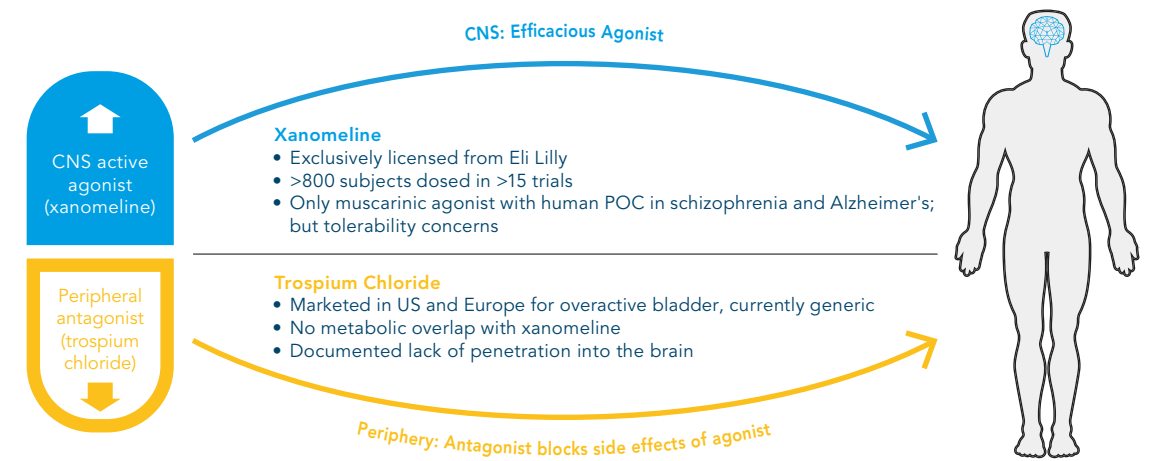
- In December 2016, Karuna announced positive results from a tolerability proof-of-concept study in which KarXT was shown to significantly reduce the incidence of prespecified cholinergic adverse events by a clinically meaningful extent (46 per cent, p=0.016) compared to xanomeline alone, and each individual cholinergic adverse event was reported at a lower rate in the KarXT treatment arm; furthermore, no severe or serious adverse events were reported.
- In a double-blind, placebo-controlled monotherapy trial in schizophrenia patients, xanomeline showed a significant (p<0.05) 24-point reduction over placebo on the Positive and Negative Syndrome Scale (PANSS).
- Xanomeline has been dosed in over 800 patients and has demonstrated efficacy in reducing psychosis and shown beneficial effects on cognition in placebo-controlled human trials in both Alzheimer's disease and schizophrenia.

### External validation

- Karuna licensed xanomeline from Eli Lilly, and Company advisors include the former Chief Medical Officer and former Executive Vice President of Research and Development from Eli Lilly.
- Karuna received the Wellcome Trust's Translation Fund Award, consisting of an unsecured convertible note of up to \$3.84 million from the Wellcome Trust for the combination tolerability proof-of-concept study.

### Expected milestones and timing

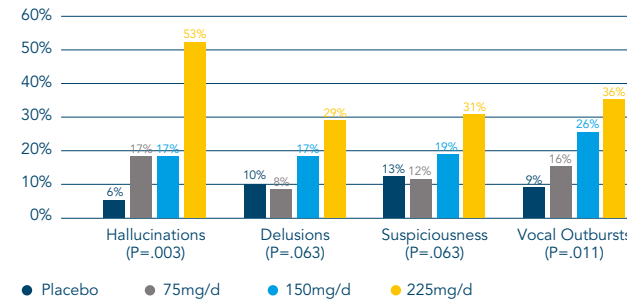
- Karuna expects to initiate a Phase 2 trial of KarXT in the third quarter of 2018, with the goal of replicating existing efficacy data with xanomeline in patients with schizophrenia while alleviating tolerability issues.



## Previous Studies with Xanomeline

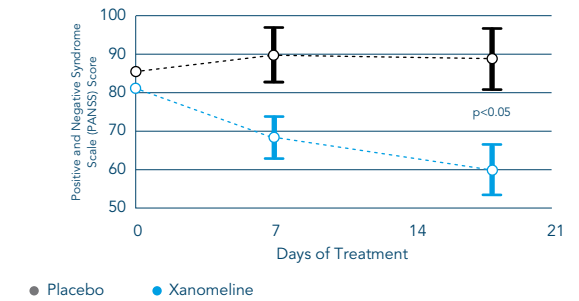
### Phase II Study of Xanomeline in Alzheimer's Disease (N=343)

% of Patients With Symptom at Baseline Whose Symptoms Stopped During Treatment



Dramatic effect on behavioural symptoms in a dose dependent manner

### Proof of Concept Study of Xanomeline in Schizophrenia (N=20)



Robust (P<0.05) reduction in total PANSS (24 pt. change vs. placebo)

## Data and key findings

Category	Xanomeline Alone, N=33	Xanomeline + Tropium, N=35	Lead in placebo, N=34	% Reduction in Incidence Rate
<b>Any TEAs*</b>	<b>64%</b>	<b>34%</b>	<b>32%</b>	<b>46%</b>
Nausea	24%	17%	6%	29%
Vomiting	15%	6%	0%	62%
Diarrhoea	21%	6%	9%	73%
Sweating	49%	20%	6%	59%
Salivation	36%	26%	21%	29%

Statistically-significant reduction in the incidence of prespecified cholinergic adverse events (p=0.016) compared to xanomeline alone.

Consistent with VAS and clinician-administered scales. KarXT rate of cholinergic AEs similar to placebo lead-in period.

\* TEAs=treatment emergent adverse events



# Vedanta Biosciences

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Microbiome-Derived Immune Modulators	<i>C. difficile</i> , IBD, Food Allergy, Immuno-Oncology				

## Microbiome-derived modulators for immune-mediated and infectious diseases

PureTech's Vedanta Biosciences is developing a new category of therapies for immune-mediated and infectious diseases based on a rationally-defined consortium of human microbiome-derived bacteria. Vedanta Biosciences' product candidates are designed to modulate pathways of interaction between the human microbiome and the host immune system to treat serious diseases. As a leader in the field of defined microbial consortia for autoimmune disorders, infections, and immuno-oncology, Vedanta Biosciences is advancing a pipeline of product candidates that seek to address these serious diseases.

In 2017, Vedanta Biosciences initiated a Phase 1a/1b clinical trial of VE303, its lead product candidate for the treatment of recurrent *C. difficile* infection. Vedanta Biosciences has also continued to expand its internal, state-of-the-art cGMP-compliant manufacturing capabilities, giving it a distinct competitive advantage in the microbiome field. A Phase 2 study of VE303 is on track to begin in the second half of 2018. Three additional product candidates are also expected to enter clinical development in 2018, with Phase 1 trial initiations planned in inflammatory bowel disease (IBD) and food allergy, and the submission of an investigational new drug application (IND) for an immuno-oncology product candidate.

### Patient need and market potential

- IBD is estimated to affect over one million people in the US and four million worldwide, and other autoimmune diseases affect over 20 million people in the US. Many of the existing interventions are limited by toxicities and systemic immune suppression. Vedanta Biosciences is collaborating with Janssen Biotech, Inc. to advance a microbiome-derived candidate in IBD.
- The Centers for Disease Control and Prevention (CDC) considers *C. difficile* infections one of the most urgent bacterial threats. *C. difficile* infections account for nearly 15,000 deaths each year in the US alone. Existing interventions include antibiotics such as vancomycin or metronidazole, which have the undesirable side effect of damaging the gut microbiome and leaving patients vulnerable to re-infection. A related intervention, faecal transplantation, is an experimental procedure which is exceedingly difficult to standardise and scale and is fraught with potential safety issues. Vedanta Biosciences' lead, administered product candidate, VE303, was designed to restore colonisation resistance against gut pathogens, including *C. difficile*, following recurrence. VE303 was granted Orphan Drug Designation in 2017 by the United States Food and Drug Administration (FDA).
- Despite profound survival improvements in some patients, checkpoint inhibitors (PD-1/PDL-1, CTLA-4) are only effective in 20-30 per cent of patients. Common tumour types where checkpoint inhibitors are utilised include lung, bladder, skin and renal cancers. Vedanta Biosciences' product candidates are designed to act in combination with approved checkpoint inhibitors and potentially other immunotherapies to improve their efficacy.
- Food allergies are a growing US public health concern – they affect eight per cent of children and have an annual economic cost near \$25 billion. Current treatment options primarily centre around allergen avoidance. Desensitisation regimens in development are risky and require treatment for life. Vedanta Biosciences' product candidates are being developed to safely induce permanent tolerance to food allergens.

### Innovative approach to solving the problem

- Unlike faecal transplants, which require use of donors and are an untargeted, inherently variable procedure, Vedanta Biosciences' approach is based on bacterial consortia therapeutics, which are defined drug compositions produced from clonally isolated bacteria that can trigger targeted immune responses. Unlike reductionistic approaches such as single strain probiotics, defined consortia can robustly shift the composition of the gut microbiota and provide colonisation resistance against a range of intestinal infectious pathogens. These therapeutics can also stimulate a range of immune responses ranging from immunoregulatory responses, which hold potential in the treatment of autoimmune and allergic diseases, to immunopotentiating responses, which hold potential in cancer and vaccination.
- Vedanta Biosciences' collaborators have pioneered the fields of innate immunity, Th17 and regulatory T cell biology. These discoveries, which have formed the leading scientific foundation for Vedanta Biosciences, have been reported in seminal scientific papers and published in leading journals such as *Science*, *Nature* and *Cell*, demonstrating that the gut microbiome influences important processes related to the proper functioning of the immune system and resistance to infection.
- Vedanta Biosciences' novel product candidates are administered in a lyophilized powder in a capsule dosage form, designed to have specific effects on the immune system, with the aim of restoring the balance of the microbiome in the gut to treat immune and infectious diseases safely and effectively.

### Intellectual property

- Vedanta Biosciences has broad intellectual property coverage worldwide, currently owning or having exclusive rights to sixty-nine (69) patent applications and issued patents in thirteen (13) families of patent filings, including ten (10) patents that issued in the US and Japan in 2017. Vedanta's IP estate positions the company as a leader in the microbiome field.
- Vedanta's IP portfolio includes foundational patents covering compositions and therapeutic uses of products containing microbiome bacteria belonging to Clostridium clusters IV and XIVa, which are among the most abundant colonisers of the human intestine and play an important role in human health, including regulating inflammatory responses and other immune responses.
- The IP estate includes issued patents in the major pharmaceutical markets (US, Europe, and Japan). These patents provide coverage through at least 2031, with priority filing dates as early as 2010.

### Team

- Scientific co-founders and advisory board members include some of the world's leading immunologists. Dr Ruslan Medzhitov (Yale and Howard Hughes Medical Institute (HHMI)), Dr B Brett Finlay (University of British Columbia and HHMI), Dr Kenya Honda (inventor of Vedanta Biosciences' IBD product candidate; Keio University and RIKEN), Dr Dan Littman (New York University and HHMI and member of the Pfizer Board), Dr Alexander Rudensky (Sloan Kettering and HHMI), and Dr Jeremiah Faith (Mount Sinai School of Medicine).
- The Board of Directors consists of Mr Chris Viehbacher (Gurnet Point Capital, Sanofi, PureTech Health), Dr Bernat Olle (CEO, Vedanta Biosciences), Dr Ben Shapiro (PureTech Health, formerly Merck), Dr John LaMattina (PureTech Health, formerly Pfizer) and Mr David Steinberg (PureTech Health).
- Dr Bernat Olle (formerly MIT, PureTech Health) serves as Chief Executive Officer, Dr Bruce Roberts (previously Sanofi-Genzyme Group) serves as Chief Scientific Officer, and Mr Dan Couto (previously ContraFect) serves as Chief Technical Officer and head of manufacturing.

### Milestones achieved

- Vedanta Biosciences initiated a Phase 1a/1b clinical trial of VE303, its lead, orally-administered, human microbiome-derived product candidate. VE303 is the first known investigational drug consisting of rationally-defined bacterial consortium in powder form to enter the clinic and is being evaluated for the treatment of recurrent *C. difficile* infection.
- VE303 was also granted Orphan Drug Designation in 2017 by the United States Food and Drug Administration (FDA). Key in-house manufacturing milestones have also been achieved, which places a Phase 2 study of VE303 on track to start in the second half of 2018.
- Vedanta Biosciences has partnered with Janssen Biotech, Inc. for the development and commercialisation of VE202, which has demonstrated preclinical efficacy for IBD and food allergy and is expected to enter the clinic in the second half of 2018.
- In collaboration with co-founder Dr Kenya Honda, Vedanta Biosciences is working on an additional product candidate, VE800, consisting of a rationally defined bacterial consortium that potentiates cytotoxic CD8+ T-cells, which are key modulators of immuno-oncology checkpoint therapy responses. Vedanta Biosciences intends to file an IND for VE800 in 2018.

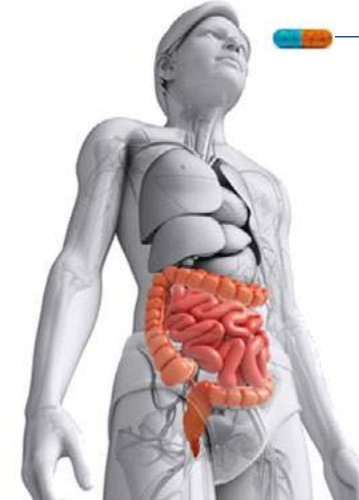
### External validation

- As part of the collaboration with Janssen Biotech, Vedanta Biosciences received a non-refundable upfront payment and is entitled to milestone payments up to \$339 million, plus royalties.
- Data on Vedanta Biosciences' microbiome technologies has been featured in high impact academic journals such as *Nature*, *Science*, and *Cell*.
- In June 2016, Vedanta Biosciences raised \$50 million in equity investments, with new investors Rock Springs Capital, Invesco Asset Management, and Health for Life Capital (Seventure) joining PureTech Health in the financing.
- In November 2017, Vedanta Biosciences was awarded a \$5.4 million research grant from CARB-X (Combating Antibiotic Resistant Bacteria Biopharmaceutical Accelerator) to support clinical testing of VE303.
- In December 2017, Vedanta Biosciences was awarded \$248,000 from the Crohn's & Colitis Foundation to support efforts to develop a live bacterial consortium for decolonisation of pathobiont species in individuals newly diagnosed with IBD.
- Vedanta Biosciences has exclusively licensed key intellectual property from Keio University to develop and commercialise microbiome-derived cancer immunotherapies based on live biotherapeutics.
- Vedanta Biosciences also entered into clinical translational medicine collaborations with top academic institutions including Stanford University School of Medicine, Leiden University Medical Center, and NYU Langone Medical Center.
- In March 2016, Vedanta Biosciences entered into a licensing agreement with RIKEN, the University of Tokyo and Azabu University for a new immune-boosting microbiome technology with potential applications in infectious disease and immuno-oncology.

### Expected milestones and timing

- Results are anticipated from the Vedanta Biosciences VE303 (recurrent *C. difficile* infections programme) Phase 1a/1b clinical trial in healthy volunteers in the second quarter of 2018. Initiation of a Phase 2 study with VE303 in patients with recurrent *C. difficile* infections in the second half of 2018.
- Initiation of the Vedanta Biosciences VE202 (collaboration with Janssen Biotech, Inc.) Phase 1 clinical trial in IBD is anticipated in the second half of 2018.
- Initiation of the Vedanta Biosciences VE416 Phase 1 clinical trial in food allergy is anticipated in the second half of 2018.
- Filing of an IND application for VE800, Vedanta Biosciences' cancer immunotherapy candidate, is anticipated in 2018.

## Immune system



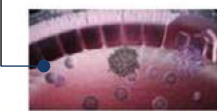
**Step one**  
Oral administration in capsule form

Bacterial consortia are easily administered in lyophilised oral capsule form



**Step two**  
Colonisation of the intestine

The active ingredients travel down the GI tract and colonise the intestine. They shift the gut microbiota composition and provide colonisation resistance against gut pathogens



**Step three**  
Stimulation of targeted immune responses

They elicit a range of immune responses — immunoregulatory and immunopotentiating

## Vedanta Biosciences pipeline

Mechanism	Indication(s)	Programme	Preclinical	Phase 1	Phase 2	Phase 3
Microbiome-Derived Immune Modulators	<i>C. difficile</i>	VE303				
Microbiome-Derived Immune Modulators	Colitis & Crohn's	VE202				
Microbiome-Derived Immune Modulators	Cancer Immunotherapy, Several Indications	VE800				
Microbiome-Derived Immune Modulators	Food Allergy	VE416				
Microbiome-Derived Immune Modulators	MDROs and Graft-vs-Host Disease					

# Sonde

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Vocal Biomarkers	Depression, Suicidality, and Parkinson's Disease				

### Vocal biomarkers to extract clinically meaningful health information from everyday voice interactions

PureTech's Sonde has the potential to fundamentally change the way mental and physical health is monitored, managed, and diagnosed, beginning with conditions that affect the neurological, muscular, and respiratory systems required for speech production. Sonde is advancing a proprietary voice-based technology, developed internally and licensed from the Massachusetts Institute of Technology (MIT) Lincoln Laboratory, which has been tested in over three thousand individuals to date. This development work has demonstrated the potential to use commonly owned devices like smartphones to effectively screen and monitor a range of diseases using information obtained from an individual's voice.

Detection and quantification of subtle characteristic changes in the voice can accurately reveal important aspects of an individual's changing health. Sonde's platform is designed to rapidly measure a number of health-related features from just a few seconds of speech – without requiring analysis of the content of speech so user privacy can be protected. With today's estimated four billion voice queries a day expected to double by 2020, Sonde is advancing a leading platform that could potentially uncover important health content currently being overlooked from these voice interactions.

#### Patient need and market potential

- High-tech devices that continuously stream sensor data are ubiquitous, but there remains a major gap in converting this information into broadly actionable health insights. The lag between onset of disease and accurate diagnosis and beginning of treatment can be measured in years for many high-burden health conditions including depression, Alzheimer's disease, multiple sclerosis, and Parkinson's disease, to name just a few. Near-continuous health information, powered by Sonde's technology, has the potential to improve diagnosis, monitoring, and treatment of high-cost conditions, broadly improving outcomes and care efficiency.
- For example, despite the high burden of depression and the recommendation that the 270 million US adults and adolescents receive depression screening once a year, fewer than 10 per cent of patients are screened and only about half of those diagnosed receive care as recommended. There is an escalating demand for solutions to improve screening rates and facilitate more rapid intervention that could potentially save lives.
- Development of effective therapies for central nervous system diseases and disorders is hampered by the high cost and inherent variability of these diseases and the reference diagnostic measures used to characterise them. Objective digital tools that can augment and perhaps one day replace the current clinical endpoints with novel measures that can be measured with more meaningful accuracy and less burden can improve patient enrolment and drug development for a range of important conditions.

#### Innovative approach to solving the problem

- Sonde's proprietary technology is being developed to enable a range of consumer devices such as smartphones and smart speakers to provide effective disease screening and management solutions based on an analysis of seconds of voice capture. By tailoring the information produced from these objective voice measures to correlate with existing screening and diagnostic measures that integrate seamlessly with patient care flows and individuals' daily lives, Sonde is creating services to address a range of health care needs from depression to respiratory and ageing related conditions.

#### Intellectual property

- Sonde has broad intellectual property coverage worldwide, currently owning or having exclusive rights to three (3) issued patents and twelve (12) patent applications in four (4) families of patent filings. Sonde has filed several patent applications covering a number of facets of its technology in addition to the IP that was licensed from MIT.
- The first US patent, broadly covering methods of assessing mental or physical conditions of a subject using speech audio waveforms extracted from phonetic structures, or phones, was issued in September 2017.
- A second US patent, covering phonological biomarkers that can be used in the screen and monitor of physical and psychological disorders, such as major depressive disorder, was issued in April 2018.
- Sonde was recently granted an Australian patent covering the use of vocal biomarker technology to detect physical or psychological conditions in the human body. The patent provides coverage until 2034.

#### Team

- Advisory board members include Dr Maurizio Fava (MGH), Dr Harry Leider (Chief Medical Officer, Walgreens), Dr Ian Gotlib (Stanford), Dr Helen Christensen (Black Dog Institute), Dr Aimee Danielson (MedStar Georgetown University Hospital), and Dr Julien Epps (University of New South Wales).
- Sonde is led by Dr Eric Elenko (PureTech Health), Chief Executive Officer; Dr Jim Harper (PureTech Health, formerly with MIT Lincoln Laboratory) Chief Operating Officer; and Mr Yogendra Jain (former CTO at Alliance, founder of ThinkEngine Networks), who joined in October 2017, as Chief Technology Officer.

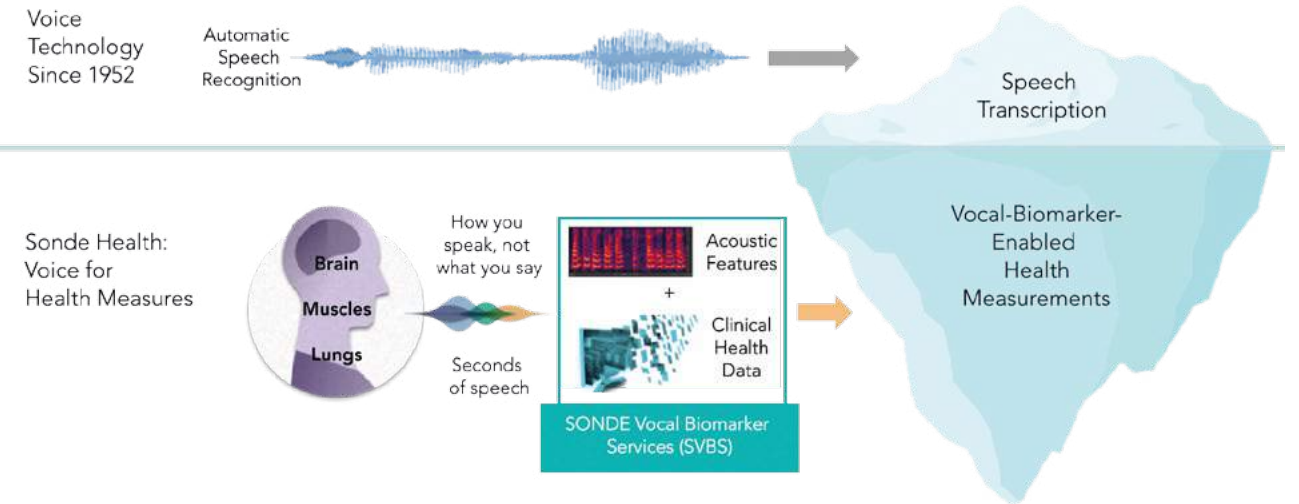
#### Milestones achieved

- A scalable cross-platform mobile research app and administrator interface were made available to academic collaborators and study participants. This has allowed Sonde to build a mobile depression and speech research corpus which has gathered data from over 3,000 volunteers to date.
- Sonde's technology has demonstrated best-in-class accuracy for recognising depression in individuals and estimating the severity of their symptoms from brief samples of speech.

#### External validation

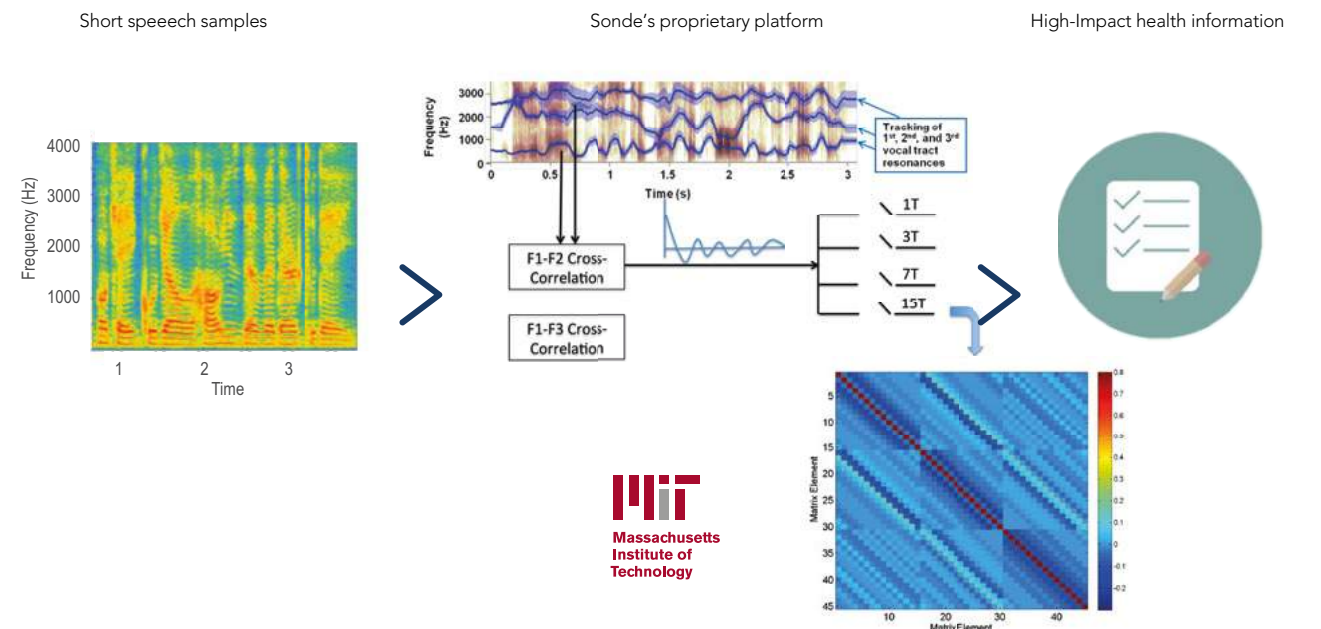
- Sonde is collaborating with the University of New South Wales (UNSW) and Black Dog Institute to create the first mobile device-based automatic assessment of depression from acoustic speech. UNSW was awarded a Linkage Project, funded by the Australian Government through the Australian Research Council (ARC) for international collaboration and partnership in research and innovation. The Linkage Project aims to support long-term strategic research alliances between organisations, in order to apply knowledge to highly technological and high-risk problems.
- Pilot studies using Sonde's core technology have also demonstrated the potential to detect and objectively measure symptoms in a range of important conditions including depression, mild traumatic brain injury (mTBI), concussion, cognitive impairment and Parkinson's disease.
- To increase efforts to accelerate understanding and use of vocal biomarker technology for mental and physical health, Sonde has entered into collaborative partnerships with leading institutions, including UMass Memorial Medical Center, Yale University, Partners MGH and other multiple ex-US hospitals, clinics and academic medicine centres.

### Sonde Health



Sonde COO, Jim Harper, presenting at the 2018 Amazon MARS conference

### Applying cutting edge machine learning to voice and health





# Alivio

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Inflammation-Targeting Technology	Inflammatory Bowel Disease, Interstitial Cystitis/Bladder Pain Syndrome (IC/IBS)	▶			

### Tuning the immune system at the site of disease to treat chronic and acute inflammatory disorders

PureTech's Alivio is pioneering targeted disease immunomodulation as a novel strategy to treat a range of acute and chronic inflammatory disorders. Targeted disease immunomodulation involves tuning the immune system exclusively at the site of disease in the body, with minimal impact on the rest of the immune system. This long sought-after approach has the potential to treat a range of chronic and acute inflammatory disorders, including ones that would otherwise be difficult to treat. Alivio's proprietary inflammation-targeted technology is the first known engineered technology to reproducibly target immunomodulatory compounds to inflamed tissue and release them in response to heightened inflammation, which can lead to dramatic improvements in treatment efficacy with major reductions in systemic effects.

There are numerous health conditions caused by chronic and acute inflammation. Despite the magnitude of the unmet need and the substantial progress in basic research, few truly novel drugs have come to market in the last decade. A major complicating factor has been that the pathways that modulate inflammation act broadly, so agents that seek to dampen inflammation locally can have substantial side effects and toxicity. Targeted disease immunomodulation using Alivio's inflammation-targeting technology is a new approach to address this challenge in inflammatory disorders.

#### Patient need and market potential

- Existing therapies for inflammatory diseases are limited by toxicity, side effects, or lack of efficacy, primarily due to an imbalance between drug exposure in inflamed and healthy tissues.
- There is a substantial opportunity for targeted therapies that selectively reduce disease-associated inflammation without leading to broad immunosuppression or other systemic effects.
- Alivio's inflammation-targeting technology platform has the potential to produce important new medicines in the inflammatory disease space with a superior safety profile.
- Results in preclinical models suggest the Alivio technology could be applied to diseases such as IBD, inflammatory arthritis, organ transplantation, and interstitial cystitis. These diseases collectively impact tens of millions of patients in the US alone and have limited treatment options.

#### Innovative approach to solving the problem

- Alivio's approach to developing targeted therapies for treating inflammatory disease is based on an innovative and proprietary new material based on work started at the Massachusetts Institute of Technology (MIT) and Brigham and Women's Hospital (BWH).
- The Alivio inflammation-targeted technology platform is designed to help immunomodulatory compounds specifically target inflamed tissue and become bioavailable based on signals from the diseased tissue on the severity of the local inflammation.
- The innovative properties of Alivio's technology may enable currently approved drugs to be used in existing as well as new indications with a better safety profile and improved efficacy. The technology also has the potential to allow drugs with challenging pharmacokinetics or safety profiles to come to market when they would not otherwise have done so.

#### Intellectual property

- Alivio has broad intellectual property coverage worldwide, currently owning or having exclusive rights to fourteen (14) patent applications in seven (7) families of patent filings, two of which patent applications were recently allowed in the US in 2018.
- Alivio's IP estate covers composition of matter, novel formulations and methods of using nanostructured gels for the delivery of therapeutic agents.

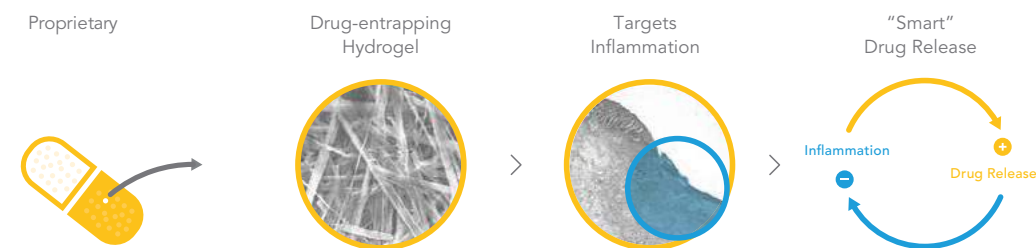
#### Team

- Scientific co-founders, members of the advisory board and advisors include Dr Robert Langer (PureTech Health, MIT), Dr Jeff Karp (BWH and Harvard), Dr Michael Brenner (BWH and Harvard and member of the National Academy of Science), Dr Ivana Magovcevic-Liebisch (Teva Pharmaceuticals, Dyax), Dr Ulrich H. von Andrian (Harvard), and Dr Ralph Weissleder (Harvard).

#### Milestones achieved and validation

- In April 2018, a preclinical study of the Alivio technology was published in *Nature Communications*. The study showed that an immunomodulatory drug, administered locally using the Alivio technology, substantially improved measures of arthritis activity. By the last day of the study (day 14), the Alivio technology had reduced nearly all of the inflammation in the affected tissue, with a 5.7-fold improvement in the clinical score vs control, as compared to only 1.4-fold for the free drug. These findings further support Alivio's proprietary therapeutics platform and provide proof-of-concept for the potential application of the technology in inflammatory arthritis.
- Alivio anticipates nominating a lead compound in 2018 for IND-enabling studies.
- Alivio data were also presented at the 2017 Drug Discovery and Therapy World Congress for product candidate ALV-107, showing durable pain control throughout a 24-hour study period, lasting at least 12 times longer than lidocaine at a comparable dose (ALV-107 16 mg/kg, conventional lidocaine 16 mg/kg), in a validated preclinical model for the treatment of IC/BPS.
- The novel properties of Alivio's inflammation-targeting technology have also been published twice in *Science Translational Medicine*. The published data showed improvements in safety, efficacy, and dosing by delivering drugs using the proprietary inflammation-targeting technology platform in IBD and transplant rejection animal models.
- Multiple active pharmaceutical ingredients (APIs) and biologics have been successfully incorporated into Alivio's inflammation-targeting technology at clinically relevant levels. The APIs and biologics cover a range of solubilities, molecular weights and potential dosage forms. These findings confirm and expand the range of new therapeutic opportunities.
- Alivio's inflammation-targeting technology was exclusively licensed in 2016 from the lab of Dr Jeff Karp (Professor at BWH, Harvard Medical School) and Dr Robert Langer (Institute Professor, MIT). In March of 2017, the Bill & Melinda Gates Foundation awarded a \$1.2 million grant to Dr Jeff Karp's Lab at BWH to support additional research on the technology.

### Targeting Inflammation



### Validation in Multiple Disease Models

Disease	Animal/Tissue	Model	Validation*
1 Inflammatory Bowel Disease	Mouse Colon	DSS (Chemical)	✓
2 Inflammatory Bowel Disease	Mouse Colon	TRUC (Genetic)	✓
3 Inflammatory Bowel Disease	Human Colon	Ex Vivo	✓
4 Interstitial Cystitis	Rat Bladder	CYP (Chemical)	✓
5 Esophagitis	Pig Esophagus	Esophageal Irradiation	✓
6 Oral Mucositis	Hamster Buccal	Cheek Irradiation	✓
7 Skin Inflammation	Mouse Skin	Skin Irradiation	✓
8 Arthritis	Mouse Hind Limb Joint	Serum Injection	✓
9 Transplant Rejection	Rat Limb	Hind Limb Transplant	✓

\* Validation = targeting inflammation, responsive release, improved efficacy, improved safety, or improved dosing



PureTech Health Vice President, Aleks Radovic-Moreno, presents the Alivio technology at the 2017 TedMed conference.

# Follica

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Abrasion Induced Neogenesis	Androgenetic Alopecia				

## Regenerative biology platform

Follica's regenerative biology platform is based on seminal findings from the University of Pennsylvania that demonstrated the creation of skin organs (hair follicles) in adult mammals after abrasion. This technology is being applied to treat androgenetic alopecia. Follica's technology is the first, to PureTech's knowledge, designed to create new follicles and hair through disruption of the skin, followed by treatment to enhance the effect. Follica has completed three human clinical studies of patients with androgenetic alopecia to demonstrate hair growth and new hair follicle formation.

Follica also has preclinical data which show the potential for next-generation proprietary compounds to further enhance the effect of new hair follicle formation. Follica has completed its clinical-stage development of a next-generation device and drug combination product for androgenetic alopecia, which is currently in an optimisation study. Further phases of pre-clinical testing are also ongoing towards the prioritisation and development of next-generation, proprietary compounds based on Follica's intellectual property. The Follica RAIN pivotal study is expected to commence following the completion of the optimisation study.

## Patient need and market potential

- Androgenetic alopecia represents the most common form of hair loss in men and women, with an estimated 65 million people who warrant treatment in the US alone.
- Only two drugs, both with limited efficacy, are currently approved for the treatment of androgenetic alopecia. The most effective current approach for the treatment of hair loss is hair transplantation, comprising a range of invasive procedures.
- As a result, Follica believes that there is significant unmet need for safe, effective, non-surgical treatments which grow new hair.
- Follica's regenerative biology platform has applications beyond hair growth to other ageing-related conditions and wound healing.

## Innovative approach to solving the problem

- Follica's approach is based on generating an "embryonic window" in adults via a series of micro injuries, creating new follicles from epithelial stem cells, and enhancing the effects through the application of specific compounds.

## Intellectual property

- Follica has broad intellectual property coverage worldwide, currently owning or having exclusive rights to ninety-five (95) patent applications and issued patents in eight (8) families of patent filings.
- Follica's intellectual property includes composition of matter and methods of using disruption approaches and active agents to promote hair follicle regeneration in the treatment of baldness and alopecia, as well as utility and design patents and applications covering the devices for such use.

## Team

- Key advisors include Dr R Rox Anderson (Professor of Dermatology, Harvard Medical School and Adjunct Professor of Health Sciences and Technology at MIT, and Inventor of CoolSculpting by Zeltiq, acquired by Allergan for \$2.4 billion), Dr George Cotsarelis (Chair of Dermatology at University of Pennsylvania Medical School and Founder of Kythera, acquired by Allergan for \$2.1 billion); and Dr Ken Washenik (President and Chief Medical Officer of Bosley Medical Group and Former Chief Executive Officer of Aderans Research Institute).
- The Board of Directors consists of Ms Daphne Zohar (PureTech Health), Mr David Steinberg (PureTech Health), and Mr Stephen Muniz (PureTech Health).
- Mr Jason Bhardwaj (previously Tal Medical, Bain and Company, Medtronic) serves as Chief Executive Officer; Mr Jonathan Bissett (previously aspect Medical Systems, Covidien, NeoSync) serves as Director of Clinical Operations; and Mr David Chastain (previously Cambridge Consultants, Design Continuum) serves as VP of Product Development.

## Milestones achieved

- Follica conducted three clinical studies of patients with androgenetic alopecia, which demonstrated hair follicle neogenesis via biopsy following skin disruption, and hair growth through target area hair count. One of these studies demonstrated that skin disruption alone was safe and generates not only new hair follicles but also terminal (visible, thick hairs). Follica is further developing and testing compounds that enhance these effects.
- The product concept originated from ground-breaking science demonstrating new mammalian skin formation in adult mice following abrasion. The results were published in the top tier medical science journal, *Nature*.

## Expected milestones and timing

- The Follica RAIN pivotal study is expected to commence following the completion of an ongoing optimisation study.

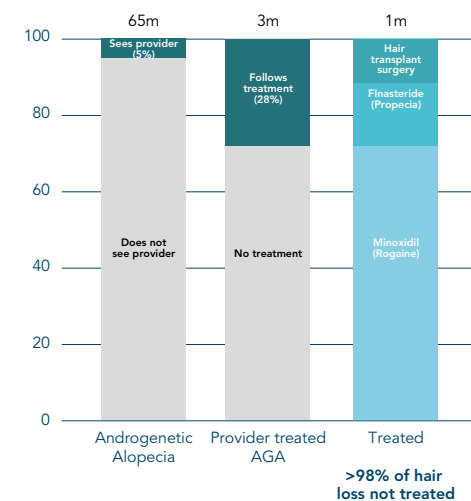
## Hair growth

### Relatively few pursue current treatments...

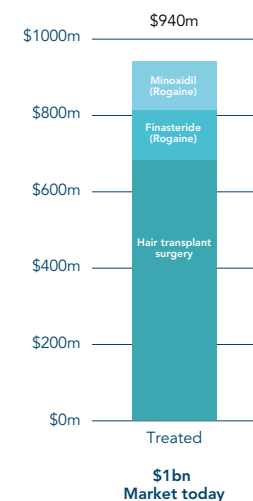
Despite low treatment rates, clinical hair growth is a \$1bn market in the US alone



## Eligible hair loss patients (US)



## US hair loss market



# Nybo

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Gamma Delta T-cells	Immuno-Oncology, Pancreatic Cancer				

## A monoclonal antibody-based therapeutic approach to pancreatic cancer and other solid tumours

PureTech's Nybo is developing first-in-class monoclonal antibodies targeting immunosuppressive gamma delta T-cells, galectin-9 and related mechanisms in pancreatic cancer and other solid tumours, including colorectal cancer. Nybo's therapeutic candidates are designed to address cancers that are suboptimally treated with currently available immunotherapies because the body's natural defences are compromised by persistent tumour immune evasion. Nybo is developing an innovative set of therapeutics to attack difficult to treat cancers by targeting these newly identified mechanisms of immunosuppression in solid tumours as well as certain leukaemias, such as acute myeloid leukaemia (AM).

## Patient need and market potential

- Globally, approximately 400,000 people are diagnosed with pancreatic cancer each year, with more than 90 per cent diagnosed at an advanced/metastatic stage.
- With a five-year survival rate at less than seven per cent, pancreatic cancer is the third leading cause of cancer death.
- Colorectal cancer (CRC) is among the largest cancer burdens in the world today with approximately 700,000 people being diagnosed globally each year. Median survival of patients with unresectable metastatic CRC remains less than three years. Death from CRC is expected to nearly double within the next 20 years. Current immunotherapies are only efficacious in a small proportion of CRC patients (less than 15 per cent) whose tumours demonstrate mismatch repair deficiency. Hence novel, more broadly effective therapeutic strategies to engage the patients' immune system are needed.
- Currently approved immunotherapies have been generally unsuccessful in this disease setting due to a highly immunosuppressive environment that wards off the body's natural defences.
- Nybo's gamma delta T-cell/galectin-9 programme aims to address this great unmet need in malignancies, particularly those with dismal prognoses that derive little benefit from current standards of care.

## Innovative approach to solving the problem

- Pre-clinical models validating Nybo's therapeutic concept show survival extensions in gold-standard animal models of pancreatic cancer that are superior to those previously observed in literature using approved treatments.
- Nybo's approach is differentiated from traditional checkpoint inhibitors in immuno-oncology, yet it has potential synergies with existing immunotherapies and current standards-of-care. It may also have broader applicability in the immuno-oncology space, with research underway expanding this initial work in pancreatic cancer and other solid tumours, including colorectal cancer.

## Intellectual property

- Nybo has broad intellectual property coverage, including exclusive rights to six (6) patent applications in four (4) families of patent filings licensed from New York University which cover antibodies that target immunosuppressive T-cells and methods of use for the treatment of solid tumours.

## Team

- Advisors include Dr Diane M. Simeone (NYU and PANCAN), Dr Steven Leach (Norris Cotton Cancer Center, School of Medicine at Dartmouth), Dr George Miller (New York University (NYU)), Dr Markus Maeurer (Champalimaud Foundation, Lisbon), and Dr Erin Adams (University of Chicago).
- Dr Aleksandra Filipovic (PureTech Health), Dr Eric Elenko (PureTech Health) and Dr Joseph Bolen (PureTech Health) lead the Nybo team.

## Milestones achieved

- In April 2017, Nybo publicly disclosed its programme concurrent with a publication in *Nature Medicine*.
- Nybo is developing monoclonal antibodies to target newly discovered immunosuppressive mechanisms in pancreatic cancer and other solid tumours. Proof-of-concept data has been generated in both mouse and human cancer pre-clinical models.

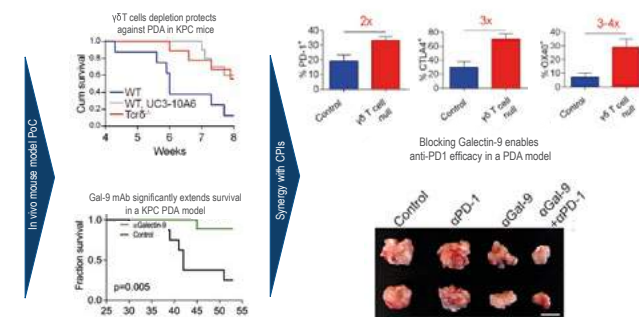
## External validation

- Nybo's gamma delta T-cells/galectin-9 technology is exclusively licensed from the NYU School of Medicine and is based on the work of Dr George Miller, Director of S. Arthur Localio Laboratories and Director of the Cancer Immunology Program at NYU School of Medicine. Part of the body of data supporting this approach was published in *Nature Medicine* and builds upon Dr Miller's work previously published in *Cell*.

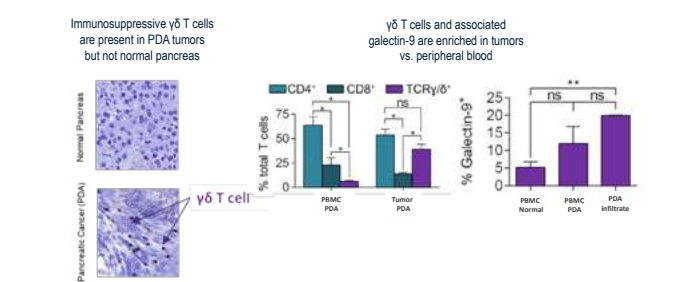
## Expected milestones and timing

- Nybo expects to file an IND for its lead candidate in 2019.

