7 April 2016

PureTech Health plc

PureTech Health announces annual results for year ended 31 December 2015

PureTech Health plc ("PureTech", LSE: PRTC), a cross-disciplinary healthcare company tackling fundamental healthcare needs, today announces its annual results for the year ended 31 December 2015.

Period Highlights

Financial & Business Highlights

PureTech raised significant external validating capital and established agreements and partnerships with a number of industry leaders and influencers:

- PureTech successfully raised $248M, including gross proceeds of $196M in its initial public offering (IPO) on the Main Market of the London Stock Exchange
- PureTech's Vedanta Biosciences entered into an up to $339M licensing agreement with Janssen, a subsidiary of Johnson & Johnson, for one of its product candidates
- $69.8M of cash raised by PureTech's growth stage businesses over 2015, including $50.3M from outside investors
- Gelesis raised $49.5M in financing, including from outside financial investors
- Tal Medical raised $14.0M in financing, including from outside financial investors
- Karuna Pharmaceuticals received a Translation Fund Award of up to $3.8M from the Wellcome Trust
- Akili established a collaboration with leading patient advocacy group Autism Speaks, building on the company's relationships with Shire Pharmaceuticals and Pfizer
- The Sync Project formed partnerships with internationally-renowned organisations Berklee College of Music and HINTSA Performance
- As of 31 December 2015, PureTech reports a consolidated cash balance of approximately $314M with approximately $256M held at the Parent Company
- Aggregate Value of Growth Stage Business Holdings at 31 December 2015 increased to $291.7M from $222.4M, an increase of 31.2 percent*
- PureTech has average holdings of approximately 73 percent in its businesses, and effective control over all

Pipeline/Clinical Highlights

PureTech has 20 clinical studies across its advanced-stage pipeline. A number of significant advancements were achieved over the course of 2015, including:

- Gelesis initiated a weight loss pivotal trial for Gelesis100 and accelerated its clinical timeline for its U.S. Food and Drug Administration (FDA) submission by approximately one year following positive confirmation from the FDA that the study is a non-significant risk device study
- Akili completed a pilot study in paediatric attention deficit hyperactivity disorder ("ADHD") which showed statistically significant improvements on multiple outcomes measuring attention, impulsivity and working memory in children with ADHD
- Tal Medical enrolled the first subjects in a dose optimisation study and received positive confirmation from the FDA that study meets the non-significant risk safety standards

- The Sync Project initiated a clinical study of the impact of personalised music on athletic performance, which may have implications for management of and recovery from conditions such as Parkinson's disease, stroke, pain, and chronic fatigue

Team Highlights

PureTech continues to expand its team to drive growth, filling a number of key roles:

- PureTech appointed Board members Chris Viehbacher, former Chief Executive Officer of Sanofi, and Marjorie Scardino, former Chief Executive Officer of Pearson, and named several distinguished scientists, physicians and industry leaders to its advisory network
- PureTech successfully recruited 30 outstanding individuals including Chief Financial Officer, Senior Vice President of Communications and Investor Relations, Vice President of Company Development and Operations, Vice President of Talent Acquisition and several seasoned entrepreneurs in residence
- In 2015 and the first quarter of 2016, several senior leaders were appointed, including the Chief Executive Officer and Chief Technology Officer of the Sync Project, Chief Scientific Officer and Head of Intellectual Property for Vedanta Biosciences and Vice President of Marketing for Tal Medical

New Business & Intellectual Property

In 2015, PureTech created three new Project Phase businesses. Additionally, the Company nearly doubled its patents and patent applications during the year, with 209 at the end of 2015

- Alivio Therapeutics is centred around a proprietary drug delivery platform for drugs that treat inflammation and underlying disorders that cause inflammation
- Vor BioPharma is a preclinical immuno-oncology business that is developing novel targeted therapies for cancer
- Sonde Health is developing a proprietary voice-based technology platform with the potential to transform the way we monitor and diagnose mental and physical health
- Follica received a Notice of Allowance from the United States Patent & Trademark Office ("USPTO") for a patent related to its principal technology platform to treat hair loss

Post Year-end Highlights

PureTech continues its positive momentum in 2016:

- In January 2016, Akili raised $30.5M, which includes $8.5M from outside investors including JAZZ Venture Partners, Canepa Advanced Healthcare Fund, to be funded in approximately two equal tranches with the second tranche expected to be funded in September 2016
- In January 2016, PureTech expanded its Scientific Advisory Board of distinguished scientists and physicians and appointed new Senior Advisors to the Company
- In March 2016, Vedanta Biosciences signed a licence agreement with RIKEN, the University of Tokyo and Azabu University for new immune boosting microbiome technology
- In March 2016, Commense advanced its discovery and development platform, named its founding scientists and advisors and executed an exclusive licence in the microbiome field

Commenting on the annual results, Daphne Zohar, CEO of PureTech said:

"2015 was a significant year of transformation for PureTech. We have $314 million in consolidated cash, following our successful IPO as a Premium Listed company on the Main Market, giving us a strong financial position to execute our strategy.

"We further strengthened and expanded our pipeline which is focused on areas of escalating scientific and clinical importance, including those at the intersection of the immune, gastrointestinal and central nervous systems. We now have 20 ongoing clinical studies and will have multiple pivotal study read-outs over the next two years. In addition to our advanced programmes, we have 15 exciting project phase businesses and concept phase initiatives that are progressing through our validation process.

"Additionally, we entered into agreements and formed four new partnerships with industry leaders and influencers and raised external validating capital. Vedanta Biosciences entered into a licensing agreement with Janssen with upfront and milestone payments up to $339 million, Tal Medical and Gelesis attracted a number of new investors and raised an additional combined $64 million in successful fundraisings, and Akili raised $30.5 million in the post period.

"We enter 2016 with a robust pipeline and strong fundamentals. With our outstanding team and network, we are well positioned to deliver significant value for our shareholders."

PureTech today released its Annual Report for the year ended 31 December 2015. In compliance with the Financial Conduct Authority's Listing Rule 9.6.3, the following documents have today been submitted to the National Storage Mechanism and will shortly be available for inspection at http://www.morningstar.co.uk/uk/NSM

- Annual Report and Accounts for the year ended 31 December 2015; and
- Notice of 2016 Annual General Meeting.

Printed copies of these documents together with the Form of Proxy have been posted to shareholders. Copies are also available electronically on the Investor Relations section of the Company's website at http://puretechhealth.com/investors-reports-presentations.php.

PureTech's 2016 Annual General Meeting will be held at 17.00 BST on Monday 9 May 2016 at the Mondrian Hotel, 20 Upper Ground, London SE1 9PD, United Kingdom.

PureTech will also hold its first Capital Markets Meeting in London on Tuesday 10 May 2016 from 13.00-17.00 BST. The meeting will feature PureTech presenters including members of the Company's Board of Directors and management from the Company's operating business units. Please confirm if you would like to attend the Capital Markets Meeting to PureTech.Event@fticonsulting.com

*does not include holdings in 5 project phase businesses or 10 concept phase initiatives, but does include $11.5M subsequently invested by PureTech in the first tranche of the Akili financing round in January 2016.

About PureTech Health

PureTech Health (PureTech Health plc, PRTC.L) is a cross-disciplinary healthcare company developing innovative products that could improve the lives of patients. PureTech is focused on areas of growing scientific and technical insights that it believes are at an important inflection point, including the central nervous, gastro-intestinal and immune systems, and the interactions and signalling between them. PureTech has a pipeline of more than 30 programmes and has approximately 20 clinical studies across its pipeline, targeting multi-billion dollar market opportunities. PureTech's advanced programmes include five with human proof of concept and multiple with pivotal or registration study readouts in the next two years. PureTech's leading team and board, along with an advisory network of more than 60 expert founder-scientists and advisors across multiple disciplines, gives PureTech access to potentially ground-

breaking science and technological innovation. With healthcare undergoing major transformation, PureTech is well positioned to develop and launch medicines for the 21st century. For more information, visit www.puretechhealth.com and connect with us on Twitter.