## Key data: PoC animal models of PDA, PoC in human cancers, developed lead therapeutic mAb clones to δ1 Chain and Galectin-9



## Human proof of concept pre-clinical data





# Commense

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Microbiome-Derived Immune Modulators (Paediatric)	Asthma, Allergy and other Paediatric Autoimmune Disorders				

<p><b>Microbiome-derived immune modulators for paediatric and maternal health</b></p> <p>PureTech's Commense is developing interventions for paediatric and maternal health based on a deep understanding of the early life microbiome. Nurturing a healthy microbiome early in life represents a novel strategy to significantly reduce the impact of many diseases in children including asthma, allergies, diabetes, and obesity.</p> <p>The first 100 days – and up to one year – of life are critical periods in the development of a baby's immune system. The gut holds the most immune tissue in the human body as well as the most bacteria by weight. It is therefore not a coincidence that the cross-talk that occurs between microbial cells and human immune cells serves as the foundation for the development of immune tolerance. Early exposure to a wide range of bacteria educates and primes the developing immune system towards health. Perturbances such as lack of exposure to beneficial bacteria due to antibiotic use, delivery mode (e.g., caesarean vs natural), environment, diet, and feeding method, etc., can cause a bias in the gut community towards dysbiotic bacteria, thereby skewing the immune system towards disease.</p> <p>Drawing insights from natural exposure to beneficial microbes, Commense is developing rationally-defined bacterial consortia as therapeutics to potentially address critical unmet needs in paediatric populations. These live biotherapeutic products (LBPs) are based on a deep understanding of human-microbe interactions, the effects of microbes on the immune system, and the impact of these interactions on maternal and infant health.</p>	<p><b>Patient need and market potential</b></p> <ul style="list-style-type: none"> <li>In the developed world, the incidence and prevalence of numerous immune and metabolic diseases affecting children is on the rise. Furthermore, children are being affected earlier in life with devastating long-term impacts on families and health systems.</li> <li>Several emerging lines of evidence suggest that alterations in the early life microbiome increases risk for diseases, including asthma, allergies, eczema, necrotising enterocolitis, Type 1 diabetes, Type 2 diabetes, and obesity. These harmful alterations have been linked to changes in the maternal microbiome, birth mode (e.g., caesarean vs natural), exposure to antibiotics, formula-feeding (vs breastmilk-feeding), and other environmental factors such as being raised in an urbanised environment as opposed to growing up on a farm. Recently, and consistent with these lines of evidence, a publication demonstrated that the prospective administration of a microbe could prevent death and sepsis in new borns.</li> <li>Commense's approach to address unmet needs in the paediatric population revolves around the understanding of how, and in what context, microbes impact maternal and early childhood health. For example, Commense is exploring the role that maternal microbes play in gestation, at birth, and in infant health in the first year of life.</li> </ul>
<p><b>Innovative approach to solving the problem</b></p>	<ul style="list-style-type: none"> <li>Commense is developing COM-101, which aims to replenish four microbes causally demonstrated to protect against the development of atopy and wheeze at 12 months – a risk factor in the diagnosis of atopic dermatitis and asthma at school age.</li> </ul>
<p><b>Intellectual property</b></p>	<ul style="list-style-type: none"> <li>Commense has broad intellectual property coverage worldwide, including exclusive rights to sixteen (16) patent applications in six (6) families of patent filings. Commense's patent portfolio covers a range of compositions and therapeutic uses of products containing microbiome bacteria for use in diagnosing and treating various conditions, including gut dysbiosis, asthma, allergy, and atopy, as well as other conditions.</li> </ul>
<p><b>Team</b></p>	<ul style="list-style-type: none"> <li>Edward J "Tad" Stewart was named CEO of Commense in early 2018, bringing with him over 20 years of experience in the development and commercialisation of drugs in the biopharmaceutical industry.</li> <li>Advisory board members comprise of Dr Maria Gloria Dominguez-Bello (Rutgers and inventor of a key technology exclusively licensed by Commense), Dr B Brett Finlay (University of British Columbia and inventor of a key technology exclusively licensed by Commense), Dr Martin Blaser (New York University), Dr Rob Knight (University of California, San Diego), and Dr Joe St. Geme (Children's Hospital of Philadelphia).</li> <li>Commense's Board of Directors consists of Mr Tad Stewart (Commense CEO), Mr Sam Kass (Former Senior Nutrition Policy Advisor to the Obama Administration), Mr David Steinberg (PureTech Health), and Mr Jeff Stevens (PureTech Health).</li> <li>Commense's operations team includes Mr Tad Stewart, Dr Lily Ting, Mr David Steinberg, Dr Aleks Radovic-Moreno, Mr Skip Farinha, and Ms LuAnn Sabounjian.</li> </ul>
<p><b>Milestones achieved</b></p>	<ul style="list-style-type: none"> <li>Commense has initiated preclinical studies for COM-101 based on the technology licensed from the lab of Dr B Brett Finlay at the University of British Columbia, Canada, in 2017. The license covers several strains of bacteria with potential application in paediatric allergy and respiratory disease.</li> <li>Commense has built a clinical advisory team specific to COM-101. Its advisors are experts in paediatric pulmonology, paediatric respiratory clinical trials, and paediatric drug regulatory affairs.</li> <li>Work on a clinical strain library has also begun. This library will serve as a master cell bank for pipeline assets.</li> <li>Commense developed a VMT (vaginal microbial transfer) clinical kit and a companion smartphone app for HIPAA compliant data collection. The kit and app serve as the foundation for clinical collaborations between Commense and clinical researchers performing longitudinal infant studies.</li> <li>Recruitment has begun for the first randomised controlled clinical trial with Inova in Virginia using the clinical trial kit and app.</li> <li>Commense has launched lab operations. In-house capabilities include anaerobic microbiology, biobanking, biochemistry, and molecular biology. Relationships with external CROs expand capabilities to include gnotobiotic mouse facilities and microbiome sequencing (16S and metagenomics).</li> <li>Commense has initiated preclinical studies to explore the role of VMT in immune and metabolic phenotypes.</li> </ul>
<p><b>Expected milestones and timing</b></p>	<ul style="list-style-type: none"> <li>Commense is expected to begin manufacturing activities for COM-101 in 2018 and plans to initiate human clinical studies in 2019.</li> </ul>

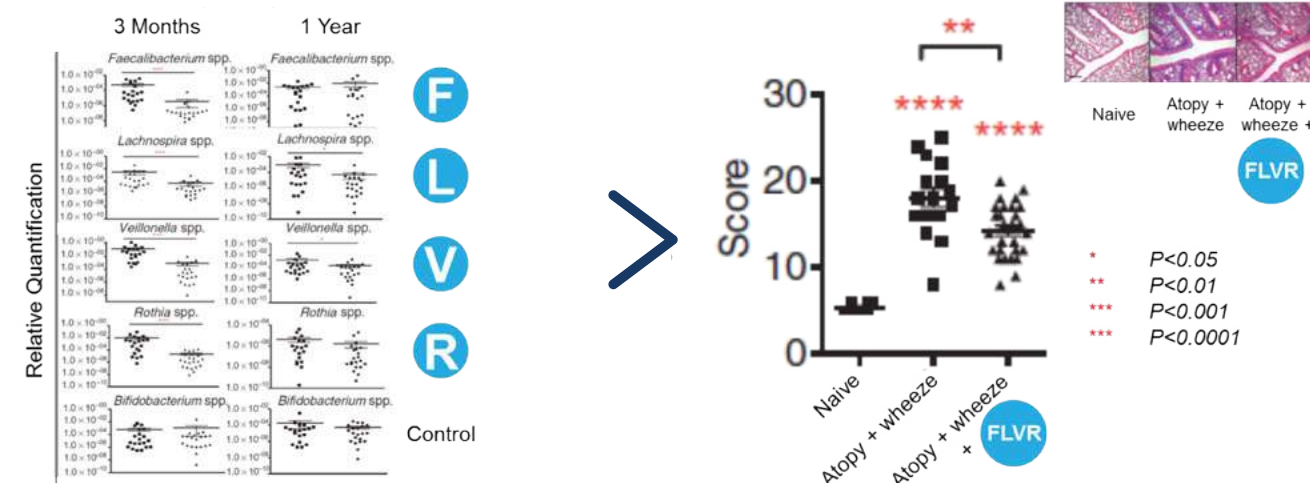
## Guiding the developing microbiome



### CS-004: Commensal consortia for the prevention/treatment of atopic march (asthma/allergy/atopic wheeze)

**Human association: Asthma prevention**  
Lack of four key genera early in life associated with atopy, wheezing and asthma

**Preclinical causality: Asthma prevention**  
Early treatment with cocktail prevents atopy and wheezing in mouse model of asthma



# Entrega

Mechanism	Indication	Preclinical	Phase 1	Phase 2	Phase 3
Oral Administration of Biologics – Novel Hydrogel	Metabolic Disorders IBD				

### Novel hydrogel for oral delivery of peptides

PureTech's Entrega is focused on the oral delivery of biologics, vaccines, and other drugs that are otherwise not efficiently absorbed when taken orally. The vast majority of biologic drugs (including peptides, proteins and other macromolecules) are currently administered by injection, which can present challenges for healthcare delivery and compliance with treatment regimes. Oral administration thus represents an ideal delivery approach for this increasingly large class of therapies reshaping many areas of medicine, including the treatment of diabetes. Entrega's technology platform is an innovative approach to oral delivery which uses a proprietary, customisable hydrogel dosage form to control local fluid microenvironments in the GI tract to both enhance absorption and reduce the variability of drug exposure. To validate its technology, Entrega generated proof-of-concept data demonstrating delivery of therapeutic peptides into the bloodstream of large animals.

#### Patient need and market potential

- The total global biologics market could be close to \$400 billion by 2025.
- Injectable formulations can be limited in their therapeutic potential as a result of issues with compliance, and they can be difficult and potentially unsafe to deliver to patients.

#### Innovative approach to solving the problem

- Entrega designed its platform technology to enable oral delivery of biologics, vaccines and other forms of medication that are not efficient in reaching the bloodstream when taken orally.

#### Intellectual property

- Entrega has broad intellectual property coverage worldwide, including fourteen (14) patent applications in six (6) families of patent filings.
- Entrega's patent portfolio covers oral drug devices, drug formulations, and compositions of matter, methods of use and methods of making hydrogel devices for delivery of active agents.

#### Team

- The scientific advisory board consists of Dr Robert Langer (PureTech Health, MIT), Dr Colin Gardner (formerly Merck and TransForm Pharmaceuticals), and Dr Samir Mitragotri (Scientific Co-founder, Wyss Institute at Harvard University, formerly UCSB).
- The Board of Directors consists of Dr Robert Langer (PureTech Health, MIT), Mr Stephen Muniz (PureTech Health), Mr David Steinberg (PureTech Health), Dr Andrew Miller (PureTech Health), Mr Rob Armstrong (formerly Eli Lilly), and Mr Howie Rosen (ALZA, Kara, Paxvax).

#### External validation

- Entrega received \$5 million in equity and research funding from Eli Lilly to investigate the application of Entrega's peptide delivery technology to certain Lilly products and therapeutic candidates.

#### Milestones achieved

- Entrega has generated proof-of-concept data demonstrating successful delivery of peptides in large animals.



# Vor

Mechanism	Indication(s)	Preclinical	Phase 1	Phase 2	Phase 3
Targeted Therapies in Cancer	Acute Lymphoblastic Leukaemia (ALL), Acute Myeloid Leukaemia (AML)				

### Engineered cell therapies with broad potential for treating cancer

PureTech's Vor is developing novel antibody and cell therapies with broad potential for treating cancer. Vor's key differentiation is a focus on technologies that can selectively target cancer cells without impacting normal cells. Engineered cells, such as chimeric antigen receptor (CAR) T-cells, are now FDA-approved drugs for treating B-cell malignancies. However, these and similar technologies target both cancer and normal cells, causing substantial toxicities and limiting their potential. Vor is taking a fundamentally novel approach to targeting cancer selectively by developing antigen-modified haematopoietic stem cells (amHSCs). These amHSCs generate healthy, functional cells that are protected from depletion by cancer-targeted therapies.

Vor's platform is broad and can be used to enhance the therapeutic window of several CAR-modified cells (such as CAR T-cells, CAR NK cells, and others), broaden the reach of CAR-modified cells beyond B-cell malignancies to other myeloid leukaemias such as AML, as well as enhance the effectiveness of other therapies such as antibody-drug conjugates or conventional antibodies targeted against leukaemias and solid tumours. When combined with targeted therapies, this technology could enable transformative outcomes in patients with otherwise grim prognoses.

#### Patient need and market potential

- The prognosis for relapsed and refractory blood-borne malignancies remains bleak, despite significant progress in recent years.
- Engineered cell therapies, particularly CAR T-cells, have been successfully applied to treat B-cell malignancies. However, these therapies cause substantial toxicities and are not effective with non B-cell malignancies. Extending the applicability of CAR T-cells beyond B-cell malignancies has been difficult due to challenges in selectively targeting cancer cells without affecting healthy cells.
- There is a need for new approaches that could enable successful treatment of not only B-cell malignancies with a far superior safety profile, but also target non-B-cell malignancies – the Vor approach has the potential to address this need.
- The Vor technology may also be used to improve the safety profile of existing CAR T technology for several blood-borne malignancies.

#### Innovative approach to solving the problem

- Current CAR T therapies are limited primarily to B-cell malignancies, where patients can apparently tolerate loss of healthy B-cells along with the cancerous tissue.
- Vor is advancing a new approach to selectively protect healthy cells from targeted therapies against B-cell as well as other haematologic malignancies.
- This approach consists of a targeted CAR T therapy, which is used to eliminate cells expressing certain antigen types that appear on cancerous tissue but may also appear on healthy tissue.
- To address the potential toxic effects and loss of healthy tissue, a haematopoietic cell transplantation (HCT) with antigen-modified haematopoietic stem cells (amHSCs) is performed. These amHSCs generate healthy, functional haematopoietic cells that are protected from depletion by cancer-targeted therapies.
- HCT, which is a standard procedure for many patients, can be performed prior to the targeted therapy, or the targeted therapy can be used as a preconditioning regimen to the HCT.
- In this way, the population of potential target antigens can expand beyond tumour-specific antigens or B-cell antigens.

#### Milestones achieved

- Vor established its lab operations in 2018.
- Vor expanded its scientific team with the addition of key hires.

#### Expected milestones

- Results are anticipated from Vor's proof-of-concept study in preclinical models in 2018.
- Vor plans to initiate GMP process development in by 2019.
- First-in-human clinical studies are expected to begin in 2020 or 2021.

#### Intellectual property

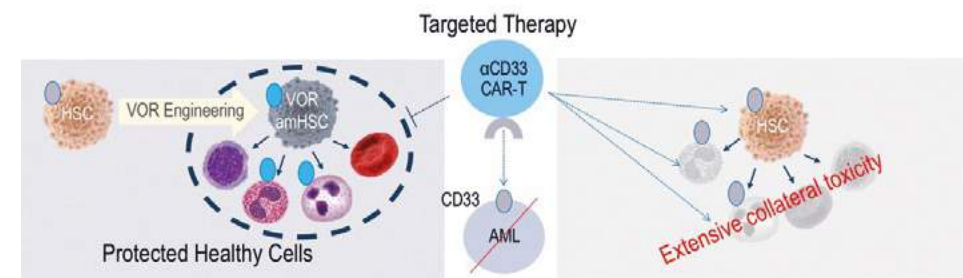
- Vor has broad intellectual property coverage worldwide relating to compositions of matter and methods of using modified haematopoietic stem cells to broaden the number of potential antigens that can be targeted safely by engineered cell therapies.
- Vor's IP portfolio currently consists of five (5) patent applications in two (2) families and includes IP licensed exclusively from Columbia University as well as IP owned by Vor.

#### Team

- Advisors includes Dr Siddhartha Mukherjee (Columbia University), Dr Sanjiv Sam Gambhir (Stanford University), Dr Dan Littman (NYU School of Medicine, Howard Hughes Medical Institute; member of the Board of Pfizer), Dr Crystal Mackall (Stanford University), Dr Derrick Rossi (Harvard), and Dr Justin Stebbing (Imperial College London).
- The team includes Mr David Steinberg (PureTech Health), Dr Joseph Bolen (PureTech Health), and Dr Aleks Radovic-Moreno (PureTech Health), as acting Chief Executive Officer, acting Chief Scientific Officer, and operations lead, respectively.

**VOR approach and target outcome**  
Lasting Results and Protected Myeloid Cells

**Conventional approach and outcome**  
Profound Myelosuppression that limits efficacy



AML: Acute Myeloid Leukaemia  
HSC: Haematopoietic Stem Cells (e.g. CD34+)  
amHSC: antigen-modified Haematopoietic Stem Cells



# Internally-funded, immunology-focused pipeline

PureTech Health is advancing an internally-funded pipeline consisting of new categories of immunomodulatory therapeutics based on a deep understanding of three key areas: immune cell trafficking, cellular activity, and diseased immune microenvironments. Novel insights into these mechanisms have the potential to yield a pipeline of transformative new therapies for patients with cancer, autoimmune diseases, and inflammatory, including neuroinflammatory, diseases. Through a combination of in-house discoveries and collaborative innovation, PureTech Health is poised to capitalise on these major emerging areas of biology and insight.

In 2017, PureTech Health grew its internally-funded, immunology-focused pipeline by generating compelling pre-clinical data and filing for and securing key intellectual property for several programmes:

## Lipid prodrug technology designed to utilise natural lipid transport system to enable lymphatic targeting

PureTech's first publicly announced lymph-targeting platform, *Glyph*, is a lipid prodrug approach that leverages the body's natural lipid transport mechanisms to substantially enhance the transport of compounds into the

lymphatic system from an oral route. Transport of immunomodulatory compounds directly into the lymphatic system facilitates entry into the mesenteric lymph nodes, where immune cell priming and proliferation in the GI tract take place. As 75 to 80 per cent of immune system cells reside in the GI tract-associated lymph nodes, modulation of immune cell homeostasis through lymphatic targeting of immunomodulatory agents is now possible with the *Glyph* technology. In pursuit of this objective, PureTech Health has successfully extended the lipid prodrug platform to encompass new drugs and new linker chemistries, which have demonstrated promising selective lymphatic targeting in preclinical studies.

The immune system is tasked with protecting the body from threats and promoting tissue homeostasis and self-tolerance. To achieve this goal, cells of the immune system must first reach the intended tissue from the site of origin (e.g. the thymus or bone marrow), or, while in homeostatic transit, hone to tissues that have signalled that potentially pathologic changes have occurred. These patterns of immune cell trafficking are tightly scripted by signals encoded at multiple levels. PureTech's understanding of both the trafficking signals used by immune cells and the conduits (e.g. the lymphatics)

used by immune cells have matured to where PureTech Health believes it is now possible to manipulate immune cell trafficking as a fundamentally novel therapeutic paradigm in medicine.

## Milk-derived exosomes may enable oral administration of therapeutics to the lymphatics

PureTech's novel milk exosome-based technology, *Calix*, was also announced in 2017 and may be uniquely positioned to (1) facilitate the oral delivery of complex payloads such as nucleic acids, peptides, and small molecules, (2) target stomach cancers and associated metastases, and/or (3) enable mRNA-based therapeutics to target the GI epithelium. Milk exosomes represent a significant opportunity to potentially resolve the long-standing challenge of oral bioavailability of macromolecules and complex small molecules.

Exosomes, which contain mixtures of lipids, proteins and nucleic acids, play a critical physiologic role in intercellular communication and the transport of macromolecules between cells and tissues. Mammalian-derived exosomes have attractive potential as vehicles for the administration of a variety of drug payloads, especially nucleic acids, since their natural composition will likely provide superior tolerability over the variety of synthetic polymers currently in use. However, most

Internally-funded, immunology-focused pipeline — continued

sources of mammalian exosomes are not suitable or viable as vehicles for oral administration of drugs due to their lack of stability under the harsh physiologic conditions associated with transit through the stomach and small intestine. However, the milk-derived exosomes that form the basis for the *Calix* technology have evolved naturally and specifically to accomplish the task of oral transport of complex biological molecules.

PureTech Health has already successfully isolated milk exosomes and loaded exogenous siRNA, which further suggests suitability for targeting of biologic payloads to the lymphatics.

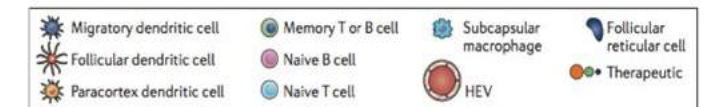
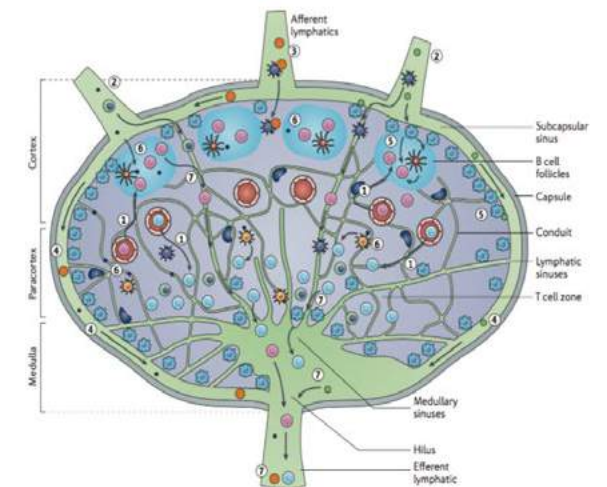
Beyond these publicly disclosed programmes, PureTech Health is pursuing an approach to address a number of neuroinflammatory conditions by harnessing the recently discovered lymphatic system in the

brain, the glymphatics. This is just one of the potential programmes built out of PureTech's expertise in lymphatics that will contribute to the expansion of this internally-funded, immunology-focused pipeline.

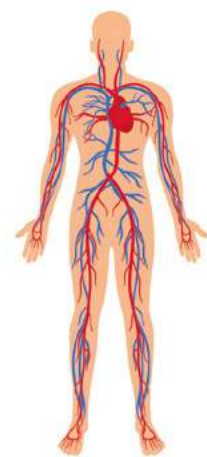
## Immune Cell-Programming in Mesenteric Lymph Node: Lymphatic System Connects all the Lymph Nodes

### Mesenteric lymph nodes programme immune cells

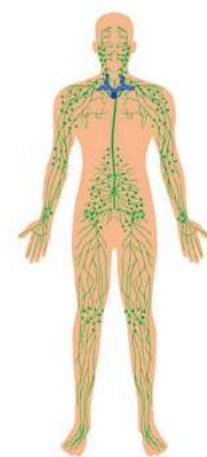
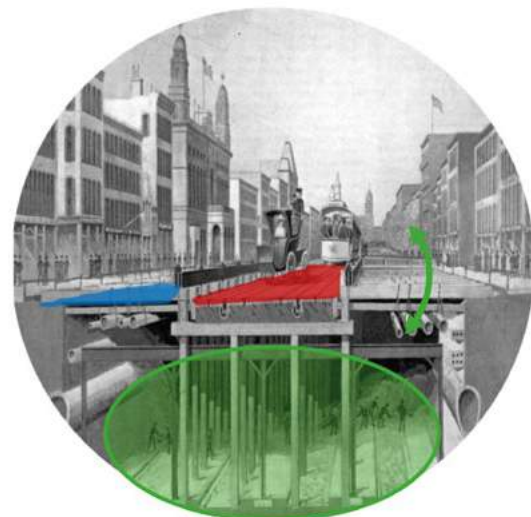
- The lymphatic vascular system connects ~600 lymph nodes
- Lymph nodes are regionally specialised to provide tissue-selective programming of immune cell identity, function, trafficking & retention
- Mesenteric nodes are heavily involved in GI tract antigen surveillance
- Involved in tailoring tolerance to microbes & dietary components
- Primary site for uptake of dietary lipids



## Targeting the Lymphatic System enables new approaches for immunomodulation



Circulatory Vasculature: providing avenues of transport for blood cells and nutrients



Lymphatic Vasculature: critical infrastructure for interstitial fluid drainage and trafficking of immune cells

## Access To Recently Discovered Human Brain Lymphatics May Hold Opportunities For Targeting Neuroinflammation

Brain meninges harbor lymphatic vessels connected with deep cervical lymph nodes populated with monocytes and resident immune cells

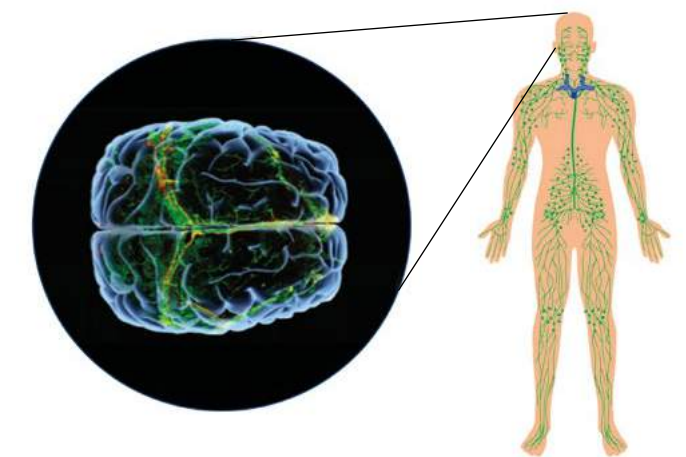


Image credit: Nat. Rev. Drug Discov. 14, 781–803 (2015).

# Risk management

The execution of the Group's strategy is subject to a number of risks and uncertainties. As a developer of advanced and early stage technologies addressing significant unmet medical needs, the Group inherently operates in a high-risk environment. The overall aim of the Group's risk management effort is to achieve an effective balancing of risk and reward, although ultimately no strategy can provide an absolute assurance against loss.

Risks are formally identified by the Board and appropriate processes are put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible effect on the Group. The principal risks that the Board has identified as the key business risks facing the Group are set out in the table below along with the consequences and mitigation of each risk. Any number of these could have a material adverse effect on the Group or its financial condition, development, results of operations, subsidiary companies and/or future prospects.

Risk	Impact	Mitigation
<p><b>1</b></p> <p>The science and technology being developed or commercialised by some of the Group's businesses may fail and/or the Group's businesses may not be able to develop their intellectual property into commercially viable products or technologies. There is also a risk that certain of the businesses may fail or not succeed as anticipated, resulting in significant decline of the Group's value.</p>	<p>The failure of any of the Group's businesses could decrease the Group's value. A failure of one of the major businesses could also impact on the perception of the Group as a developer of high value technologies and possibly make additional fundraising at the PureTech or subsidiary company level more difficult.</p>	<p>Before making any decision to develop any technology, extensive due diligence is carried out by the Group which covers all the major business risks, including technological feasibility, market size, strategy, adoption and intellectual property protection. A capital efficient approach is pursued such that some level of proof of concept has to be achieved before substantial capital is committed and thereafter allocated. Capital is tranced so as to fund programmes only to their next value milestone. Members of the Group's Board serve on the Board of directors of each business so as to maintain control over each business's strategy and to oversee proper execution thereof. The Group uses its extensive network of advisors to ensure that each business has appropriate domain expertise as it develops and executes on its strategy. Additionally, the Group has a diversified model with numerous assets such that the failure of any one of the Group's businesses would not result in a significant decline of the Group's value.</p>
<p><b>2</b></p> <p>Clinical trials and other tests to assess the commercial viability of a product candidate are typically expensive, complex and time-consuming, and have uncertain outcomes. Conditions in which clinical trials are conducted differ, and results achieved in one set of conditions could be different from the results achieved in different conditions or with different subject populations. If the Group's product candidates fail to achieve successful outcomes in their respective clinical trials, the products will not receive regulatory approval and in such event cannot be commercialised. In addition, if the Group fails to complete or experiences delays in completing clinical tests for any of its product candidates, it may not be able to obtain regulatory approval or commercialise its product candidates on a timely basis, or at all.</p>	<p>A critical failure of a clinical trial may result in termination of the programme and a significant decrease in the Group's value. Significant delays in a clinical trial to support the appropriate regulatory approvals could impact the amount of capital required for the business to become fully sustainable on a cash flow basis.</p>	<p>The Group has a diversified model such that any one clinical trial outcome would not significantly impact the Group's ability to operate as a going concern. It has dedicated internal resources to establish and monitor each of the clinical programmes in order to try to maximise successful outcomes. Significant scientific due diligence and preclinical experiments are done prior to a clinical trial to attempt to assess the odds of the success of the trial. In the event of the outsourcing of these trials, care and attention is given to assure the quality of the vendors used to perform the work.</p>

Risk management — continued

Risk	Impact	Mitigation
<p><b>3</b></p> <p>The pharmaceutical industry is highly regulated. Regulatory authorities across the world enforce a range of laws and regulations which govern the testing, approval, manufacturing, labelling and marketing of pharmaceutical products. Stringent standards are imposed which relate to the quality, safety and efficacy of these products. These requirements are a major determinant of whether it is commercially feasible to develop a drug substance or medical device given the time, expertise, and expense which must be invested. The Group may not obtain regulatory approval for its products. Moreover, approval in one territory offers no guarantee that regulatory approval will be obtained in any other territory. Even if products are approved, subsequent regulatory difficulties may arise, or the conditions relating to the approval may be more onerous or restrictive than the Group expects.</p>	<p>The failure of one of the Group's products to obtain any required regulatory approval, or conditions imposed in connection with any such approval, may result in a significant decrease in the Group's value.</p>	<p>The Group manages its regulatory risk by employing highly experienced clinical managers and regulatory affairs professionals who, where appropriate, will commission advice from external advisors and consult with the regulatory authorities on the design of the Group's preclinical and clinical programmes. These experts ensure that high quality protocols and other documentation are submitted during the regulatory process, and that well-reputed contract research organisations with global capabilities are retained to manage the trials. Additionally, the Group has a diversified model with numerous assets such that the failure to receive regulatory approval or subsequent regulatory difficulties with respect to any one product would not result in a significant decline of the Group's value.</p>
<p><b>4</b></p> <p>There is a risk of adverse reactions with all drugs and medical devices. If any of the Group's products are found to cause adverse reactions or unacceptable side effects, then product development may be delayed, additional expenses may be incurred if further studies are required, and, in extreme circumstances, it may prove necessary to suspend or terminate development. This may occur even after regulatory approval has been obtained, in which case additional trials may be required, the approval may be suspended or withdrawn or additional safety warnings may have to be included on the label. Adverse events or unforeseen side effects may also potentially lead to product liability claims being raised against the Group as the developer of the products and sponsor of the relevant clinical trials.</p>	<p>Adverse reactions or unacceptable side effects may result in a smaller market for the Group's products, or even cause the products to fail to meet regulatory requirements necessary for sale of the product. This, as well as any claims for injury or harm resulting from the Group's products, may result in a significant decrease in the Group's value.</p>	<p>The Group designs its products with safety as a top priority and conducts extensive preclinical and clinical trials which test for and identify any adverse side effects. Insurance is in place to cover product liability claims which may arise during the conduct of clinical trials.</p>
<p><b>5</b></p> <p>The Group may not be able to sell its products profitably if reimbursement from third-party payers such as private health insurers and government health authorities is restricted or not available because, for example, it proves difficult to build a sufficiently strong economic case based on the burden of illness and population impact. Third-party payers are increasingly attempting to curtail healthcare costs by challenging the prices that are charged for pharmaceutical products and denying or limiting coverage and the level of reimbursement. Moreover, even if the products can be sold profitably, they may not be accepted by patients and the medical community. Alternatively, the Group's competitors – many of whom have considerably greater financial and human resources – may develop safer or more effective products or be able to compete more effectively in the markets targeted by the Group. New companies may enter these markets and novel products and technologies may become available which are more commercially successful than those being developed by the Group.</p>	<p>The failure of the Group to obtain reimbursement from third party payers, as well as competition from other products, could significantly decrease the amount of revenue the Group may receive from product sales for certain products. This may result in a significant decrease in the Group's value.</p>	<p>The Group engages reimbursement experts to conduct pricing and reimbursement studies for its products to ensure that a viable path to reimbursement, or direct user payment, is available. The Group also closely monitors the competitive landscape for all of its products and adapts its business plans accordingly.</p>



Risk	Impact	Mitigation
<p><b>6</b></p> <p>The Group may not be able to obtain patent protection for some of its products or maintain the secrecy of its trade secrets and know-how. If the Group is unsuccessful in doing so, others may market competitive products at significantly lower prices. Alternatively, the Group may be sued for infringement of third-party patent rights. If these actions are successful, then the Group would have to pay substantial damages and potentially remove its products from the market. The Group licenses certain intellectual property rights from third parties. If the Group fails to comply with its obligations under these agreements, it may enable the other party to terminate the agreement. This could impair the Group's freedom to operate and potentially lead to third parties preventing it from selling certain of its products.</p>	<p>The failure of the Group to obtain patent protection and maintain the secrecy of key information may significantly decrease the amount of revenue the Group may receive from product sales. Any infringement litigation against the Group may result in the payment of substantial damages by the Group and result in a significant decrease in the Group's value.</p>	<p>The Group spends significant resources in the prosecution of its patent applications and has an in-house patent counsel. Third party patent filings are monitored to ensure the Group continues to have freedom to operate. Confidential information (both of the Group and belonging to third parties) is protected through use of confidential disclosure agreements with third parties, and suitable provisions relating to confidentiality and intellectual property exist in the Group's employment and advisory contracts. Licenses are monitored for compliance with their terms.</p>
<p><b>7</b></p> <p>The Group expects to continue to incur substantial expenditure in further research and development activities. There is no guarantee that the Group will become profitable, either through commercial sales, strategic partnerships or sales of a business, and, even if it does so, it may be unable to sustain profitability.</p>	<p>The strategic aim of the business is to generate profits for its shareholders through the commercialisation of technologies through product sales, strategic partnerships and sales of businesses. The timing and size of these potential inflows is uncertain, and should revenues from our activities not be achieved, or in the event that they are achieved but at values significantly less than the amount of capital invested, then it would be difficult to sustain the Group's business.</p>	<p>The Group retains significant cash in order to support funding of its operating companies. The Group has close relationships with a wide group of investors and strategic partners to ensure it can continue to access the capital markets and additional monetisation and funding for its businesses. Additionally, its operating companies are able to raise money directly from third party investors and strategic partners.</p>
<p><b>8</b></p> <p>The Group operates in complex and specialised business domains and requires highly qualified and experienced management to implement its strategy successfully. The Group and many of its businesses are located in the United States which is a highly competitive employment market. Moreover, the rapid development which is envisaged by the Group may place unsupportable demands on the Group's current managers and employees, particularly if it cannot attract sufficient new employees. There is also risk that the Group may lose key personnel.</p>	<p>The failure to attract highly effective personnel or the loss of key personnel would have an adverse impact on the ability of the Group to continue to grow and may negatively affect the Group's competitive advantage.</p>	<p>The Board annually seeks external expertise to assess the competitiveness of the compensation packages of its senior management. Senior management continually monitors and assesses compensation levels to ensure the Group remains competitive in the employment market. The Group maintains an extensive recruiting network through its Board members, advisors and scientific community involvement. The Group also employs an executive as a full-time in-house recruiter.</p>

**Brexit**

On 23 June 2016, the UK electorate voted to leave the European Union in a so-called "Brexit" referendum. The full consequences of the decision to leave the European Union will not be known for some time. The uncertainty surrounding the implementation and effect of Brexit has caused and is likely to continue to cause increased economic volatility.

The Group principally operates in the United States and holds substantially all assets in U.S. dollars. Accordingly, the Group does not believe there is significant risk associated with Brexit.

# Viability

**PureTech Health plc Viability Statement**

In accordance with the provision of C.2.2 of the U.K. Corporate Governance Code 2016, the Directors have assessed the prospects of the Group over a three-year period to 31 December 2020. This period is deemed appropriate as it progresses the Group's pipeline, with meaningful outcomes for key affiliates and programmes.

31 December 2020 also coincides with the timeframe highlighted in the Group's placing announcement dated 12 March 2018 which noted that the Company's pre-offering cash (and short term investments) and the offering proceeds would be used to fund its growth stage affiliate programmes through their next value milestones in 2019 and 2020 in conjunction with the Company's external partners; advance one or more novel clinical stage assets to phase 2/3 status by the end of 2020; advance two or more of the Group's internal lymphatic biology focused programmes to human clinical testing by the end of 2020; invest in the development of new high-impact product candidates; and fund the Company's head office costs through the end of 2021.

The Directors confirm they have a reasonable expectation that the Group will continue to operate and meet its obligations as they fall due over the period of the assessment. In making this statement the Directors carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

This assessment was made in consideration of the Group's strong financial position, current strategy and management of principal risks facing the Group. The following facts support the Directors' view of the viability of the Group:

- The Group has control over the direction of the growth stage affiliates and project stage programmes which allows the Group to retain significant control over the timing of funding events and significant expenditures.

The Group also maintains significant influence over resTORbio through its voting ownership of 34.9% of the Company's outstanding equity and two appointed Directors.

- The Group's business model is structured so that the Group is not reliant on the successful outcomes of any one affiliate or programme.

In addition, the fact that the majority of affiliates and programmes are in the development stage means that these affiliates and programmes are not reliant on cash inflows from sales of products or services during the period of this assessment. For the growth stage affiliates that may become commercial stage, contingent on regulatory filing and approval, the Directors confirm that the funding requirements identified represent a conservative expectation of sales of products during the period of this assessment and corresponding capital needs. This also means that the Group is not highly susceptible to conditions in one or more market sectors in this timeframe. Although engaging with collaboration partners is highly valuable to the Group from a validation and, in some cases, funding perspective, the Group is not solely reliant on cash flows from such sources over the period of assessment.

In addition to cash balances of \$72.6 million, the Group's short term investments of \$116.1 million at 31 December 2017, as well as the approximately \$100.0 million of gross proceeds from the 2018 placing, are highly liquid and forecasted to support infrastructure costs, pipeline development activities and the necessary funding of the independent and growth stage affiliates to reach significant development milestones over the period of the assessment.

The Board reviews the near term liquidity of the Group and regularly considers funding plans of the affiliates and programmes in its assessment of long term cash flow projections.

While the review has considered all of the principal risks identified by the Group, the Board is focused on the pathway to regulatory approval of

each affiliate and programme product candidate. Further, the Board has considered milestone funding based on existing collaboration and partnership arrangements, and the ability of each affiliate and programme to enter new collaboration agreements, which could all be expected to generate cash in-flows but were not included in the assessment. Additionally, given that independent affiliate, growth stage affiliate and project stage programme investment decisions are largely discretionary, there is management control on reducing discretionary spending if unforeseen liquidity risks arise.

The Directors note the Group's ownership stakes in the subsidiary affiliates and programmes are expected to be illiquid in nature, with the exception of resTORbio, which the Group expects to become liquid upon expiration of the customary 180-day lock-up period which commenced upon closing of its initial public offering. The Group anticipates holding these ownership stakes, including resTORbio, at least through achievement of significant milestones. It is also expected that certain of these subsidiaries may not be successful and could result in a loss of the amounts previously invested with no opportunity for recovery. However, even in this scenario, the Group's liquidity is expected to remain sufficient to achieve remaining milestone events and fund infrastructure costs.

The Directors have concluded, based on the Group's strong financial position and readily available cash reserves (inclusive of short term investments), that the Group is likely to be able to fund the requirements of the infrastructure and pipeline development activities and the amounts considered necessary for growth stage affiliates to reach significant development milestones over the period of the assessment. Therefore, there is a reasonable expectation that the Group has adequate resources and will continue to operate over the period of the assessment.

# Key Performance Indicators – 2017

The key performance indicators below measure the Group's performance against its strategy

## Cumulative number of patents and patent applications<sup>1</sup>

**521**

2016: 288  
2015: 209  
2014: 111

### Progress

The Group continued to aggressively pursue patent protection for its technologies during 2017 and hired an in-house patent counsel to accelerate achievement of this goal.

## Number of partnerships entered<sup>2</sup>

**8**

2016: 6  
2015: 4  
2014: 2

### Progress

In 2017, the Group entered into research and development partnerships with Eli Lilly, Novartis, New York University Langone School of Medicine, Leiden University Medical Center, University of South Alabama (USA) Mitchell Cancer Institute, University of Louisville, Monash University, and Keio University.

## Growth Stage Holdings Value

The Board believes that the value of PureTech's holdings in its growth stage affiliates ("Growth Stage Holdings Value") increased in a very significant way from 31 December 2016 to 31 December 2017, driven by the positive progress made over the year. This sizable increase was due in large part to (i) the positive results from the Akili pivotal trial of its lead product candidate, (ii) the positive results from the Gelesis pivotal trial of its lead product candidate, (iii) the resTORbio programme launch with an in-license of lead clinical candidates from Novartis, clinical advancement of those candidates, private financings and – post period end – a successful initial public offering, (iv) advancement of important new internally-developed and funded

## Number of theme-based technologies evaluated<sup>2</sup>

**951**

2016: 918  
2015: 776  
2014: 521

### Progress

The Company continued to identify and review innovative technologies that form the basis of its programmes. Current sourcing activities are focused on technologies related to the internally-funded, immunology-focused pipeline.

## Amount of funding secured for affiliates<sup>2</sup>

**\$102.9m<sup>3</sup>**

2016: \$98.2m  
2015: \$74.6m  
2014: \$8m

### Progress

resTORbio, Vedanta, Gelesis, Entrega, Follica, and Sync raised funds in the form of financings and non-dilutive grants in 2017, including \$62.7 million by validating financial and strategic investors.

immunology programmes not included in the 2016 Growth Stage Holdings Value, (v) the initiation of Vedanta Biosciences' Phase 1a/1b clinical trial for the treatment of recurrent *C. difficile* infection and in-licensing of an immuno-oncology candidate, (vi) clinical advancement of the Karuna affiliate, (vii) clinical advancement of the Sonde affiliate, and (viii) Entrega's collaboration with Eli Lilly and Company, among other positive developments.

Despite the notable growth in value, the Board, in consultation with its strategic advisors and key shareholders, has decided not to disclose its detailed internal valuations of its growth stage affiliates going forward, as noted in the interim results report and the recent Trading Update. The Company's view is that such disclosure, on balance,

## Number of project stage programmes created<sup>2</sup>

**1** (in addition to internally-funded programmes)

2016: 3  
2015: 3  
2014: 2

### Progress

As a part of its internally-funded, immunology-focused pipeline, PureTech advanced the milk exosome-based Calix technology, which is designed to enable the oral administration of biologics, nucleic acids (e.g. siRNA, mRNA, antisense oligonucleotides), and complex small molecules. The Company is also currently evaluating multiple additional technologies to grow this internally-funded immunology pipeline and has filed its own intellectual property for additional technologies.

may not be in the best interests of PureTech Health and its shareholders. The Company maintains a balanced approach to valuation and the Company believes that such disclosure may set an artificially low external benchmark for the programmes and affiliates that may otherwise be ascribed substantially higher valuations by potential partners, investors and acquirers.

In connection with this change, the Company plans to use a relative total shareholder return performance vesting condition in its annual management RSU awards made after 31 December 2017 in lieu of tying the vesting of such awards to the increase in value of its growth stage affiliates.

# Financial Review

During 2017, PureTech Health continued to deploy its cash reserves to advance its pipeline by both progressing and de-risking its independent and growth stage affiliates and project stage programmes and identifying and initiating future programmes.

The Company has progressed research and clinical activities, including commencing new clinical trials. The increased activities have been further supported by financings and grant awards that have occurred in 2017. The Company's growth stage affiliates, project stage programmes and independent affiliates together attracted financing totaling \$94.1 million, which included \$53.9 million from third party, validating financial and strategic investors

in 2017. In addition, Vedanta Biosciences was awarded a research grant of up to \$5.4 million from CARB-X and Gelesis was awarded €2.9 million from the Italian Ministry of Economic Development.

Vor BioPharma and Nybo Therapeutics have graduated to growth stage in 2017 after reaching a requisite level of maturity during the year, including successfully securing intellectual property, achieving some level of technological de-risking during 2017, establishing management teams and completing business plans. In addition, these programmes engaged key scientific founders. In March 2017, resTORbio was promoted from a project programme into a growth stage affiliate upon the concurrent execution of its

license agreement with Novartis and Series A financing. Furthermore, upon closing of its Series B financing, the Company's ownership in resTORbio decreased below 50 per cent, and its representation on the Board decreased to less than a majority of Directors, resulting in resTORbio becoming an independent affiliate, as further described below.

The Group continues to source and develop new ideas, including those that formed the basis of Glyph and Calix, as well as execute on pipeline opportunities. In addition, PureTech Health continues to evolve shared functions to support the increased level of activities of the growth stage affiliates and project stage programmes.

## Financial Highlights

	2017 \$ millions	2016 \$ millions
<b>Cash Reserves</b>		
Group Cash Reserves – Alternative Performance Measure (APM) <sup>1,2</sup>	<b>242.1</b>	281.5
Consolidated Cash Reserves <sup>2</sup>	<b>188.7</b>	281.5
PureTech Level Cash Reserves <sup>2</sup>	<b>126.7</b>	192.1
<b>Results of Operations</b>		
Revenue	<b>2.5</b>	4.4
Operating Loss	<b>(115.4)</b>	(73.9)
Adjusted Operating Loss <sup>3</sup>	<b>(100.8)</b>	(62.2)
Loss for the Period	<b>(70.7)</b>	(81.6)
Adjusted Loss for the Period <sup>4</sup>	<b>(99.6)</b>	(60.1)

- Group Cash includes cash reserves held at independent affiliates of \$53.4 million that are not included in the consolidated statement of financial position. Group Cash Reserves is therefore considered to be more representative of the Group's cash available to advance product candidates within its independent affiliates, growth stage affiliates and project stage programmes, as the cash held at independent affiliates not included in Consolidated Cash will be invested in activities that could ultimately result in value accretion for the Group.
- Cash reserves includes cash balances and short-term investments. PureTech Level Cash Reserves represent cash and short-term investments held at PureTech Health LLC, PureTech Management, Inc., PureTech Health PLC, and PureTech Securities Corporation.
- Stated before the effect of share-based payment of \$11.8 million (2016 – \$10.2 million), depreciation of \$1.6 million (2016 – \$1.2 million), amortisation of \$0.5 million (2016 – \$0.3 million) and impairment of tangible assets of \$0.6 million (2016 – nil). These items are non-cash charges. Adjusted operating loss is therefore considered to be more representative of the operating performance of the Group. Non-cash items are excluded due to the nature of the Group in that the businesses require the cash investment in order to operate and continue with their R&D activities and this is therefore deemed to be an appropriate alternative performance measure.
- Stated before the charges discussed in Note 3 above as well as the IAS 39 fair value accounting charge of \$71.7 million (2016 – \$3.4 million) and finance cost – subsidiary preferred shares of \$9.5 million (2016 – \$6.4 million) and Share of net loss of associates accounted for using the equity method of \$17.6 million (2016 – nil). Adjusted Loss for the Period is also adjusted for the non-cash gain from the deconsolidation of resTORbio of \$85.0 million (2016 – nil) and the gain on Available for Sale investments of \$57.3 million (2016 – nil). These items are also non-cash expenses and income, respectively. Adjusted loss for the period is therefore considered to be more representative of the operating performance of the Group. In 2016, both the Loss for the period and Adjusted loss for the period were positively impacted by recognition of a \$1.6 million tax benefit.

<sup>1</sup> This number does not include issued patents or patent applications exclusively licensed or owned by independent affiliate, resTORbio.

<sup>2</sup> Number represents figure for the relevant fiscal year only and is not cumulative.

<sup>3</sup> PureTech's recent placing of approximately \$100.0 million gross proceeds, resTORbio IPO of \$97.8 million in gross proceeds and the Gelesis fundraising of \$30.0 million occurred in the 2018 post-period and are therefore not included in these figures.



## Revenue

Revenue for 2017 was mainly comprised of grant revenue received by Vedanta and Gelesis. The primary reason for the decrease in revenue relates to non-recurring \$4.0 million non-refundable milestone payments Vedanta Biosciences received in 2016 as a result of successfully achieving two additional milestones that resulted in two separate \$2.0 million payments as part of its collaboration with Janssen Biotech, Inc. Payments such as this are not expected to be a recurring event in each period.

The Group's operations do not yet generate consistent product revenues. Certain growth stage affiliates have generated revenue from collaborations with third parties, including the revenue events described above. Future revenues from growth stage affiliates are expected to be earned under existing and new license and collaboration agreements and may include non-refundable license fees. Management evaluates opportunities to enter new licenses and collaboration agreements with the aim of balancing the value of these partnerships and retaining ownership in our programmes to achieve meaningful milestones. Revenue from these license and collaboration agreements during the development and approval period is typically driven by achievement of contractual milestones, which tend to be event driven. Therefore, significant period to period changes in revenue are to be expected and are not necessarily indicative of the Group's overall revenue trend.

## Operating Expenses

Operating expenses, before the impact of non-cash items noted in Footnote 3 of the Results of Operations Schedule above, increased 55 per cent on a year-over-year basis. The increase in expenses is attributable to increased support for the Group's research and development efforts as well as increased pre-commercial activities. The Group carried out development activities to progress its affiliates and programmes by initiating new clinical trials and advancing existing

clinical studies, adding headcount and expanding its footprint requiring leasing additional space, the result of which was an increase of 73 per cent in research and development expenses from the prior year. General and administrative expenses increased at a rate of 31 per cent over the prior year. The lower growth rate of general and administrative expenses continues to reflect the ability of the Group to leverage its existing infrastructure. Parent company operating expenses did not materially change over the three years ended 31 December 2017.

The Directors anticipate that the Company's operating expenses will continue to increase as the Group advances its pipeline. Research and development activities will include regulatory activities, clinical and preclinical studies, intellectual property registration and the cost of acquiring, developing and manufacturing clinical study materials. General and administrative costs consist primarily of personnel-related costs, preparation for commercial launches of later stage affiliates, lease costs and professional fees, and are anticipated to grow at a similar rate to research and development costs as Akili and Gelesis pre-commercial activities ramp up.

## Net finance costs

Net finance costs, before consideration of the items noted in Footnote 4 in the Results of Operations Schedule above, increased by \$0.7 million from income of \$0.5 million in 2016 to income of \$1.2 million in 2017. The income in both periods is related to interest received on short term investments held at both PureTech and certain subsidiaries. The Group, as described below, has adopted a conservative cash management policy and invested the significant cash reserves generated since IPO in U.S. Treasuries, which resulted in \$1.7 million of income from interest earned on these securities.

The Group's IAS 39 fair value accounting charge relates to derivative liabilities associated with preferred stock conversion rights, convertible notes

and warrants at the subsidiary level. Consistent with prior periods, this charge was driven by the changes in the equity values of the underlying subsidiaries. When the Group realises an increase in the value of the subsidiaries that are consolidated for accounting purposes, a charge will be recognised when there are external preferred shareholders. The increase in the expense of \$68.3 million from the prior period was related to the increase in the value of the Group's subsidiaries, mainly driven by resTORbio (whose expense was included in the Group's consolidated statement of income/(loss) prior to deconsolidation), Akili, Vedanta and Gelesis. In addition to the IAS 39 fair value accounting charge, the Group recognised a finance cost of \$9.5 million in 2017 due to the accretion to the liquidation preference on subsidiary preferred stock held by external parties. The balance of subsidiary preferred stock held by external parties increased during 2017 due primarily to the issuances of preferred stock in the Vedanta, Entrega and The Sync Project financings.

## Deconsolidation of resTORbio

In March 2017, resTORbio completed the initial closing of its Series A Preferred Stock financing, at which point PureTech gained control and consolidated resTORbio as part of the Group. In connection with the Series A Preferred Stock Financing, resTORbio also executed a license agreement with Novartis. In November 2017, resTORbio closed its Series B Preferred Stock financing and concurrently PureTech saw its voting ownership percentage related to resTORbio reduced to 44.4 per cent, triggering a loss of control over the entity and deconsolidation. Although PureTech does not control resTORbio, PureTech maintains significant influence over the company's strategy and the direction of the company by virtue of its large, albeit minority, ownership stake and its continued representation on resTORbio's board of directors.

Upon deconsolidation, PureTech recognised the fair value of the common shares and Series A Preferred Stock held in resTORbio, resulting in a gain of \$85.0 million. As PureTech maintained significant influence in resTORbio, PureTech's common stock holdings were subject to equity method accounting under IAS 28, which resulted in PureTech's investment being adjusted by the share of profits and losses generated by resTORbio in December 2017 of \$17.6 million. resTORbio's December 2017 loss was mainly driven by fair value accounting for financial liabilities, in accordance with IFRS, which resulted in a loss driven by the further increase in the equity value of resTORbio, as the entity approached its initial public offering. Additionally, the Series A Preferred Stock held in resTORbio was classified as an available-for-sale investment upon deconsolidation. PureTech revalued the available-for-sale investment as of 31 December 2017 and recognised a gain of \$57.3 million based on the increase in the fair value of our Series A Preferred Stock between 30 November 2017 and 31 December 2017.

Subsequent to the period, on 30 January 2018, resTORbio completed an initial public offering which resulted in conversion of the Series A Preferred

Stock into common shares. In the period between 31 December 2017 and closing of the IPO, PureTech will recognise gains related to the increase in fair value of our Series A Preferred Stock. Upon conversion of the Series A Preferred Stock into common shares upon closing of the IPO, PureTech's converted common stock will be subject to equity method accounting under IAS 28 and the investment will be adjusted by the share of profits and losses generated by resTORbio until such a point where PureTech no longer has significant interest in resTORbio as defined under IAS 28.

Refer to note 5 in the financial statements for further information.

## Financial Position

Cash and short-term investments make up a significant portion of the Group's current assets of \$198.1 million. Amounts that cannot be immediately deployed have been used to purchase U.S. Treasuries with short durations. Consolidated cash reserves, consisting of all cash, cash equivalents and U.S. Treasuries, were \$188.7 million at 31 December 2017 (2016 – \$281.5 million). Of this amount, \$126.7 million (2016 – \$192.1 million) of

cash reserves are held at the PureTech Health level to fund all activities of the Group, including supporting progression of the subsidiaries and independent affiliates, funding pipeline development and maintaining an appropriate infrastructure.

Other significant items impacting the Group's financial position include:

- Available for Sale Investments increased to \$131.4 million, primarily driven by the deconsolidation and fair value increase related to resTORbio, as described above.
- Current Liabilities increased to \$273.9 million, primarily as a result of the increase of derivative and preferred share liabilities resulting from a combination of the issuance of new preferred stock, convertible notes and non-cash IAS 39 accounting charges related to the increase in the equity values of the underlying subsidiaries.

## Financial Position

	2017 \$ millions	2016 \$ millions
Non-current assets	141.7	10.6
Current assets	198.1	288.1
<b>Total assets</b>	<b>339.8</b>	<b>298.7</b>
Non-current liabilities	2.0	2.3
Total current liabilities	273.9	204.1
<b>Total liabilities</b>	<b>275.9</b>	<b>206.4</b>

As noted above, the Group increased spending as expected. The Directors anticipate that the Group's funds, inclusive of the \$100.0 million of gross proceeds received on 4 April 2018 in connection with the 2018 Offering, will be sufficient to continue to progress the existing independent and growth stage affiliates to meaningful milestone events and pipeline development through 31 December 2020 and to fund infrastructure costs through 31 December 2021.

**Cash Flows**

The Group's net operating cash outflow reflects the payment of operating expenses which, with the exception of the non-cash charges highlighted in footnotes 3 and 4 of the Results of Operations Schedule above, are primarily cash based.

The net cash inflow from investing activities during 2017 primarily relates to maturities of short-term investments, which was partially offset by the \$19.0 million investment in resTORbio's Series A financing.

The net cash inflow from financing activities during 2017 was primarily from \$12.4 million of proceeds from outside investors in equity financings of growth stage affiliates and \$2.6 million from issuances of convertible notes.

The net cash inflow from financing activities does not include third party equity investments in resTORbio of \$46.0 million from outside investors which are not included in our consolidated statement of cash flows (see note 15 of the financial statements).

The Group is focused on maintaining liquidity as well as capital preservation of investments. As a result, surplus

cash reserves have been placed in highly-rated, short duration vehicles, primarily U.S. Treasuries with maturities under one year. The Group monitors market conditions to manage any risk to the investment portfolio and investigates opportunities to increase the yield on the amounts invested, while maintaining the Group's liquidity and capital preservation objectives. At 31 December 2017, the Group held \$2.3 million of cash reserves in Euros. These cash reserves are used to fund the operation of Gelesis' Italian manufacturing and research and development subsidiary. The Directors believe it is prudent to have these cash reserves denominated in Euro to fund operations.

**Cash Flows**

	2017 \$ millions	2016 \$ millions
Operating Cash Flows	(88.7)	(58.0)
Investing Cash Flows	83.7	(43.2)
Financing Cash Flows	14.7	29.5

## Chairman's overview



“We believe that good corporate governance is essential for building a successful and sustainable business.”

Dear Shareholder

I am pleased to introduce our Corporate Governance Report. This section sets out our governance framework and the work of the Board and its committees.

As a Board we are responsible for ensuring there is an effective governance framework in place. This includes setting the Company's strategic objectives, ensuring the right leadership and resources are in place to achieve these objectives, monitoring performance, ensuring that sufficient internal controls and protections are in place and reporting to shareholders. An effective governance framework is also designed to ensure accountability, fairness and transparency in the Company's relationships with all of its stakeholders,

whether shareholders, employees, partners, the government or the wider patient community. We believe that good corporate governance is essential for building a successful and sustainable business.

The Board is committed to the highest standards of corporate governance and undertakes to maintain a sound framework for the control and management of the Group. In this report we provide details of that framework. The key constituents necessary to deliver a robust structure are in place and, accordingly, this report includes a description of how the Company has applied the principles and provisions of the Governance Code and how it intends to apply those principles in the future.

The Board looks forward to being able to discuss these matters with our shareholders at the Group's AGM or indeed at any other time during the year.

**Joichi Ito**  
Chairman

16 April 2018



# Board of Directors

(alphabetically)

PureTech Health is led by a seasoned and accomplished Board of Directors and management team with extensive experience in maximising shareholder value, discovering scientific breakthroughs, and delivering products to market.

## Joichi Ito

Chairman of the Board of Directors



Joi Ito is the Director of the MIT Media Lab and the Chairman of PureTech Health's Board of Directors. He is a leading thinker and writer on innovation, global technology policy, and the role of the Internet in transforming society in substantial and positive ways. Mr Ito sits on the boards of the Knight Foundation, the John D. and Catherine T. MacArthur Foundation and The New York Times Company. In Japan, he was a founder of Digital Garage, and helped establish and later became CEO of the country's first commercial Internet service provider. He was an early investor in numerous companies, including Twitter, Flickr, littleBits, Formlabs and Kickstarter. In 2008, BusinessWeek named him one of the "25 Most Influential People on the Web", and in 2011, he received a Lifetime Achievement Award from the Oxford Internet Institute. In 2014, Mr Ito was inducted into the SXSW Interactive Festival Hall of Fame and granted the Golden Plate Award by the Academy of Achievement. Mr Ito received a degree of Doctor of Literature, honoris causa, from The New School in 2013 and Doctor of Humane Letters, honoris causa, from Tufts University in 2015. Most recently, Mr Ito has begun writing a column for WIRED.

## Raju Kucherlapati, PhD

Independent Non-Executive Director, Scientific Advisory Board Member



Raju Kucherlapati, PhD, is Paul C Cabot Professor of Genetics and Professor of Medicine at Harvard Medical School and is an Independent Non-Executive Director at PureTech Health and sits on PureTech's Scientific Advisory Board. He was a founder and formerly a Board member of Abgenix (acquired by Amgen for \$2.2 billion) and Millennium Pharmaceuticals (acquired by Takeda for \$8.8 billion). He was the first Scientific Director of the Harvard-Partners Center for Genetics and Genomics. He is a fellow of the American Association for the Advancement of Science and a member of the National Academy of Medicine. He was a member of the Presidential Commission for the study of Bioethical Issues during the Obama administration.

Dr Kucherlapati's laboratory was a part of the Human Genome Program that was responsible for mapping and sequencing the human genome. He developed methods for modifying mammalian genes that lead to gene targeting in mice. He has developed many mouse models for human disease, including a large set of models for human colorectal cancer. He was involved in successfully cloning many human disease genes with a focus on human syndromes with significant cardiovascular involvement. His laboratory was a part of the Cancer Genome Atlas (TCGA) program that uses genetic/genomic approaches to understand the biology of cancer. He is a promoter of Personalized/Precision Medicine. Dr Kucherlapati served on the editorial board of the New England Journal of Medicine and was Editor in Chief of the journal Genomics.

## John LaMattina, PhD

Independent Non-Executive Director



John LaMattina, PhD, is an Independent Non-Executive Director at PureTech Health and was previously President of Pfizer Global Research and Development and Senior Vice President of Pfizer. During his 30-year career at Pfizer, Dr LaMattina held positions of increasing responsibility for Pfizer Central Research, including Vice President of US Discovery Operations in 1993, Senior Vice President of Worldwide Discovery Operations in 1998 and Senior Vice President of Worldwide Development in 1999.

During Dr LaMattina's leadership tenure, Pfizer discovered and/or developed a number of new medicines to treat cancer, AIDS, pain, smoking addiction, rheumatoid arthritis, and neurological disorders. He is the author of numerous scientific publications and US patents. In addition, Dr LaMattina is the author of "Drug Truths: Dispelling the Myths About Pharma R&D" and "Devalued and Distrusted: Can the Pharmaceutical Industry Restore Its Broken Image." Dr LaMattina was awarded an Honorary Doctor of Science degree from the University of New Hampshire in 2007 and in 2010 was the recipient of the American Chemical Society's Earle B. Barnes Award for Leadership in Chemical Research Management.

Dr LaMattina received a BS in Chemistry from Boston College in 1971 and received a PhD in Organic Chemistry from the University of New Hampshire in 1975. He then moved on to Princeton University as a National Institutes of Health Postdoctoral Fellow in the laboratory of Professor E. C. Taylor. Dr LaMattina serves on the Board of Directors of PureTech Health, Ligand Pharmaceuticals, Vedanta Biosciences, and Gelesis (Chairman). He is the author of the Drug Truths blog at Forbes.com.

\* Biographies for our Executive Directors, Daphne Zohar and Stephen Muniz, can be found on page 50.

Board of Directors — continued

## Robert Langer, ScD

Co-Founder & Non-Executive Director, Scientific Advisory Board Member



Robert Langer, ScD, is a Co-founder and Non-Executive Director at PureTech Health and sits on PureTech's Scientific Advisory Board and the Boards of PureTech Health, Alivio, and Entrega. Dr Langer is known for his groundbreaking discoveries in the fields of polymer chemistry, controlled drug delivery, and tissue engineering. He is the David H. Koch Institute Professor at the Massachusetts Institute of Technology (MIT) and one of 13 Institute Professors (the highest honor awarded to a faculty member). Dr Langer has written over 1400 articles (h index of 248) and has approximately 1300 issued or pending patents worldwide, one of which was cited as the outstanding patent in Massachusetts in 1988 and one of 20 outstanding patents in the United States.

His patents have been licensed or sublicensed to over 350 pharmaceutical, chemical, biotech, and medical device companies. Dr Langer is the most cited engineer in history. He served as a member of the United States FDA's SCIENCE Board, the FDA's highest advisory board, from 1995 to 2002 and as its Chairman from 1999 to 2002. Dr Langer has received over 200 major awards, including the 2006 United States National Medal of Science and the 2011 United States medal of Technology and Innovation (he is one of only 4 living individuals to receive both medals), the Charles Stark Draper Prize in 2002, considered the equivalent of the Nobel Prize for engineers and the world's most prestigious engineering prize, and the 2012 Priestley Medal, the highest award of the American Chemical Society. He is also the only engineer to receive the Gairdner Foundation International Award. Among numerous other awards, Dr Langer has received the Dickson Prize for Science, Heinz Award, the Harvey Prize, the John Fritz Award (given previously to inventors such as Thomas Edison and Orville Wright), the General Motors Kettering Prize for Cancer Research, the Dan David Prize in Materials Science, the wolf prize in chemistry, the breakthrough prize in life sciences, the Priestley medal (highest award of the American Chemical Society), the Kyoto Prize, the Queen Elizabeth prize for Engineering, and the Albany Medical Center Prize in Medicine and Biomedical Research. In 2006, he was inducted into the National Inventors Hall of Fame. In 1998, he received the Lemelson-MIT prize, the world's largest prize for invention for being "one of history's most prolific inventors in medicine." He has been awarded 32 honorary doctorates from universities in 12 countries.

In 1989, Dr Langer is one of a few people ever elected to all three United States National Academies and is the youngest in history to ever receive this distinction. Discover Magazine, Forbes Magazine and BioWorld have named Dr Langer as one of the 25 most important individuals in biotechnology in the world. Forbes Magazine selected Dr Langer as one of the 15 innovators world-wide who will reinvent our future. Time Magazine and CNN named Dr Langer as one of the 100 most important people in America and one of the 18 top people in science or medicine in America. Dr Langer has served, at various times, on the Boards of such companies as Wyeth, Alkermes, Mitsubishi Pharmaceuticals, Warner-Lambert, Millipore, and Momenta Pharmaceuticals.

## Dame Marjorie Scardino

Senior Independent Director



Dame Marjorie Scardino is the Senior Independent Director of PureTech's Board of Directors. She served as Chief Executive of The Economist for 12 years and then from 1997 through 2012 was the Chief Executive of Pearson plc, the world's leading education company and the owner of Penguin Books and The Financial Times Group. Prior to that, she was a lawyer and she and her husband founded a weekly newspaper in Georgia which won a Pulitzer Prize. At the end of 2017 she stepped down from serving and chairing The MacArthur Foundation for 12 years and became the chairman of the London School of Hygiene and Tropical Medicine.

She is also on the board of Twitter, where she is the Senior Independent Director, and a member of the board of IAG (the holding company of British Airways, Iberia and other airlines). Non-profit boards she sits on are The Carter Center and The Royal College of Arts. Dame Marjorie has received a number of honorary degrees, and in 2003 was dubbed a Dame of the British Empire. She is also a member of the Royal Society of the Arts in the UK and the American Association of Arts and Sciences.

## Dr Bennett Shapiro

Non-Executive Director



Ben Shapiro, MD, is a Co-founder and Non-Executive Director at PureTech Health. He was previously Executive Vice President of Worldwide Research at Merck where he was responsible for all basic and preclinical research and licensing activities worldwide, a program that resulted in FDA registration of some 25 drugs and vaccines. Previously, he was Professor and Chairman of the Department of Biochemistry at the University of Washington and is the author of over 120 papers on the molecular regulation of cellular behavior. He has been a Guggenheim Fellow, a Fellow of the Japan Society for the Promotion of Science, a Visiting Professor at the University of Nice, France, and has served on many institutional advisory boards and scientific review panels, as well as on the board of various life science companies including Momenta, Celera and Ikaria. He currently is a board director of the Drugs for Neglected Disease Initiative.

**Christopher Viehbacher**

Independent Non-Executive Director



Chris Viehbacher is the Managing Partner of Gurnet Point Capital. Gurnet Point is a Boston-based investment fund associated with the Bertarelli family and has a \$2 billion capital allocation. He has completed over \$30 billion in acquisitions. He is also a member of the Board at PureTech Health, Chair of PureTech's Audit Committee, and is the Chairman of the Board of Directors at Vedanta Biosciences, a PureTech Health affiliate. He is a member of the Board of Trustees of Northeastern University. Mr Viehbacher is the former CEO and Member of the Board of Directors of Sanofi, a Fortune 50 Biopharmaceutical company based in Paris. He was also the Chairman of the Board of Genzyme in Boston. Prior to joining Sanofi, Mr Viehbacher spent 20 years with GlaxoSmithKline in Germany, Canada, France and, latterly, the US as President of GSK North America. He was a member of the Board of Directors of GSK plc in London and Co-President of GSK's Portfolio Management Board. Mr Viehbacher began his career with PriceWaterhouse Coopers LLP after graduating with a degree in Commerce at Queen's University in Canada.

Mr Viehbacher has been a strong advocate for the healthcare industry. Current and past advocacy roles include: Former Co-chair with Bill Gates, the CEO Roundtable on Neglected Diseases; Past-Chairman of the CEO Roundtable on Cancer; Chairman of the Board of the Pharmaceutical Research and Manufacturers of America in Washington; President of the European Federation of Pharmaceutical Industries and Associations in Brussels; Chair of the Health Governors at World Economic Forum; Co-chair of a WEF initiative to create a Global Charter for Healthy Living; and member of the International Business Council. Mr Viehbacher has in the past served on various advisory groups at MIT, Duke University and Queen's University at Kingston, Ontario. Mr Viehbacher has received the Pasteur Foundation Award for outstanding commitment to safeguarding and improving health worldwide. He has also received France's highest civilian honor, the Legion d'Honneur.

**Robert Horvitz, Ph.D.\*\***

Board Advisor &amp; Scientific Advisory Board Chair



Dr Robert Horvitz, PhD, is a Board Advisor and Scientific Advisory Board Chair of PureTech Health. He received the Nobel Prize in Physiology of Medicine and is the David H Koch Professor of Biology at the Massachusetts Institute of Technology, an Investigator of the Howard Hughes Medical Institute, Neurobiologist (Neurology) at Massachusetts General Hospital, and a member of the MIT McGovern Institute for Brain Research and the MIT Koch Institute for Integrative Cancer Research. He is co-founder of multiple life science companies, including Epizyme (EPZM), Mitobridge (acquired by Astellas) and Idun Pharmaceuticals (acquired by Pfizer).

Dr Horvitz is a member of the Board of Trustees of the Massachusetts General Hospital and is Chairman of the Board of Trustees of the Society for Science and the Public. He previously served as President of the Genetics Society of America. Dr Horvitz is a member of the US National Academy of Sciences, the US National Academy of Medicine and the American Philosophical Society and is a Foreign Member of the Royal Society of London. He is a Fellow of the American Academy of Arts and Sciences and of the American Academy of Microbiology.

Dr Horvitz received the US National Academies of Science Award in Molecular Biology, the Charles A Dana Award for Pioneering Achievements in Health; the Ciba-Drew Award for Biomedical Science; the General Motors Cancer Research Foundation Alfred P Sloan, Jr. Prize; the Gairdner Foundation International Award; the March of Dimes Prize in Developmental Biology; the Genetics Society of America Medal; the Bristol-Myers Squibb Award for Distinguished Achievement in Neuroscience; the Wiley Prize in the Biomedical Sciences; the Peter Gruber Foundation Genetics Prize; the American Cancer Society Medal of Honor; the Alfred G Knudson Award of the National Cancer Institute; and the U.K. Genetics Society Mendel Medal.

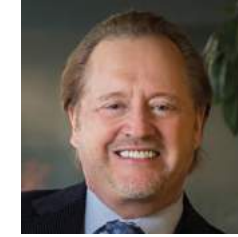
\*\* Dr Horvitz is not a member of the PureTech Health Board of Directors but is rather an advisor to the Board and the Chairman of the Scientific Advisory Board. He attends all Board of Directors meetings as an observer.

**Management team**

(alphabetically)

**Joseph Bolen, PhD**

Chief Scientific Officer



Joseph Bolen, PhD, is Chief Scientific Officer at PureTech Health, where he leads the Company's scientific team to identify and pursue promising new medicines. Dr Bolen has more than 30 years of industry and research experience and has been at the forefront of cancer and immunology research. An immunologist by training, Dr Bolen received the National Institutes of Health Award for Meritorious Research in 1990 for discovery of the physiologic functions of the LCK protein tyrosine kinase as the mediator of CD4 and CD8 – T-cell antigen receptor signal transduction. This work was selected by the American Association of Immunologists in 2010 among research published over the previous 40 years as a "Pillar of Immunology."

Dr Bolen most recently oversaw all aspects of research and development for Moderna Therapeutics as President and Chief Scientific Officer. Previously, Dr Bolen was Chief Scientific Officer and Global Head of Oncology Research at Millennium: The Takeda Oncology Company (acquired by Takeda for \$8.8 billion) where he oversaw over 25 different compounds entered and progressed in human clinical trials. During his tenure, drug approvals included Velcade® (Bortezomib), Campath® (Alemtuzumab), Entyvio® (Vendolizumab), Ninlaro® (Ixazomib) with numerous others currently in Phase II and Phase III clinical trials. Prior to joining Millennium in 1999, Dr Bolen held senior research and development positions at Hoechst Marion Roussel, Schering-Plough, and Bristol-Myers Squibb. Dr Bolen graduated from the University of Nebraska with a BS degree in Microbiology and Chemistry and a PhD in Immunology and conducted his postdoctoral training in Molecular Virology at the Kansas State University Cancer Center.

**Bharatt Chowrira, PhD, JD**

President and Chief of Business and Strategy



Bharatt Chowrira, JD, PhD, has been the President and Chief of Business and Strategy at PureTech Health since March 2017. Prior to joining PureTech Health, Dr Chowrira was the President of Synlogic, a biopharmaceutical company focused on developing synthetic microbiome-based therapeutics, from September 2015 to February 2017, where he oversaw and managed corporate and business development, alliance management, financial, human resources, intellectual property and legal operations. Prior to joining Synlogic, Dr Chowrira was the Chief Operating Officer of Auspex Pharmaceuticals from 2013 to 2015, which was acquired by Teva Pharmaceuticals in the Spring of 2015 for \$3.5 billion. Dr Chowrira held various leadership and management positions at Nektar Therapeutics (NASDAQ:NKTR) (COO), Merck & Co (VP), Sirna Therapeutics (GC; acquired by Merck & Co for \$1.1 billion) and Ribozyme Pharmaceuticals (Chief Patent Counsel). Dr Chowrira is currently a member of the Board of Directors of Akili Interactive and Karuna Pharmaceuticals. Dr Chowrira received a JD from the University of Denver's Sturm College of Law, a PhD in Molecular Biology from the University of Vermont College of Medicine, an MS in Molecular Biology from Illinois State University and a BS in Microbiology from the UAS, Bangalore, India.

**Eric Elenko, PhD**

Chief of Research and Strategy



Eric Elenko, PhD, is the Chief of Research and Strategy and co-founder of PureTech Health where he is part of the leadership team and has led the development of a number of programs and affiliates, including Akili Interactive, Gelesis, Karuna Pharmaceuticals, Alivio Therapeutics, Nybo Therapeutics and Sonde Health. Prior to joining PureTech Health, Dr Elenko was a consultant with McKinsey and Company where he advised senior executives of both Fortune 500 and specialty pharmaceutical companies on a range of issues such as product licensing, mergers and acquisitions, research and development strategy and marketing. Dr Elenko received his BA in Biology from Swarthmore College and his PhD in Biomedical Sciences from University of California, San Diego.





**Stephen Muniz, JD**  
Chief Operating Officer and a Member of the Board of Directors

Stephen Muniz, JD, is the Chief Operating Officer and co-founder of PureTech Health and a member of the Board of Directors. Prior to joining PureTech Health, Mr Muniz was a Partner in the Corporate Department of Locke Lord LLP, where he practiced law for 10 years. Mr Muniz's practice at Locke Lord LLP focused on the representation of life science venture funds as well as their portfolio companies in general corporate matters and in investment and liquidity transactions.

Prior to joining Locke Lord LLP, Mr Muniz was a law clerk to Hon Raya Dreben at the Massachusetts Appeals Court. He was also a Kauffman Entrepreneur Fellow, a program sponsored by the Kauffman Foundation. Mr Muniz also sits on the Board of Directors of Karuna Pharmaceuticals, Entrega, Follica and Gelesis. Mr Muniz has a BA in Economics and Accounting from The College of the Holy Cross and a JD from the New England School of Law where he graduated summa cum laude. Mr Muniz was Valedictorian of the 1997 New England School of Law Commencement and has been awarded the Amos L. Taylor Award for Excellence in Scholarship, the New England Scholar Award and the NESL Trustee Scholar Award.

**David Steinberg**  
Chief Innovation Officer



David Steinberg is the Chief Innovation Officer and co-founder of PureTech Health. As a member of PureTech Health, Mr Steinberg has led the development of a number of programs and affiliates. He has served as founding CEO and currently serves on the Board of Directors of Vedanta Biosciences, Entrega, Vor, and Commense. He is a Co-founder of resTORbio (NASDAQ: TORC), served as founding CEO of Endra Life Sciences (NASDAQ:NDRA) and also served as Chief Business Officer of Follica.

Previously, Mr Steinberg was a strategy consultant with the Boston Consulting Group and Vertex Partners, focusing on R&D and product strategy and strategic alliances for Fortune 500 pharmaceutical and biotechnology clients.

Mr Steinberg also worked as a research associate in Procter and Gamble Pharmaceuticals' R&D organization. He received his BA in Biology with distinction from Cornell University and graduated with high honors from the University of Chicago Booth School of Business with an MBA in Strategy and Finance. Mr Steinberg is also a member of the UChicago Booth Polsky Center Innovation Fund Advisory Committee.

**Ms Daphne Zohar**  
Founder and Chief Executive Officer



Daphne Zohar is the Founder and Chief Executive Officer of PureTech Health (PRTC.L) and a member of the Board of Directors. PureTech Health is an advanced, clinical-stage biopharmaceutical company developing novel medicines targeting serious diseases that result from dysfunctions in the nervous, immune, and gastrointestinal systems (brain-immune-gut or the "BIG" axis), which together represent the adaptive human systems PureTech Health is at the forefront of understanding and addressing the biological processes and crosstalk associated with the BIG axis. By harnessing this emerging field of human biology, the Company is pioneering new categories of medicine with the potential to have great impact on people with serious diseases. PureTech Health is advancing a rich pipeline that includes multiple post human proof-of-concept studies and pivotal stage programs Ms Zohar created PureTech Health, assembling a leading team to help implement her vision for the Company. Ms Zohar has been recognized as a top leader and innovator in biotechnology by a number of sources, including EY, BioWorld, MIT's Technology Review, the Boston Globe, and Scientific American. She is an Editorial Advisor to Xconomy, and is on the Board of Advisors of Life Science Cares.

## The Board

### Roles and responsibilities of the Board

The Board is responsible to shareholders for the overall management of the Group as a whole. The main roles of the Board are:

- creating value for shareholders;
- providing business and scientific leadership to the Group;
- approving the Group's strategic objectives;
- ensuring that the necessary financial and human resources are in place to meet strategic objectives;
- overseeing the Group's system of risk management; and
- setting the values and standards for both the Group's business conduct and governance matters.

The Directors are also responsible for ensuring that obligations to shareholders and other stakeholders are understood and met and that communication with shareholders is maintained. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-Executive Directors. All Directors are equally accountable to the Company's shareholders for the proper stewardship of its affairs and the long-term success of the Group.

The Board reviews strategic issues on a regular basis and exercises control over the performance of the Group by agreeing on budgetary and operational targets and monitoring performance against those targets. The Board has overall responsibility for the Group's system of internal controls and risk management. Any decisions made by the Board on policies and strategy to be adopted by the Group or changes to current policies and strategy are made following presentations by the Executive Directors and other members of management, and only after a detailed process of review and challenge by the Board. Once made, the Executive Directors and other members of management are fully empowered to implement those decisions.

Except for a formal schedule of matters which are reserved for decision and approval by the Board, the Board has delegated the day-to-day management of the Group to the Chief Executive Officer who is supported by other members of the senior management team. The schedule of matters reserved for Board decision and approval are those significant to the Group as a whole due to their strategic, financial or reputational implications.

The Company's schedule of matters reserved for the Board includes the following matters:

- approval and monitoring of the Group's strategic aims and objectives;
- approval of the annual operating and capital expenditure budget;
- changes to the Group's capital structure, the issue of any securities and material borrowing of the Group;
- approval of the annual report and half-year results statement, accounting policies and practices or any matter having a material impact on future financial performance of the Group;
- ensuring a sound system of internal control and risk management;
- approving Board appointments and removals, and approving policies relating to directors' remuneration;
- strategic acquisitions by the Group;
- major disposals of the Group's assets or subsidiaries;
- approval of all circulars, prospectuses and other documents issued to shareholders governed by the Financial Conduct Authority's (FCA) Listing Rules, Disclosure Guidance and Transparency Rules or the City Code on Takeovers and Mergers;
- approval of terms of reference and membership of Board committees;
- considering and, where appropriate, approving directors' conflicts of interest; and
- approval, subject to shareholder approval, of the appointment and remuneration of the auditors.

The schedule of matters reserved to the Board is available on request from the Company Secretary or within the Investors section of the Group's website at [www.puretechhealth.com](http://www.puretechhealth.com).

The Board delegates specific responsibilities to certain committees that assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management. The three principal Board committees (Audit, Remuneration and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference which set out the specific matters for which delegated authority has been given by the Board. The terms of reference for each of the committees are fully compliant with the provisions of the Governance Code. All of these are available on request from the Company Secretary or within the Investors section of the Group's website at [www.puretechhealth.com](http://www.puretechhealth.com).

### Board size and composition

As at 31 December 2017 and up to the date of approval of this Annual Report, there were nine Directors on the Board: the Non-Executive Chairman, two Executive Directors and six Non-Executive Directors. The biographies of these Directors are provided on pages 46 to 50. There were no changes to the composition of the Board during 2017.

The Company's policy relating to the terms of appointment and the remuneration of both Executive and Non-Executive Directors is detailed in the Directors' Remuneration Report on pages 67 to 79.

The size and composition of the Board is regularly reviewed by the Nomination Committee to ensure there is an appropriate and diverse mix of skills and experience on the Board.

The Board may appoint any person to serve as a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the following AGM and then shall be eligible for election by the shareholders. In accordance with the Governance Code, all of the Directors will be offering themselves for election at the AGM to be held on 18 May 2018, full details of which are set out in the notice of meeting accompanying this Annual Report.

#### Non-Executive Directors

The Company's Non-Executive Directors are Mr Joichi Ito (Chairman), Dr Raju Kucherlapati, Dr John LaMattina, Dr Robert Langer, Dame Marjorie Scardino, Dr Bennett Shapiro, and Mr Christopher Viehbacher. The Non-Executive Directors provide a wide range of skills and experience to the Group. Each Non-Executive Director has significant senior level experience as well as an extensive network in each of their own fields, an innovative mindset and independent judgement on issues of strategy, performance and risk, and is well placed to constructively challenge and scrutinise the performance of management. In addition, each Non-Executive Director also serves as a member of one or more boards of directors of the Group's businesses and are key drivers for the Group's concept stage initiatives.

#### Senior Independent Director

The Company's Senior Independent Director is Dame Marjorie Scardino. A key responsibility of the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive Officer. In addition, the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman where necessary. Further, the Senior Independent Director will lead the Board in its deliberations on any matters on which the Chairman is conflicted.

#### The roles of Chairman and Chief Executive Officer

The Company's Chairman is Mr Joichi Ito. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for the leadership and conduct of the Board and for ensuring effective communication with shareholders.

The Chairman facilitates the full and effective contribution of Non-Executive Directors at Board and Committee meetings, ensures that they are kept well informed and ensures a constructive relationship between the Executive Directors and Non-Executive Directors. The Chairman also ensures that the Board committees carry out their duties, including reporting back to the Board either orally or in writing following their meetings at the next Board meeting.

The role of the Chief Executive Officer, Ms Daphne Zohar, is to lead the execution of the Company's strategy and the executive management of the Group. She is responsible, amongst other things, for the development and implementation of strategy and processes which enable the Group to meet the requirements of shareholders, for delivering the operating plans and budgets for the Group's businesses, for monitoring business performance against key performance indicators (KPIs) and reporting on these to the Board and for providing the appropriate environment to recruit, engage, retain and develop the high quality personnel needed to deliver the Group's strategy.

#### Independence

The U.K. Corporate Governance Code requires that at least 50 per cent of the Board of a U.K. premium listed company, excluding the Chairman, consists of Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement. The Board regards Dr Kucherlapati, Dr LaMattina, Dame Marjorie Scardino and Mr Viehbacher as Independent Non-Executive Directors for the purposes of the U.K. Corporate Governance Code. In reaching this determination, the Board duly considered (i) their

directorships and links with other Directors through their involvement in other subsidiary companies; and (ii) their equity interests in PureTech and/or the subsidiary companies. The Board is satisfied that the judgement, experience and challenging approach adopted by each of these Directors should ensure that they each make a significant contribution to the work of the Board and its committees. Therefore, the Board has determined that Dr Kucherlapati, Dr LaMattina, Dame Marjorie Scardino and Mr Viehbacher are of independent character and judgement, notwithstanding the circumstances described at (i) and (ii) above. Accordingly, 50 per cent of the Company's Board, excluding the Chairman, consists of Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement.

The Governance Code also requires that, on appointment, the Chairman meets the independence criteria set out in the Governance Code. The Board considers Mr Ito to have been independent in character and judgement on his appointment as Chairman.

#### Board support, indemnity and insurance

The Company Secretary, Stephen Muniz, is responsible to the Board for ensuring Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance and relevant regulatory matters. All Directors have access to the impartial advice and services of the Company Secretary. There is also an agreed procedure for Directors to take independent professional advice at the Company's expense. In accordance with the Company's Articles of Association and a contractual Deed of Indemnity, the Directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred to third parties as a result of their office. The indemnity would not provide any coverage where a director is proved to

have acted fraudulently or with wilful misconduct. The Company has also arranged appropriate insurance cover in respect of legal action against its Directors and officers.

#### Board meetings and decisions

The Board meets regularly during the year, as well as on an ad hoc basis as required by business need. The Board had six scheduled meetings in 2017, and details on attendance are set forth in the table below:

Director	Number of Board Meetings Attended
Daphne Zohar	6/6
Joichi Ito	5/6
Raju Kucherlapati	5/6
John LaMattina	6/6
Robert Langer	6/6
Marjorie Scardino	5/6
Bennett Shapiro	6/6
Christopher Viehbacher	5/6
Stephen Muniz	6/6

At each meeting of the Board, there was a closed session held in which only the Chairman and the Non-Executive Directors participated.

The schedule of Board and Committee meetings each year is, so far as is possible, determined before the commencement of that year and all Directors or, if applicable, all Committee members, are expected to attend each meeting.

Supplementary meetings of the Board and/or the Committees are held as and when necessary. Each member of the Board receives in advance of each scheduled meeting detailed Board packages, which include an agenda based upon matters to be addressed and appropriate presentation and background materials. If a Director is unable to attend a meeting due to exceptional circumstances, he or she will nonetheless receive the meeting materials and discuss the materials with the Chief Executive Officer.

The Chairman, Chief Executive Officer and senior management team work together to ensure that the Directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes quarterly

management accounts containing analysis of performance against budget as well as a summary of the operational performance of each of the Group's businesses against its goals. Additional information is provided as appropriate for the topics being addressed at the meeting. At each meeting, the Board receives presentations from the Chief Executive Officer and, by invitation, other members of senior management as required. This ensures that all Directors are in a position to monitor effectively the overall performance of the Group, and to contribute to the development and implementation of its strategy.

The majority of Board meetings are held at the Group's offices in Boston, Massachusetts, U.S., which gives members of the Company's senior management team, as well as the senior management of the programme companies, the opportunity to formally present to the Board on new technology development and business strategies.

Each Director also serves on the boards of directors of the Group's subsidiary programme companies. These programme company boards of directors meet regularly during the year, as well as on an ad hoc basis as required by business need. This service enables the Directors to have deep understanding of the businesses and contribute significantly to the strategy and oversight of these businesses.