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Notes

(i) Nature of announcement

The financial information set out in this Annual Results Release does not constitute the company's statutory accounts for 2015 or 2014. Any references to page numbers in this announcement are to pages within the Annual Report and Accounts. Statutory accounts for the year ended 31 December 2015 have been reported on by the Independent Auditor and will be delivered to the Registrar when due.

(ii) Forward looking statements

This Annual Results Release and the Annual Report and Accounts contain statements that are or may be forward-looking statements, including statements that relate to the company's future prospects, developments and strategies. The forward-looking statements are based on current expectations and are subject to known and unknown risks and uncertainties that could cause actual results, performance and achievements to differ materially from current expectations, including, but not limited to, those risks and uncertainties described in the risk management section. These forward-looking statements are based on assumptions regarding the present and future business strategies of the company and the environment in which it will operate in the future. Each forward-looking statement speaks only as at the date of this Annual Results Release. Except as required by law, regulatory requirement, the Listing Rules and the Disclosure and Transparency Rules, neither the company nor any other party intends to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Letter from the Chairman

PureTech is reinventing the pharmaceutical industry's traditional approach to developing medicines. Our relationships with global experts and inventors and our cross-disciplinary approach and rigorous de-risking process gives us a unique ability to bridge creative ideas and science and actualise the next potential game-changers in healthcare.

In my role as an early participant in the development of the technology industry, and my current role as the Director of the Massachusetts Institute of Technology (MIT) Media Lab, I see the potential of biotechnology to touch every aspect of our lives and to impact businesses across industries. When the digital industry was founded, it was made up of vertically integrated, niche businesses that required significant investments and expertise and whose applications didn't relate to most of the world. Today, technology is part of our everyday lives.

Healthcare has traditionally been practiced by scientists and physicians looking for single molecule interventions and performing surgery in hospitals. As our knowledge of the human body increases, we are beginning to appreciate the interrelated nature of our biological systems and the connection between our activities and our health. From our blood pressure and oxygen level to our brain activity and sleep, there exist today over a dozen types of data that can currently be collected on our physiology through wearable sensors alone. This introduces vast complexity as we think about our health, but also presents new opportunities.

Some big breakthroughs are likely to come from unexpected sources and combinations. The future of healthcare will include new players and technologies that will change the way we manage our health and how we diagnose, monitor and treat disease. I believe that PureTech is at a unique nexus point at the forefront of a pioneering era in biology and medicine.

Led by Daphne Zohar, our outstanding Chief Executive Officer and Co-founder, PureTech had a momentous year. In June 2015, we became a publicly-traded company in London where a strong group of investors supported our IPO in which we raised nearly $200 million. This transformed the potential for PureTech and provides us with the funds to execute our strategy. We made meaningful advancements in our pipeline, signed on significant new strategic partners and closed successful fundraising rounds for our businesses.

PureTech's impressive Board of Directors was further strengthened in 2015 with the additions of Chris Viehbacher, former Chief Executive Officer of Sanofi, and Marjorie Scardino, former Chief Executive Officer of Pearson. We continued to build our illustrious advisory team, which now includes more than 60 of the brightest minds in science and technology across the globe.

Additionally, we established a Scientific Advisory Board of distinguished scientists and physicians who work closely with the senior leadership team and the Board of Directors to identify new areas of focus and prioritise themes and new business concepts. The group, led by PureTech Board Adviser and Nobel Laureate Bob Horvitz, is made up of industry and scientific leaders:

- Dennis Ausiello, M.D., Chief Emeritus of Medicine at Massachusetts General Hospital and Jackson Distinguished Professor of Clinical Medicine at Harvard Medical School;
- Jim Collins, Ph.D., Termeer Professor of Medical Engineering & Science and Professor of Biological Engineering at MIT;

- Sam Gambhir, M.D., Ph.D., Ludwig Professor and Chair, Department of Radiology and Director of the Molecular Imaging Program at Stanford University;
- Raju Kucherlapati, Ph.D., PureTech Board member, Paul C. Cabot Professor of Genetics and Professor of Medicine at Harvard Medical School;
- Bob Langer, Sc.D., PureTech Co-founder and Board member, David H. Koch Institute Professor at MIT; and
- Ed Boyden, Ph.D., optogenetics pioneer, professor of Biological Engineering and Brain and Cognitive Sciences at the Massachusetts Institute of Technology (MIT) Media Lab and the MIT McGovern Institute.