#### Directors' conflicts of interest

Each Director has a statutory duty under the Companies Act 2006 (the CA 2006) to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty is in addition to the continuing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she is interested. The Company's Articles of Association permit the Board to authorise conflicts or potential conflicts of interest. The Board has established procedures for managing and, where appropriate, authorising any such conflicts or potential conflicts of interest. In deciding whether to authorise any conflict, the Directors must have regard to their general duties under the CA 2006 and their

overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the Directors are able to impose limits or conditions when giving authorisation to a conflict or potential conflict of interest if they think this is appropriate. The authorisation of any conflict matter, and the terms of any authorisation, may be reviewed by the Board at any time. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

#### Induction, awareness and development

In preparation for listing, all Directors received an induction briefing from the Company's legal advisors on their duties and responsibilities as Directors of a publicly quoted company. The Directors also received presentations from the Company's corporate brokers prior to the Company's initial public offering. In addition, in order to ensure that the Directors continue to further their understanding of the challenges facing the Group's subsidiary programme companies, the Board periodically receives the presentations and reports covering the business and operations of each of the Group's subsidiary programmes.

#### Board effectiveness and performance evaluation

The Board periodically reviews its effectiveness and performance. The Board will seek the assistance of an independent third party provider at least once every three years in its evaluation in compliance with the Code, and will otherwise carry out an internally facilitated Board evaluation led by the Senior Independent Director, assisted by the Company Secretary, and covering the effectiveness of the Board as a whole, its individual Directors and its Committees. This review will include each of the Board and Committee members completing a detailed and tailored survey and one-to-one discussions between the Senior Independent Director and each of the individual Directors. A summary of the results of the review, together with the Senior Independent Director observations and recommendations, will be prepared and shared with members of the Board. In addition to the above, the Non-Executive Directors, led by



the Senior Independent Director, will appraise the Chairman's performance, following which the Senior Independent Director will provide feedback to the Chairman. The performance of each of the Directors on the Board will be reviewed by the Chairman as deemed necessary. The performance of Executive Directors will be reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review.

#### Committees of the Board

The Board has three committees: the Nomination Committee, the Audit Committee and the Remuneration Committee. The composition of the three committees of the Board and the attendance of the members throughout the year is set out in the respective committee reports contained in this Annual Report. The terms of reference of each committee are available on request from the Company Secretary and within the Investors section of the Group's website at [www.puretechhealth.com](http://www.puretechhealth.com).

#### Internal Control

The Board fully recognises the importance of the guidance contained in the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Group's internal controls were in place during the whole of 2017, were reviewed by the Audit Committee of the Board of Directors and were considered to be effective throughout the year ended 31 December 2017.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group; however, it recognises that such systems are designed to manage rather than eliminate risk of failure and can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date these financial statements were approved, are as follows:

#### Control environment and procedures

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are communicated clearly throughout the whole organisation. Detailed written policies and procedures have been established covering key operating and compliance risk areas. These policies and procedures are reviewed and the effectiveness of the systems of internal control is assessed periodically by the Board.

#### Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business, and ensures that appropriate controls and procedures are in place to manage these risks. The Board obtains an update regarding all programme companies on a regular basis, and reviews the performance of the Group and its programme companies on a quarterly basis, although performance of business units may be reviewed more frequently if deemed appropriate.

The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 36 to 38.

#### Information and financial reporting systems

The Group evaluates and manages significant risks associated with the process for preparing consolidated accounts by having in place systems and controls that ensure adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS. The Board approves the annual operating budgets and regularly receives details of actual performance measured against the budget.

#### Principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are formally reviewed by the Board at least annually and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. A summary of the key risks affecting the Group and the steps taken to manage these risks is set out on pages 36 to 38.

#### Relations with stakeholders

The Company is committed to a continuous dialogue with shareholders as it believes that this is essential to ensure a greater understanding of and confidence amongst its shareholders in the medium and longer term strategy of the Group and in the Board's ability to oversee its implementation. It is the responsibility of the Board as a whole to ensure that a satisfactory dialogue takes place.

The Board's primary shareholder contact is through the Chief Executive Officer. The Chairman, the Senior Independent Director and other Directors, as appropriate, make themselves available for contact with major shareholders and other stakeholders in order to understand their issues and concerns.

The Company plans to use the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 3.00 pm on 18 May 2018 at DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE, is enclosed with this report. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Governance Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against or to withhold their vote on each resolution. In addition, to encourage shareholders to participate in the AGM process, the Company proposes to offer electronic proxy voting through the Registrar's website and through the CREST service. The results of all proxy voting will be published on the Group's website after the AGM. Shareholders who attend the AGM will have the opportunity to ask questions.

The Group's website at [www.puretechhealth.com](http://www.puretechhealth.com) is the primary source of information on the Group. The website includes an overview of the activities of the Group, details of its businesses, and details of all recent Group announcements.

#### Political expenditure

It is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy.

## Corporate and Social Responsibility

#### Policy statement

PureTech aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders.

The Group is committed to growing the business while ensuring a safe environment for employees as well as minimising the overall impact on the environment.

PureTech endeavours to conduct its business in accordance with established best practice, to be a responsible employer and to adopt values and standards designed to help guide staff in their conduct and business relationships.

#### Our business ethics and social responsibility

PureTech seeks to conduct all of its operating and business activities in an honest, ethical and socially responsible manner. The Group is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates, and ensuring its directors and staff have due regard to the interest of all of its stakeholders including its shareholders, its employees, its partners, the government and the wider patient community.

The Group takes a zero tolerance approach to bribery and corruption and implements and enforces effective systems to counter bribery. The Group is bound by the laws of the U.K., including the Bribery Act 2010, and has implemented policies and procedures based on such laws.

The Group's management and employees are fundamental to its success and as a result the Group is committed to encouraging their ongoing development with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coaches and mentors.

#### Greenhouse gas emissions

Given the overall size of the Group, we consider the direct environmental impact of the Group as relatively low. However, we firmly recognise our responsibility to ensure that our business operates in an environmentally responsible and sustainable manner. The Group complies with all current regulations on emissions, including greenhouse gas (GHG) emissions, where such regulation exists in our markets.

Though the Group's day-to-day operational activities have a relatively limited impact on the environment, the Company does recognise that the more significant impact occurs indirectly through the nature and operations of its programme companies.

The Group therefore considers it important that its programme companies also comply with existing applicable environmental, ethical and social legislation. These programmes should also demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these programmes can operate to specific industry standards, striving for best practice.

For the 2017 year, we have included our voluntary reporting of GHG emissions, as well as wider details on the Group's environmental impact. The reporting period is the same as the Group's financial year.

#### Organisation boundary and scope of emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including sources from those of our subsidiaries which are included in the Group's Consolidated Financial Statements.

An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1, 2 and 3 emissions for which the Group is responsible.

#### Methodology

For the Group's reporting, the Group has employed the services of a specialist adviser, Verco, to quantify and verify the GHG emissions associated with the Group's operations.

The following methodology was applied by Verco in the preparation and presentation of this data:

- the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the WBCSD/WRI GHG Protocol);
- application of appropriate emission factors to the Group's activities to calculate GHG emissions;
- implementation of the new scope 2 reporting methods – application of location-based and market-based emission factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO<sub>2</sub>e; and
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents).

**Absolute Emissions**

The total Scope 1, 2 and 3 GHG emissions from the Group's operations in the year ending 31 December 2017 were:

- 1,035.8 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) using a 'location-based' emission factor methodology for Scope 2 emissions;
- 1,036.0 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) using a 'market-based' emission factor methodology for Scope 2 emissions.

This is the second year of reporting for the Group so we can now show a comparison between FY2017 and FY2016. The Group's total employee number has increased considerably between years.

Overall, there has been an increase in total emissions. There have been increases across all three scopes.

Scope 2 emissions have doubled due to an increase in consumption. Scope 3 emissions have also increased due to more business travel and commuting.

**Intensity Ratio**

As well as reporting the absolute emissions, the Group's GHG emissions are reported below on the metrics of tonnes of CO<sub>2</sub> equivalent per employee and tonnes of CO<sub>2</sub> equivalent per square metre of the occupied areas. These are the most appropriate metrics given that the majority of emissions result from the operation of the Group's offices and the day-to-day activities of the employees.

For 2017, the intensity metrics have increased from 0.05 tCO<sub>2</sub>e per m<sup>2</sup> to 0.11 tCO<sub>2</sub>e per m<sup>2</sup> using the location-based method and increased from 0.06 tCO<sub>2</sub>e per m<sup>2</sup> to 0.11 tCO<sub>2</sub>e per m<sup>2</sup> using the market-based method.

The employee number metrics have increased from 1.19 tCO<sub>2</sub>e per FTE to 1.58 tCO<sub>2</sub>e per FTE using the location-based method and increased from 1.39 tCO<sub>2</sub>e per FTE to 1.58 tCO<sub>2</sub>e per FTE using the market-based method. These metrics have increased due to higher electricity and gas consumptions at the premises.

**Target and Baselines**

Given the comparatively low GHG impact of the Group's operations, the Group's objective is to maintain or reduce its GHG emissions per employee and per square metre of office space each year and will report each year whether it has been successful in this regard.

**Key figures**

Breakdown of emissions by scope

**Tonnes of CO<sub>2</sub>e**

**2017 (location-based)**



**2017 (market-based)**



● Scope 1 ● Scope 2 ● Scope 3

**GHG emissions**

	2017			2016		
	Tonnes CO <sub>2</sub> e	Tonnes CO <sub>2</sub> e per m <sup>2</sup>	Tonnes CO <sub>2</sub> e per FTE	Tonnes CO <sub>2</sub> e	Tonnes CO <sub>2</sub> e per m <sup>2</sup>	Tonnes CO <sub>2</sub> e per FTE
Scope 1 <sup>1</sup>	110.7	0.05	0.76	24.4	0.01	0.29
Scope 2 <sup>2</sup>	120.1	0.06	0.82	75.8	0.04	0.90
Scope 2 <sup>3</sup>	120.2	0.06	0.82	92.1	0.04	1.10
Subtotal (location-based)	230.8	0.11	1.58	100.2	0.05	1.19
Subtotal (market-based)	231.0	0.11	1.58	116.5	0.06	1.39
Scope 3 <sup>4</sup>	805.0	–	–	505.7	–	–
Scope 3 <sup>5</sup>	805.1	–	–	509.2	–	–
<b>Total GHG emissions (Location-based Scope 2)</b>	<b>1,035.8</b>	–	–	605.9	–	–
<b>Total GHG emissions (Market-based Scope 2)</b>	<b>1,036.0</b>	–	–	625.7	–	–

- 1 Scope 1 being emissions from the Group's combustion of fuel and operation of facilities.
- 2 Scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use.
- 3 Scope 2 being electricity (from market-based calculations), heat, steam and cooling purchased for the Group's own use.
- 4 Scope 3 being all indirect emissions (not in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (location-based).
- 5 Scope 3 being all indirect emissions (not in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (market-based). 2017 (146 employees & 2,085.49 m<sup>2</sup> office space).

**Employee diversity, employment policies and human rights**

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. The Group's policy is one of equal opportunity in the selection, training,

career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise. The Group, including programme companies, has 145 full-time employees (as at 31 December 2017). A breakdown of staff by gender can be seen in the illustrations below.

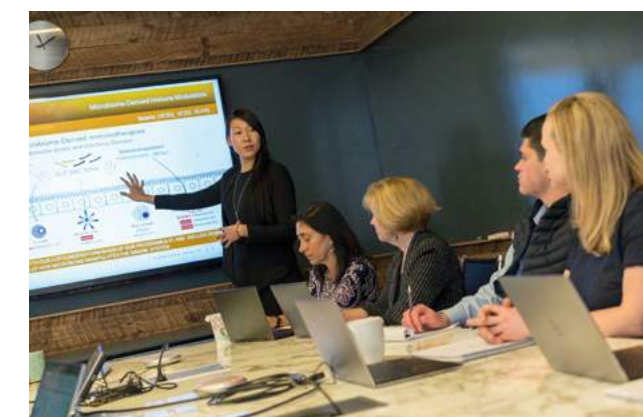
The Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and ensures that all transactions the Group enters into uphold these principles.

**Breakdown of staff by gender**

The following is a breakdown of the Company's staff by gender as of 31 December 2017.<sup>1</sup>

	Female	Male
Director		
Staff	7 (54%)	6 (46%)
Senior Management	5 (31%)	11 (69%)
Board of Directors	2 (22%)	7 (78%)

<sup>1</sup> Does not include employees of programme companies. The Group, including programme companies, has 145 full-time employees (as at 31 December 2017).





The Directors present their report and the audited consolidated financial statements for the financial year ended 31 December 2017.

Certain disclosure requirements for inclusion in this report have been incorporated by way of cross reference to the Strategy report and the Directors' Remuneration Report, which should be read in conjunction with this report.

The Company was incorporated on 8 May 2015 as a public company limited by shares in the U.K. with its registered office situated at 5th Floor, 6 St Andrew Street, London, EC4A 3AE, United Kingdom. The Company was admitted to the premium listing segment of the Official List of the U.K. Listing Authority and to trading on the main market of the London Stock Exchange on 24 June 2015.

## Directors

The membership of the Board can be found below and biographical details of the directors can be found on pages 46 to 50 and are deemed to be incorporated into this report. Descriptions of the terms of the service contracts of the directors is set forth on page 77 of this report.

All directors shall retire from office and will offer themselves for reappointment by the members at the Company's upcoming Annual General Meeting (AGM).

Details of the interests of directors in the share capital of the Company as of

31 December 2017 are set out in the Directors' Remuneration Report on page 77 and note 24 to the financial statements, page 128. There have been no changes in such interests from 31 December 2017 to 10 April 2018, other than Bharatt Chowwira's purchase of 30,000 shares, John LaMattina's purchase of 43,000 shares, and Robert Langer's purchase of 4,300 shares, each of which were made on the open market.

## Results and dividends

The Group generated a loss for the year ended 31 December 2017 of \$70.7 million (2016 \$81.6 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2017.

## Share capital

As at 31 December 2017, the ordinary issued share capital of the Company stood at 237,429,696 shares of £0.01 each. Details on share capital are set out in note 14 to the financial statements, page 115.

The share capital of the Company increased by 45,000,000 ordinary shares on 4 April 2018 as a result of the placing of new shares with new and existing institutional investors as announced on 12 March 2018. Immediately following the admission of such shares on 4 April 2018, the ordinary issued share capital of the Company stood at 282,429,696 shares of £0.01 each.

The Company's issued ordinary share capital comprises a single class of ordinary shares. Details on movements in issued share capital can be found in note 14 to the financial statements, page 115.

Pursuant to the Articles of Association and vote of Shareholders at the 2017 AGM, the Company was granted authority to allot shares for cash, without regard to the pre-emption provisions of the Companies Act 2006, both: (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 28 March 2017 in connection with a fully pre-emptive rights issue; and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 28 March 2017. The Company was further authorised at the 2017 AGM to allot shares for cash, without regard to the pre-emption provisions of the Companies Act 2006, up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 28 March 2017, to be used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Pre-emption Group's Statement of Principles. These authorities are exercisable at any time up to the earlier of the conclusion of the next AGM of the Company and 8 August 2018. None of these authorities were used during 2017. At the general meeting

of shareholders of the Company which took place on 3 April 2018, the Company was granted authority to allot shares for cash up to a maximum nominal amount of £450,000, without regard to the pre-emption provisions of the Companies Act 2006, pursuant to the placing of shares announced on 12 March 2018. This nominal amount represented approximately 19% of the issued share capital of the Company as at 12 March 2018 and was utilised in full by the Company upon completion of the placing.

## Rights of ordinary shares

All of the Company's issued ordinary shares are fully paid up and rank pari passu in all respects and there are no special rights with regard to control of the Company. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, which are governed by the Articles of Association and relevant U.K. legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or in voting rights.

## Substantial shareholders

As at 10 April 2018, the Company had been advised that the shareholders listed below hold interests of 3 per cent or more in its ordinary share capital (other than interests of the Directors which are detailed on page 77 of the Directors' Remuneration Report). Other than as shown, so far as the Company (and its Directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

## Relationship Agreement

In accordance with Listing Rule 9.8.4(14)R, the Company has set out below a statement describing the relationship agreement entered into by the Company with its principal shareholder.

On 18 June 2015, the Company entered into a Relationship Agreement with Invesco Asset Management Limited, which came into force at the Company's IPO. The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of Invesco.

If any person acquires control of the Company or the Company ceases to be admitted to the Official List, the Relationship Agreement may be terminated by Invesco. If Invesco (together with its associates) ceases to hold 30 per cent or more of the voting rights over the Company's shares, the Relationship Agreement shall terminate save for certain specified provisions.

The Relationship Agreement provides that Invesco undertakes to use all reasonable endeavours to procure that its associates and any person with whom it is acting in concert shall:

- conduct all agreements, arrangements, transactions and relationships with any member of the Group on an arm's length basis and on a normal commercial basis and in accordance with the related party transaction requirements of Chapter 11 of the Listing Rules;
- not take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules or precluding or inhibiting any member of the Group from carrying on its business independently of Invesco, its associates and any person with whom it is acting in concert;

- not propose or procure the proposal of a shareholder resolution which is intended to, or appears to be intended to, circumvent the proper application of the Listing Rules; and
- not exercise any of its voting rights attaching to the shares held by it to procure any amendment to the Articles of Association of the Company which would be inconsistent with, undermine or breach any of the provisions of the Relationship Agreement.

The Directors believe that the terms of the Relationship Agreement enable the Company to carry on its business independently from Invesco and its affiliates, and ensure that all transactions and relationships between the Company and Invesco are, and will be, at arm's length and on a normal commercial basis.

The Company has and, in so far as it is aware, Invesco and its associates have, complied with the independence provisions set out in the Relationship Agreement from the date of the agreement, through the relevant period under review. The ordinary shares owned by Invesco rank pari passu with the other ordinary shares in all respects.

## Powers of the Directors

Subject to the Company's Articles of Association, U.K. legislation and any directions given by special resolution, the business of the Company is managed by the Board of Directors. Details of the matters reserved for the Board can be found in the Corporate Governance Report on page 51.

## Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2018 AGM.

The following have served as Directors of the Company during the 2017 financial year.

Mr Joichi Ito	Non-Executive Chairman
Ms Daphne Zohar	Chief Executive Officer
Dame Marjorie Scardino	Senior Independent Director
Dr Bennett Shapiro	Non-Executive Director
Dr Robert Langer	Non-Executive Director
Dr Raju Kucheralapati	Independent Non-Executive Director
Dr John LaMattina	Independent Non-Executive Director
Mr Christopher Viehbacher	Independent Non-Executive Director
Mr Stephen Muniz	Chief Operating Officer and Company Secretary

Shareholder	%
Invesco Asset Management Limited	31.9%
Lansdowne Partners International Limited	9.7%
Baillie Gifford & Co	7.0%
Jupiter Asset Management Ltd.	5.5%
Recordati SA	3.4%

**Directors' liabilities (directors' indemnities)**

As at the date of this report, the Company has granted qualifying third party indemnities to each of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, directors and officers of the Company and its programme companies have been and continue to be covered by directors' and officers' liability insurance. See further description of indemnity and insurance on pages 52 and 53.

**Political donations**

No political contributions/donations for political purposes were made by the Company or any programme company in the Group to any political party, politician, elected official or candidate for public office during the financial year ended 31 December 2017.

**Charitable Donations**

No charitable contributions/donations for charitable purposes were made by the Company during the financial year ended 31 December 2017.

**Significant agreements**

There are no agreements between the Company or any subsidiary company in the Group and any of its employees or any Director which provide for compensation to be paid to an employee or a Director for loss of office as a consequence of a takeover of the Company.

**Compliance with the UK Corporate Governance Code**

The Directors are committed to a high standard of corporate governance and compliance with the best practice of the UK Corporate Governance Code published in April 2016. The UK Corporate Governance Code is available at the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk).

The Directors consider that the Company has, throughout the year ended 31 December 2017, applied the main principles and complied with the provisions set out in the UK Corporate Governance Code, with the following exception: Code provision E.2.4 – The Company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. Explanation – the 2017 AGM, held on 8 May 2017, was held on 21 clear days' notice rather than the 20 working days required by the UK Corporate Governance Code. This was due to the number of UK bank holidays during the notice period which resulted in the Notice of AGM being sent to shareholders with less than 20 working days' notice. However, the notice period remains in compliance with the statutory requirements of the Companies Act 2006.

Further explanation as to how the provisions set out in the UK Corporate Governance Code have been applied by the Company is provided in this Report, the Nomination Committee Report and the Audit Committee Report.

**Financial instruments**

The financial risk management and internal control processes and policies, and exposure to the risks associated with financial instruments can be found in note 21 to the financial statements, the Corporate Governance section of the Annual Report on pages 65 to 66.

**Sustainable development and environmental matters**

The Corporate and Social Responsibility section of this report focuses on the health and safety, environmental and employment performance of the Company's operations, and outlines the Company's core values and commitment to the principles of sustainable development and development of community relations programmes. Details of the Company's policies and performance, as well as disclosures concerning greenhouse gas emissions, are provided in the Corporate and Social Responsibility section on pages 55 to 57.

**Related party transactions**

Details of related party transactions can be found in note 24 of the financial statements on pages 127 to 128.

**Issuances of equity by major subsidiary undertaking**

In January 2017, Vedanta closed the second tranche of its Series B Preferred Stock financing for \$24.9 million with \$9.9 million from outside investors including Rock Springs Capital, Health for Life Capital (Seventure) and Invesco Asset Management Limited. Invesco Asset Management Limited is a substantial shareholder of PureTech Health.

Between March and October 2017, resTORbio received \$25.0 million of private equity financing of which PureTech invested \$19.0 million and the remainder contributed by OrbiMed Advisors. In November 2017, resTORbio received \$40.0 million of private equity financing from outside investors including OrbiMed Advisors, Fidelity Management and Research Company, Rock Springs Capital, Quan Capital and Nest Bio. Upon closing of resTORbio's November financing, the subsidiary was deconsolidated from PureTech. Further details can be found in note 5 to the financial statements, page 107.

In December 2017, Entrega closed a Series A-2 Preferred Stock financing in which Eli Lilly invested \$2.0 million in conjunction with its entry into a Research Collaboration Agreement with Entrega, pursuant to which Eli Lilly will contribute a total of \$3.0 million to Entrega through 2020.

**Future business developments**

Information on the Company and its programme companies' future developments can be found in the Strategic Report on pages 6 to 35.

**Risk and internal controls**

The principal risks the Group faces are set out on pages 36 to 38. The Audit Committee's assessment of internal controls are laid out on page 66.

**Subsequent Events**

On 31 January 2018, resTORbio, Inc., an affiliate of PureTech, announced the closing of its initial public offering of 6,516,667 shares of common stock at a public offering price of \$15.00 per share, which included the exercise in full by the underwriters of their option to purchase up to 850,000 additional shares. The gross proceeds from the offering were \$97.8 million, before deducting underwriting discounts and commissions and estimated offering expenses. The shares commenced trading on the Nasdaq Global Select Market on 26 January 2018 under the ticker symbol TORC.

On 18 February 2018, The Sync Project was acquired by Bose Corporation as part of a strategic decision to move that technology to a more consumer-facing path.

On 1 March 2018, Gelesis, an affiliate of PureTech, successfully completed a \$30.0 million financing round from existing investors, including \$5.0 million from PureTech. Proceeds of the financing will be used to support commercial-stage manufacturing, product launch preparations, company operations, and the clinical advancement of the Gelesis pipeline of additional product candidates for gastrointestinal disorders.

On 3 April 2018, PureTech received shareholder approval to issue 45,000,000 shares at a purchase price of 160 pence. As a result of this offering, the Group received gross proceeds of approximately \$100.0 million based on the exchange rate at the time of the pricing of the transaction.

**Research and Development**

Information on the Group's research and development activities can be found in the Strategic Report on pages 6 to 35.

**Going concern**

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence through the period ending 31 December 2020. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Annual General Meeting**

The AGM will be held on 3.00 pm on 18 May 2018 at DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE.

The Notice of the Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 16 April 2018.



### Pension schemes

Information on the Company's 401K Plan can be found in the Annual Report on Remuneration on page 73.

### Disclosure of information under Listing Rule 9.8.4R

For the purposes of LR 9.8.4R, the information required to be disclosed can be found in the sections of the Annual Report and Financial Statements listed in the table below.

Listing Rule Requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under reviews and details of any related tax relief.	N/A
Information required in relation to the publication of unaudited financial information.	N/A
Details of any long term incentive schemes.	Directors' Remuneration Report, page 73
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	N/A
Details of any non-pre-emptive issues of equity for cash.	N/A
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	N/A
Details of parent participation in a placing by a listed subsidiary.	N/A
Details of any contract of significance in which a Director is or was materially interested.	N/A
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Invesco Asset Management Relationship Agreement, page 59
Details of any provision of services by a controlling shareholder.	N/A
Details of waiver of dividends or future dividends by a shareholder.	N/A
Where a shareholder has agreed to waive dividends, details of such waiver, together with those relating to dividends which are payable during the period under review.	N/A
Board statements in respect of relationship agreement with the controlling shareholder.	Invesco Asset Management Relationship Agreement, page 59

### Whistleblowing, anti-bribery and corruption

The Group seeks at all times to conduct its business with the highest standards of integrity and honesty. The Group also has an anti-bribery and corruption policy which prohibits the Group's employees from engaging in bribery or any other form of corruption. In addition, the Group has a whistleblowing policy under which staff are encouraged to report to the Chief Executive Officer or the Chief Operating Officer any alleged wrongdoing, breach of legal obligation or improper conduct by or on the part of the Group or any officers, Directors, employees, consultants or advisors of the Group.

### Appointment of auditor

KPMG LLP, the external Auditor of the Company, was appointed in 2015 and a resolution proposing their reappointment will be proposed at the forthcoming AGM.

### Disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the CA 2006.

### Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International

Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

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

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

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

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

### Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy

By Order of the Board



Stephen Muniz  
Company Secretary  
16 April 2018

## Report of the Nomination Committee



**Marjorie Scardino**  
Chairman,  
Nomination  
Committee

### Committee responsibilities

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or Committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board, retirements and appointments of additional and replacement Directors and Committee members, and makes appropriate recommendations to the Board on such matters. A full copy of the Committee's Terms of Reference is available on request from the Company Secretary and within the Investor's section on Company's website at [www.puretechhealth.com](http://www.puretechhealth.com).

### Committee membership

The Nomination Committee was chaired by Dr Robert Langer during all of 2017 and its other members were Mr Joichi Ito and Dr Bennett Shapiro in compliance with the Code. On 7 February 2018, the Board of Directors changed the composition of the Nomination Committee, making Marjorie Scardino the Chairman and

designating Dr Langer and Mr Ito as its other members. Dr Shapiro stepped off of the Nomination Committee as of such date. The biographies of the Committee members can be found on pages 46 to 47.

The U.K. Corporate Governance Code (the Governance Code) requires that a majority of the members of a nomination committee should be independent Non-Executive Directors. In making their determination for the year 2017, the Board regarded Dr Langer and Dr Shapiro as meeting the independence criteria set out in the Governance Code as it is applied to their service on the Nomination Committee. In reaching this determination for Dr Langer and Dr Shapiro, the Board duly considered (i) their directorships and links with other Directors through their involvement in other subsidiary programmes; (ii) their equity interests in PureTech Health and/or the subsidiary programmes; and (iii) the circumstance that each of them were founding Directors of the Company. The Board also duly considered the extent to which these matters may impact their service on the Nomination Committee. After such consideration, the Board has determined Dr Langer and Dr Shapiro to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement in their service on the Nomination Committee. In making this determination for the period following 7 February 2018, the Board regards Dame Marjorie Scardino and Dr Langer as meeting the independence criteria set out in the Governance Code as it is applied to their service on the Nomination Committee.

The Committee meets as required to initiate the selection process of, and make recommendations to, the Board with regard to the appointment of new Directors. During 2017, the Nomination Committee met one time to review the structure, size and composition of the Board in light of the requirements of the Governance Code. Dr Langer, Mr Ito and Dr Shapiro participated in that meeting. The Chief Executive Officer and the Chief Operating Officer were invited to and attended the meeting.

### Diversity policy

Diversity within the Company's Board is essential in maximising its effectiveness, as it enriches debates, business planning and problem solving. The Company approaches diversity in its widest sense so as to recruit the best talent available, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. The Committee's primary objective is to ensure that the Company maintains the strongest possible leadership.

There are currently two women on the Company's Board.

### Board and Committee evaluation

Information regarding the evaluation of the Board and its Committees can be found on pages 53 to 54.

### Action plan for next year

In the year ahead, the Nomination Committee will continue to assess the Board's composition and how it may be enhanced.

## Report of the Audit Committee



**Mr Christopher Viehbacher**  
Chairman, Audit  
Committee

### Committee responsibilities

The Audit Committee monitors the integrity of the financial statements of the Group, and reviews all proposed annual and half-yearly results announcements to be made by the Group with consideration being given to any significant financial reporting judgements contained in them. The Committee also advises the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee also considers internal controls, compliance with legal requirements, the FCA's Listing Rules, Disclosure Guidance and Transparency Rules, and reviews any recommendations from the Group's Auditor regarding improvements to internal controls and the adequacy of resources within the Group's finance function. A full copy of the Committee's Terms of Reference is available on request from the Company Secretary and within the Investor's section on the Company's website at [www.puretechhealth.com](http://www.puretechhealth.com).

### Committee membership

The Committee consists of three independent Non-Executive Directors, Mr Christopher Viehbacher, Dr Raju Kucherlapati and Dame Marjorie Scardino, with Mr Viehbacher as Chair. Mr Viehbacher has experience as a Chartered Accountant and has held numerous senior executive positions in his career. The Board has deemed this to be recent and relevant financial experience qualifying him to be Chairman of the Committee. The biographies of the Committee members can be found on pages 46 to 48. The Committee met four times during the year, with Mr Viehbacher and Dr Kucherlapati attending all four meetings and Dame Marjorie Scardino attended three of the four meetings. The Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the external Auditor were invited to and attended all of the meetings. When appropriate, the Committee met with the Auditor without any members of the executive management team being present.

### Activities during the year

The activities undertaken by the Committee were the normal recurring items, the most important of which are noted below.

### Significant issues considered in relation to the financial statements

The Committee considered, in conjunction with management and the external auditor, the significant areas of estimation, judgment and possible error in preparing the financial statements and disclosures, discussed how these were addressed and approved the conclusions of this work. The principal areas of focus in this regard were:

#### Carrying amount of parent's investment in subsidiaries and related party receivables

The significant issue is the recoverability of the investment by the Company, due to its materiality in the context of the total assets of the Company. The carrying value of investments in subsidiaries and related party receivables is supported by the market capitalisation of the Group. Therefore, there is no evidence of impairment. The Committee was satisfied with the conclusion reached.

#### Valuation of warrants, derivatives and other financial instruments measured at fair value through profit/loss

An area of material judgement in the Group's financial statements and, therefore, audit risk relates to the valuation of the warrants, derivatives and other financial instruments measured at fair value through profit/loss which at year end had a carrying value totalling \$129.4 million (2016 – \$86.2 million). The Group considered the underlying economics of the valuations of the affiliates, as well as sought external expertise in determining the appropriate valuation of the liabilities. These valuations rely, in large part, on the valuation of the Group programmes and determine the amount of gain (loss) on the derivative liabilities.

#### Financial instrument classification and determination of embedded derivatives

As part of the Group's strategy to finance the programme companies, it creates financial instruments commensurate with the economics of each transaction. Often these arrangements contain terms that can make it difficult to determine whether the financial instrument should be classified as debt or equity on the Group's statement of financial position. The Group considered the pertinent

terms and underlying economics of the valuations of the financial instruments and sought external expertise as well and has appropriately classified them as debt or equity. The Committee believes that the Group considered the pertinent terms and underlying economics of each of the financial instruments (and sought external expertise as well) and has appropriately classified them as debt or equity.

### Regulatory compliance

Ensuring compliance for FCA regulated businesses also represents an important control risk from the perspective of the Committee. The Group engages with outside counsel and other advisors on a regular basis to ensure compliance with legal requirements.

### Review of Annual Report and Accounts and Half-yearly Report

The Committee carried out a thorough review of the Group's 2017 Annual Report and Accounts and its 2017 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its programme companies during the year.

### Going concern

At least annually, the Committee considers the going concern principle on which the financial statements are prepared. As a business which seeks to establish and fund new programmes, as well as support existing programmes with further capital, the business model is currently inherently cash consuming.

Following the initial public offering which occurred in June 2015, and including funds raised on 4 April 2018, funds raised through equity financings, and receipt of milestone payments since the IPO, the Group has sufficient cash reserves to continue to provide capital to its existing programmes and to create and fund project stage programmes and independent growth stage affiliates through 31 December 2020, assuming broadly our expected level of required funding of the Company's programmes and other operating expenditures.



Therefore, while an inability of the programmes to raise funds through equity financings with outside investors, strategic arrangements, licensing deals or debt facilities may require the Group to modify its level of capital deployment into its programmes or to more actively seek to monetise one or more programmes, it would not threaten the viability of the Group overall.

#### Compliance

The Committee has had a role in supporting the Group's compliance with the Governance Code, which applies to the Group for the 2017 financial year. The Board has included a statement regarding the Group's longer-term viability on page 39. The Committee worked with management and assessed that there is a robust process in place to support the statement made by the Board.

Similarly, the Committee worked with management to ensure that the current processes underpinning its oversight of internal controls provide appropriate support for the Board's statement on the effectiveness of risk management and internal controls.

#### Risk and internal controls

The principal risks the Group faces are set out on pages 36 to 38.

The Committee has directed that management engage in a continuous process to review internal controls around financial reporting and safeguarding of assets. Management has determined areas where controls would need to scale up to meet the increased complexity and growth objectives of the Group, which included more robust budgeting processes and tracking of stock incentive grants. The Committee believes that

the Group has adequate controls and appropriate plans to evolve the control structure in anticipation of increased complexity of the business model and operations.

The Group has a formal whistleblowing policy. The Committee is satisfied that the policy has been designed to encourage staff to report suspected wrongdoing as soon as possible, to provide staff with guidance on how to raise those concerns, and to ensure staff that they should be able to raise genuine concerns without fear of reprisals, even if they turn out to be mistaken.

#### Internal audit

The Group does not maintain a separate internal audit function. This is principally due to the size of the Group where close control over operations is exercised by a small number of executives. In assessing the need for an internal audit function, the Committee considered the risk assessment performed by management to identify key areas of assurance and the whole system of internal financial and operational controls.

#### External audit

The Group has engaged KPMG LLP as its Auditor since 2015. The current audit partner is Charles le Strange Meakin who has been the audit partner of the Group since 2015.

The effectiveness of the external audit process is dependent on appropriate risk identification. In November, the Committee discussed the Auditor's audit plan for 2017. This included a summary of the proposed audit scope and a summary of what the Auditor considered to be the most significant financial reporting risks facing the Group together with the

Auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the carrying value of parent's investment in subsidiaries and related parted receivables, the valuation of warrants, derivatives and other financial instruments measured at fair value through profit/loss, the classification and determination of embedded derivatives as well as their appropriate classification between debt and equity, and ensuring there had been regulatory compliance for those parts of the business covered by FCA regulations.

#### Appointment and independence

The Committee advises the Board on the appointment of the external Auditor and on its remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with the external Auditor. The Committee keeps under review the cost-effectiveness and the independence and objectivity of the external Auditor. Controls in place to ensure this include monitoring the independence and effectiveness of the audit, a policy on the engagement of the external Auditor to supply non-audit services, and a review of the scope of the audit and fee and performance of the external Auditor.

#### Non-audit work

The Committee approves all fees paid to the Auditor for non-audit work. Where appropriate, the Committee sanctions the use of KPMG LLP for non-audit services in accordance with the Group's non-audit services policy. During 2017, KPMG LLP has undertaken non-audit work, including tax return preparation and iXBRL tagging. An analysis of audit and non-audit fees is provided in note 6 to the financial statements on page 108.

## Directors' Remuneration Report for the year ended 31 December 2017



**Dr John LaMattina**  
Chairman,  
Remuneration  
Committee

The Directors' Remuneration Report is split in three sections, namely:

- This Annual Statement: summarising and explaining the major decisions on Directors' remuneration in the year;
- The Directors' Remuneration Policy: setting out the basis of remuneration for the Group's Directors on pages 69 to 72; and
- The Annual Report on Remuneration: setting out the remuneration earned by the Group's Directors in the year ended 31 December 2017, together with how the policy will be implemented in 2018 on pages 73 to 79.

The Company makes the Directors' Remuneration Policy subject to a binding vote of its shareholders every three years (sooner if changes are made to the policy) and the Annual Report on Remuneration subject to an annual advisory vote of its shareholders. The Directors' Remuneration Policy was approved by the Company's shareholders at the Company's 2016 AGM and such approval will be effective until the Company's AGM in 2019. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 18 May 2018.

#### Overview of our remuneration policy

The success of PureTech depends on the motivation and retention of its highly skilled workforce with significant expertise across a range of science and technology disciplines as well as its highly-experienced management team. Therefore PureTech's remuneration policy is an important part of its business strategy. Prior to PureTech's Admission, the Company undertook an independent review of its remuneration policy to ensure that it would strike a balance between market practice in the relevant sector, which is largely U.S. based, and the corporate governance expectations resulting from the Company's U.K. listing. The resulting remuneration policy places a high weighting on long term performance-based remuneration delivered through the Performance Share Plan (PSP), which is in-line with sector peers, and also incorporates U.K. best practice through, for example, the operation of recovery and withholding provisions for variable remuneration, and by not operating time-vesting stock-options and restricted shares for executive directors which are common at our U.S. competitors.

The Committee believes this remuneration policy provides an appropriate framework within which to incentivise and motivate our senior management team.

#### Committee membership

The Remuneration Committee consists of Dr Bennett Shapiro, Dr Raju Kucherlapati and Dr John LaMattina. Dr Shapiro was Chair throughout 2017 and until 7 February 2017 when Dr LaMattina took on the position of Chairman of the Committee. Dr Shapiro and Dr Kucherlapati are continuing to serve as members of the Committee post 7 February 2017. The biographies of the Committee members can be found on pages 46

to 47. The Committee met two times during the year, with Dr Kucherlapati and Dr LaMattina in attendance for all of the meetings and Dr Shapiro in attendance for one of the two meetings. The Committee also acted by unanimous written consent during the year. The Chief Executive Officer and the Chief Operating Officer were invited to and attended all of the meetings. However, no executive was permitted to participate in discussions or decisions about his or her personal remuneration.

#### Performance and reward in 2017

During 2017 PureTech Health continued to deliver strong performance and this has been reflected in the annual bonus outcomes. The value of the Group's programmes increased very significantly from 31 December 2016 to 31 December 2017. This increase is due in large part to (i) the reSTORbio programme launch with an in-license of lead clinical candidates from Novartis, clinical advancement of those candidates, private financings and – post period end – a successful initial public offering, (ii) the positive results from Akili's pivotal clinical trial of its lead product candidate, (iii) the positive results from Gelesis's pivotal clinical trial of its lead product candidate, (iv) the initiation of Vedanta Biosciences' Phase 1a/1b clinical trial for the treatment of recurrent *C. difficile* infection and in-licensing of an immuno-oncology candidate, (v) clinical advancement of the Karuna programme, (vi) Entrega's collaboration with Eli Lilly and Company and (vii) the development of new internally-developed and funded immunology programmes. This increase in value together with management's operational performance at PureTech and at the programme companies, resulted in both Executive Directors satisfying the performance goals set at the beginning of 2017. See highlights of 2017 on page 1.

**The year ahead**

For 2018, the following key decisions have been made in relation to how the policy will be implemented:

- Base salaries will be increased by 2.1 per cent in line with the general workforce.
- The annual bonus target and maximum will remain at 50 per cent and 100 per cent of base salary, respectively.
- Grants of PSP awards in 2018 will be of the same quantum as in 2017. Following a review of the performance condition, the Committee plans to introduce a relative TSR performance metric to the PSP to replace the absolute NAV growth metric used in prior awards. TSR is a good measure of Puretech's performance, and the inclusion of a relative measure will provide an incentive to outperform the market.

Further detail on this change is provided on page 73. The Committee recommends that shareholders vote to approve the Annual Report on Remuneration.

**Objectives of the Remuneration Policy**

In the construction of the Group's senior executive Remuneration Policy in 2016, the Committee paid particular regard to the market practice of U.S. peer companies to ensure that packages are competitive, recognising the predominantly U.S. market in which the Group competes for talent. At the same time the structure of the packages was designed to be in line with U.K. corporate governance best practice.

The key aims of the Remuneration Policy are to:

- promote the long term success of the Group;
- attract, retain and motivate high calibre senior management and focus them on the delivery of the Group's long term strategic and business objectives;
- be simple and understandable, both externally and internally;
- achieve consistency of approach across senior management within the Group to the extent appropriate and informed by relevant market benchmarks; and
- encourage widespread equity ownership across the executive team to ensure a long term focus and alignment of interest with shareholders.

The key components of remuneration, as approved by the Company's shareholders at the Company's 2016 AGM, are set out in the table below. The full policy can be found in the 2016 Annual Report within the Investors section of the Group's website at [www.puretechhealth.com](http://www.puretechhealth.com).

**Consideration of shareholder views**

The Committee will carefully consider shareholder feedback received in relation to the AGM each year. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the annual review of Remuneration Policy. Representatives of the Remuneration Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Remuneration Policy or its implementation. Details of votes cast for and against the resolution to approve the prior year's remuneration report and any matters discussed with shareholders during the year will be set out in the Annual Report on Remuneration.

**Consideration of employment conditions elsewhere in the Group**

To ensure a coherent cascade of the remuneration policy throughout the organisation, no element of remuneration is operated solely for Executive Directors and all elements of remuneration provided to the Executive Directors are generally operated for other employees. In addition, the Committee considers the general base salary increase for the broader employee population when determining the annual salary increases for the Executive Directors. Employees have not been consulted in respect of the design of the Group's senior executive remuneration policy, although the Committee will keep this under review.

# Directors' Remuneration Policy

**Summary of Remuneration Policy**

Element	How component supports corporate strategy	Operation	Maximum	Performance targets and recovery provisions
<b>Base salary</b>	To recognise the market value of the employee and the role.	Normally reviewed annually. Salaries are benchmarked periodically primarily against biotech, pharmaceutical and specialty finance companies listed in the U.S. and U.K. The committee also considers U.K.-listed general industry companies of similar size to PureTech as a secondary point of reference.	There is no prescribed maximum base salary or annual salary increase.  The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take account relevant market movements.  Current salary levels are set out in the Annual Report on Remuneration.	Not applicable.
<b>Pension</b>	To provide a market competitive level of contribution to pension.	The company operates a 401k Plan for its U.S. Executive Directors.	Under the 401k Plan, Company contributions are capped at the lower of 3 per cent of base salary or the maximum permitted by the U.S. IRS (\$8,250 for 2018).	Not applicable.
<b>Benefits</b>	To provide a market competitive level of benefits.	Includes: private medical and dental cover, disability, life insurance.	Cost paid by the company.	Not applicable.
<b>Annual Bonus Plan (ABP)</b>	To drive and reward annual performance of individuals, teams and the Group.	Based on performance during the relevant financial year. Paid in cash.	Up to 100 per cent of base salary.	Performance period: Normally one year.  Payments are normally based on a scorecard of strategic and/or financial measures.  Up to 50 per cent of base salary normally payable for the achievement of 'target' performance and 100 per cent of base salary payable for the achievement of stretch performance.  Recovery and withholding provisions are in place.
<b>Long term incentives</b>	To drive and reward sustained performance of the Group and to align the interests with those of shareholders.	The Company can make long term incentive awards with the following features: <ul style="list-style-type: none"> <li>• performance shares.</li> <li>• vesting is dependent on the satisfaction of performance targets and continued service.</li> <li>• performance and vesting periods are normally three years.</li> </ul>	400 per cent of salary.  (500 per cent of salary exceptional limit).  Participants may benefit from the value of dividends paid over the vesting period to the extent that awards vest. This benefit is delivered in the form of cash or additional shares at the time that awards vest. Individual award sizes are set out in the Annual Report on Remuneration.	Performance period: Normally three years.  Up to 25 per cent of an award vests at threshold performance (0 per cent vests below this), increasing to 100 per cent pro-rata for maximum performance.  Normally, at least half of any award will be measured against TSR targets with the remainder measured against relevant financial or strategic measures.  Recovery and withholding provisions are in place.
<b>Share ownership</b>	Further aligns executives with investors, while encouraging employee share ownership.	The Committee requires that Executive Directors who participate in a long term incentive plan operated by the Company retain half of the net shares vesting under any long term incentive plan until a shareholding requirement is met.	Minimum of 200 per cent of base salary.	None.



Element	How component supports corporate strategy	Operation	Maximum	Performance targets and recovery provisions
<b>Non-Executive Directors</b>	To provide fee levels and structure reflecting time commitments and responsibilities of each role, in line with those provided by similarly-sized companies and companies operating in our sector.	<p>Remuneration provided to Non-Executive Directors is operated in line with the terms set out in the Articles of Association.</p> <p>Cash fees, normally paid on a quarterly basis, are comprised of the following elements:</p> <ul style="list-style-type: none"> <li>• Base fee.</li> <li>• Additional fees.</li> </ul> <p>Additional remuneration is payable for additional services to PureTech such as the Chairmanship of a Committee, membership on a Committee, and participation on the board of directors of a subsidiary business. Additional remuneration is also payable for services provided beyond those services traditionally provided as a director.</p> <p>Part of the fee may be payable in Shares or Share awards, but any such award will not be subject to the achievement of performance conditions.</p> <p>Fees are reviewed annually and take into account:</p> <ul style="list-style-type: none"> <li>• the median level of fees for similar positions in the market; and</li> <li>• the time commitment each Non-executive Director makes to the Group.</li> </ul> <p>Taxable benefits may be provided and may be grossed up where appropriate.</p>	Any remuneration provided to a Non-Executive Director will be in line with the limits set out in the Articles of Association.	None.

**Notes:**

- 1 A description of how the Company intends to implement the policy set out in this table is set out in the Annual Report on Remuneration.
- 2 For non-U.S. Executive Directors, the 401k Plan may not be an appropriate pension arrangement. In such cases an alternative pension arrangement may be offered. Any such arrangement would take account of market levels of pension provision in the relevant geography, and normally any Company contribution would be limited to 15 per cent or less of base salary.
- 3 Below Board, a lower annual bonus opportunity and PSP award size may apply. In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals, together with the fact that remuneration of the Executive Directors and senior executives typically has a greater emphasis on performance-related pay.
- 4 The choice of the performance metrics for the annual bonus scheme reflect the Committee's belief that incentive compensation should be appropriately challenging and linked to the delivery of the Company's strategy. Further information on the choice of performance measures and targets is set out in the Annual Report on Remuneration.
- 5 The performance conditions applicable to the PSP (see Annual Report on Remuneration) are selected by the Remuneration Committee on the basis that they reward the delivery of long term returns to shareholders and are consistent with the Company's objective of delivering superior levels of long term value to shareholders.
- 6 The Committee operates the PSP in accordance with the plan rules and the Listing Rules and the Committee and, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan.
- 7 While current policy is that PSP awards vest after three years subject to continued service and performance targets, the Committee will consider developments in best practice when setting future long term incentive grant policies and, in particular, whether the introduction of a post-vesting holding period, in addition to the existing shareholding guidelines, is appropriate for the Company.
- 8 For the avoidance of doubt, the Company reserves the right to honour any commitments entered into in the past with current or former Directors (such as the vesting/exercise of share awards) notwithstanding that these may not be in line with the Remuneration Policy. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.
- 9 Executive Directors may participate in any HMRC tax-advantaged all-employee share scheme.

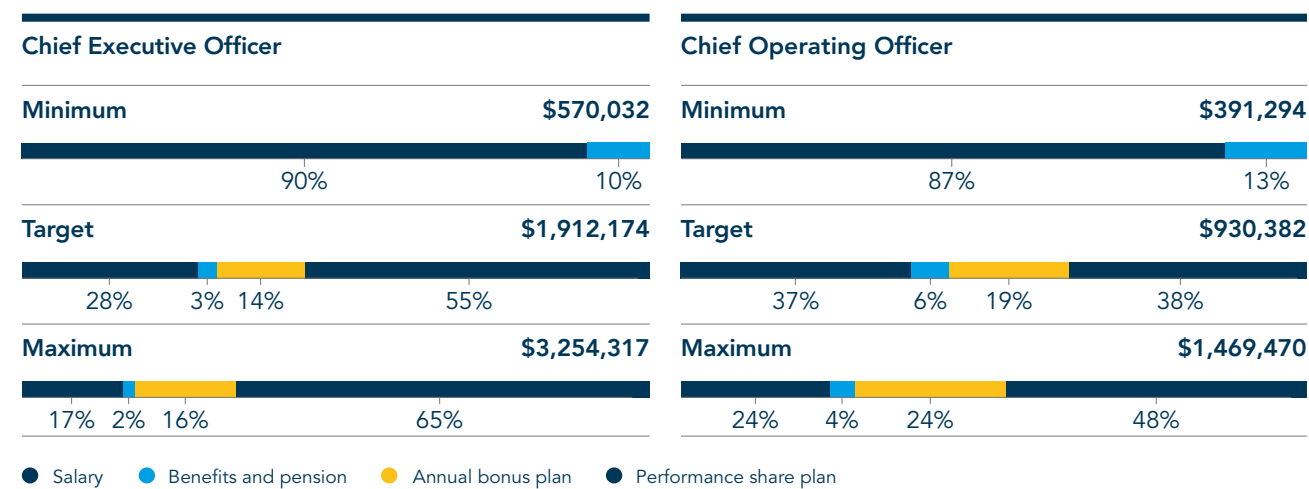
**Recovery and withholding provisions**

Recovery and withholding provisions ("clawback and malus") may be operated at the discretion of the Remuneration Committee in respect of awards granted under the Performance Share Plan and in certain circumstances under the Annual Bonus Plan (including where there has been a material misstatement of accounts, or in the

event of fraud, gross misconduct or conduct having a materially detrimental effect on the Company's reputation). The issue giving rise to the recovery and withholding must be discovered within three years of vesting and there is flexibility to recover overpayments by withholding future incentive payments and recovering the amount direct from the employee.

**Reward scenarios**

The charts below show how the composition of 2018 remuneration for the Chief Executive Officer and the Chief Operating Officer varies at different levels of performance under the policy set out above, as a percentage of total remuneration opportunity and as a total value.



**Notes:**

- 1 The minimum performance scenario comprises the fixed elements of remuneration only, including:
  - Salary for FY2018 as set out in the Annual Report on Remuneration.
  - Pension and benefits as disclosed for FY2017 in the Annual Report on Remuneration.
- 2 The On-Target level of bonus is taken to be 50 per cent of the maximum bonus opportunity (50 per cent of salary), and the On-Target level of PSP vesting is assumed to be 50 per cent of the face value of the PSP award (i.e. 200 per cent of base salary for the CEO and 100 per cent of base salary for the Chief Operating Officer). These values are included in addition to the components/values of Minimum remuneration.
- 3 Maximum assumes full bonus pay-out (100 per cent of base salary only) and the full face value of the PSP (i.e. 400 per cent of base salary for the CEO and 200 per cent of base salary for the Chief Operating Officer), in addition to fixed components of Minimum remuneration.
- 4 No share price growth has been factored into the calculations.

### Approach to recruitment and promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved remuneration policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at or above mid-market level. Additionally, salary may be provided at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 100 per cent of salary and long-term incentive awards would be limited normally between 100 per cent to 400 per cent of salary, although in exceptional circumstances, long term incentive awards of up to 500 per cent of salary may be granted.

In addition, the Committee may offer additional cash and/ or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer if required in order to facilitate, in exceptional circumstances, the recruitment of the relevant individual. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For appointment of an Executive Director who was employed by the Company prior to the appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For any Executive Director appointment, the Committee may agree that the Company will meet certain relocation and/ or incidental expenses as appropriate.

If appropriate, the Committee may agree on recruitment of a new executive with a notice period in excess of 12 months but to reduce this to at most 12 months over a specified period.

### Service contracts

Executive Directors' service contracts do not provide for liquidated damages, do not provide for longer periods of notice on a change of control of the Company and do not provide for additional compensation on an Executive Director's cessation of employment with the Group, excepted as discussed below.

The Committee's policy is to offer service contracts for Executive Directors with notice periods of no more than 12 months, and typically between 60 to 180 days.

Service contracts provide for severance pay following termination in the case that employment is terminated by the Company without 'cause', or by the employee for 'good reason'. In this case severance pay as set out in the contract is no greater than 12-months' base salary and is aligned to the duration of any restrictive covenants placed on the employee. Service contracts may also provide for the continuation of benefits but for no longer than a 12-month period post termination.

Service contracts also provide for the payment of international tax in non-U.S. jurisdictions if applicable to the Executive Director. They also can provide for garden leave and, if required by applicable law, the recovery and withholding of incentive payments.

### Policy on termination of employment

The policy on termination is that the Company does not make payments beyond its contractual obligations and the commitments entered into

as part of any incentive plan operated by the Company. In addition, Executive Directors will be expected to mitigate their loss. The Committee ensures that there have been no unjustified payments for failure.

An Executive Director may be eligible for an annual bonus payment for the final year in which that Director served as an employee. If so, any such annual bonus payment will be subject to performance testing and a pro-rata reduction will be applied based on the time served during the relevant financial year.

The default treatment for any share-based entitlements under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, or at the discretion of the Remuneration Committee, 'good leaver' status can be applied. In these circumstances a participant's awards will vest subject to the satisfaction of the relevant performance criteria and, ordinarily, on a time pro-rata basis, with the balance of the awards lapsing.

In addition, the Company can pay for any administrative expenses or outplacement services arising from the termination.

### External appointments

The Board can allow Executive Directors to accept appropriate outside commercial Non-Executive Director appointments provided that the duties and time commitment required are compatible with their duties and time commitment as Executive Directors.

### Non-Executive Directors

Non-Executive Directors are appointed as a Non-Executive Director of the Company by a letter of appointment. These letters usually provide for a notice period of one month from the Company and the Non-Executive Director.

## Annual Report on Remuneration

### Implementation of the Remuneration Policy for the year ending 31 December 2018

#### Base salary

Base salary levels for the Executive Directors were reviewed in January 2018 and an increase of 2.1 per cent was awarded. This increase was in line with the increase for the general workforce. The table below shows the base salaries for both Executive Directors:

		2017 Base salary	2018 Base salary
Daphne Zohar	Chief Executive Officer	\$525,815	\$536,857
Stephen Muniz	Chief Operating Officer	\$351,244	\$359,392

#### Pension

The Group will continue to contribute under the 401k Plan subject to the maximum set out in the policy table.

#### Benefits

Benefits provided will continue to include private medical, disability and dental cover.

#### Annual bonus

For 2018, the operation of the annual bonus arrangement will be similar to that operated in 2017. The maximum annual bonus will continue to be 100 per cent of base salary for both Executive Directors. The 2018 annual bonus will be based on financial and strategic measures, clinical development milestones, successful development of new programmes with novel approaches to large unmet medical needs, and the submission of applications for approvals to regulatory agencies. Bonus outcomes will be disclosed in the FY2018 Annual Report and Accounts.

#### Long term incentives

Awards under the PSP will be made to both Executive Directors in 2018. The CEO will receive a PSP award with a face value of 400 per cent of base salary. The Chief Operating Officer will receive an award with a face value of 200 per cent of base salary.

Following a review of the performance measures used in the PSP, the performance condition for the 2018 award will be different from that for the 2017 award. The 2017 award was based on three performance measures: absolute Total Shareholder Return (TSR), absolute increase in value of the Company's growth stage affiliates, and strategic measures. For 2018, because the Company has decided not to disclose the value of its growth stage affiliates going forward as further described on page 40, the Company plans to replace the growth stage value measure with a new relative TSR performance measure. As a clinical-stage biopharma company, the Company believes that TSR is an appropriate and objective measure of the Company's performance. In addition, measuring TSR on both an absolute and relative basis rewards our management team for absolute value creation for our shareholders whilst also incentivising outperformance of the market. Although the value of growth stage affiliates will not be disclosed in the future, disclosure of performance against NAV growth targets for inflight PSP awards will still be made at the end of the performance period.

Further detail of the planned performance conditions are set out below:

- 50 per cent of the shares under award will vest based on the achievement of absolute TSR targets.
- 25 per cent of the shares under award will vest based on the achievement of a relative TSR performance condition.
- 25 per cent of the shares under award will vest based on the achievement of strategic targets.

The minimum performance target for the absolute TSR portion of the award will be TSR equal to 7 per cent per annum, whilst the maximum target will be TSR equal to 15 per cent per annum. Strategic measures will be based on the achievement of project milestones and other qualitative measures of performance. Details of the relative TSR condition will be confirmed after the preparation of this report, however. The minimum performance target will be equal to the TSR of an index or the median of a comparator group, whilst the maximum performance target will be of upper quartile difficulty. Full detail of the performance condition including the comparator group used for measuring relative TSR will be disclosed when PSP awards are granted prior to the 2018 AGM.

The Committee believes that this combination of measures is appropriate. TSR measures the success of our management team in identifying and developing medical solutions whilst strategic targets help incentivise our management team through the stages which ultimately result in successful products.

Full disclosure of the strategic targets will be made retrospectively.



**Non-Executive Directors**

A summary of current fees is as follows:

	FY2017	FY2018	% increase
Chairman fee	<b>\$125,000</b>	\$125,000	0%
Basic fee	<b>\$75,000</b>	\$75,000	0%
<b>Additional fees:</b>			
Chairmanship of a committee	<b>\$10,000</b>	\$10,000	0%
Membership of a committee	<b>\$5,000</b>	\$5,000	0%
Membership of a subsidiary board	<b>\$0 to \$10,000</b>	\$0 to \$10,000	0%

As our Board of Directors consists of leading experts with the experience of successfully developing technologies and bringing them to market, this gives rise to the possibility that the intellectual property we seek to acquire has been developed by one of our Non-Executive Directors and/or that our Non-Executive Directors provide technical or otherwise specialised advisory services to the Company above and beyond the services typically provided by a Non-Executive Director. In such exceptional circumstances, our remuneration policy provides us with the flexibility to remunerate them with equity in the relevant subsidiary company as we would any other inventor of the intellectual property or provider of technical advisory services. This practice is in line with other investors in the life sciences sector. If the Company is unable to offer market-competitive remuneration in these circumstances, it risks forfeiting opportunities to obtain intellectual property developed by our Non-Executive Directors and/or foregoing valuable advisory services. The Company believes foregoing such intellectual property and/or advisory services would not be in the long-term interest of our shareholders. Accordingly, subsidiary equity grants may be made to Non-Executive Directors upon the occurrence of the exceptional circumstances set out above.

**Single total figure of remuneration for each Director**

The table below sets out remuneration paid in relation to the 2017 financial year with a comparative figure for the 2016 financial year.

	2017 and 2016 Remuneration							
	Year	Basic Salary/ Fees	Benefits <sup>1</sup>	Annual Bonus Plan	Performance Share Plan (Vested)	Pension	Other payments	Total
<b>Executive Directors</b>								
Daphne Zohar	<b>2017</b>	<b>\$525,815</b>	<b>\$25,075</b>	<b>\$262,908</b>	–	<b>\$8,100</b>		<b>\$821,898</b>
	2016	\$515,000	\$25,071	\$199,563	–	\$8,000		\$747,634
Stephen Muniz	<b>2017</b>	<b>\$351,244</b>	<b>\$23,802</b>	<b>\$175,622</b>	–	<b>\$8,100</b>		<b>\$558,768</b>
	2016	\$344,020	\$23,809	\$133,308	–	\$8,000		\$509,137
<b>Non-Executive Directors</b>								
Joi Ito	<b>2017</b>	<b>\$150,000</b>	–	–	–	–		<b>\$150,000</b>
	2016	\$145,000	–	–	–	–		\$145,000
Raju Kucherlapati	<b>2017</b>	<b>\$110,000</b>	–	–	–	–		<b>\$110,000</b>
	2016	\$110,000	–	–	–	–		\$110,000
John LaMattina	<b>2017</b>	<b>\$105,000</b>	–	–	–	–		<b>\$105,000</b>
	2016	\$100,000	–	–	–	–		\$100,000
Robert Langer	<b>2017</b>	<b>\$110,000</b>	–	–	–	–		<b>\$110,000</b>
	2016	\$100,000	–	–	–	–		\$100,000
Marjorie Scardino	<b>2017</b>	<b>\$90,000</b>	–	–	–	–		<b>\$90,000</b>
	2016	\$85,000	–	–	–	–		\$85,000
Bennett Shapiro	<b>2017</b>	<b>\$125,000</b>	–	–	–	–		<b>\$125,000</b>
	2016	\$130,000	–	–	–	–		\$130,000
Christopher Viehbacher	<b>2017</b>	<b>\$95,000</b>	–	–	–	–		<b>\$95,000</b>
	2016	\$95,000	–	–	–	–		\$95,000
<b>TOTAL</b>	<b>2017</b>	<b>\$1,662,059</b>	<b>\$48,877</b>	<b>\$438,908</b>	–	<b>\$16,200</b>		<b>\$2,166,044</b>
TOTAL	2016	\$1,624,020	\$48,880	\$332,870	–	\$16,000		\$2,021,770

**Notes:**

<sup>1</sup> Benefits comprise the following elements: private medical, disability and dental cover and parking.

**Annual bonus outcome for 2017**

For the 2017 annual bonus, targets were set for a balanced scorecard at the beginning of the year. The 2017 targets were focused on (i) financial and strategic goals designed to incentivise the team to complete important deals, execute strategic partnerships and operate within the Company's 2017 budget, (ii) clinical development goals designed to incent the team to generate valuable clinical data in support of the Company's programs, (iii) innovation goals designed to incent the team to create innovative programs, obtain patent protection for its technologies, obtain publication of the technologies in top tier medical and science journals and establish state of the art laboratory and operations teams, and (iv) commercial goals designed to incentivise the team to take all steps necessary to commercially launch products. During 2017, management performed well against these targets. The table below sets out the performance assessment and associated bonus outcomes:

Performance Measures Category	Achievement	Percentage of Bonus Attained
Financial/Strategic Goals	Nearly all of the Financial and Strategic Goals were achieved in 2017. This resulted in a performance outcome of 50 per cent which is slightly below the target level. A description of performance in 2017 is set out below:  The Company created the resTORbio program, funded the program through two private financings with top tier external investors and an initial public offering on Nasdaq. The \$19.0 million invested in resTORbio during 2017 along with the \$3.5 million invested in January 2018 (totalling \$22.5 million) resulted in PureTech owning approximately 9.8 million shares of resTORbio which were valued at approximately \$147 million on the date of the company's initial public offering in January 2017. The Company also (i) operated within 10 per cent of its Board approved 2017 Budget and (ii) entered into a Collaboration Agreement with Eli Lilly in 2017, which further supported the achievement of this goal.	50%
Clinical Development Goals	The Clinical Development Goals were exceeded in 2017. This resulted in a performance outcome of 30 per cent which was slightly above the target level. A description of performance in 2017 is set out below:  The Company met the primary endpoint of the Akili program's pivotal paediatric ADHD clinical trial, and met one of two co-primary endpoints of the Gelesis programme's pivotal weight loss clinical trial. The Company also initiated a phase 2 study in the resTORbio program and a phase 1 study in the Vedanta program. The Company also had positive readouts in several exploratory clinical and pre-clinical studies. The Committee also recognized that the team successfully managed the above clinical trials within prescribed timelines.	30%
Innovation Goals	The Innovation Goals were all met in 2017. This resulted in a performance outcome of 10 per cent which was the target level for this category. A description of performance in 2017 is set out below:  The Company successfully developed programs, including resTORbio and Calix, while also developing its internal immune-focused pipeline. The Company also had patents issued covering several of the program technologies and filed patent applications covering many others. The Company also established new lab space in Cambridge, Massachusetts and developed a top tier lab operations team.	10%
Commercial Goals	The Commercial Goals were exceeded in 2017. This resulted in a performance outcome of 10 per cent which was slightly above the target level for this category. A description of performance in 2017 is set out below:  The Company successfully hired leading commercial experts and developed commercial plans for both the Akili ADHD program and the Gelesis100 weight loss program.	10%

The CEO was eligible for a target bonus equal to 50 per cent of her 2017 salary. The Company attained 100 per cent of its target goals. As a result, the CEO was awarded a 2017 bonus equal to 50 per cent of her 2017 salary.

The COO was eligible for a target bonus equal to 50 per cent of his 2017 salary. The Company attained 100 per cent of its target goals. In addition to the Company's goals, the COO's personal operational performance is considered in the award of his bonus. The Company concluded that the COO's personal performance was in line with the Company's performance and, as a result, the COO was awarded a 2017 bonus equal to 50 per cent of his 2017 salary.

#### Long term incentive awards granted during the year

	Scheme	Basis of award granted	Shares awarded	Share price at date of grant <sup>1</sup>	Face value of award	% of face value vesting at threshold performance	Vesting determined by performance over
Daphne Zohar	PSP 2017	400% of salary	1,362,393	118.42 pence	\$2,103,260	25%	Three financial years to 31 December 2019
Stephen Muniz	PSP 2017	200% of salary	455,039	118.42 pence	\$702,488	25%	

<sup>1</sup> The share price at the date of grant is based on the 3-day average closing price immediately prior to the grant of the award.

The PSP awards granted in 2017 are subject to achievement of TSR targets (50 per cent of the awards), Net Asset Value growth targets (25 per cent of the awards) and targets based on strategic measures (25 per cent of the awards), measured over the three year period to 31 December 2019.

The minimum performance target for the TSR portion of the award will be TSR equal to 7 per cent per annum, whilst the maximum target will be TSR equal to 15 per cent per annum. The minimum performance target for the NAV portion of the award will be NAV equal to 7 per cent per annum, whilst the maximum target will be NAV equal to 15 per cent per annum. Strategic measures will be based on the achievement of project milestones and other qualitative measures of performance. The Committee believes that this combination of measures and the higher weighting on TSR is appropriate. TSR and NAV measure the success of our management team in identifying and developing medical solutions whilst strategic targets help incentivise our management team through the stages which ultimately result in successful products.

Full disclosure of the strategic targets will be made retrospectively.

#### Payments for Loss of Office

There were no payments for Loss of Office during 2017.

#### Payments to past Directors

No payments to past Directors were made during 2017.

#### Directors' shareholdings

Directors are required to maintain share ownership equal to a minimum of 200 per cent of base salary. Both Executive Directors satisfy this requirement.

The table below sets out Directors' shareholdings which are beneficially owned or subject to a service condition.

Director	Director Shareholdings (audited)					
	Total Share Awards not subject to Service Conditions		Share awards subject to service conditions		Total	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Daphne Zohar (Zohar LLC + Trusts) <sup>1</sup>	11,777,100	10,378,195	2,585,409 <sup>2</sup>	2,621,922	14,362,509	13,000,116
Stephen Muniz	2,718,336	2,237,729	893,599 <sup>3</sup>	548,441	3,611,935	2,786,170
Joi Ito	1,350,356	1,004,658	45,223	390,921	1,395,579	1,395,579
Raju Kucherlapati	2,437,220	2,136,744	22,611	323,087	2,459,831	2,459,831
John LaMattina	1,429,721	1,246,522	22,611	205,810	1,452,332	1,452,332
Robert Langer	2,917,223	2,734,025	22,611	205,809	2,939,834	2,939,834
Marjorie Scardino	665,610	421,409	122,101	366,302	787,710	787,710
Ben Shapiro	2,607,363	2,424,165	22,611	205,809	2,629,974	2,629,974
Chris Viehbacher (Trust) <sup>4</sup>	854,705	512,823	170,941	512,823	1,025,646	1,025,646

<sup>1</sup> A portion of Ms Zohar's shareholding in the Company is indirect. As of 31 December 2017, (i) 2,378,032 ordinary shares are held by the Zohar Family Trust I, a US-established trust of which Ms Zohar is a beneficiary and trustee (ii) 2,378,031 ordinary shares are held by the Zohar Family Trust II, a US-established trust of which Ms Zohar is a beneficiary (in the event of her spouse's death) and trustee and (iii) 7,134,094 ordinary shares are held by Zohar LLC, a US-established limited liability company. Ms Zohar owns or has a beneficial interest in 100 per cent of the share capital of Zohar LLC.

<sup>2</sup> Includes the following RSUs, which are subject to performance conditions: 1,109,959 (2016) and 1,362,393 (2017).

<sup>3</sup> Includes the following RSUs, which are subject to performance conditions: 370,726 (2016) and 455,039 (2017).

<sup>4</sup> All of Mr Viehbacher's shareholding in the Company is held through his trust, Viehbacher 2015 GRAT u/a/d May 22, 2015.

#### Directors' service contracts

Detail of the service contracts of current Directors is set out below:

Executive Directors	Notice period	Contract date	Maximum potential termination payment	Potential payment on change of control/liquidation
Daphne Zohar	180 days	18 June 2015	12 months' salary	Nil
Stephen Muniz	60 days	18 June 2015	12 months' salary	Nil

Contracts for the above Executive Directors will continue until terminated by notice either by the Company or the Executive Director.

Non-Executive Directors	Notice period	Contract date	Contract expiration date
Joi Ito	1 month	5 June 2015	5 June 2018
Raju Kucherlapati	1 month	5 June 2015	5 June 2018
John LaMattina	1 month	5 June 2015	5 June 2018
Robert Langer	1 month	5 June 2015	5 June 2018
Marjorie Scardino	1 month	5 June 2015	5 June 2018
Bennett Shapiro	1 month	5 June 2015	5 June 2018
Christopher Viehbacher	1 month	5 June 2015	5 June 2018

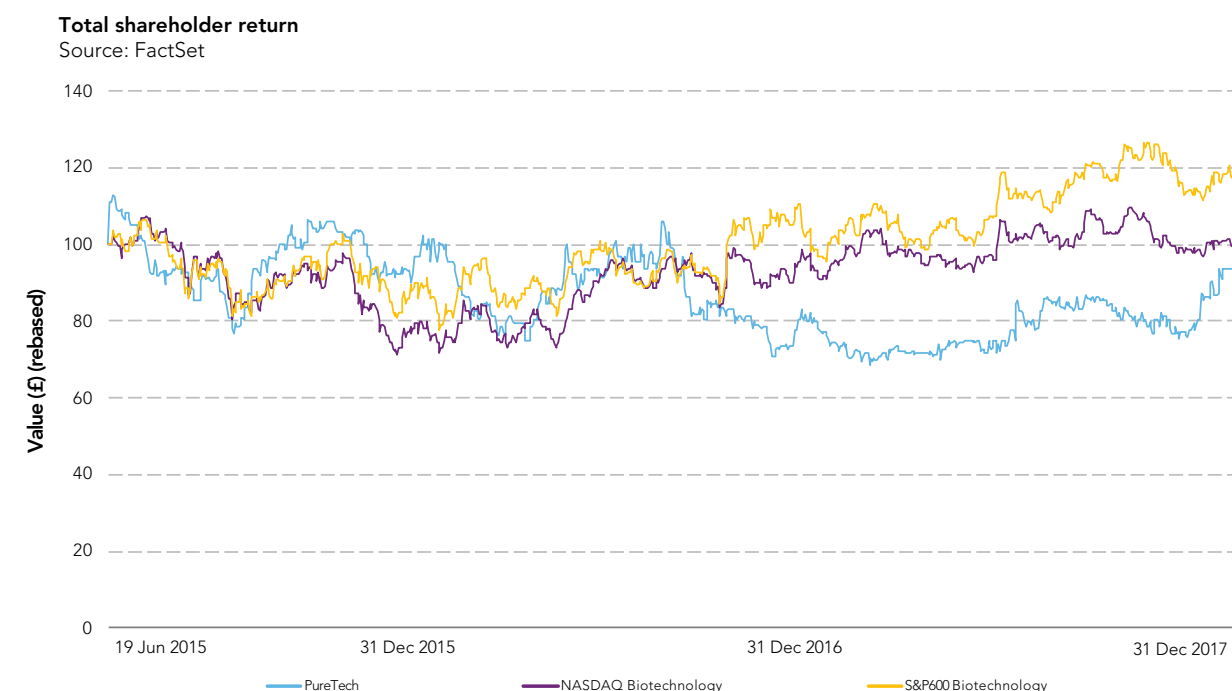
The Company and the Non-Executive Directors listed above intend to enter into new contracts prior to their expiration.



### TSR performance graph and table

The graph shows the Company's performance, measured by total shareholder return (TSR), compared with the NASDAQ Biotechnology Index and S&P600 Biotechnology Index since the Company's IPO. The Committee considers these to be relevant indices for TSR comparison as they are broad-based measures of the performance of the biotechnology industry.

This graph shows the value, by 31 December 2017, of £100 invested in PureTech on 18 June 2015, compared with the value of £100 invested in the NASDAQ Biotechnology and S&P600 Biotechnology indices on a daily basis.



The other points plotted are the values at intervening financial year-ends.

### Chief Executive Officer's Remuneration History

Year	Incumbent	Role	Single figure of total remuneration	Annual bonus pay-out against maximum	PSP Vesting against maximum opportunity
2015	Daphne Zohar	Chief Executive Officer	\$955,599	100%	n/a
2016	Daphne Zohar	Chief Executive Officer	\$747,634	38.75%	n/a
<b>2017</b>	<b>Daphne Zohar</b>	<b>Chief Executive Officer</b>	<b>\$821,898</b>	<b>50%</b>	<b>n/a</b>

### Percentage change in remuneration of CEO and employees

The table below shows the change in the Chief Executive Officer's remuneration from 2016 to 2017 compared to the change in remuneration of all full-time employees across the Group who were employed throughout 2016 and 2017:

	Base salary	Benefits	Annual bonus
CEO	2%	-2%	32%
Employees <sup>1</sup>	5%	1%	20%

<sup>1</sup> Does not include employees of subsidiary companies.

### Relative importance of spend on pay

The following table sets out the percentage change in overall spend on pay, distributions to shareholders and profit in 2017 compared to 2016:

	2017	2016	% change
Staff costs <sup>1</sup>	<b>\$8,749,566</b>	\$6,088,214	44%
Distributions to Shareholders	—	—	—
Profit before tax and exceptional items	<b>\$(12,889,482)</b>	\$(13,288,266)	(3)%

<sup>1</sup> Does not include employees of subsidiary companies or non-cash stock compensation charges.

### Details of the Remuneration Committee, advisors to the Committee and their fees

The Remuneration Committee consists of Dr LaMattina, Dr Shapiro and Dr Kucherlapati, with Dr LaMattina being the Chairman of the Committee. The Committee received independent remuneration advice from New Bridge Street (NBS), part of Aon plc. This independent advisor was appointed by the Committee and is accountable to it and provides no other services to the Company. The terms of engagement between the Committee and NBS are available from the Company Secretary on request. The Committee also consults with the CEO and Chief Operating Officer. However, no executive is permitted to participate in discussions or decisions about their personal remuneration. NBS does not provide any other services to the Company, and during the year fees in respect of remuneration advice amounted to £4,697. NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence.

### Statement of voting at general meeting

The table below sets out the proxy results of the vote on the Group's Remuneration Report at the Group's 2017 AGM:

Resolutions	For	%	Against	%	Withheld	Total votes cast
To approve the Directors' Remuneration Report	174,260,790	97.14	5,138,341	2.86%	0	179,399,131

### Statement of voting at AGM

The Company's AGM will be held at 3.00 pm on 18 May 2018 at DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE. Information regarding the voting outcome will be disclosed in next year's annual report on remuneration.

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with the CA 2006 and related regulations. This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

On behalf of the Board of Directors

**Stephen Muniz**  
Company Secretary  
16 April 2018



# Independent auditor's report

## to the members of PureTech Health plc

### 1. Our opinion is unmodified

We have audited the financial statements of PureTech Health plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statements of Comprehensive Loss, Consolidated Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statements of Cash Flows, Company Statement of Financial Position, Company Statement of Changes in Equity, Company Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 7 September 2015. The period of total uninterrupted engagement is for the three financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

**Materiality:** \$1.0m (2016: \$0.8m)  
**Group financial statements as a whole** 1.0% (2016: 1.0%) of total expenses

**Component Coverage** 100% (2016:100%) of Group profit before tax

#### Risks of material misstatement vs 2016

Recurring risks		
Financial instruments - valuation of warrants, derivatives and other financial instruments measured at fair value through profit/loss.	◀▶	
Financial instruments – classification and determination of embedded derivatives	◀▶	
Carrying amount of Parent's investment in subsidiaries	◀▶	

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (changed from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response
<p><b>Financial instruments – valuation of warrants, derivatives and other financial instruments measured at fair value through profit/loss. (\$127.4m; 2016: \$86.2m)</b></p> <p><i>Refer to page 65 (Audit Committee Report), pages 96 to 97 (accounting policy) and pages 122 to 125 (financial disclosures).</i></p>	<p><b>Subjective Valuation:</b></p> <p>The Group finances its operations and subsidiaries partly through financial instruments such as preferred shares, convertible loan notes and warrants, some of which have been determined to contain embedded derivatives. Determining the fair value of the warrants and embedded derivatives that required separation related to the preferred shares and convertible notes – as well as the fair value of the financial instruments where the accounting policy choice has been taken to fair value through profit/loss – involves a significant level of judgement around the assumptions used, and internal and external factors that may impact the assumptions.</p> <p>The fair value of the derivatives and financial instruments are derived using a option pricing model (OPM) which includes a significant level of judgement around the key assumptions such as subsidiary values (either the implied value from a third party funding round, a valuation based on a DCF and/or Probability Weighted Return Model (PWERM) analysis, validity, expected time to the conversion event, forecast exit dates and scenarios and applicable probability weighting.</p> <p>The valuation methodologies utilised to determine the subsidiary valuations are based primarily on net present values from discounted cash flows (DCFs). Some of the valuations are based on recent third party funding, or market approach valuations and probability weighted analysis (PWERM).</p>
	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Our valuation expertise:</b> Where valuations had been prepared by an external expert on behalf of the company we used our own valuation specialists to assist us in assessing the assumptions and methodologies used in the valuations.</li> <li>Our own valuation experts assessed the expertise and independence of the external experts.</li> <li>We used our own valuation specialists to assist us in critically assessing key inputs utilised within the OPM. We used publicly available comparable company data to critically assess the volatility assumption.</li> <li>— <b>Benchmarking assumptions:</b></li> <li>The Group's internal data such as strategic plans, forecasts and budgets and actual results are utilised for inputs such as exit dates and scenarios and probability of exit scenarios. Procedures performed include comparing to prior periods for consistency, understanding key changes and critically assessing current progress against milestones set and assessing where there is an impact on the forecast exit date and assessing whether the assumptions used are consistent with the strategic plans.</li> <li>— <b>Subsidiary valuation methodology choice:</b></li> <li>We critically assessed the appropriateness of the valuation model used for each subsidiary based on the specific circumstances relevant to each company such as the stage of development, the industry in which it operates and also the likely exit date or commercialisation date. We compared the approach taken to that used in the prior year; understanding and challenging changes made.</li> </ul>



2. Key audit matters: our assessment of risks of material misstatement (cont.)

The risk (cont.)	Our response (cont.)
<p><b>Financial instruments – valuation of warrants, derivatives and other financial instruments measured at fair value through profit/loss. (\$127.4 million; 2016: \$86.2m)</b></p> <p>Refer to page 65 (Audit Committee Report), pages 96 to 97 (accounting policy) and pages 122 to 125 (financial disclosures).</p> <ul style="list-style-type: none"> <li>— Where the valuation is driven by a DCF, there is an inherent uncertainty involved in forecasting the trading of such companies and the significant level of judgement required to determine the assumptions used in the DCFs such as discount rate, revenue and Earnings Before Interest and Tax (EBIT) forecasts and probability of success and the valuations are sensitive to changes in these assumptions.</li> <li>— Where there is a valuation which utilises a PWERM analysis there is significant judgement in relation to both the scenarios chosen as well as the weighting of those scenarios;</li> <li>— For valuations based on recent third party funding rounds, the relatively low number of investors partaking in funding rounds meaning that there is a risk that recent investment on which fair value is based are not sufficiently at arm's length to ensure an independent market valuation representative of fair value.</li> </ul>	<ul style="list-style-type: none"> <li>— <b>Benchmarking assumptions:</b> We critically assessed the appropriateness of the assumptions underlying the forecasts, including assumptions over projected revenue including forecast product commercialisation or license date and royalty rates where applicable and operating costs and EBIT margin terminal values and the probability of success factors where applicable. In doing this we used our knowledge of each subsidiary and its industry with reference to both internal management information and externally derived data and benchmarks, including market size data, royalty rates and competitor analyses based on information from public material.</li> <li>— <b>Benchmarking assumptions:</b> We critically assessed the appropriateness of the discount rates applied, against the assumptions used in the prior year, with specific focus (where applicable) on: the company specific risk premium (including appropriateness of the probability of success where applicable); the control premium; and the venture capital rates of return utilised. We consider against the stage of development of the company where capital rates of return are utilised and the specific scenarios of the company in respect of the control premium.</li> <li>— <b>Market based valuation:</b> We critically challenged the appropriateness of the comparable companies utilised in the market based valuation approach by using our own valuation experts to find confirming and disconfirming evidence. We assessed the appropriateness of the probabilities assigned to the scenarios given the stage of the company in its life cycle.</li> <li>— <b>Third party funding rounds valuation:</b> Where valuations are based on the implied value from the most recent third party investment we assessed the accuracy of the data used including agreeing to related contracts and capitalisation tables. We evaluated the independence of the funding rounds on which the valuation was based by looking at the number of external investors included within the funding round and the significance of their investments. For a sample of external investors we compared the directors and key management of those investors for any potential overlap with PureTech Health plc.</li> <li>— <b>Assessing transparency:</b> We assessed the adequacy of the Group's disclosures in relation to the key assumptions related to the valuations.</li> <li>— <b>Sensitivity analysis:</b> We assessed the sensitivity analysis disclosure for appropriateness by recalculating the disclosure.</li> </ul> <p><b>Our results</b></p> <p>We found the valuation of warrants and derivatives deriving from convertible notes, preferred shares and financial instruments fair valued through profit/loss to be acceptable.</p>

2. Key audit matters: our assessment of risks of material misstatement (cont.)

The risk	Our response
<p><b>Financial instruments- classification and determination of embedded derivatives</b> (\$127.4m; 2016: \$86.2m)</p> <p>Refer to page 65 (Audit Committee Report), pages 96 and 97 (accounting policy) and pages 122 to 125 (financial disclosures).</p> <p><b>Accounting treatment:</b></p> <p>The Group finances its operations and subsidiaries partly through financial instruments such as preferred shares, convertible loan notes and warrants. There is a significant level of judgement in relation to assessing the terms of the instruments to identify whether the instruments meets the criteria to be classified as debt or equity; reviewing the terms of the contract to determine any host instrument and whether there are any separable embedded derivatives; and determining the impact on the non-controlling interest calculation of the debt versus equity classification of the shares in issue at the subsidiaries.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Accounting analysis</b></li> </ul> <p>We assessed whether the financial instruments contained embedded derivatives by reviewing the key terms of the contracts, identifying a host contract, and assessing whether each feature met the definition of an embedded derivative and whether they should be bifurcated;</p> <p>Where the Group designated the entire hybrid contract at fair value through profit or loss, we evaluated whether certain embedded derivatives required separate accounting by critically assessing the key terms and features of those derivatives;</p> <p>Assessing the conclusions reached by the Group in relation to the debt versus equity classification of the issued financial instruments by reviewing the key terms and features of the contracts and applying and interpreting the relevant accounting standards;</p> <ul style="list-style-type: none"> <li>— <b>Methodology implementation</b></li> </ul> <p>We assessed the Group's determination of whether any separable embedded derivative should be liability or equity classified based on the terms of the related contracts;</p> <p>Challenging the Group's assessment of the implications of the debt versus equity classification of the preferred shares issued at subsidiary level on the NCI calculation in the Group by inspecting the source documentation to identify the key features which would determine the classification and then considering the impact of this classification through review of the NCI calculation;</p> <ul style="list-style-type: none"> <li>— <b>Assessing transparency:</b></li> </ul> <p>Assessing whether the Group's disclosures were consistent with the conclusions reached in relation to both the classification of the financial instruments and the determination of whether there are embedded derivatives within the host contracts.</p> <p><b>Our results</b></p> <p>We found the classification and determination of embedded derivatives within financial instruments to be acceptable.</p>

2. Key audit matters: our assessment of risks of material misstatement (cont.)

The risk	Our response
<p><b>Carrying amount of Parent's investment in subsidiaries and Related party receivables</b> (\$330.7m; 2016: \$330.7m)</p> <p>Refer to page 65 (Audit Committee Report), page 135 (accounting policy) and page 135 (financial disclosures).</p>	<p><b>Low risk, High Value</b></p> <p>The carrying amount of the parent company's investments in the subsidiary companies represents 100% (2016: 100%) of the company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>

In our audit report for the year ended 31 December 2016 we included Valuation of Subsidiaries Disclosure as one of the risks of material misstatement that had the greatest effect on our audit, however, following PureTech Health plc's decision to not include this disclosure in their financial statements, this is no longer one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at \$1.0m (2016: \$0.8m), determined with reference to a benchmark total expenses (being general and administrative expenses and research and development expenses) of which it represents 1.0% (2016: 1.0%). Total expenses is considered to be one of the principal considerations for the members of the company in assessing the financial performance of the Group, since the Group's activities are currently principally in relation to expenditure on developing forms of intellectual property which can be exploited commercially to generate income and growth in the future.