PureTech also continued to expand its management team in support of the Company's growth. Daphne has built a world-class team that continues to strike a delicate balance between cultivating creative new ideas and driving scientific and clinical rigour. We have started 2016 with great momentum and with a focus on execution. I'm excited by our outlook for what lies ahead.

Just as the digital revolution made technology relevant to all of us, I'm energised by the possibility for advancements in biotechnology to change our everyday lives. As Nicholas Negroponte, the founder of the MIT Media Lab, said, "Bio is the new digital."

Thank you for your continued support as we build a new kind of healthcare company, bringing a novel approach to harnessing innovation to improve patients' lives.

Joichi Ito
Chairman

Strategic report

Letter from the Chief Executive Officer

This is a new era of healthcare and we have built a company ideally positioned to launch new classes of therapeutics that will be quite different from the medicines of the last century. Increasing patient engagement, the changing regulatory environment and a growing emphasis on drug safety and pricing require a new approach to traditional drug development paradigms, while a surge in scientific knowledge and technological innovation allows us the opportunity to develop new treatment and prevention paradigms for the 21st century.

PureTech has built a new model to develop the next generation of medicines that we believe is uniquely suited to this changing landscape. We have a robust and advanced pipeline of programmes focused on novel approaches to targeting significant unmet medical needs and large healthcare markets. In 2015, our first year as a listed company in the UK, we raised $196 million and continued to advance our pipeline while rapidly growing our organisation in preparation for the commercialisation of our products.

The opportunity

Chronic diseases account for 86 percent of all healthcare spending and at least seven of the 10 leading causes of death. Yet our modern healthcare system is structured with an acute disease-focused mind-set and continues to be plagued by productivity declines.

The healthcare industry excels at pattern recognition, looking at past history to predict future success. However, truly novel approaches to disease management and treatment, those that will change the paradigm, will most likely stem from creative approaches that, by definition, break free from patterns.

At PureTech, we are working with global experts across disciplines to target “blue sky” opportunities. We are focused on healthcare markets with multi-billion dollar potential, if successful. PureTech’s approach enables us to discover ground-breaking and often unexpected innovations, not confined to specific disciplines or geographies. We rigorously filter opportunities in pursuit of only those that have the potential to have a big impact on healthcare addressing a major unmet need, are highly novel and protected by strong intellectual property, and are vetted by the leading experts in their fields. Our structure allows us to diversify risk and attract the brightest minds to help us create and launch medicines for the 21st century.

A transformational year

2015 was a transformative year for PureTech.

We raised gross proceeds of approximately $248 million, including $196 million in our successful initial public offering in June 2015, providing us with the funds to deliver on our strategy.

We entered into agreements and formed partnerships with industry leaders and influencers and raised external validating capital:

- Vedanta Biosciences entered into a licensing agreement with Janssen, a subsidiary of Johnson & Johnson, with upfront and milestone payments up to $339 million;
- Akili established a collaboration with leading patient advocacy group Autism Speaks, building on the company’s relationships with Shire Pharmaceuticals and Pfizer;

- Karuna Pharmaceuticals received a Translation Fund Award of up to $3.8 million from the Wellcome Trust;
- The Sync Project formed partnerships with internationally-renowned organisations Berklee College of Music and HINTSA Performance; and
- Tal Medical and Gelesis attracted a number of new investors and raised an additional combined $64 million in successful fundraisings.