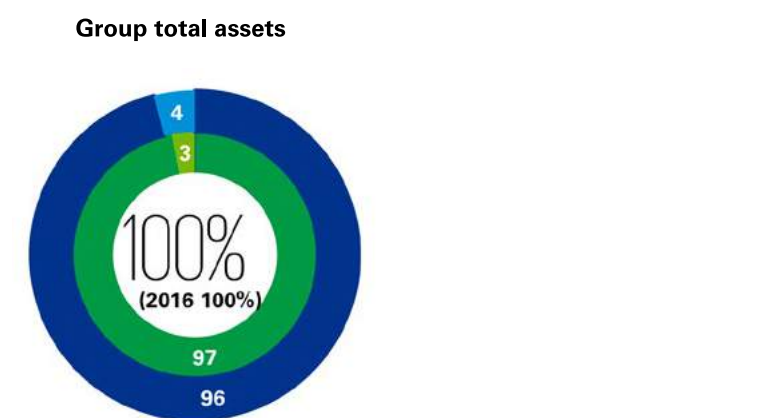
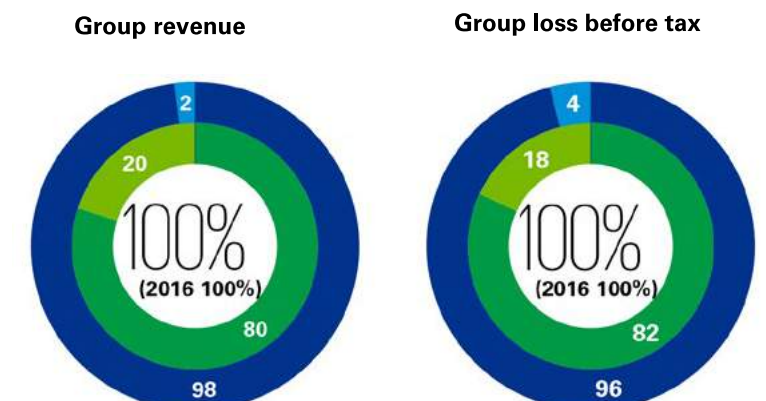
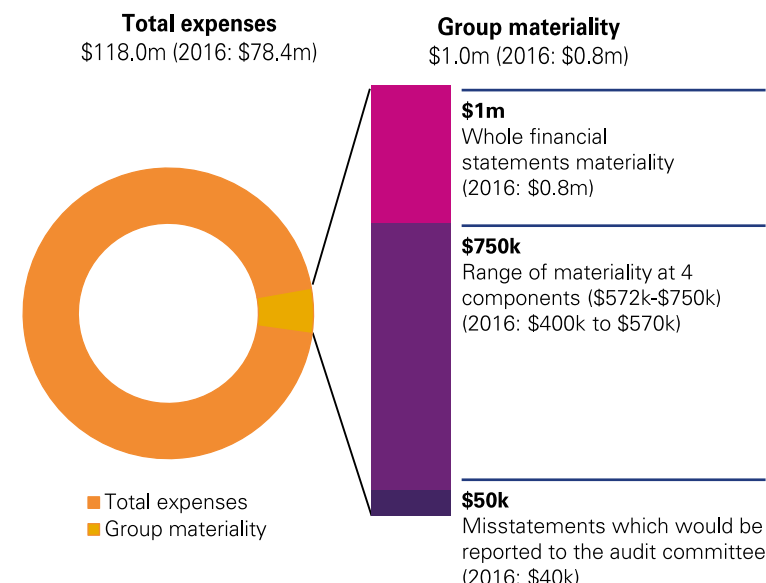
Materiality for the parent company financial statements as a whole was set at \$0.75m (2016: \$0.57m), determined with reference to a benchmark of total assets, of which it represents 0.23% (2016: 0.17%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$50k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 (2016: 4) reporting components, we subjected 3 (2016: 3) to full scope audits for Group purposes and 1 (2016: 1) to specified risk-focused audit procedures.

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

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality, which ranged from \$572k to \$750k, having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 4 components (2016: 1 of the 4 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.



■ Full scope for Group audit purposes 2016  
■ Specified risk-focused audit procedures 2016  
■ Full scope for Group audit purposes 2017  
■ Specified risk-focused audit procedures 2017



**4. We have nothing to report on going concern**

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 39 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

**5. We have nothing to report on the other information in the Annual Report**

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

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

*Strategic report and directors' report*

Based solely on our work on the other information:

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

*Directors' remuneration report*

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

*Disclosures of principal risks and longer-term viability*

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

*Corporate governance disclosures*

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7. Respective responsibilities***Directors' responsibilities*

As explained more fully in their statement set out on page 63 the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

*Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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

**Charles le Strange Meakin (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

Canary Wharf

London

E14 5GL

16 April 2018

## Consolidated Statements of Comprehensive Income/(Loss)

For the years ended 31 December

	Note	2017 \$000s	2016 \$000s
Revenue from customers	3	650	4,333
Grant revenue	3	1,885	98
<b>Total revenue</b>		<b>2,535</b>	<b>4,431</b>
Operating expenses:			
General and administrative expenses	6	(46,283)	(37,155)
Research and development expenses	6	(71,672)	(41,205)
<b>Operating loss</b>		<b>(115,420)</b>	<b>(73,929)</b>
Other income:			
Gain on deconsolidation of affiliate	5	85,016	—
Gain on available-for-sale investments	12	57,334	—
Other income		14	46
<b>Other income</b>		<b>142,364</b>	<b>46</b>
Finance income/(costs):			
Finance income	8	1,750	1,292
Finance costs – subsidiary preferred shares	8	(9,509)	(6,368)
Finance costs – contractual	8	(553)	(801)
Finance costs – IAS 39 fair value accounting	8	(71,735)	(3,422)
<b>Net finance costs</b>		<b>(80,047)</b>	<b>(9,299)</b>
Share of net loss of associates accounted for using the equity method	5	(17,608)	—
<b>Loss before taxes</b>		<b>(70,711)</b>	<b>(83,182)</b>
<b>Income/(loss) before taxes pre IAS 39 fair value accounting, finance cost – subsidiary preferred shares, share-based payment expense, impairment of tangible assets, depreciation of tangible assets and amortisation of intangible assets</b>		<b>25,118</b>	<b>(61,669)</b>
Finance costs – subsidiary preferred shares	8	(9,509)	(6,368)
Finance costs – IAS 39 fair value accounting	8	(71,735)	(3,422)
Share-based payment expense	7	(11,849)	(10,153)
Impairment of tangible assets	10	(637)	—
Depreciation of tangible assets	10	(1,617)	(1,223)
Amortisation of intangible assets	11	(482)	(347)
<b>Loss before taxes</b>		<b>(70,711)</b>	<b>(83,182)</b>
Taxation	25	14	1,574
<b>Loss for the year</b>		<b>(70,697)</b>	<b>(81,608)</b>
<b>Other comprehensive income/(loss):</b>			
<b>Items that are or may be reclassified as profit or loss</b>			
Foreign currency translation differences		408	(91)
Gain on available-for-sale investments	12	1,750	4
Total other comprehensive income/(loss)		2,158	(87)
<b>Total comprehensive loss for the year</b>		<b>(68,539)</b>	<b>(81,695)</b>
<b>Income/(loss) attributable to:</b>			
Owners of the Company		30,869	(48,792)
Non-controlling interests	16	(101,566)	(32,816)
		<b>(70,697)</b>	<b>(81,608)</b>
<b>Comprehensive income/(loss) attributable to:</b>			
Owners of the Company		33,027	(48,879)
Non-controlling interests	16	(101,566)	(32,816)
		<b>(68,539)</b>	<b>(81,695)</b>
<b>Earnings/(loss) per share:</b>			
Basic earnings/(loss) per share	9	\$0.13	\$(0.21)
Diluted earnings/(loss) per share	9	\$0.13	\$(0.21)

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Financial Position

For the years ended 31 December

	Note	2017 \$000s	2016 \$000s
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment, net	10	6,862	6,924
Available-for-sale investments	12	131,351	83
Intangible assets, net	11	3,309	3,524
Deferred tax assets	25	142	—
Other non-current assets	21	73	65
<b>Total non-current assets</b>		<b>141,737</b>	<b>10,596</b>
<b>Current assets</b>			
Trade and other receivables	21	1,797	125
Prepaid expenses and other current assets		6,638	5,662
Other financial assets	13, 21	927	897
Short term investments	21	116,098	218,510
Cash and cash equivalents	21	72,649	62,959
<b>Total current assets</b>		<b>198,109</b>	<b>288,153</b>
<b>Total assets</b>		<b>339,846</b>	<b>298,749</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	4,679	4,609
Merger reserve	14	138,506	138,506
Share premium	14	181,588	181,658
Translation reserve	14	224	(184)
Other reserve	14	17,178	13,412
Accumulated deficit	14	(127,873)	(160,335)
Parent equity	14	214,302	177,666
Non-controlling interests	14, 16	(150,305)	(85,255)
<b>Total equity</b>	14	<b>63,997</b>	<b>92,411</b>
<b>Non-current liabilities</b>			
Deferred revenue	3	159	203
Other long-term liabilities		1,828	2,055
<b>Total non-current liabilities</b>		<b>1,987</b>	<b>2,258</b>
<b>Current liabilities</b>			
Deferred revenue	3	1,652	2,202
Trade and other payables	19	16,358	11,121
<b>Subsidiary:</b>			
Notes payable	17, 21	7,455	6,953
Derivative liability	21	114,263	71,240
Warrant liability	18, 21	13,095	14,942
Preferred shares	15, 21	120,051	96,937
Other current liabilities		988	685
<b>Total current liabilities</b>		<b>273,862</b>	<b>204,080</b>
<b>Total liabilities</b>		<b>275,849</b>	<b>206,338</b>
<b>Total equity and liabilities</b>		<b>339,846</b>	<b>298,749</b>

See the accompanying notes to the consolidated financial information. Registered number: 09582467.

The financial statements on pages 88 to 131 were approved by the Board of Directors and authorised for issuance on 16 April 2018 and signed on its behalf by:



**Daphne Zohar**  
Chief Executive Officer

16 April 2018

The accompanying notes are an integral part of these financial statements.



# Consolidated Statements of Changes in Equity

For the years ended 31 December

Consolidated Statements of Changes in Equity — continued

	Share Capital			Merger reserve \$000s	Translation reserve \$000s	Other reserve \$000s	Accumulated deficit \$000s	Total parent equity \$000s	Non-controlling interests \$000s	Total equity \$000s
	Shares	Amount \$000s	Share premium							
Balance 1 January 2016	226,173,751	4,523	181,744	138,506	(93)	7,627	(111,420)	220,887	(56,834)	164,053
Net loss	—	—	—	—	—	—	(48,792)	(48,792)	(32,816)	(81,608)
Foreign currency exchange	—	—	—	—	(91)	—	—	(91)	—	(91)
Unrealised gain	—	—	—	—	—	4	—	4	—	4
<b>Total comprehensive loss for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(91)</b>	<b>4</b>	<b>(48,792)</b>	<b>(48,879)</b>	<b>(32,816)</b>	<b>(81,695)</b>
Gain/(loss) arising from change in non-controlling interests	—	—	—	—	—	—	(23)	(23)	23	—
Issuance of shares as equity incentives	6,538,791	86	(86)	—	—	—	—	—	—	—
Subsidiary dividend	—	—	—	—	—	—	(100)	(100)	—	(100)
Equity settled share-based payments	—	—	—	—	—	5,781	—	5,781	4,372	10,153
Balance 31 December 2016	232,712,542	4,609	181,658	138,506	(184)	13,412	(160,335)	177,666	(85,255)	92,411
Net income/(loss)	—	—	—	—	—	—	30,869	30,869	(101,566)	(70,697)
Foreign currency exchange	—	—	—	—	408	—	—	408	—	408
Unrealised gain	—	—	—	—	—	—	1,750	1,750	—	1,750
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>408</b>	<b>—</b>	<b>32,619</b>	<b>33,027</b>	<b>(101,566)</b>	<b>(68,539)</b>
Gain/(loss) arising from change in non-controlling interests	—	—	—	—	—	(16)	—	(16)	28,449	28,433
Issuance of shares as equity incentives	5,277,375	70	(70)	—	—	—	—	—	—	—
Subsidiary dividend	—	—	—	—	—	—	(91)	(91)	—	(91)
Buyback of shares, net of tax	(30,028)	—	—	—	—	—	(66)	(66)	—	(66)
Equity settled share-based payments	—	—	—	—	—	3,782	—	3,782	8,067	11,849
<b>Balance 31 December 2017</b>	<b>237,959,889</b>	<b>4,679</b>	<b>181,588</b>	<b>138,506</b>	<b>224</b>	<b>17,178</b>	<b>(127,873)</b>	<b>214,302</b>	<b>(150,305)</b>	<b>63,997</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

For the years ended 31 December

	Note	2017 \$000s	2016 \$000s
<b>Cash flows from operating activities</b>			
Loss for the year		(70,697)	(81,608)
<b>Adjustments to reconcile net operating loss to net cash used in operating activities:</b>			
<b>Non-cash items:</b>			
Depreciation and amortisation	10, 11	2,099	1,570
Impairment of tangible assets	10	637	—
Equity settled share-based payment expense	7	11,849	10,153
Gain on available-for-sale investments	12	(57,334)	—
Loss on short-term investments		219	—
Gain on deconsolidation of resTORbio	5	(85,016)	—
Share of net loss of associate	5	17,608	—
Non-cash share of net loss for deconsolidated subsidiary		8,027	—
Deferred tax asset	25	(142)	—
Subsidiary research and development tax credit		(1,152)	(783)
Non-cash rent expense		106	174
Unrealised gain on foreign currency transactions		342	—
Finance costs	8	81,797	10,526
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable, net	21	(1,672)	581
Other financial assets	13	(30)	—
Prepaid expenses and other current assets		168	(1,994)
Deferred revenues	3	(725)	(344)
Accounts payable and accrued expenses	19	5,237	3,524
Other long-term liabilities		(9)	168
<b>Net cash used in operating activities</b>		<b>(88,688)</b>	<b>(58,033)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	10	(2,091)	(3,676)
Purchases of intangible assets	11	(80)	—
Cash in associate eliminated upon deconsolidation		(16,340)	—
Purchases of short term investments	21	(147,203)	(312,825)
Proceeds from maturity of short term investments	21	249,396	273,270
<b>Net cash provided by/(used in) investing activities</b>		<b>83,682</b>	<b>(43,231)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of convertible notes	17	2,616	2,060
Repayment of long-term debt		(163)	—
Proceeds from subsidiary notes payable	17	—	268
Proceeds from the issuance of shares, net of issuance costs	15	12,400	27,260
Buyback of shares		(66)	—
Subsidiary dividend payments		(91)	(100)
<b>Net cash provided by financing activities</b>		<b>14,696</b>	<b>29,488</b>
Effect of exchange rates on cash and cash equivalents		—	(16)
Net increase/(decrease) in cash and cash equivalents		9,690	(71,792)
Cash and cash equivalents at beginning of year		62,959	134,751
<b>Cash and cash equivalents at end of year</b>		<b>72,649</b>	<b>62,959</b>
<b>Supplemental disclosure of non cash investment and financing activities:</b>			
Conversion of subsidiary notes payable and accrued interest into preferred stock		1,306	95
<b>Supplemental disclosure of deconsolidated loss, net of non cash items</b>			
Non-controlling interest		(28,449)	—
Parent share of loss of deconsolidated entity		(14,224)	—
<b>Total net loss of deconsolidated entity</b>		<b>(42,673)</b>	—
Loss attributable to cash spend		8,660	—
<b>Total non-cash loss</b>		<b>(34,013)</b>	—
<b>Add:</b>			
Depreciation expense		36	—
Amortization expense		188	—
Derivative fair value adjustment		25,747	—
Equity in exchange for services		15	—
<b>Net loss of deconsolidated entity, net of non-cash items</b>		<b>(8,027)</b>	—

The accompanying notes are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

## 1. Accounting policies

### Description of Business

PureTech Health plc ("PureTech", the "Parent" or the "Company") is an advanced, clinical-stage biopharmaceutical company developing novel medicines targeting serious diseases that result from dysfunctions in the nervous, immune, and gastrointestinal systems (brain-immune-gut or the "BIG" axis), which together represent the adaptive human systems. PureTech consists of the Parent and its subsidiaries (together, the "Group"). The Company's ordinary shares are admitted to the premium listing segment of the Official List of the U.K. Listing Authority and are traded on the Main Market of the London Stock Exchange. The Company is at the forefront of understanding and addressing the biological processes and crosstalk associated with the BIG axis. By harnessing this emerging field of human biology, PureTech is pioneering new categories of medicine with the potential to have great impact on people with serious diseases. PureTech is advancing a rich pipeline of innovative therapies that includes two pivotal stage programmes, multiple human proof-of-concept studies and a number of early clinical and pre-clinical programmes. PureTech's rich research and development pipeline has been advanced in collaboration with some of the world's leading scientific experts, who along with PureTech's team of biopharma pioneers, entrepreneurs and seasoned Board, identify, invent, and clinically de-risk new medicines. With this experienced team pursuing cutting edge science, PureTech Health is building the biopharma company of the future focused on improving and extending the lives of people with serious disease. The Group provides a combination of experienced management and administrative support to its subsidiaries in which it typically holds a significant ownership interest. Cash contributed by the Parent to its subsidiaries in the form of equity and debt investments is used to fund research, development, regulatory and commercialisation preparation activities and to support administration and operations.

### Basis of Presentation

The Annual Report and Accounts of the Group are presented for the years ended 31 December 2017 and 2016 and the Group financial statements consolidate those of the Company and its subsidiaries. The Group financial statements have been prepared and approved by the Directors in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union (adopted IFRSs). The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

For presentation of the Consolidated Statements of Comprehensive Income/(Loss), the Company uses a classification based on the function of expenses, rather than based on their nature, as it is more representative of the format used for internal reporting and management purposes and is consistent with international practice.

### Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: available-for-sale financial assets, derivative financial instruments and financial instruments classified as fair value through the profit or loss.

### Use of Judgments and Estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Significant judgements and estimates are made by the Group when determining the fair value of the financial instruments and associated derivatives, including the methodology for valuing the subsidiaries, the assumptions used in the forecasts and in determining the appropriate discount rate. Significant judgement is applied in determining:

- Valuation of warrants, derivatives and other financial instruments measured at fair value through profit or loss;
- Financial instrument classification and determination of embedded derivatives;

In relation to financial instrument classification, due to the complexity of the accounting standards and the nature of agreements, this is considered to be a significant area of judgement.

Information about the other critical judgments and estimates are included in the following notes.



## 1. Accounting policies — continued

## Going Concern

After making enquiries and considering the impact of risks and opportunities on expected cash flows, the Directors have a reasonable expectation that the Group has adequate cash to continue in operational existence through the period ended 31 December 2020. Based on the cash and cash equivalents available to the Group as of 31 December 2017, the Group has sufficient cash reserves to continue to provide capital, alongside outside investors, to its existing subsidiary companies and to create and fund project stage programmes and growth stage affiliates through 31 December 2020, assuming broadly our expected level of required investments in businesses and other operating expenditures.

On 3 April 2018, the company received shareholder approval to issue 45,000,000 shares at a purchase price of 160 pence per share. The Group received gross proceeds of approximately \$100 million from this offering based on the exchange rate at the time of the pricing of the transaction. Following receipt of these proceeds, the Company expects to have adequate cash flows through the period ending 31 December 2021.

## Basis of Consolidation

The consolidated financial information for each of the years ended 31 December 2017 and 2016 comprises an aggregation of financial information of the Company and the consolidated financial information of PureTech Health LLC ("PureTech LLC").

## Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group's ownership percentage of Gelesis and those entities held indirectly through Gelesis is less than 50%. It was determined that the Group has control of these entities as it controls the majority of the board of directors and holds the largest equity shareholding of Gelesis.

## 1. Accounting policies — continued

Subsidiaries are fully consolidated from the date on which the Group obtains control and continue to be consolidated until the date when control ceases. A list of all subsidiaries and the Group's ownership, based on outstanding voting common and preferred shares, is outlined below. As discussed in Note 15, certain of the Group's subsidiaries' outstanding preferred shares have been classified as a liability.

Subsidiary <sup>(1)</sup>	Ownership percentage of voting stock as at 31 December <sup>(2)</sup>	
	2017	2016
<b>Subsidiaries</b>		
Akili Interactive Labs, Inc. <sup>(2) (4)</sup>	61.80%	61.80%
Akili Securities Corp. (indirectly held through Akili) <sup>(2) (4)</sup>	61.80%	61.80%
Alivio Therapeutics, Inc. <sup>(2) (4)</sup>	92.00%	92.00%
Appeering, Inc. <sup>(4)</sup>	100.00%	100.00%
Calix Biosciences, Inc. <sup>(4)</sup>	100.00%	—
Commense Inc. <sup>(4)</sup>	100.00%	100.00%
Enlight Biosciences, LLC <sup>(2) (4)</sup>	86.00%	86.00%
Entrega, Inc. (indirectly held through Enlight) <sup>(2) (4)</sup>	83.10%	85.90%
Follica, Incorporated <sup>(2) (4)</sup>	72.10%	72.10%
Gelesis, Inc. <sup>(2) (4)</sup>	26.90%	26.90%
Gelesis, S.r.l. (indirectly held through Gelesis) <sup>(2) (5)</sup>	26.90%	26.90%
Gelesis, LLC (indirectly held through Gelesis) <sup>(2) (4)</sup>	26.90%	26.90%
Glyph Biosciences, Inc. <sup>(2) (4)</sup>	97.30%	—
Karuna Pharmaceuticals, Inc. <sup>(2) (4)</sup>	90.70%	90.70%
Knode Inc. (indirectly held through Enlight) <sup>(2) (4)</sup>	86.00%	86.00%
Mandara Sciences, LLC <sup>(4)</sup>	98.30%	98.30%
Nybo Therapeutics, Inc. <sup>(2) (4)</sup>	94.70%	—
PureTech Management, Inc. <sup>(7)</sup>	100.00%	100.00%
PureTech Health LLC <sup>(3) (7)</sup>	100.00%	100.00%
Sonde Health, Inc. <sup>(2) (4)</sup>	96.40%	96.40%
Tal Medical, Inc. <sup>(2) (4)</sup>	64.50%	64.50%
The Sync Project, Inc. <sup>(2) (4)</sup>	77.60%	100.00%
Vedanta Biosciences, Inc. <sup>(2) (4)</sup>	86.00%	91.30%
Vedanta Biosciences Securities Corp. (indirectly held through Vedanta) <sup>(2) (4)</sup>	86.00%	91.30%
Vor Biopharma Inc. <sup>(2) (4)</sup>	94.10%	94.10%
<b>Nontrading holding companies</b>		
Endra Holdings, LLC (held indirectly through Enlight) <sup>(4)</sup>	86.00%	86.00%
Ensof Holdings, LLC (held indirectly through Enlight) <sup>(4)</sup>	86.00%	86.00%
Gelesis 2012, Inc. (held indirectly through Gelesis) <sup>(4)</sup>	26.90%	26.90%
PureTech Securities Corp. <sup>(4)</sup>	100.00%	100.00%
<b>Inactive subsidiaries</b>		
Ensof Biosystems, Inc. (held indirectly through Enlight) <sup>(2) (4)</sup>	86.00%	86.00%
Libra Biosciences, Inc. <sup>(4)</sup>	100.00%	100.00%

## Notes:

- All subsidiaries are registered in the U.S. except for Gelesis, S.r.l., which is registered in Italy.
- The ownership percentage includes liability classified preferred shares, which results in the ownership percentage not agreeing to the ownership percentage used in allocations to non-controlling interests disclosed in Note 16.
- On 18 June 2015, PureTech Helath plc completed a reorganisation of the corporate structure of the group of companies controlled by its predecessor PureTech Health LLC pursuant to which PureTech Health plc became the holding company of the group.
- Registered address is Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801, USA.
- Registered address is Via Verde 188, 73021 Calmera (LE), Italy.
- Registered address is 901 N. Market St., Suite 705, Wilmington, DE 19801, USA.
- Registered address is 2711 Centerville Rd., Suite 400, Wilmington, DE 19808, USA.
- The Company's interests in its subsidiaries are predominantly in the form of preferred shares, which have a liquidation preference over the common shares, are convertible into common shares at the subsidiary's discretion or upon certain liquidity events, are entitled to one vote per share on all matters submitted to shareholders for a vote and entitled to receive dividends when and if declared, except in the case of Enlight, Mandara and PureTech Health LLC in which the holdings are membership interests in an LLC. The Company holds common shares of 6.2%, 3.0% and less than 0.1% in Gelesis, Follica and Tal, respectively. The common shares are entitled to one vote per share on all matters submitted to shareholders for a vote and entitled to receive dividends when and if declared.

## 1. Accounting policies — continued

The financial information of the subsidiaries is prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra group transactions and dividends are eliminated in full. Losses attributed to non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**Functional and Presentation Currency**

These consolidated financial statements are presented in U.S. dollars. The functional currency of all members of the Group is the U.S. Dollar, except for an Italian subsidiary whose functional currency is the Euro. The assets and liabilities of this subsidiary are translated to U.S. Dollars at the exchange rate prevailing on the balance sheet date and revenues and expenses are translated at the average exchange rate for the period. Foreign exchange differences resulting from the translation of this subsidiary are reported in the Consolidated Statements of Comprehensive Income/(Loss) in Other Comprehensive Income/(Loss).

**Foreign Currency**

Transactions in foreign currencies are translated into the functional currencies of the Group using the exchange rates prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the subsidiary at the exchange rate prevailing on the balance sheet date. Foreign exchange differences are recognised in the Consolidated Statements of Comprehensive Income/(Loss) in Other Comprehensive Income/(Loss). Non-monetary balances that are not remeasured at fair value are translated to the functional currency at the exchange rate prevailing on the transaction date.

**Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less.

**Financial instruments****Financial assets**

The Group's financial assets consist of cash and cash equivalents, trade and other receivables, debt and equity securities and other deposits. The Group's financial assets are classified into the following categories: available-for-sale and trade and other receivables. The Group determines the classification of financial assets at initial recognition depending on the purpose for which the financial assets were acquired.

Available-for-sale financial assets are non-derivative instruments that are designated in this category or not classified in any other category. These financial assets are initially measured at fair value and subsequently re-measured at fair value at each reporting date. The Company elects if the gain or loss will be recognised in the Consolidated Statements of Comprehensive Income/(Loss) in Other Comprehensive Income/(Loss) or through the profit and loss on an instrument by instrument basis. Available-for-sale financial assets are presented in the Consolidated Statements of Financial Position as non-current assets, unless the Group intends to dispose of them within 12 months after the end of the reporting period.

Trade and other receivables are non-derivative financial assets with fixed and determinable payments that are not quoted on active markets. These financial assets are carried at the amounts expected to be received less any allowance for doubtful debts. Provisions are made where there is evidence of a risk of nonpayment, taking into account ageing, previous experience and economic conditions. When a trade receivable is determined to be uncollectible, it is written off against the available provision and then to the Consolidated Statements of Comprehensive Income/(Loss). Trade and other receivables are included in current assets, unless maturities are greater than 12 months after the end of the reporting period.

**Financial liabilities**

The Group's financial liabilities consist of trade and other payables, subsidiary notes payable, preferred shares, derivative liability and warrant liability. Subsidiary notes payable is initially recognised at fair value less the value attributed to any separately accounted for embedded derivatives. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The amortisation is included in Finance costs – contractual line item on the accompanying Consolidated Statements of Comprehensive Income/(Loss).

The Group has subsidiary preferred shares which are classified as a current liability. These financial instruments are assessed under IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39"), to determine if the instrument qualifies to be accounted for under the fair value through profit and loss method or the amortised cost method, this election is made on an instrument by instrument basis. If the embedded feature does not qualify for bifurcation the financial instrument will be measured at fair value through the profit and loss at each reporting period. If the embedded feature qualifies for bifurcation preferred shares are initially recognised at fair value less the value attributable to the bifurcated feature. At each reporting period the expected amount at conversion or settlement and the associated timing of any conversion is assessed. To the extent necessary, any expected additional liability is accreted to the balance of the liability over the anticipated period under the effective interest rate method.

Derivative liabilities include features within the subsidiary notes payable and subsidiary preferred shares that require bifurcation under IAS 39 and liability classified warrants. Derivative liabilities are carried at fair value with changes recognised in Finance costs line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss) (see Note 21).

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

## 1. Accounting policies — continued

**Financial instruments issued by the Group**

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

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

To the extent that this definition is not met, the financial instrument is classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in the financial information for share capital and merger reserve account exclude amounts in relation to those shares.

**Derivative and Warrant Policy**

Equity conversion features and put options within host instruments that meet the definition of a derivative and have economic and risk characteristics that are not closely related to the host are considered embedded derivatives and are required to be bifurcated from the host instrument and accounted for separately. The Group has recognised embedded derivative liabilities related to features within convertible notes and conversion features with subsidiary preferred shares. Derivative financial liabilities are initially recorded at fair value and are re-measured to fair value at each period end while such instruments are outstanding, with gains and losses arising from changes in fair value recognised in the Finance costs line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss). The embedded derivative liabilities are being valued using a probability weighted expected return model or an option pricing allocation model.

The Group derecognises the embedded derivative liability when the host instrument is extinguished or converted or when the feature no longer meets the definition of a derivative.

The Group has recognised common shares and preferred share warrants on subsidiary shares issued to investors and note holders. Warrants are recognised as derivative financial liabilities if the underlying shares are liability classified or the terms of the warrants are not fixed due to potential adjustments in the exercise price and/or the number of shares issuable under the warrants. Warrant liabilities are recorded at fair value, with gains and losses arising from changes in fair value recognised in the Finance costs line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss) at each period end while such instruments are outstanding. The warrant liabilities were valued using a Black-Scholes option pricing model.

The Group has also recognised common share warrants issued to investors which are classified in equity and initially measured at fair value using a Black-Scholes option pricing model.

**Share capital**

Ordinary shares are classified as equity. The Group is comprised of share capital, share premium, merger reserve, other reserve, translation reserve, and accumulated deficit.

**Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Assets under construction represent leasehold improvements and machinery and equipment to be used in operations or research and development activities. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is calculated using the straight-line method over the estimated useful life of the related asset:

Laboratory and manufacturing equipment	2-8 years
Furniture and fixtures	7 years
Computer equipment and software	1-5 years
Leasehold improvements	5-10 years, or the remaining term of the lease, if shorter

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

**Intangible Assets**

Intangible assets, which include purchased patents and licenses with finite useful lives, are carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the costs of patents and licenses over their estimated useful lives, which is typically the remaining life of the underlying patents.

## 1. Accounting policies — continued

**Development Costs**

Expenditures on research activities are recognised as incurred in the Consolidated Statements of Comprehensive Income/(Loss). Development costs are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, the Group intends to and has sufficient resources to complete development and to use or sell the asset, and it is able to measure reliably the expenditure attributable to the intangible asset during its development. The point at which technical feasibility is determined to have been reached is when regulatory approval has been received, where applicable. Management determines that commercial viability has been reached when a clear market and pricing point have been identified, which may coincide with achieving recurring sales. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditures considered for capitalisation include the cost of materials, direct labour and an appropriate proportion of overhead costs. Otherwise, the development expenditure is recognised as incurred in the Consolidated Statements of Comprehensive Income/(Loss).

**Taxation**

Tax on the profit or loss for the year comprises current and deferred income tax. Tax is recognised in the Consolidated Statements of Comprehensive Income/(Loss) except to the extent that it relates to items recognised directly in equity.

For the years ended 31 December 2017 and 2016, the Group filed a consolidated United States (“U.S.”) income tax return.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred taxes are recognised in Consolidated Statements of Comprehensive Income/(Loss) except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

**Impairment***Impairment of Non-Financial Assets*

The Group reviews the carrying amounts of its property and equipment and intangible assets at each reporting date to determine whether there are indicators of impairment. If any such indicators of impairment exist, then an asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. An impairment loss is recognised when an asset's carrying amount exceeds its recoverable amount. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are largely independent cash flows. If a non-financial asset instrument is impaired, an impairment loss is recognised in the Consolidated Statements of Comprehensive Income/(Loss).

*Impairment of Financial Assets Carried at Fair Value*

The Group's available-for-sale financial assets are carried at fair value through Other Comprehensive Income/(Loss) or through the profit and loss, depending on the election taken for each instrument. Available-for-sale financial assets are reviewed at each reporting period to assess whether there is objective evidence that the assets should be impaired. An impairment loss is recognised when there is a significant or prolonged decline in fair value below the instrument's cost. If an instrument is impaired, the impairment loss is calculated and recognised in the Consolidated Statements of Comprehensive Income/(Loss).

*Impairment of Financial Assets Measured at Amortised Cost*

The Group assesses financial assets measured at amortised cost for impairment at each reporting period. These financial assets are impaired if one or more loss events occur after initial recognition that impact the estimated future cash flows of the asset. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognised in the Consolidated Statements of Comprehensive Income/(Loss).

## 1. Accounting policies — continued

**Share-based Payments**

Share-based payment arrangements, in which the Group receives goods or services as consideration for its own equity instruments, are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of employee share-based payment awards is recognised as an expense with a corresponding increase in equity over the period that the employee is unconditionally entitled to the awards. The fair value is measured using an option valuation model, which takes into account the terms and conditions of the options granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

**Employee Benefits***Short-Term Employee Benefits*

Short term employee benefit obligations are measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation due to past service provided by the employee, and the obligation can be estimated reliably.

*Defined Contribution Plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**Provisions**

A provision is recognised in the Consolidated Statements of Financial Position when the Group has a present legal or constructive obligation due to a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

**Revenue Recognition**

Revenue is derived primarily from fees related to collaboration agreements, service agreements and government grants entered into or received by the Group's subsidiaries. Revenue is measured at the fair value of consideration received or receivable and is recognised in accordance with the applicable guidance.

The Group recognises revenue from services under collaboration and service agreements in the period in which the services are rendered, on a straight-line basis or assessed by the percentage of completion method over the period to which services relate. Revenue generated from collaboration and services agreements is recognised in accordance with IAS 18 Revenue when each of the following criteria for revenue recognition have been met:

- The amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably;
- The entity has transferred to the buyer the significant risks and rewards of ownership of the goods, and it is probable that the economic benefits associated with the transaction will flow to the Group; and
- When the outcome can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

The Group recognises revenue generated from government grants in accordance with IAS 20, Accounting for Governmental Grants and Disclosures of Governmental Assistance. The grants received by the Group are to be put towards research and development based on the individual subsidiaries' programs and applications. The Group recognises revenue from grants as services are rendered in conjunction with research and development, in accordance with the governing grant agreement.



## 1. Accounting policies — continued

## Deferred Revenue and Deferred Costs

Deferred revenue includes amounts that have been billed per contractual terms but has not been recognised as revenue. Deferred costs represent direct costs related to deferred revenues and include capitalised labour and research and development expenditures. The Company classifies non-current deferred revenue and deferred costs for any transaction which is expected to be recognised beyond one year or one operating cycle.

## Finance Income and Finance Costs

Finance income is comprised of interest income on funds invested in U.S. treasuries, which is recognised as it accrues in the Consolidated Statements of Comprehensive Income/(Loss) via the effective interest method. Finance costs comprise loan interest expense and the changes in the fair value of warrant and derivative liabilities associated with financing transactions.

## Fair Value Measurements

The Group's accounting policies require that its financial and non-financial assets and liabilities be measured at their fair value.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The carrying amount of cash and cash equivalents, accounts receivable, short term investments, restricted cash, deposits, accounts payable, accrued expenses and other current liabilities in the Group's consolidated statements of financial position approximates their fair value because of the short maturities of these instruments.

## Operating Leases

The Group classifies its leases at inception as either finance or operating leases, depending on whether substantially all the risks and rewards of ownership transfer to the Group. Leases where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. The Group only has operating leases during the reporting periods. Payments made under operating leases are recognised in the Consolidated Statements of Comprehensive Income/(Loss) on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## Operating Segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM reviews discrete financial information for the operating segments in order to assess their performance and is responsible for making decisions about resources allocated to the segments. The CODM has been identified as the Group's Directors.

Certain prior period amounts have been reclassified to conform with the current-period financial statement presentation.

## Equity Method Accounting

## Associates

An associate is an entity over which the Group has significant influence. Significant influence is where the Group has the power to participate in the financial and operating policy decisions of an entity but it does not control or influence joint control over those policies.

Associates are accounted for using the equity method unless the associate is classified as held for sale. Under the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post-acquisition profits and losses and other movements in the investee's reserves. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

If there is objective evidence that an associate is impaired, an impairment charge is recognised if the carrying amount of the investment exceeds its recoverable amount.

Upon loss of significant influence over an associate, any retained investment is measured at fair value with any difference to carrying value recognised in the Consolidated Statements of Comprehensive Income/(Loss).

## 2. New Standards and Interpretations Not Yet Adopted

A number of new standards, interpretations, and amendments to existing standards are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing the consolidated financial information. The Company's assessment of the impact of these new standards and interpretations is set out below.

## IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. The standard replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in Other Comprehensive Income/(Loss) for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018 and early adoption is permitted.

The Group has reviewed the financial assets and liabilities and is expecting the following impact from the adoption of the new standard:

**Financial Assets:** The Group reviewed the financial assets reported on its Consolidated Statements of Financial Position and completed an assessment between IAS 39 and IFRS 9 to identify any accounting changes. The financial assets subject to this review were: Cash and cash equivalents, U.S. Treasuries, Certificates of deposits, Other deposits, Trade and other receivables, and available-for-sale investments. Based on this assessment of the classification and measurement model, impairment, and interest income the accounting impact on financial assets is not expected to be significant.

**Financial Liabilities:** The Group reviewed the financial liabilities reported on its Consolidated Statements of Financial Position and completed an assessment between IAS 39 and IFRS 9 to identify any accounting changes. The financial liabilities subject to this review were the Subsidiary notes payable, derivative liability, warrant liability and preferred share liability. Based on this assessment of the classification and measurement model, impairment, and interest income, the accounting impact on financial liabilities is not expected to be significant. As part of the transition requirement, entities have the option upon implementation of the new standard to designate a financial liability as measured at fair value through profit or loss. The Group decided to re-assess financial liabilities accounted for under the amortised cost approach as of 31 December 2017 to determine if it qualifies for fair value through the profit and loss. The Group elected to adopt this method of accounting upon the adoption of IFRS 9, for all instruments which qualified, resulting in a cumulative catch up adjustment of \$12.2 million as shown below:

Financial Liability	IAS 39 as of 31 December 2017	Cumulative Effect Adjustment to Accumulated Deficit	IFRS 9 as of 1 January 2018
Notes Payable	7,455	6,435	13,890
Derivative Liability	114,263	(114,263)	—
Warrant Liability	13,095	—	13,095
Preferred Shares	120,051	95,584	215,635
	<b>254,864</b>	<b>(12,244)</b>	<b>242,620</b>

## IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018, and supersedes: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The standard establishes a five-step principle-based approach for revenue recognition and is based on the concept of recognising an amount that reflects the consideration for performance obligations only when they are satisfied and the control of goods or services is transferred.

The majority of the Group's limited revenue from customers is generated from licenses, services, and collaboration arrangements. During 2017, the Group completed an impact assessment of IFRS 15 and concluded that the adoption of IFRS 15 will have an insignificant impact on its consolidated results. The Group will adopt IFRS 15 with effect from 1 January 2018 using the Modified Retrospective approach.

## 2. New Standards and Interpretations Not Yet Adopted — continued

*IFRS 16, Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after 1 January 2019, and supersedes: IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases — Incentives; and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard introduces a single, on-balance sheet accounting model which requires the lessee to recognise assets representative of the right to use the leased item, and liabilities to pay rentals for all leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The Group is currently evaluating the potential impact.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 3. Revenue

Revenue recorded in the Statement of Comprehensive Income/(Loss) consists of the following:

For the years ended 31 December:	2017 \$000s	2016 \$000s
Revenue from customers	650	4,333
Grant revenue	1,885	98
<b>Total revenue</b>	<b>2,535</b>	<b>4,431</b>

Deferred revenue recorded in the Consolidated Statements of Financial Position consists of the following:

For the years ended 31 December:	2017 \$000s	2016 \$000s
Revenue from customers	1,546	2,040
Grant revenue	106	162
<b>Deferred revenue, current</b>	<b>1,652</b>	<b>2,202</b>
Grant revenue	159	203
<b>Deferred revenue, non-current</b>	<b>159</b>	<b>203</b>
<b>Total deferred revenue</b>	<b>1,811</b>	<b>2,405</b>

## 4. Operating Segments

*Basis for Segmentation*

The Directors are the Group's strategic decision makers. The Group's operating segments are reported based on the financial information provided to the Directors at least quarterly for the purposes of allocating resources and assessing performance. The Directors monitor the results of three operating segments. Each operating segment is considered a distinct unit by the Directors. The Group's operating segments, which are also reportable segments, are outlined below. Substantially all of the revenue of the Group is generated within the U.S. and accordingly, no geographical disclosures are provided.

*Growth Stage Affiliates*

Affiliates in this segment are those whose activities focus on actively developing products to solve major healthcare problems in varied markets. All affiliates shown below are included in one operating segment which is also a reportable segment:

Affiliate (alphabetical)	Principal Activities and Target Market
Akili Interactive Labs	A clinical stage affiliate developing a digital medicine platform for the treatment and assessment of cognitive dysfunction across several neurological and psychiatric indications including attention-deficit hyperactivity disorder, major depressive disorder, autism spectrum disorder, multiple sclerosis, and various neuroinflammatory diseases.
Alivio Therapeutics	A preclinical stage affiliate developing therapies to treat a range of acute and chronic inflammatory disorders via targeted disease immunomodulation.
Commense	A clinical stage affiliate developing microbiome-derived immune modulators for maternal and paediatric health.
Entrega	A preclinical stage affiliate developing a novel approach to oral delivery of biologics, vaccines, and other drugs that are otherwise not efficiently absorbed when taken orally.
Follica	A clinical stage affiliate developing an innovative platform to address androgenetic alopecia.
Gelesis	A clinical stage affiliate developing first-in-class mechanotherapeutics to treat obesity and other chronic diseases related to the gastrointestinal pathway.
Karuna Pharmaceuticals	A clinical stage affiliate developing a selective muscarinic receptor agonist programme for the treatment of psychosis and cognition across multiple central nervous system disorders including schizophrenia and Alzheimer's.
Nybo Therapeutics	A preclinical stage affiliate developing a monoclonal antibody-based therapeutic to treat pancreatic cancer and other solid tumours.
Sonde Health	A clinical stage affiliate developing a voice-based technology platform for monitoring and diagnosing mental and physical medical conditions including depression, Alzheimer's disease, multiple sclerosis, and Parkinson's disease.
The Sync Project	A clinical stage programme developing a platform and products that seek to explore and leverage the health potential of music by utilizing a platform that takes in physiological data from sensors and correlates that data with musical data components (e.g. beat and rhythm).
Vedanta Biosciences	A clinical stage affiliate developing a new category of therapies for immune-mediated and infectious diseases based on rationally-defined consortium of human microbiome-derived bacteria.
Vor BioPharma	A preclinical stage affiliate developing novel antibody and cell therapies with broad potential for treating cancer.

## 4. Operating Segments — continued

## Project Stage Programmes

Programmes in this segment are those whose activities are focused on financing, sourcing and creating new product candidates and newly created programmes whose technologies are in the process of validation. This segment includes the following programmes:

Affiliate	Principal Activities and Target Market
<b>Project stage programmes</b>	
Calix	A preclinical stage programme developing a milk exosome-based technology designed to enable the oral administration of biologics, nucleic acids (e.g. siRNA, mRNA, antisense oligonucleotides, CRISPR nucleic acid), and complex small molecules.
Glyph	A preclinical stage programme developing a lipid prodrug technology to enable lymphatic targeting.
Tal Medical	A clinical stage medical device programme developing an innovative, non-invasive neurostimulation treatment for psychiatric disorders including depression and bipolar disorder.

Post period end, Tal Medical will no longer be deemed a project stage programme due to limited operational activity. The Group expects that subsidiaries within the project stage programmes will become growth stage affiliates. Upon the transition of a project stage programme to growth stage affiliate, the Group plans to retrospectively restate operating segments as if the subsidiary had been a growth stage affiliate for all periods presented.

During 2017, Vor Biopharma and Nybo Therapeutics graduated to growth stage affiliates primarily due to successfully securing intellectual property, establishing management teams, developing a sustainable business plan, achieving some level of technological de-risking and engaging key scientific founders.

The Group has retrospectively restated 2016 segment amounts to reflect the above transitions.

## Independent Affiliate Companies

In March 2017, resTORbio completed the initial closing of its Series A Preferred stock financing, with subsequent closings in August and October 2017. The Series A financing was led by PureTech and included participation from Novartis Institutes for Biomedical Research, Inc. and OrbiMed Private Investments VI, LP ("Orbimed"). In November 2017, resTORbio closed its Series B Preferred Stock financing, which was led by OrbiMed and included participation from Fidelity Management & Research Company, Rock Springs Capital, Quan Capital and Nest Bio. As a result of these issuances, PureTech saw its voting rights and ownership percentage related to resTORbio drop from 53.79% to 44.44%, triggering a loss of control over the entity, as explained in Note 5.

Although PureTech no longer controls resTORbio, PureTech maintains significant influence over the company's strategy and the direction of the company by virtue of its large, albeit minority, ownership stake and its continued representation on resTORbio's board of directors. As such, as of year end 2017, PureTech has decided that it is appropriate to add a new operating segment for resTORbio and for further companies who follow the strategic path of resTORbio. The new segment will be called Independent Affiliate Companies. As of 31 December 2017, resTORbio was the only company in this segment.

## 4. Operating Segments — continued

	2017				
	Growth Stage Affiliates \$000s	Project Stage Programmes \$000s	Independent Affiliate Programmes \$000s	Parent Company & Other \$000s	Consolidated \$000s
<b>Consolidated Statements of Comprehensive Income/(Loss)</b>					
Revenue from customers	625	—	—	25	650
Grant revenue	1,885	—	—	—	1,885
<b>Total revenue</b>	<b>2,510</b>	<b>—</b>	<b>—</b>	<b>25</b>	<b>2,535</b>
General and administrative expenses	(26,927)	(1,363)	(1,746)	(16,247)	(46,283)
Research and development expenses	(59,950)	(1,980)	(9,179)	(563)	(71,672)
<b>Total operating expenses</b>	<b>(86,877)</b>	<b>(3,343)</b>	<b>(10,925)</b>	<b>(16,810)</b>	<b>(117,955)</b>
Other income	—	—	142,350	14	142,364
Net finance costs	(53,631)	(445)	(31,747)	5,776	(80,047)
Share of net loss of associate accounted for using the equity method	—	—	(17,608)	—	(17,608)
<b>Income/(loss) from continuing operations</b>	<b>(137,998)</b>	<b>(3,788)</b>	<b>82,070</b>	<b>(10,995)</b>	<b>(70,711)</b>
<b>Income/(loss) before taxes pre IAS 39 fair value accounting, finance cost – subsidiary preferred shares, share-based payment expense, impairment of tangible assets, depreciation of tangible assets and amortisation of intangible assets</b>					
	(79,548)	(2,382)	114,024	(6,976)	25,118
Finance costs – subsidiary preferred shares	(8,985)	(524)	—	—	(9,509)
Finance costs – IAS 39 fair value accounting	(39,993)	5	(31,747)	—	(71,735)
Share-based payment expense	(7,994)	(73)	(15)	(3,767)	(11,849)
Impairment of tangible assets	—	(637)	—	—	(637)
Depreciation of tangible assets	(1,206)	(155)	(4)	(252)	(1,617)
Amortisation of intangible assets	(272)	(22)	(188)	—	(482)
Loss before taxes	(137,998)	(3,788)	82,070	(10,995)	(70,711)
Taxation	28	—	—	(14)	14
<b>Income/(loss) for the year</b>	<b>(137,970)</b>	<b>(3,788)</b>	<b>82,070</b>	<b>(11,009)</b>	<b>(70,697)</b>
Other comprehensive income	408	—	—	1,750	2,158
<b>Total comprehensive income/(loss) for the year</b>	<b>(137,562)</b>	<b>(3,788)</b>	<b>82,070</b>	<b>(9,259)</b>	<b>(68,539)</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company	(64,918)	(3,314)	110,518	(9,259)	33,027
Non-controlling interests	(72,644)	(474)	(28,448)	—	(101,566)
<b>Consolidated Statements of Financial Position:</b>					
Total assets	78,854	1,491	129,519	129,982	339,846
Total liabilities	296,732	12,932	—	(33,815)	275,849
<b>Net assets/(liabilities)</b>	<b>(217,878)</b>	<b>(11,441)</b>	<b>129,519</b>	<b>163,797</b>	<b>63,997</b>



## 4. Operating Segments — continued

	2016			Consolidated \$000s
	Growth Stage Affiliates \$000s	Project Stage Programmes \$000s	Parent Company & Other \$000s	
Consolidated Statements of Comprehensive Income/(Loss)				
Revenue from customers	4,000	333	—	4,333
Grant revenue	98	—	—	98
Total revenue	4,098	333	—	4,431
General and administrative expenses	(18,405)	(1,988)	(16,762)	(37,155)
Research and development expenses	(35,617)	(5,256)	(332)	(41,205)
Total operating expenses	(54,022)	(7,244)	(17,094)	(78,360)
Other income	46	—	—	46
Net finance costs	(17,339)	4,469	3,571	(9,299)
Loss from continuing operations	(67,217)	(2,442)	(13,523)	(83,182)
Income/(loss) before taxes pre IAS 39 fair value accounting, finance cost – subsidiary preferred shares, share-based payment expense, depreciation of tangible assets and amortisation of intangible assets				
	(47,681)	(6,471)	(7,517)	(61,669)
Finance costs – subsidiary preferred shares	(5,817)	(551)	—	(6,368)
Finance costs – IAS 39 fair value accounting	(8,439)	5,017	—	(3,422)
Share-based payment expense	(4,186)	(187)	(5,780)	(10,153)
Depreciation of tangible assets	(769)	(228)	(226)	(1,223)
Amortisation of intangible assets	(325)	(22)	—	(347)
Loss before taxes	(67,217)	(2,442)	(13,523)	(83,182)
Taxation	1,577	8	(11)	1,574
Loss for the year	(65,640)	(2,434)	(13,534)	(81,608)
Other comprehensive loss	(91)	—	4	(87)
Total comprehensive loss for the year	(65,731)	(2,434)	(13,530)	(81,695)
Total comprehensive loss attributable to:				
Owners of the Company	(32,915)	(2,434)	(13,530)	(48,879)
Non-controlling interests	(32,816)	—	—	(32,816)
Consolidated Statements of Financial Position:				
Total assets	100,569	4,225	193,955	298,749
Total liabilities	216,568	11,577	(21,807)	206,338
Net assets/(liabilities)	(115,999)	(7,352)	215,762	92,411

The Parent commences initiatives in themes, raises capital for investment in new companies and existing subsidiaries, provides other corporate shared services and support for all subsidiaries and manages the new programme creation process.

The activity between the Parent and the reporting segments has been eliminated in consolidation. These elimination amounts are included in the Parent and other amounts shown above.

The proportion of net assets shown above that is attributable to non-controlling interest is disclosed in note 16.

The Group's revenue generated outside of the U.S. was approximately \$0.5 million and \$0.1 million for the years ended 31 December 2017 and 2016, respectively.

The Group's non-current assets consisted property and equipment of which \$1.2 million were located in Italy as of 31 December 2017 and 2016.

## Growth Stage Affiliate Valuation

The Board, in consultation with its strategic advisors and key shareholders, has decided not to disclose its internal valuations of its growth stage affiliates going forward, commencing as of 31 December 2017. The Company's view is that such disclosure, on balance, may not be in the best interests of PureTech Health and its shareholders. The Company maintains a balanced approach to valuation and the Company believes that it may be creating an artificially low external benchmark for the programmes and affiliates that may otherwise be ascribed substantially higher valuations by potential partners, investors and acquirers.

## 5. Investments in Associates

In 2016 PureTech obtained common shares from resTORbio in exchange for services, resulting in PureTech having control of the entity and resTORbio meeting the definition of a subsidiary. In March 2017, resTORbio executed a licensing agreement with Novartis through which resTORbio obtained rights to intellectual property in exchange for 2,846,791 Series A Preferred Shares. PureTech also participated in the Series A Preferred Share financing round, purchasing 9,834,369 shares for \$1.932 per share. In October 2017, the Series A Preferred Share Purchase Agreement was amended to provide for Orbimed's purchase of 3,105,590 Series A Preferred Shares at the purchase price of \$1.932 per share.

As a result of the issuances of the Preferred Shares to third party investors, PureTech's ownership percentage and corresponding voting rights related to resTORbio dropped from 53.79 per cent to 44.44 per cent, triggering a loss of control over the entity. As of November 2017, resTORbio was deconsolidated from the Group's financial statements, resulting in only the profits and losses generated by resTORbio through November 2017 being included in the Group's Consolidated Statements of Comprehensive Income/(Loss). Upon the date of deconsolidation, PureTech recognized an investment in resTORbio related to its common shares of \$17.6 million and an available-for-sale investment related to its Series A Preferred Share investment of \$72.2 million. As a result of the deconsolidation and fair value accounting for investments held on the date of deconsolidation, PureTech recorded and unrealized gain of \$85.0 million through the Consolidated Statements of Comprehensive Income/(Loss).

While the Company no longer controls resTORbio, it was concluded that PureTech still had significant influence over resTORbio by virtue of its large, albeit minority, ownership stake and its continued representation on resTORbio's board of directors. PureTech still has the power to participate in the financial and operating policy decisions of the entity although it does not control those policies. As PureTech is able to demonstrate that it has significant influence over resTORbio in December 2017, the entity will be accounted for as an associate under IAS 28 Equity Accounting ("IAS 28").

As of 31 December 2017, PureTech's investment in resTORbio was subject to equity method accounting. In accordance with IAS 28 PureTech's investment is to be adjusted by the share of profits and losses generated by resTORbio, subsequent to the date of deconsolidation. resTORbio's loss for December 2017 was greater than the initial investment recorded by PureTech upon deconsolidation, therefore the share of net loss of associate accounted for using the equity method will be constrained to the investment recognized upon deconsolidation. PureTech recognized \$17.6 million as its share of loss from resTORbio through the Consolidated Statements of Comprehensive Income/(Loss), bringing PureTech's investment to zero.

Investment in resTORbio	2017	
	Common Shares	\$000s
At 1 January	2,415,300	—
Fair value adjustment as of 30 November	—	17,607,537
Share of net loss of associate accounted for using the equity method	—	(17,607,537)
<b>At 31 December</b>	<b>2,415,300</b>	<b>—</b>

## 6. Operating Expenses

The average number of persons employed by the Group during the year, analysed by category, was as follows:

For the years ending 31 December:	2017	2016
General and administrative	56	43
Research and development	82	52
<b>Total</b>	<b>138</b>	<b>95</b>

The aggregate payroll costs of these persons were as follows:

For the years ending 31 December:	2017 \$000s	2016 \$000s
General and administrative	22,348	19,498
Research and development	18,956	10,848
<b>Total</b>	<b>41,304</b>	<b>30,346</b>

Operating expenses were as follows:

For the years ending 31 December:	2017 \$000s	2016 \$000s
Salaries and wages	26,244	16,012
Healthcare benefits	1,699	2,256
Payroll taxes	1,512	1,925
Share-based payments	11,849	10,153
<b>Total payroll costs</b>	<b>41,304</b>	<b>30,346</b>
Other SG&A expenses	23,935	17,657
Other R&D expenses	52,716	30,357
<b>Total operating expenses</b>	<b>76,651</b>	<b>48,014</b>

Total operating expenses were as follows:

For the years ending 31 December:	2017 \$000s	2016 \$000s
General and administrative	46,283	37,155
Research and development	71,672	41,205
<b>Total operating expenses</b>	<b>117,955</b>	<b>78,360</b>

Auditors remuneration:

For the years ended 31 December:	2017 \$000s	2016 \$000s
Audit of these financial statements	647	618
Audit of the financial statements of subsidiaries	254	150
Audit-related assurance services	132	111
Taxation	8	8
<b>Total</b>	<b>1,041</b>	<b>887</b>

See Note 7 for further disclosures related to share-based payments and Note 24 for management's remuneration disclosures.

## 7. Share-based Payments

### The Performance Share Plan

In June 2015, the Group adopted the Performance Share Plan ("PSP"). Under the PSP, awards of ordinary shares may be made to the Directors, senior managers and employees of, and other individuals providing services to, the Company and its subsidiaries up to a maximum authorised amount of 22,724,800 ordinary shares. The shares have various vesting terms over a period of service between two and four years, provided the recipient remains continuously engaged as a service provider. As of the years ended 31 December 2017 and 2016, the Company had issued options to purchase an aggregate of 1,486,576 and 1,241,459 shares, respectively, under this plan.

As of 31 December 2017 and 2016, options to purchase 484,306 and 207,239 shares, respectively, were exercisable. The intrinsic value of the vested portion of such options is nil and nil, respectively.

The Company had issued an aggregate of 4,648,084 and 2,592,863 restricted share units ("RSUs") under the PSP for the years ended 31 December 2017 and 2016, respectively. Each RSU entitles the holder to one ordinary share on vesting. Following vesting, each recipient will be required to make a payment of one pence per ordinary share on settlement of the RSUs. Vesting of the RSUs is subject to the satisfaction of performance conditions. The performance conditions attaching to the RSUs are based on the achievement of Total Shareholder Return ("TSR") targets (50 per cent of the awards), Net Asset Value growth targets (25 per cent of the awards) and targets based on strategic measures (25 per cent of the awards), measured over the three-year periods ended 31 December 2019 and 2018, as further described in the Directors' Remuneration Report of PureTech's 2017 Annual Report and Accounts.

The vesting of RSU grants impacts share based payments as follows:

- The share grants that vest upon the occurrence of a market condition (i.e. upon achievement of TSR targets) and service conditions were adjusted to current market price at the date of grant to reflect the effect of the market condition on the non-vested shares' value. The Company used a Monte Carlo simulation analysis utilising a Geometric Brownian Motion process with 250,000 simulations to value those shares. The model takes into account share price volatilities, risk-free rate and other covariance of comparable public companies and other market data to predict distribution of relative share performance. This is applied to the reward criteria to arrive at the expected value of the TSR awards.
- The share grants that vest only upon the occurrence of a performance condition and service conditions were valued at the fair value of the shares on the date of the grants.

In September 2016, the Company issued an additional 287,090 RSUs under the PSP. The shares have various vesting terms over a period of service of four years, provided the recipient remains continuously engaged as a service provider.

PureTech incurred share-based compensation expense of \$1.7 million and \$0.8 million for the years ended 31 December 2017 and 2016, respectively, for this plan.

### Fair Value Measurements

The fair value of the options awarded by the PureTech Directors under the PSP during the years ended 31 December 2017 and 2016 was estimated at the grant date using the Black-Scholes option valuation model, which employs the following weighted average assumptions:

Assumption/Input	2017	2016
Expected award life (in years)	5.00-6.11	5.93-6.50
Expected award price volatility	25.95%-29.56%	29.70%-29.83%
Risk free interest rate	1.92%-2.00%	1.27%-2.20%
Expected dividend yield	—	—
Grant date fair value	\$1.38-\$1.82	\$0.58-\$0.63
Share price at grant date	\$1.43-\$1.82	\$1.75-\$1.91

The Company's shares are traded on the London Stock Exchange in GBP.

Expected volatility is based on an evaluation of the historical volatility of the share price of publicly traded companies comparable to PureTech, particularly over the historical period commensurate with the expected term. As there is not sufficient historical share exercise data to calculate the expected term of the options, PureTech elected to use the 'simplified' method for all options granted at the money to value share option grants. Under this approach, the weighted average expected life is presumed to be the average of the vesting term and the contractual term of the option.

### PureTech LLC Incentive Stock Issuance

In 2014, PureTech LLC's Directors approved the issuance of shares to management, the Directors and advisors. The shares have various vesting terms over a period of service between zero and three years, provided the recipient remains continuously engaged as a service provider. The estimated fair value of shares, including the effect of estimated forfeitures, is recognised over the shares' vesting period.

At 31 December 2017, 17,993,975 shares as converted to PureTech Health ordinary shares had been granted as incentive equity by PureTech LLC and were outstanding. In addition, 16,890,406 shares were vested at year end.

## 7. Share-based Payments — continued

## Subsidiary Plans

Certain subsidiaries of the Group have adopted stock option plans. A summary of stock option activity by number of shares in these subsidiaries is presented in the following table:

	Outstanding as of 1 January 2016	Granted During the Year	Exercised During the Year	Forfeited During the Year	Outstanding as of 31 December 2016	Granted During the Year	Exercised During the Year	Expired During the Year	Forfeited During the Year	Outstanding as of 31 December 2017
Gelesis	1,711,065	817,826	(25,000)	(14,860)	2,489,031	297,500	—	—	(58,299)	<b>2,728,232</b>
Alivio	—	—	—	—	—	2,393,750	—	—	—	<b>2,393,750</b>
Akili	901,746	771,927	(74,250)	—	1,599,423	795,432	(9,500)	—	—	<b>2,385,355</b>
Commense	212,500	187,500	—	—	400,000	18,750	—	—	—	<b>418,750</b>
Entrega	1,085,000	61,500	—	(325,000)	821,500	52,500	—	—	(6,250)	<b>867,750</b>
Follica	449,505	—	—	—	449,505	1,119,283	—	(190,059)	(107,427)	<b>1,271,302</b>
Karuna	577,677	165,000	—	—	742,677	112,750	—	—	—	<b>855,427</b>
Knode	75,000	—	—	—	75,000	—	—	(45,000)	(2,500)	<b>27,500</b>
Sonde	—	—	—	—	—	57,500	—	(4,687)	(17,813)	<b>35,000</b>
Tal	1,625,936	137,870	—	—	1,763,806	—	—	(75,000)	(25,000)	<b>1,663,806</b>
The Sync Project	850,000	—	—	—	850,000	230,000	—	—	—	<b>1,080,000</b>
Vedanta Biosciences	727,500	159,750	—	(5,000)	882,250	359,764	—	(11,438)	(36,562)	<b>1,194,014</b>

The exercise prices for the options granted in 2017 were \$2.55-\$2.95, \$0.03, \$7.08, \$12.88-\$14.17, \$2.36, \$0.93, \$0.07, \$0.13, and \$0.92 for Akili, Alivio, Karuna, Vedanta Biosciences, Entrega, Follica, The Sync Project, Sonde and Commense, respectively. The exercise prices for the options granted in 2016 were \$2.46, \$3.79, \$3.44, \$12.70-\$12.88, and \$2.36 for Akili, Karuna, Tal, Vedanta Biosciences and Entrega, respectively.

## Significant Subsidiary Plan

## Gelesis 2006 Stock Option Plan

In May 2006, the Directors of Gelesis approved the 2006 Stock Incentive Plan (the "2006 Gelesis Plan") which provides for the grant of incentive stock options, nonqualified stock options, and restricted stock to employees, directors, and nonemployees of Gelesis. The 2006 Gelesis Plan expired during 2016 and, as a result, at 31 December 2016, no shares remained available for issuance under the 2006 Gelesis Plan.

## Gelesis 2016 Stock Option Plan

In September 2016, the Directors of Gelesis approved the 2016 Stock Incentive Plan (the "2016 Gelesis Plan") which provides for the grant of incentive stock options, nonqualified stock options, and restricted stock to employees, directors, and nonemployees of Gelesis. At 31 December 2017, 106,865 shares remained available for issuance under the Gelesis Plan.

The options granted under the 2016 Gelesis Plan are equity settled and expire 10 years from the grant date. In general, awards typically vest in three years but vesting conditions can vary based on the discretion of Gelesis' Directors.

Options granted under the 2016 Gelesis Plan are exercisable at a price per share not less than the fair market value of the underlying ordinary shares on the date of grant. The estimated fair value of options, including the effect of estimated forfeitures, is recognised over the options' vesting period.

Gelesis incurred share-based compensation expense of \$4.2 million and \$2.6 million for the years ended 31 December 2017 and 2016, respectively.

## Gelesis Fair Value Measurements

The fair value of the stock options awarded under the Gelesis plans was estimated at the grant date using the Black-Scholes option valuation model, taking into account the terms and conditions upon which options were granted, with the following weighted average assumptions:

Assumption/Input	2017	2016
Expected award life (in years)	<b>5.27-9.45</b>	5.66-10.00
Expected award price volatility	<b>67.0%-76.0%</b>	66.0%-76.0%
Risk free interest rate	<b>1.79%-2.39%</b>	1.13%-2.37%
Expected dividend yield	—	—
Grant date fair value	<b>\$7.83-\$10.11</b>	\$6.76-\$9.01
Share price at grant date	<b>\$11.56</b>	\$11.56

Gelesis used an average historical share price volatility based on an analysis of reported data for a peer group of comparable companies which were selected based upon industry similarities. As there is not sufficient historical share exercise data to calculate the expected term of the options, Gelesis elected to use the "simplified" method for all options granted at the money to value share option grants. Under this approach, the weighted average expected life is presumed to be the average of the vesting term and the contractual term of the option.

## Other Plans

The stock compensation expense under plans at other subsidiaries of the Group not including Gelesis was \$5.9 million and \$6.8 million for the years ended 31 December 2017 and 2016, respectively.

## Share-based Payment Expense

The following table provides the classification of the Group's consolidated share-based payment expense as reflected in the Consolidated Statements of Comprehensive Income/(Loss):

For the years ended 31 December	2017 \$000s	2016 \$000s
General and administrative	<b>7,625</b>	7,668
Research and development	<b>4,224</b>	2,485
<b>Total</b>	<b>11,849</b>	10,153

There was no income tax benefit recognised for share-based payment arrangements during the periods presented.



## 8. Finance Cost, net

The following table shows the breakdown of finance income and costs:

For the years ended 31 December	2017 \$000s	2016 \$000s
<b>Finance income</b>		
Realised gain on available-for-sale investments	—	99
Interest from financial assets not at fair value through profit or loss	1,750	1,193
<b>Total finance income</b>	<b>1,750</b>	<b>1,292</b>
<b>Finance costs</b>		
Contractual interest expense on convertible notes	(400)	(283)
Interest expense on other borrowings	(4)	(4)
Non-cash interest expense on convertible securities	(300)	(153)
Loss on extinguishment of subsidiary notes payable	—	—
Loss on extinguishment of derivatives	(18)	(301)
Gain on foreign currency exchange	169	(60)
Total finance costs – contractual	(553)	(801)
Gain/(loss) from change in fair value of warrant liability	1,847	(678)
Loss on fair value measurement of derivative liability	(73,582)	(2,744)
Total finance costs – IAS 39 fair value accounting	(71,735)	(3,422)
Total finance costs – subsidiary preferred shares	(9,509)	(6,368)
<b>Total finance costs</b>	<b>(81,797)</b>	<b>(10,591)</b>
<b>Finance costs, net</b>	<b>(80,047)</b>	<b>(9,299)</b>

See Note 22, Capital and Financial Risk Management, for further disclosure related to the loss on the fair value measurement of the derivative liability.

## 9. Earnings per Share

The basic and diluted loss per share has been calculated by dividing the income/(loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the years ended 31 December 2017 and 2016, respectively.

Income/(Loss) Attributable to Owners of the Company:

	2017		2016	
	Basic \$000s	Diluted \$000s	Basic \$000s	Diluted \$000s
Income/(loss) for the year, attributable to the owners of the Company	30,869	30,869	(48,792)	(48,792)
Income/(loss) attributable to ordinary shareholders	30,869	30,869	(48,792)	(48,792)

Weighted-Average Number of Ordinary Shares:

	2017		2016	
	Basic	Diluted	Basic	Diluted
Issued ordinary shares at 31 December	232,712,542	232,712,542	226,173,751	226,173,751
Effect of shares issued	2,819,846	2,819,846	3,338,215	3,338,215
Effect of dilutive shares	—	3,388,920	—	—
Weighted average number of ordinary shareholders	235,532,388	238,921,308	229,511,966	229,511,966

Earnings/(Loss) per Share:

	2017		2016	
	Basic	Diluted	Basic	Diluted
Basic and diluted earnings/(loss) per share	\$0.13	\$0.13	\$(0.21)	\$(0.21)

For the years ended 31 December 2017 and 2016 there were 5,727,477 and 8,860,528 shares, respectively, excluded from the computation of diluted weighted average common shares outstanding because such shares are considered anti-dilutive due to the fact that they are not vested.

## 10. Property and Equipment

Cost	Laboratory and Manufacturing Equipment \$000s	Furniture and Fixtures \$000s	Computer Equipment and Software \$000s	Leasehold Improvements \$000s	Construction in process \$000s	Total \$000s
Balance as of 1 January 2016	2,615	168	552	1,469	770	5,574
Additions, net of transfers	2,410	76	284	895	11	3,676
Reclassifications	394	34	18	324	(770)	—
Exchange differences	(74)	—	—	(12)	—	(86)
Balance as of 31 December 2016	5,345	278	854	2,676	11	9,164
Additions, net of transfers	1,251	199	399	170	72	2,091
Disposals	(763)	—	—	—	—	(763)
Deconsolidation of resTORbio	(38)	—	(1)	—	—	(39)
Reclassifications	38	—	(38)	9	(9)	—
Exchange differences	249	(8)	—	44	1	285
<b>Balance as of 31 December 2017</b>	<b>6,082</b>	<b>469</b>	<b>1,214</b>	<b>2,899</b>	<b>74</b>	<b>10,738</b>

Accumulated depreciation and impairment loss	Laboratory and Manufacturing Equipment \$000s	Furniture and Fixtures \$000s	Computer Equipment and Software \$000s	Leasehold Improvements \$000s	Construction in process \$000s	Total \$000s
Balance as of 1 January 2016	(577)	(89)	(215)	(174)	—	(1,055)
Depreciation	(791)	(27)	(100)	(305)	—	(1,223)
Exchange differences	31	—	—	7	—	38
Balance as of 31 December 2016	(1,337)	(116)	(315)	(472)	—	(2,240)
Depreciation	(1,039)	(56)	(213)	(309)	—	(1,617)
Disposals	126	—	—	—	—	126
Deconsolidation of resTORbio	3	—	—	—	—	3
Reclassifications	—	—	—	—	—	—
Exchange differences	(113)	(3)	(6)	(26)	—	(148)
<b>Balance as of 31 December 2017</b>	<b>(2,360)</b>	<b>(175)</b>	<b>(534)</b>	<b>(807)</b>	<b>—</b>	<b>(3,876)</b>

Property and Equipment, net	Laboratory and Manufacturing Equipment \$000s	Furniture and Fixtures \$000s	Computer Equipment and Software \$000s	Leasehold Improvements \$000s	Construction in process \$000s	Total \$000s
Balance as of 31 December 2016	4,008	162	539	2,204	11	6,924
<b>Balance as of 31 December 2017</b>	<b>3,722</b>	<b>294</b>	<b>680</b>	<b>2,092</b>	<b>74</b>	<b>6,862</b>

Depreciation of property and equipment is included in the “General and administrative expenses” and “Research and development expenses” line items in the Consolidated Statements of Comprehensive Income/(Loss). During 2017, the Group determined that certain fixed assets within its project stage programmes were rendered obsolete. The Company recorded an impairment charge of \$0.6 million to reduce the carrying amount to zero. The impairment charge is included in Research and development expense line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss).

### 11. Intangible Assets

Intangible assets consist of licenses of intellectual property acquired by the Group through various agreements with third parties and are recorded at the value of cash and non-cash consideration transferred. Information regarding the cost and accumulated amortisation of intangible assets is as follows:

Cost	Licenses \$000s
Balance at 1 January 2016	4,938
Additions	—
Balance at 31 December 2016	4,938
Additions	5,080
Deconsolidation of resTORbio	(5,000)
<b>Balance at 31 December 2017</b>	<b>5,018</b>
Accumulated amortisation	Licenses \$000s
Balance at 1 January 2016	(1,067)
Amortisation	(347)
Balance at 31 December 2016	(1,414)
Amortisation	(482)
Deconsolidation of resTORbio	187
<b>Balance at 31 December 2017</b>	<b>(1,709)</b>
Intangible assets, net	Licenses \$000s
Balance at 31 December 2016	3,524
<b>Balance at 31 December 2017</b>	<b>3,309</b>

Amortisation expense is included in the Research and development expenses line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss). Amortisation expense, recorded using the straight-line method, was approximately \$0.5 million and \$0.3 million for the years ended 31 December 2017 and 2016, respectively.

### 12. Available-for-Sale Investments

Available-for-sale financial assets include both unlisted and listed securities held by PureTech. These investments are initially measured at fair value and are subsequently re-measured at fair value at each reporting date.

	\$000s
Balance at 1 January 2016	79
Gain – other comprehensive income/(loss)	4
Balance at 31 December 2016	83
resTORbio deconsolidation (Note 5)	72,184
Gain – comprehensive income/(loss)	1,750
Gain – fair value through profit and loss	57,334
<b>Balance at 31 December 2017</b>	<b>131,351</b>

### 13. Other Financial Assets

As of 31 December	2017 \$000s	2016 \$000s
Restricted cash	927	897
<b>Total other financial assets</b>	<b>927</b>	<b>897</b>

Other financial assets consists of restricted cash held, which represents amounts that are reserved as collateral against letters of credit with a bank that are issued for the benefit of a landlord in lieu of a security deposit for office space leased by the Group.

### 14. Equity

Total equity for PureTech as of 31 December 2017 and 2016 was as follows:

Equity	31 December 2017 \$000s	31 December 2016 \$000s
Share capital, £0.01 par value, issued and fully paid 237,959,889 and 232,712,542 as of 31 December 2017 and 2016, respectively	4,679	4,609
Merger reserve	138,506	138,506
Share premium	181,588	181,658
Translation reserve	224	(184)
Other reserves	17,178	13,412
Accumulated deficit	(127,873)	(160,335)
<b>Equity attributable to owners of the Group</b>	<b>214,302</b>	<b>177,666</b>
Non-controlling interests	(150,305)	(85,255)
<b>Total equity</b>	<b>63,997</b>	<b>92,411</b>

Shareholders are entitled to vote on all matters submitted to shareholders for a vote. Each ordinary share is entitled to one vote. Each ordinary share is entitled to receive dividends when and if declared by the Company's Directors. The Company has not declared any dividends in the past.

Other reserves comprise the cumulative credit to share-based payment reserves corresponding to share-based payment expenses recognised through Consolidated Statements of Comprehensive Income/(Loss).

### 15. Subsidiary Preferred Shares

Certain of the Group's subsidiaries have outstanding preferred shares which have been classified as a liability in accordance with IAS 39 as the subsidiaries have a contractual obligation to deliver: 1) cash or other assets to the holders under certain future events; and/or 2) a requirement to deliver an uncertain number of common shares upon conversion. The preferred shares do not contain mandatory dividend rights. The preferred shares are convertible into common shares of the subsidiary at the option of the holder and mandatorily convertible into common shares of the subsidiary upon its listing on a public market at a price above those specified in the subsidiary's charter or upon the vote of the holders of a majority of the subsidiary preferred shares. Under certain scenarios the number of common shares receivable on conversion will change.

In accordance with IAS 39 when the conversion feature qualifies for bifurcation it has been accounted for as a derivative liability at fair value with the residual proceeds allocated to the subsidiary preferred shares at issuance. When the conversion feature does not qualify for bifurcation the preferred shares are recorded at fair value and adjusted through the profit and loss. The preferred shares are entitled to a vote with the holders of common stock on an as converted basis. The holders of the preferred shares are entitled to a liquidation preference amount in the event of a liquidation or a sale of the respective subsidiary.

The Group recognises the preferred share balance upon the receipt of cash financing or upon the conversion of notes into preferred shares at the amount received or carrying balance of any notes and derivatives converted into preferred shares. Preferred shares are not allocated shares of the subsidiary losses.

The following summarises the subsidiary preferred share balance:

As of 31 December	2017 \$000s	2016 \$000s
Akili	19,935	18,465
Entrega	2,071	—
Follica	465	159
Gelesis	58,714	56,333
Karuna	5	—
The Sync Project	1,734	—
Tal	11,219	10,695
Vedanta Biosciences	25,908	11,285
<b>Total subsidiary preferred share balance</b>	<b>120,051</b>	<b>96,937</b>

As is customary, in the event of any voluntary or involuntary liquidation, dissolution or winding up of a subsidiary, the holders of subsidiary preferred shares which are outstanding shall be entitled to be paid out of the assets of the subsidiary available for distribution to shareholders and before any payment shall be made to holders of common shares. A merger, acquisition, sale of voting control or other transaction of a subsidiary in which the shareholders of the subsidiary do not own a majority of the outstanding shares of the surviving company shall be deemed to be a liquidation event. Additionally, a sale, lease, transfer or other disposition of all or substantially all of the assets of the subsidiary shall also be deemed a liquidation event.

The minimum liquidation preference that would be payable to the third-party subsidiary preferred holders upon a liquidation event of the subsidiaries is as follows:

As of 31 December	2017 \$000s	2016 \$000s
Akili	21,972	21,972
Entrega	2,216	—
Follica	2,020	2,020
Gelesis	60,490	60,490
Karuna	413	413
The Sync Project	1,998	—
Tal	11,430	11,430
Vedanta Biosciences	30,295	15,445
<b>Total minimum liquidation preference</b>	<b>130,834</b>	<b>111,770</b>

### 15. Subsidiary Preferred Shares — continued

For the two-year period ended 31 December 2017, the Group recognised the following changes in the value of subsidiary preferred shares:

	\$000s
Balance at 1 January 2016	65,502
Issuance of new preferred shares	27,655
Value of derivatives at issuance	(2,588)
Accretion	6,368
Balance at 31 December 2016	96,937
Issuance of new preferred shares	24,969
Value of derivatives at issuance	(364)
Increase in value of preferred shares measured at fair value	31,747
Deconsolidation of resTORbio	(42,747)
Accretion	9,509
<b>Balance at 31 December 2017</b>	<b>120,051</b>

#### 2017

In January 2017, Vedanta closed the second tranche of its Series B Preferred Stock financing for gross proceeds of \$24.9 million with \$9.9 million from outside investors.

Between January and May 2017, Sync received \$1.1 million from outside investors through the issuance of convertible notes, which is included as proceeds from issuance of convertible notes in the Consolidated Statement of Cash Flows. In May 2017, these notes, plus accrued interest, converted into preferred shares in accordance with the terms of the notes.

Between September and December 2017, Sync received an additional \$0.8 million through the issuance of Series A-2 Preferred Stock, of which PureTech invested \$0.3 million.

In December 2017, Entrega closed a Series A-2 Preferred Stock financing in which Eli Lilly invested \$2.0 million in conjunction with its entry into a Research Collaboration Agreement with Entrega, pursuant to which Eli Lilly will contribute a total of \$3.0 million to Entrega through 2020.

In March 2017, resTORbio executed a licensing agreement with Novartis through which resTORbio obtained rights to intellectual property in exchange for preferred shares which were valued at \$5.0 million. Between March and October 2017, resTORbio issued Series B Preferred Stock for aggregate proceeds of \$25.0 million, of which PureTech invested \$19.0 million. Upon closing of resTORbio's Series B financing, the subsidiary was deconsolidated from PureTech (see Note 5).

#### 2016

During 2016, Akili issued Series B Preferred Stock for aggregate proceeds of \$42.4 million, of which PureTech invested \$25.0 million.

In June 2016, Vedanta Biosciences closed a \$50.0 million Series B Preferred Stock financing in which PureTech invested \$30.0 million. Of the \$50.0 million, \$25.0 million was funded in 2016, with \$15.0 million of that amount contributed by PureTech. The remaining \$24.9 million was received in January 2017, with \$15.0 million of that amount contributed by PureTech. Also, in conjunction with this transaction, preferred shares were issued upon conversion of \$0.6 million of outstanding convertible notes.

### 16. Non-Controlling Interest

The following summarises the changes in the equity classified non-controlling ownership interest in subsidiaries by reportable segment:

	Growth Stage Affiliates \$000s	Project Stage Programmes \$000s	Independent Affiliate Programmes \$000s	Total \$000s
Balance at 1 January 2016	(56,842)	8	—	(56,834)
New funds into non-controlling interest	—	—	—	—
Share of comprehensive loss	(32,816)	—	—	(32,816)
Equity settled share based payments	4,395	—	—	4,395
Balance at 31 December 2016	(85,263)	8	—	(85,255)
New funds into non-controlling interest	—	—	—	—
Share of comprehensive loss	(72,643)	(474)	(28,449)	(101,566)
Deconsolidation of affiliate	—	—	28,449	28,449
Equity settled share based payments	7,994	73	—	8,067
<b>Balance at 31 December 2017</b>	<b>(149,912)</b>	<b>(393)</b>	<b>—</b>	<b>(150,305)</b>



**16. Non-Controlling Interest** — continued

The impact of the deconsolidation of resTORbio results in no net impact to the Consolidated Statements of Financial Position. Please refer to Note 5 Investment in Associates.

The following table summarises the financial information related to the Group's subsidiaries with material non-controlling interests, aggregated for interests in similar entities, and before intra group eliminations.

	2017			2016	
	Growth Stage Affiliates \$000s	Project Stage Programmes \$000s	Independent Affiliate <sup>(1)</sup> Programmes \$000s	Growth Stage Affiliates \$000s	Project Stage Programmes \$000s
For the year ended 31 December:					
<b>Statement of Comprehensive Income/(Loss)</b>					
Total revenue	1,225	—	—	98	—
Loss for the year	(97,257)	(485)	(42,672)	(49,620)	(12)
Other comprehensive income/(loss)	408	—	—	(91)	—
Total comprehensive loss for the year	(96,849)	(485)	(42,672)	(49,711)	(12)
<b>Statement of Financial Position</b>					
Total assets	14,800	428	—	50,495	420
Total liabilities	213,028	494	—	165,278	2
Net assets/(liabilities)	(198,228)	(66)	—	(114,783)	418

1 Independent affiliate non-controlling interest calculation does not include the gain or equity method accounting related to resTORbio, which is recorded within PureTech Health LLC. Refer to Note 5.

**17. Subsidiary Notes Payable**

The notes payable balance consists of the following:

	2017 \$000s	2016 \$000s
As of 31 December		
Loans	2,547	2,549
Convertible notes	4,908	4,404
<b>Total subsidiary notes payable</b>	<b>7,455</b>	<b>6,953</b>

**Loans**

In October 2010, Follica entered into a loan and security agreement with Lighthouse Capital Partners VI, L.P. ("Lighthouse Capital"). The loans are secured by Follica's assets, including Follica's intellectual property, and totalled approximately \$1.3 million for the years ending 31 December 2017 and 2016.

In May 2014, Gelesis entered into a grant and loan agreement with an Italian economic development agency. Borrowings under the loan totalled €1.1 million and €1.3 million at 31 December 2017 and 2016, respectively (approximately \$1.3 million at 31 December 2017 and 2016). The loan bears interest at 0.33% per year. Gelesis was required to make interest payments only in fiscal years 2014 and 2015, with principal and interest payments from January 2016 through January 2024.

Funds awarded under the grant may be revoked if irregularities are identified during inspection of costs by the Italian economic development agency or for failure to implement or comply with the project plan or to achieve the objectives of the project plan for reasons within Gelesis' control. In the event of a revocation of the grant, Gelesis would be required to repay the loan immediately, including accrued interest.

**Convertible Notes**

Certain of the Group's subsidiaries have issued convertible promissory notes ("Notes") to fund their operations with an expectation of an eventual share-based award settlement of the Notes.

Substantially all Notes become due and payable on or after either 31 December of the year of issuance or on the thirtieth day following a demand by the majority of Note holders and bear interest at a rate of either 8.0% (or 12.0% upon an Event of Default) or 10.0% (or 15.0% upon an Event of Default). Interest is calculated based on actual days elapsed for a 360-day calendar year. Generally, the Notes cannot be prepaid without approval from the holders of a majority of the outstanding principle of a series of Notes.

The Notes constitute complex hybrid instruments, which contain equity conversion features where holders may convert, generally at a discount, the outstanding principal and accrued interest into shares of the subsidiary before maturity and redemption options upon a change of control of the respective subsidiary. The three key features are described below:

- Automatic conversion feature – upon a Qualified Financing, the unpaid principal and interest amounts are automatically converted into shares of the subsidiary issued in the Qualified Financing at a conversion price equal to the price shares are sold in such Qualified Financing, less a discount. The discounts range from 5.0% to 25.0% and some require the issuance of an equal number of common shares.
- Optional conversion feature – upon a Non- Qualified Financing, holders may convert the outstanding principal balance and unpaid interest to shares issued in the Non-Qualified Financing at a conversion price equal to the price shares are sold in such Non-Qualified Financing, less a discount. The discounts range from 5.0% to 25.0 % and some require the issuance of an equal number of common shares.
- Change of control features – The Notes also generally contain a put option such that, in the event of a Change of Control transaction of the respective subsidiary prior to conversion or repayment of the Notes, the holders will be paid an amount equal to two or three times the outstanding principal balance plus any accrued and unpaid interest, in cash, on the date of the Change of Control.

The conversion features and put option represent embedded derivative instruments requiring bifurcation from the debt instruments under IAS 39, Financial Instruments: Recognition and Measurement. The embedded derivatives are accounted for as liability components, separate from the host debt.

Convertible Notes outstanding were as follows:

	Vedanta Biosciences \$000s	Karuna \$000s	Follica \$000s	Entrega \$000s	Knobe \$000s	Endra, Inc. \$000s	Sync \$000s	Total \$000s
1 January 2016	75	2,149	200	125	50	75	—	2,674
Gross principle	—	1,800	250	—	—	—	10	2,060
Discount	—	(408)	—	—	—	—	—	(408)
Accretion	—	153	—	—	—	—	—	153
Conversion	(75)	—	—	—	—	—	—	(75)
Repayment	—	—	—	—	—	—	—	—
31 December 2016	—	3,694	450	125	50	75	10	4,404
Gross principle	—	404	1,132	—	—	—	1,080	2,616
Discount	—	(71)	(1,127)	—	—	—	—	(1,198)
Accretion	—	262	39	—	—	—	—	301
Conversion	—	—	—	(125)	—	—	(1,090)	(1,215)
Repayment	—	—	—	—	—	—	—	—
<b>31 December 2017</b>	<b>—</b>	<b>4,289</b>	<b>494</b>	<b>—</b>	<b>50</b>	<b>75</b>	<b>—</b>	<b>4,908</b>

In conjunction with its June 2016 private financing, Vedanta Biosciences converted \$0.1 million of notes payable plus accrued interest into preferred shares.

In August 2015, Karuna entered into an agreement pursuant to which it could borrow up to \$3.8 million from The Wellcome Trust subject to meeting certain development milestones. At 31 December 2017, Karuna had met all development milestones and was issued the entire \$3.8 million of the notes, \$0.4 million of which were issued during 2017. The notes bear interest at an annual rate of 2.0% plus 3-month LIBOR (1.61% as of 31 December 2017), mature 20 days after demand by the holder, are convertible into equity upon a qualifying financing event and require payment of the outstanding principal and accrued interest upon a change of control transaction.

In March 2016, Follica received \$0.3 million from an existing third-party investor through the issuance of convertible notes. The notes bear interest at an annual rate of 10.0%, mature 30 days after demand by the holder, are convertible into equity upon a qualifying financing event and require payment of at least three times outstanding principal and accrued interest upon a change of control transaction.

In May 2017 and September 2017, Follica received \$0.5 million and \$0.6 million, respectively, from an existing third-party investor through the issuance of convertible notes. The notes bear interest at an annual rate of 10%, mature 30 days after demand by the holder, are convertible into equity upon a qualifying financing event and require payment of at least five times outstanding principal and accrued interest upon a change of control transaction.

In conjunction with its December 2017 private financing, Entrega converted \$0.2 million of notes payable plus accrued interest into preferred shares.

Between January 2017 and May 2017, Sync received \$1.1 million from outside investors through the issuance of convertible notes. In May 2017, these notes, plus accrued interest, converted into preferred shares in accordance with the terms of the notes.

## 18. Subsidiary Warrants

The following is a summary of the outstanding warrants exercisable for subsidiary shares related to various borrowings, share issuances and business transactions:

Issued	Classification	Exercisable for	Number of Shares	Recorded value as at 31 December:	
				2017 \$000s	2016 \$000s
<b>Gelesis and Gelesis LLC</b>					
Aug-08	Equity	Common Shares	1,314	6	6
May-09	Equity	Common Shares	1,314	6	6
May-09	Equity	Common Shares	1,501	1	1
Nov-09	Equity	Common Shares	28,361	18	18
Apr-11	Liability	Series A-1 Preferred Shares	—	828	699
Jun-12	Liability	Series A-3 Preferred Shares	238,190	3,280	3,025
Aug-13	Liability	Series A-4 Preferred Shares	719,677	8,763	8,081
Aug-13	Equity	Common Shares	719,677	52	52
<b>Follica</b>					
Jul-13	Liability	Preferred Shares	2,263,508	181	2,538
Aug-13	Liability	Preferred Shares	193,023	15	216
Jan-14	Liability	Preferred Shares	193,023	15	217
Oct-14	Liability	Preferred Shares	146,697	13	166
Dec-15	Equity	Common Shares	19,688	20	20
<b>Total Liabilities</b>				<b>13,095</b>	<b>14,942</b>
<b>Total Equity</b>				<b>103</b>	<b>103</b>

In connection with obtaining various amendments to its 2008 Loan, Gelesis issued the following warrants:

- In 2008 and 2009, Gelesis issued warrants to purchase 1,314 and 1,314 shares of its common stock, respectively, at an exercise price of \$59.94 per share. The warrants expire upon the earlier of (i) 10 years from the issuance date, (ii) five years after the effective date of an initial public offering of Gelesis, or (iii) a sale of Gelesis.
- A warrant was issued in 2009, amended in 2009 and in 2011, ultimately for 1,501 shares of common stock at an exercise price of \$0.56 per share. The warrants terminate upon the earlier of (i) 7 May 2019, (ii) five years after the effective date of an initial public offering of Gelesis, or (iii) the sale of Gelesis.
- In 2009, Gelesis issued a warrant to purchase 28,361 shares of Gelesis' common stock and in 2011 the warrant exercise price was amended to \$0.56 per share. The warrant terminates upon the earlier of (i) 30 November 2019, (ii) three years after the effective date of an initial public offering of Gelesis, or (iii) a sale of Gelesis.
- In 2011, Gelesis issued a warrant to purchase shares of Series A-1 preferred stock at an exercise price equal to the lower of \$4.44 per share or the price per share received in the first sale of shares of Gelesis' stock resulting in at least \$5 million gross proceeds to Gelesis. The warrant is exercisable for the number of shares of Series A-1 preferred stock equal to \$332,000 divided by the exercise price of the warrant. The warrant terminates upon the earlier of (i) 27 April 2021, (ii) three years after the effective date of an initial public offering of Gelesis, or (iii) a sale of Gelesis. The fair value of the warrants was \$0.8 million and \$0.7 million at 31 December 2017 and 2016, respectively.

In June 2012, in connection with an amendment to a master purchase and licensing agreement with one of its customers, in exchange for the right to expand the field use of the intellectual property purchased, Gelesis issued fully vested warrants to purchase 238,190 shares of Series A-3 preferred stock at an exercise price of \$0.04 per share. The warrant is subject to automatic exercise upon a deemed liquidation event. The warrants expire in June 2022. The warrants were amended in December 2014 and became exercisable upon completion of Gelesis' acquisition of a particular company in February 2015.

The fair value of the warrants was approximately \$0.7 million at the date of issuance and was recorded as an intangible license asset, and a corresponding warrant liability. The fair value of the warrants was \$3.3 million and \$3.0 million at 31 December 2017 and 2016, respectively.

In February 2015, warrants were issued to purchase 719,677 shares of Series A-4 convertible preferred stock at an exercise price of \$0.04 per share pursuant to a contingency included as part of the issuance of Series A-4 convertible preferred stock in 2013.

The warrants were classified as a liability and recorded at fair value, which was estimated at \$1.5 million at the date of issuance. The fair value of the warrants was \$8.8 million and \$8.1 million at 31 December 2017 and 2016, respectively.

The following weighted average assumptions were used to determine the fair value of Gelesis's warrants at 31 December 2017:

Assumption/Input	Series A-1 Warrants	Series A-3 Warrants	Series A-4 Warrants
Expected term	3.3 years	4.5 years	5.6 years
Expected volatility	91.0%	80.0%	77.0%
Risk free interest rate	2.01%	2.15%	2.23%
Expected dividend yield	—	—	—
Estimated fair value of the convertible preferred stock	\$13.80	\$13.80	\$13.80
Exercise price of warrants	\$4.44	\$0.04	\$0.04

The following weighted average assumptions were used to determine the fair value of the warrants at 31 December 2016:

Assumption/Input	Series A-1 Warrants	Series A-3 Warrants	Series A-4 Warrants
Expected term	4.3 years	5.5 years	6.6 years
Expected volatility	58.0%	58.0%	61.0%
Risk free interest rate	1.70%	2.01%	2.25%
Expected dividend yield	—	—	—
Estimated fair value of the convertible preferred stock	\$12.73	\$12.73	\$12.73
Exercise price of warrants	\$4.44	\$0.04	\$0.04

In connection with various amendments to its 2010 Loan and Security Agreement, Follica issued preferred share warrants at various dates in 2013 and 2014. Each of the warrants has an exercise price of \$0.1425 and a contractual term of 10 years from the date of issuance. The warrants issued in 2013 and 2014 were deemed to have no value at the time of their issuance. In 2017, in conjunction with the issuance of convertible notes, the exercise price of the warrants was adjusted to \$0.07 per share. The warrant liability has been marked to market at each subsequent reporting date and at 31 December 2017 and 2016 the warrants were deemed to have a value of \$0.2 million and \$3.1 million, respectively.

Follica issued a warrant in 2015 for 19,688 shares of common stock at an exercise price of \$0.75 per share. The warrant is classified within equity and expires on 14 December 2020.

The following weighted average assumptions were used to determine the fair value of Follica's warrants at 31 December:

Assumption/Input	2017	2016
Expected term	5.56-6.80	6.56-7.80
Expected volatility	44.12%-45.72%	47.84%-50.49%
Risk free interest rate	2.14%-2.20%	2.09%-2.22%
Expected dividend yield	—	—
Estimated fair value of the convertible preferred stock	\$0.13	\$1.24
Exercise price of warrants	\$0.07	\$0.14

## 19. Trade and Other Payables

As of 31 December	2017 \$000s	2016 \$000s
Trade payables	3,394	2,077
Accrued expenses	12,964	9,044
<b>Total trade and other payables</b>	<b>16,358</b>	<b>11,121</b>

## 20. Leases

Office and laboratory space is rented under non-cancellable operating leases. These lease agreements contain various clauses for renewal at the Group's option and, in certain cases, escalation clauses typically linked to rates of inflation.

Minimum rental commitments under non-cancellable leases were payable as follows:

As of 31 December	2017 \$000s	2016 \$000s
Within one year	2,055	1,530
Between one and five years	5,990	5,831
More than five years	760	2,562
<b>Total minimum lease payments</b>	<b>8,805</b>	<b>9,923</b>

Total rent expense under these leases was approximately \$2.5 million and \$1.3 million during the years ended 31 December 2017 and 2016, respectively. Rent expense is included in the General and administrative expenses line item in the Consolidated Statements of Comprehensive Income/(Loss).

## 21. Financial Instruments and Related Disclosures

Subsidiary notes payable are initially recognised at fair value less the value attributed to any separately accounted embedded derivatives. After initial recognition these financial liabilities are measured at amortised cost using the effective interest method. The amortisation is included in the Finance costs- contractual line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss).

In the case of subsidiary preferred shares classified as a current liability, the expected amount at conversion or settlement and the associated timing of any conversion is assessed at each reporting period. To the extent necessary, any expected additional liability is accreted to the balance of the liability over the anticipated period under the effective interest rate method.

The derivative and warrant liabilities are carried at fair value with changes recognised in the Finance costs, net line item in the accompanying Consolidated Statements of Comprehensive Loss. The Group's assumptions for the estimate of the derivative liability's fair value are listed below. Also, refer to note 18 for the assumptions used to estimate the warrant's fair value.

Financial instruments by category at 31 December:

	2017					
	Carrying Amount		Fair Value			
	Financial Assets \$000s	Financial Liabilities \$000s	Level 1 \$000s	Level 2 \$000s	Level 3 \$000s	Total \$000s
<b>Financial assets</b>						
Cash and cash equivalents	72,649	—	72,649	—	—	72,649
U.S. Treasuries	116,098	—	116,098	—	—	116,098
Certificates of deposit	927	—	—	927	—	927
Other deposits	73	—	—	73	—	73
Loans and receivables:						
Trade and other receivables	1,797	—	—	1,797	—	1,797
<b>Total financial assets</b>	<b>191,544</b>	<b>—</b>	<b>188,747</b>	<b>2,797</b>	<b>—</b>	<b>191,544</b>
<b>Financial liabilities</b>						
Subsidiary warrant liability	—	13,095	—	—	13,095	13,095
Subsidiary derivative liability	—	114,263	—	—	114,263	114,263
Subsidiary financial instruments measured at fair value	—	2,071	—	—	2,071	2,071
Financial liabilities measured at amortised cost:						
Subsidiary preferred shares	—	117,980	—	—	117,980	117,980
Subsidiary notes payable	—	7,455	—	7,455	—	7,455
<b>Total financial liabilities</b>	<b>—</b>	<b>254,864</b>	<b>—</b>	<b>7,455</b>	<b>247,409</b>	<b>254,864</b>

	Carrying amount		2016			
	Financial Assets \$000s	Financial Liabilities \$000s	Level 1 \$000s	Level 2 \$000s	Level 3 \$000s	Total \$000s
<b>Financial assets</b>						
Cash and cash equivalents	62,959	—	62,959	—	—	62,959
U.S. Treasuries	218,510	—	218,510	—	—	218,510
Certificates of deposit	897	—	—	897	—	897
Other deposits	65	—	—	65	—	65
Loans and receivables:						
Trade and other receivables	125	—	—	125	—	125
<b>Total financial assets</b>	<b>282,556</b>	<b>—</b>	<b>281,469</b>	<b>1,087</b>	<b>—</b>	<b>282,556</b>
<b>Financial liabilities</b>						
Subsidiary warrant liability	—	14,942	—	—	14,942	14,942
Subsidiary derivative liability	—	71,240	—	—	71,240	71,240
Financial liabilities measured at amortised cost:						
Subsidiary preferred shares	—	96,937	—	—	96,937	96,937
Subsidiary notes payable	—	6,953	—	6,953	—	6,953
<b>Total financial liabilities</b>	<b>—</b>	<b>190,072</b>	<b>—</b>	<b>6,953</b>	<b>183,119</b>	<b>190,072</b>

The embedded derivatives associated with the subsidiary convertible promissory notes, the subsidiary financial instruments measured at fair value and the conversion option within the subsidiary preferred shares are accounted for as liabilities and are marked to fair value at each reporting period. The fair value of the embedded derivative liability and financial instruments measured at fair value at inception, 31 December 2017 and 2016 was determined using a probability weighted present value technique, which includes unobservable ("Level 3") inputs supported by little or no market activity, such as time to the next qualified equity financing, implied discount rate, and probability of a qualified financing, or an option pricing allocation method. Based on existing business plans, the Group also contemplated future equity raises and the impact on the valuation of the embedded derivative liability if the stock value is below the exercise price at the estimated date of the projected future capital raise.

A summary of the changes in the Group's embedded derivative and warrant liabilities measured at fair value using significant Level 3 inputs as of and for the years ended 31 December 2017 and 2016 is as follows:

	Derivative Liability-Preferred Stock Conversion \$000s	Derivative Liability-Convertible Notes \$000s	Warrant Liability \$000s
Balance at 1 January 2016	65,164	337	14,263
Value of derivatives at issuance	2,588	408	—
Change in fair value	2,440	303	679
Balance at 31 December 2016	70,192	1,048	14,942
Value of derivatives at issuance	364	2,245	—
Change in fair value	38,678	1,736	(1,847)
<b>Balance at 31 December 2017</b>	<b>109,234</b>	<b>5,029</b>	<b>13,095</b>

The change in the fair value of derivatives and warrants is recorded in the Finance costs, net line item in the accompanying Consolidated Statements of Comprehensive Income/(Loss).

At each measurement date, the fair value of the conversion rights embedded in the preferred shares was determined using a with and without framework which consisted of a three-step process. First, the value of each business within the Group was determined using a discounted cash flow model or guideline transaction method, or through a recent arm's length financing round.

Second, the principal methods that the Group applies for the allocation of value are the Option Pricing Method ("OPM") and the Probability-Weighted Expected Return Method ("PWERM").

The OPM treats common stock or derivatives as call options on the enterprise's value or overall equity value. The value of a security is based on the optionality over and above the value of securities that are senior in the capital structure (e.g. preferred stock), which takes into consideration the dilutive effects of subordinate securities. In the OPM, the exercise price is based on a comparison with the overall equity value rather than per-share value.



## 21. Financial instrument and Related Disclosures — continued

The PWERM estimates the value of equity securities based on an analysis of various discrete future outcomes, such as an IPO, merger or sale, dissolution, or continued operation as a private or public enterprise until a later exit date. The equity value today is based on the probability-weighted present values of expected future investment returns, considering each of the possible outcomes available to the enterprise, as well as the rights of each security class.

Third, the fair value of conversion rights was calculated as the difference of value between the concluded values of preferred shares with and without the conversion rights.

For financial instruments measured at fair value, the change in the value of the entire instrument as determined through the option pricing model is reflected through profit and loss.

Quantitative information about the significant unobservable inputs used in the fair value measurement of the Group's embedded derivative liability related to the subsidiary preferred shares designated as Level 3 is as follows:

## Option Pricing Model Inputs

Measurement Date	Range of Values		
	Expiration Date	Volatility	Risk Free Rate
28/02/2014	3.5 years	60.00%	0.94%
31/03/2014	5.0 years	75.00%	1.73%
31/12/2014	2.0-5.0 years	60.00%	0.67%-1.65%
30/06/2015	1.5-4.5 years	35.00%-65.00%	0.48%-1.53%
31/12/2015	1.5-4.0 years	35.00%-60.00%	0.86%-1.54%
31/12/2016	1.5-5.0 years	35.00%-80.00%	1.03%-1.93%
31/12/2017	1.0-3.5 years	50.00%-80.00%	1.70%-2.04%

## Probability Weighted Expected Return Method Inputs

Measurement Date	Range of Values	
	Time to Anticipated Exit Event	Probability of IPO/M&A/ Dissolution Sale
31/03/2014	1.0 years	40.0%/45.0%/15.0%
31/12/2014	0.33 years	70.0%/25.0%/15.0%
30/06/2015	0.38-0.50 years	70.0%/30.0%/0.0%
31/12/2015	1.33 years	70.0%/30.0%/0.0%
31/12/2016	1.16-1.41 years	40.0%/60.0%/0.0%
31/12/2017	0.37-1.83 years	50.0%/50.0%/0.0%

Quantitative information about the significant unobservable inputs used in the fair value measurement of the Group's embedded derivative liability related to the convertible notes designated as Level 3 is as follows:

Significant Unobservable Inputs	Range of Values		
	At Issuance	2017	2016
Time to next qualified equity financing	1.00-2.03 years	<b>0.33-1.50 years</b>	0.17-1.50 years
Implied discount rate	11.3%-2,459.0%	<b>10.8%-44.9%</b>	9.3%-39.5%
Probability of a qualified financing or change of control	0.0%-100.0%	<b>95.0%-100.0%</b>	50.0%-95.0%

Valuation policies and procedures are regularly monitored by the Company's finance group. Fair value measurements, including those categorised within Level 3, are prepared and reviewed on their issuance date and then on an annual basis and any third-party valuations are reviewed for reasonableness and compliance with the fair value measurements guidance under IFRS.

The fair value of these embedded derivative liabilities may differ significantly in the future from the carrying value as of 31 December 2017 and, accordingly, adjustments may be recorded in the Consolidated Statements of Comprehensive Income/(Loss) at that time.

## Sensitivity Analysis

The following summarises the sensitivity from the assumptions made by the Company in respect to the unobservable inputs used in the fair value measurement of the Group's derivative liability and the value of preferred share liabilities, which do not qualify for bifurcation and are recorded at fair value (see note 15):

Input	Sensitivity Range	Subsidiary Preferred Shares Liability and Derivative Liability Increase/(Decrease)	
		2017 \$000s	2016 \$000s
As of 31 December			
Subsidiary Enterprise Value	-2%	<b>(3,599)</b>	(2,410)
	+2%	<b>3,599</b>	2,413
Volatility	-10%	<b>(1,852)</b>	(1,098)
	+10%	<b>1,983</b>	1,094
Time to Liquidity	-6 months	<b>4,045</b>	4,122
	+6 months	<b>(3,941)</b>	(3,790)
Risk-free Rate <sup>(1)</sup>	-0.23%/-0.05%	<b>4,045</b>	4,122
	+0.07%/+0.04%	<b>(3,941)</b>	(3,790)

1 Risk-free rate is a function of the time to liquidity input assumption.

The change in fair value of both subsidiary preferred share derivatives and change in fair value of preferred shares are recorded in Finance cost, net in the Consolidated Statements of Comprehensive Income/(Loss).

## 22. Capital and Financial Risk Management

The Company's financial strategy policy is to support its strategic priorities, maintain investor and creditor confidence and sustain future development of the business through an appropriate mix of debt and equity. Management monitors the level of capital deployed and available for deployment in subsidiary companies. The Directors seek to maintain a balance between the higher returns that might be possible with higher levels of deployed capital and the advantages and security afforded by a sound capital position.

The Group's Directors have overall responsibility for establishment and oversight of its risk management framework. The Group is exposed to certain risks through its normal course of operations. The Group's main objective in using financial instruments is to promote the development and commercialisation of intellectual property through the raising and investing of funds for this purpose. The Group's policies in calculating the nature, amount and timing of investments are determined by planned future investment activity. Due to the nature of activities and with the aim to maintain the investors' funds as secure and protected, the Group's policy is to hold any excess funds in highly liquid and readily available financial instruments and maintain insignificant exposure to other financial risks.

The Group has exposure to the following risks arising from financial instruments:

## Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and trade and other receivables. The Group held the following balances:

As of 31 December	2017 \$000s	2016 \$000s
Cash and cash equivalents	<b>72,649</b>	62,959
Short-term investments	<b>116,098</b>	218,510
Trade and other receivables	<b>1,797</b>	125
<b>Total</b>	<b>190,544</b>	281,594

The Group invests its excess cash in U.S. Treasury Bills, U.S. debt obligations and money market accounts, which the Group believes are of high credit quality.

The Group assesses the credit quality of customers, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to credit ratings (if available) or to historical information about counterparty default rates.

The ageing of trade and other receivables that were not impaired at 31 December is as follows:

As of 31 December	2017 \$000s	2016 \$000s
Neither past due or impaired	<b>1,797</b>	—
Past due 30-90 days	—	—
Past due 90-365 days	—	125
<b>Total</b>	<b>1,797</b>	125

**Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group actively manages its risk of a funds shortage by closely monitoring the maturity of its financial assets and liabilities and projected cash flows from operations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below summarises the maturity profile of the Group's financial liabilities, including subsidiary preferred shares that have customary liquidation preferences, as of 31 December 2017 and 2016 based on contractual undiscounted payments:

	2017					Total \$000s
	Carrying Amount \$000s	Within Three Months \$000s	Three to Twelve Months \$000s	One to Five Years \$000s		
As of 31 December						
Subsidiary notes payable	7,455	7,455	—	—	—	7,455
Trade and other payables	16,358	16,358	—	—	—	16,358
Subsidiary preferred shares (Note 15)	120,051	120,051	—	—	—	120,051
Other liabilities	988	988	—	—	—	988
<b>Total</b>	<b>144,852</b>	<b>144,852</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>144,852</b>

	2016					Total \$000s
	Carrying Amount \$000s	Within Three Months \$000s	Three to Twelve Months \$000s	One to Five Years \$000s		
As of 31 December						
Subsidiary notes payable	6,953	6,953	—	—	—	6,953
Trade and other payables	11,121	11,121	—	—	—	11,121
Subsidiary preferred shares (Note 15)	96,937	96,937	—	—	—	96,937
Other liabilities	685	685	—	—	—	685
<b>Total</b>	<b>115,696</b>	<b>115,696</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>115,696</b>

In addition to the above financial liabilities, the Group is required to spend the following minimum amounts under intellectual property license agreements:

	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s
Licenses	95	168	280	300
<b>Total</b>	<b>95</b>	<b>168</b>	<b>280</b>	<b>300</b>

**Market Risk**

Market risk is due to changes in market prices, such as foreign exchange rates, interest rates and equity prices that affect the Group's income or the value of its financial instruments holdings. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, while optimising its return. The Group maintains the exposure to market risk from such financial instruments to insignificant levels. The Group's exposure to changes in interest rates has been determined to be insignificant.

**Foreign Exchange Risk**

The Group's grant revenues and the research and development costs associated with those grants are generated and incurred in Euros. The Group's results of operations and cash flows will be subject to fluctuations due to change in foreign currency exchange rates. Foreign currency transaction exposure arising from external trade flows is generally not hedged.

**Capital Risk Management**

The Group is funded by equity and debt financing. Total capital is calculated as Total Equity as shown in the Consolidated Statements of Financial Position.

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may issue new shares or borrow new debt. The Group has some external debt and no material externally imposed capital requirements. The Group's share capital is clearly set out in Note 15.

As discussed in Note 15, certain of the Group's subsidiaries have issued preferred shares that include the right to receive a payment in the event of any voluntary or involuntary liquidation, dissolution or winding up of a subsidiary, which shall be paid out of the assets of the subsidiary available for distribution to shareholders and before any payment shall be made to holders of common shares.

**23. Commitments and contingencies**

Gelesis is a party to a patent license and assignment agreement whereby it will be required to pay approximately \$8.0 million upon the achievement of certain milestones, pay royalties on future sales and/or a percentage of sublicense income. Gelesis owed \$6.6 million under the patent license and assignment agreement for the year ended 31 December 2017.

Gelesis has also been awarded grants from two government agencies, which are recognised as revenue as the qualifying expenses are incurred. The grant agreement contains certain provisions, including, inter alia, maintaining a physical presence in the region for defined periods. Failure to comply with these covenants would require either a full or partial refund of the grant to the granting authority.

On 12 January 2015, Vedanta Biosciences entered into an agreement which grants Janssen Biotech, Inc. ("JBI"), a subsidiary of Johnson & Johnson, the exclusive right and license to make, use, sell, import and otherwise develop or commercialise any licensed product during the term of the agreement. Vedanta Biosciences entered into another license agreement with the University of Tokyo whereby it agreed to pay 10% of the license fee income generated by the JBI Agreement to the University of Tokyo. During 2017, there were no milestone payments made to Vedanta Biosciences related to the JBI Agreement and as a result, there were also no further payments to University of Tokyo. In 2016, Vedanta Biosciences was granted patents which triggered milestone payments totalling \$4.0 million from JBI and resulted in \$0.4 million in payments to the University of Tokyo.

Other members of the Group are also parties to certain licensing agreements that require milestone payments and/or royalties on future sales. None of these payments have become due and the amounts of any future milestone or royalty payments cannot be reliably measured as of the date of the financial information.

**24. Related Parties Transactions****Key Management Personnel Compensation**

Key management includes executive directors and members of the executive management team of the Group. The key management personnel compensation of the Group was as follows for the years ended 31 December:

As of 31 December	2017 \$000s	2016 \$000s
Short-term employee benefits	3,809	3,514
Share-based payments	2,493	2,402
<b>Total</b>	<b>6,302</b>	<b>5,916</b>

Wages and employee benefits include salaries, health care and other non-cash benefits. Share-based payments are generally subject to vesting terms over future periods.

**Convertible Debt Issued to Directors, Key Management Personnel and Key Personnel of the Businesses**

Certain members of the Group have invested in convertible notes issued by the Group's subsidiaries. As of 31 December 2017 and 2016 the outstanding related party notes payable totalled \$74,000 and \$69,000, respectively. Interest expense charged on the related party notes was \$5,000 for the years ended 31 December 2017 and 2016.

The notes issued to related parties bear interest rates, maturity dates, discounts and other contractual terms that are the same as those issued to outside investors during the same issuances, as described in Note 17.

*Directors' and Senior Managers' Shareholdings and Share Incentive Awards*

The Directors and senior managers hold beneficial interests in shares in the following businesses and sourcing companies as at 31 December 2017:

Directors	Business Name (Share Class)	Number of Shares Held as of 31 December 2017	Number of Options Held as of 31 December 2017	Ownership Interest <sup>(1)</sup>
Mr. Joichi Ito	Akili (Series A-2 Preferred)	26,627	—	0.10%
Ms. Daphne Zohar <sup>(2)</sup>	Gelesis (Common)	59,443	744,423	5.40%
Dame Marjorie Scardino	—	—	—	—
Dr. Bennett Shapiro	Akili (Series A-2 Preferred) <sup>(3)</sup>	33,088	—	0.20%
	Gelesis (Common)	24,010	10,841	0.20%
	Gelesis (Series A-1 Preferred)	23,419	—	0.20%
	Tal (Series A-2 Preferred) <sup>(3)</sup>	14,451	—	0.10%
	Vedanta Biosciences (Common)	—	25,000	0.40%
	Vedanta Biosciences (Series B Preferred)	11,202	—	0.20%
Dr. Robert Langer	Entrega (Common)	—	302,500	6.20%
Dr. Robert Langer	Alivio (Common)	—	1,575,000	6.50%
Dr. Raju Kucherlapati	Enlight (Class B common)	30,000	—	3.00%
Dr. John LaMattina <sup>(4)</sup>	Akili (Series A-2 Preferred)	37,372	—	0.20%
	Gelesis (Common) <sup>(4)</sup>	54,120	63,050	0.80%
	Gelesis (Series A-1 Preferred) <sup>(4)</sup>	49,524	—	0.30%
	Tal (Series A-2 Preferred)	114,411	—	1.10%
	Vedanta Biosciences (Common)	—	25,000	0.40%
Mr. Christopher Viehbacher	—	—	—	—
Mr. Stephen Muniz	—	—	—	—
<b>Senior Managers</b>				
Dr. Eric Elenko	—	—	—	—
Mr. David Steinberg	—	—	—	—

**Notes:**

- Ownership interests as of 31 December 2017 are calculated on a diluted basis, including issued and outstanding shares, warrants and options (and written commitments to issue options) but excluding unallocated shares authorised to be issued pursuant to equity incentive plans and any shares of stock issuable upon conversion of outstanding convertible promissory notes.
- Common stock and options held by Yishai Zohar, who is the husband of Ms. Zohar. Ms. Zohar does not have any direct interest in the share capital of Gelesis. Ms. Zohar recuses herself from any and all material decisions with regard to Gelesis.
- Shares held through Dr. Bennett Shapiro and Ms. Fredericka F. Shapiro, JTWROS.
- Dr. John and Ms. Mary LaMattina hold 49,523 shares of common stock and 49,524 shares of Series A-1 preferred stock in Gelesis. Individually, Dr. LaMattina holds 12,642 shares of Gelesis and convertible notes issued by Appeering in the aggregate principal amount of \$50,000.

Directors and senior managers hold 34,707,820 shares and 14.6% voting rights of the Company as of 31 December 2017.

**25. Taxation**

Amounts recognised in Consolidated Statements of Comprehensive Income/(Loss):

As of 31 December	2017 \$000s	2016 \$000s
Loss for the year	(70,697)	(81,608)
Income tax expense/(benefit)	(14)	(1,574)
<b>Loss before taxes</b>	<b>(70,711)</b>	<b>(83,182)</b>
<i>Recognised income tax expense/(benefit):</i>		
As of 31 December	2017 \$000s	2016 \$000s
Federal	(123)	(1,757)
Foreign	358	164
State	(109)	20
Total current income tax expense/(benefit)	126	(1,573)
Federal	(142)	—
Foreign	2	(1)
State	—	—
Total deferred income tax expense/(benefit)	(140)	(1)
<b>Total income tax expense/(benefit), recognised</b>	<b>(14)</b>	<b>(1,574)</b>

The Federal tax benefit of \$1.8 million in 2016 is the result of a U.S. carryback of net operating losses from the 2016 tax year to offset the 2015 tax year liability providing the Group with a Federal refund receivable of such amount.

*Reconciliation of Effective Tax Rate*

The Group is primarily subject to taxation in the U.S.; therefore, the reconciliation of the effective tax rate has been prepared using the U.S. statutory tax rate. A reconciliation of the U.S. statutory rate to the effective tax rate is as follows:

As of 31 December	2017 %	2016 %
Weighted-average statutory rate	34.00%	33.99%
Effects of state tax rate in U.S.	7.72%	4.21%
Credits	3.41%	1.27%
Share-based payment measurement	(3.58)%	(3.20)%
Mark-to-market adjustments	(19.27)%	(1.50)%
Accretion on preferred shares	(4.57)%	(2.63)%
Deconsolidation of resTORbio	20.36%	—
Mark-to-market investment in subsidiary	19.10%	—
Federal tax change	(39.54)%	—
Tax reform – foreign earnings repatriation	(1.27)%	—
Income of partnerships not subject to tax	0.03%	0.04%
Rate differential	—	(0.52)%
Current year losses for which no deferred tax asset is recognized	(17.02)%	(29.77)%
Other	0.65%	—
	<b>0.02%</b>	<b>1.89%</b>

The Group is also subject to taxation in the U.K. and exposed to state taxation in certain jurisdictions within the U.S. Changes in corporate tax rates can change both the current tax expense (benefit) as well as the deferred tax expense (benefit). The maximum corporate tax rate in the U.S. for the corresponding periods is 35.0%. The Group is generally subject to a 34.0% rate, which is applicable to smaller taxpayers. As a result of U.S. tax reform, the tax rate beginning in 2018 will be reduced to 21%.

U.S. corporations are routinely subject to audit by federal and state tax authorities in the normal course of business. During 2016 the IRS completed an audit of Gelesis for the financial year ended 31 December 2012 with no impact to the Group's financial condition, results of operations or cash flows.



## 25. Taxation — continued

## Deferred Tax Assets

Deferred tax assets have been recognised for the foreign amounts in respect of the following items:

As of 31 December	2017 \$000s	2016 \$000s
Operating tax losses	55,352	45,165
Capital loss carryovers	—	758
Research credits	5,692	2,059
Investment in subsidiaries	637	905
Share-based payments	7,088	8,321
Other	1,736	1,974
Deferred tax assets	70,505	59,182
Other temporary differences	(844)	(1,453)
Deferred tax liabilities	(844)	(1,453)
Deferred tax assets, net, recognised	(142)	(1)
Deferred tax assets (liabilities) net, not recognised	69,519	57,728

Deferred tax assets have not been recognised for the U.S. amounts other than a refundable alternative minimum tax (“AMT”) credit because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

There was movement in deferred tax recognised in income or equity of approximately \$0.1 million primarily related to a refundable AMT credit and a de minimis amount related to foreign activity for the years ended 31 December 2017 and 2016, respectively.

The Group recognised significant gains related to preferred and common shares of non-consolidated subsidiaries. The Group controls the reversal of any basis difference in equity investments. As the Group does not expect the basis difference to reverse in the foreseeable future, deferred tax was not provided.

As of 31 December 2017, the Company had U.S. federal net operating losses carry forwards (“NOLs”) of approximately \$203.1 million and \$117.5 million for the years ended 31 December 2017 and 2016, respectively, which was available to offset future taxable income. These NOLs expire through 2037 and are subject to review and possible adjustment by the Internal Revenue Service. The Company had U.S. Federal research and development tax credits of approximately \$4.4 million and \$1.7 million for the years ended 31 December 2017 and 2016, respectively, which is available to offset future taxes that expire through 2037.

Utilisation of the NOLs and research and development credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership change limitations that have occurred previously or that could occur in the future. These ownership changes may limit the amount of NOL and research and development credit carryforwards that can be utilised annually to offset future taxable income and tax, respectively. The Company has not yet completed an evaluation of ownership changes through 31 December 2017. To the extent an ownership change occurs in the future, the NOL and credit carryforwards may be subject to further limitations.

The Group considers earnings generated from its foreign subsidiary in Italy to be permanently re-invested; therefore, foreign withholding taxes have not been provided on undistributed earnings.

## Uncertain Tax Positions

The changes to uncertain tax positions from 1 January 2016 through 31 December 2017, are as follows:

	U.S. \$000s	Foreign \$000s	Total \$000s
Gross tax liabilities as of 1 January 2016	78	33	111
Additions based on tax provisions related to the current year	—	—	—
Additions to tax positions of prior years	—	—	—
Reductions due to settlements with tax authorities	—	—	—
Reductions for positions of prior years	—	(5)	(5)
Gross tax liabilities as of 31 December 2016	78	28	106
Additions based on tax provisions related to the current year	—	—	—
Additions to tax positions of prior years	—	—	—
Reductions due to settlements with tax authorities	—	—	—
Reductions for positions of prior years	(78)	(13)	(91)
<b>Gross tax liabilities as of 31 December 2017</b>	<b>—</b>	<b>15</b>	<b>15</b>

Included in the balance of uncertain tax positions at 31 December 2017 was approximately \$0.2 million of unrecognised tax benefits that, if recognised, would affect the annual effective income tax rate.

On 22 December 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted. Effective 1 January 2018, the legislation significantly changed U.S. tax law by lowering the federal corporate tax rate from 35.0% to 21.0%, modifying the foreign earnings deferral provisions, and imposing a one-time toll charge on deemed repatriated earnings of foreign subsidiaries as of 31 December 2017. Effective for 2018 and forward, there are additional changes including changes to bonus depreciation, the deduction for executive compensation and interest expense. As of 31 December 2017, two provisions affecting the financial statements are the corporate tax rate reduction and the one-time toll charge. As the corporate tax rate reduction was enacted in 2017 and effective 1 January 2018, the Company appropriately accounted for the tax rate change in the valuation of its deferred taxes. The impact of this change was to reduce deferred tax assets by \$27.8 million. As these deferred tax assets are not recognized in the financial statements there is no impact to the Company’s income statement as a result of the reduction in tax rates other than the tax benefit associated with recognizing an ATM credit, which became fully refundable. Our preliminary estimate of the TCJA and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management’s analysis related to certain matters, such as developing interpretations of the provisions of the TCJA, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the TCJA may require further adjustments and changes in our estimates.

## 26. Subsequent Events

On 31 January 2018, resTORbio announced the closing of its initial public offering of 6,516,667 shares of common stock at a public offering price of \$15.00 per share, which included the exercise in full by the underwriters of their option to purchase up to 850,000 additional shares. The gross proceeds from the offering were \$97.8 million, before deducting underwriting discounts and commissions and estimated offering expenses. The shares commenced trading on the Nasdaq Global Select Market on 26 January 2018 under the ticker symbol TORC.

On 18 February 2018, The Sync Project was acquired by Bose Corporation as part of a strategic decision to move that technology to a more consumer-facing path.

On 1 March 2018, Gelesis successfully completed a \$30.0 million financing round with participation from existing investors, including \$5.0 million from PureTech. Proceeds of the financing will be used to support commercial-stage manufacturing, product launch preparations, company operations, and the clinical advancement of the Gelesis pipeline of additional product candidates for gastrointestinal disorders.

On 3 April 2018, PureTech received shareholder approval to issue 45,000,000 shares at a purchase price of 160 pence per share. The Group received gross proceeds of approximately \$100.0 million from this offering based on the exchange rate at the time of the pricing of the transaction.

# PureTech Health plc Statement of Financial Position

For the years ended 31 December

	Note	2017 \$000s	2016 \$000s
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiary	2	141,348	141,348
<b>Total non-current assets</b>		<b>141,348</b>	<b>141,348</b>
<b>Current assets</b>			
Related party receivables	3	189,393	189,306
<b>Total current assets</b>		<b>189,393</b>	<b>189,306</b>
<b>Total assets</b>		<b>330,741</b>	<b>330,654</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	4	4,679	4,609
Share premium	4	181,588	181,658
Merger reserve	4	138,506	138,506
Other reserve	4	855	855
Accumulated deficit	4	(4,483)	(3,664)
<b>Total equity</b>		<b>321,145</b>	<b>321,964</b>
<b>Current liabilities</b>			
Trade and other payables		715	585
Related party payables	5	8,881	8,105
<b>Total current liabilities</b>		<b>9,596</b>	<b>8,690</b>
<b>Total equity and liabilities</b>		<b>330,741</b>	<b>330,654</b>

The financial statements on pages 132 to 136 were approved by the Board of Directors and authorised for issuance on 16 April 2018 and signed on its behalf by:



**Daphne Zohar**  
Chief Executive Officer

16 April 2018

The accompanying notes are an integral part of these financial statements.

# PureTech Health plc Statements of Changes in Equity

For the years ended 31 December

	Shares	Amount \$000s	Share Premium \$000s	Merger Reserve \$000s	Other Reserve \$000s	Accumulated deficit \$000s	Total equity \$000s
<b>Balance 1 January 2016</b>	<b>226,173,751</b>	<b>4,523</b>	<b>181,744</b>	<b>138,506</b>	<b>84</b>	<b>(1,929)</b>	<b>322,928</b>
<b>Total comprehensive loss for the period</b>							
Issuance of shares as equity incentives	6,538,791	86	(86)	—	—	—	—
Equity settled share-based payments	—	—	—	—	771	—	771
Net loss	—	—	—	—	—	(1,735)	(1,735)
<b>Balance 31 December 2016</b>	<b>232,712,542</b>	<b>4,609</b>	<b>181,658</b>	<b>138,506</b>	<b>855</b>	<b>(3,664)</b>	<b>321,964</b>
<b>Total comprehensive loss for the period</b>							
Issuance of shares as equity incentives	5,277,375	70	(70)	—	—	—	—
Buyback of shares, net of tax	(30,028)	—	—	—	—	(65)	(65)
Equity settled share-based payments	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(819)	(819)
<b>Balance 31 December 2017</b>	<b>237,959,889</b>	<b>4,679</b>	<b>181,588</b>	<b>138,506</b>	<b>855</b>	<b>(4,548)</b>	<b>321,080</b>

The accompanying notes are an integral part of these financial statements.

# PureTech Health plc Statements of Cash Flows

For the years ended 31 December

	2017 \$000s	2016 \$000s
<b>Cash flows from operating activities</b>		
Net loss	(819)	(1,735)
<b>Adjustments to reconcile net operating loss to net cash used in operating activities:</b>		
<b>Non-cash items:</b>		
Equity settled share-based payment expense	—	771
<b>Changes in operating assets and liabilities:</b>		
Related party receivable	(87)	—
Related party payable	776	675
Accounts payable and accrued expenses	130	289
<b>Net cash used in operating activities</b>	<b>—</b>	<b>—</b>
<b>Cash flows from investing activities:</b>		
<b>Net cash provided by (used in) investing activities</b>	<b>—</b>	<b>—</b>
<b>Cash flows from financing activities:</b>		
<b>Net cash provided by (used in) financing activities</b>	<b>—</b>	<b>—</b>
Effect of exchange rates on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	—	—
<b>Cash and cash equivalents at beginning of year</b>	<b>—</b>	<b>—</b>
<b>Supplemental disclosure of non-cash investment and financing activities:</b>		
Vesting of incentive awards	70	86

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Accounting policies

### Basis of Preparation and Measurement

The financial statements of PureTech Health plc (the "Parent") have been prepared under the historical cost convention, in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs"). A summary of the significant accounting policies that have been applied consistently throughout the year are set out below.

### Functional and Presentation Currency

The functional currency of the Parent is United States ("U.S.") Dollars and the financial statements are presented in U.S. Dollars.

### Investments

Investments are stated at historic cost less any provision for impairment in value and are held for long-term investment purposes. Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

### Impairment

If there is an indication that an asset might be impaired, the Parent would perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

### Financial Instruments

Currently the Parent does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the Parent Company.

## 2. Investment in subsidiary

	\$000s
Balance at 8 May 2015	—
Additions	<b>141,348</b>
Balance at 31 December 2017 and 2016	<b>141,348</b>

PureTech consists of the Parent and its subsidiaries (together, the "Group"). Investment in subsidiary represents the Parent's investment in PureTech Health LLC ("PureTech LLC") as a result of the reverse acquisition of the Group's financial statements immediately prior to the Parent's initial public offering ("IPO") on the London Stock Exchange in June 2015. PureTech LLC operates in the U.S. as a U.S.-focused scientifically driven research and development company that conceptualises, sources, validates and commercialises unexpected and potentially disruptive approaches to advance the needs of human health. For a summary of the Parent's indirect subsidiaries see Note 1 of the Consolidated Financial Statements of PureTech Health plc.

## 3. Related party receivables

The Parent has an accounts receivable balance from its operating subsidiary PureTech LLC of \$189.4 million due to cash received from the IPO.

## 4. Share capital and reserves

PureTech plc was incorporated with the Companies House under the Companies Act 2006 as a public company on 8 May 2015.

On 24 June 2015, the Company authorized 227,248,008 of ordinary share capital at one pence apiece. These ordinary shares were admitted to the premium listing segment of the United Kingdom's Listing Authority and traded on the Main Market of the London Stock Exchange for listed securities. In conjunction with the authorization of the ordinary shares, the Parent completed an IPO on the London Stock Exchange, in which it issued 67,599,621 ordinary shares at a public offering price of 160 pence per ordinary share, in consideration for \$159.3 million, net of issuance costs of \$11.8 million.

Additionally, the IPO included an over-allotment option equivalent to 15% of the total number of new ordinary shares. The stabilisation manager provided notice to exercise in full its over-allotment option on 2 July 2015. As a result, the Parent issued 10,139,943 ordinary shares at the offer price of 160 pence per ordinary share, which resulted in net proceeds of \$24.2 million, net of issuance costs of \$0.8 million.



**5. Related party payables**

The Parent has a balance due to its operating subsidiary PureTech LLC of \$8.9 million, which is related to IPO costs and operating expenses. However, there is no intention of its settlement in the foreseeable future.

**6. Profit and loss account**

As permitted by Section 408 of the Companies Act 2006, the Parent's profit and loss account has not been included in these financial statements. The Parent's loss for the year was \$0.8 million.

**7. Directors' remuneration, employee information and share-based payments**

The remuneration of the Directors of the Parent Company is disclosed in Note 24, Related Parties Transactions, on pages 127 through 128 of the accompanying Consolidated Financial Statements. Full details for their remuneration can be found in the Directors' Remuneration Report on pages 67 to 79. Full detail of the share-based payment charge and the related disclosures can be found in Note 7, Share-based Payments, on pages 109 to 111 of the accompanying Consolidated Financial Statements.

The Parent had no employees during 2017 or 2016.

**Company information****Directors, Secretary and Advisors to PureTech**

**Company Registration Number**  
09582467

**Registered Office**  
5th Floor  
6 St. Andrew Street  
London EC4A 3AE  
United Kingdom

**Website**  
www.puretechhealth.com

**Board of Directors**

Mr. Joichi Ito (Chairman)  
Ms. Daphne Zohar (Chief Executive Officer)  
Dame Marjorie Scardino (Senior Independent Non-Executive Director)  
Dr. Bennett Shapiro (Non-Executive Director)  
Dr. Robert Langer (Non-Executive Director)  
Dr. Raju Kucherlapati (Independent Non-Executive Director)  
Dr. John LaMattina (Independent Non-Executive Director)  
Mr. Christopher Viehbacher (Independent Non-Executive Director)  
Mr. Stephen Muniz (Chief Operating Officer)

**Company Secretary**  
Stephen Muniz

**Media and Public Relations**

FTI Consulting, Inc.  
200 Aldersgate  
Aldersgate Street  
London EC1A 4HD  
United Kingdom  
Tel +44 203 727 1000

**Independent Auditor**

KPMG LLP  
15 Canada Square  
London E14 5GL  
United Kingdom  
Tel: +44 207 311 1000

**Broker**

Jefferies International Limited  
68 Upper Thames Street  
London EC4V 3BJ  
United Kingdom  
Tel: +44 207 029 8000

**Registrar**

Computer Share Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZY  
United Kingdom  
Tel: +44 (0)370 707 1147

**Solicitors**

DLA Piper UK LLP  
3 Noble Street  
London EC2V 7EE  
United Kingdom  
Tel: +44 870 011 1111



This document is printed on Mohawk Superfine, a carbon neutral paper containing 100% virgin fibre sourced from well managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Designed and produced by Whitehouse Associates, London

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

PureTech Health  
501 Boylston Street  
Suite 6102  
Boston  
MA 02116

Tel: +1 617 482 2333  
Email: [info@puretechhealth.com](mailto:info@puretechhealth.com)