Importantly, we made significant progress across our pipeline in 2015, including:

- Akili completed a pilot study in paediatric attention deficit hyperactivity disorder (ADHD) which showed statistically significant improvements on multiple outcomes measuring attention, impulsivity and working memory in children with ADHD;
- Gelesis initiated a weight loss pivotal trial for Gelesis100 following a non-significant risk designation from the U.S. Food and Drug Administration (FDA) and accelerated its clinical timeline for FDA submission by approximately one year;
- Tal Medical enrolled the first subjects in a dose optimisation study and received positive confirmation from the FDA that study meets the non-significant risk safety standards;
- Follica received a Notice of Allowance from the United States Patent & Trademark Office (USPTO) for a patent related to its principal technology platform to treat hair loss; and
- The Sync Project initiated a clinical study of the impact of personalised music on athletic performance, which may have implications for management of and recovery from conditions such as Parkinson's disease, stroke, pain, and chronic fatigue.

We also continue to develop our early-stage pipeline as we build for the future, with new programmes undergoing quiet de-risking experiments and our discovery team working closely with leading scientists on the next big ideas. We are progressing Commense, which is focused on early childhood microbiome, Sonde Health, which is developing voice-based tools for the passive assessment and tracking of patient health, Alivio, which is developing a proprietary drug delivery platform for drugs that treat inflammation and underlying disorders that cause inflammation, and Vor, which is developing targeted immunotherapies for cancer. Additionally, we are currently exploring and de-risking new opportunities across 10 concept phase initiatives.

We have attracted some of the brightest minds to PureTech as we expand our team to drive continued growth. In addition to our new Board members Chris and Marjorie, we've successfully recruited 30 outstanding individuals in 2015. We've attracted top talent for a number of key roles at PureTech, including Chief Financial Officer, Senior Vice President of Communications and Investor Relations, Vice President of Corporate Development, Vice President of Talent Acquisition and several seasoned entrepreneurs in residence. We've also appointed senior leaders including the Chief Executive Officer and Chief Technology Officer of the Sync Project, Chief Scientific Officer and Head of Intellectual Property for Vedanta Biosciences and Vice President of Marketing for Tal Medical.

Focus on execution

We are now well positioned to execute against a number of significant milestones in 2016 and beyond.

20 clinical studies are advancing through our pipeline. Over the next two years, we have many catalysts, including the expected completion of multiple pivotal or registration studies and six clinical human proof-of-concept study read-outs as well as over a dozen exploratory and pilot studies. While inevitably some technologies will not advance to commercialisation, our approach preserves our options as most of the

cash resides on a PureTech Parent Company level, enabling us to back the winners. Our model also gives us many shots on goal with independent technologies, avoiding the binary risk of a typical single platform biotechnology company.

We've started 2016 well, including Akili's $30.5 million successful financing as well as Vedanta's new licence agreement and Chief Scientific Officer appointment.

As we prepare for the launch of our first products, we've expanded our reimbursement and commercial expertise with the addition of industry veterans on our advisory team, including Harry Leider, Chief Medical Officer of Walgreens Co., Rob Perez, former CEO of Cubist, and Sachin Jain, Chief Operating Officer and Chief Medical Officer of CareMore Health and former Chief Medical Information and Innovation Officer at Merck.

We enter 2016 with a robust pipeline and strong fundamentals. With our fantastic team and network, we are well positioned to deliver significant value for our shareholders.

We appreciate the tremendous response to our initial public offering and are delighted to have met and involved so many terrific new investors throughout the year. This has been a remarkable year, and we are even more excited about our future.

Daphne Zohar
Chief Executive

How PureTech aims to build value for investors

Targeting markets with large unmet medical needs that will benefit from a disruptive approach, PureTech works with its distinguished Board of Directors and Scientific Advisory Board, along with an unparalleled cross-disciplinary group of more than 60 expert advisors and global leaders in their fields, to identify and access potentially ground-breaking science and technological innovation ahead of others.

PureTech's process couples big science ideas with rigorous testing, de-risking technologies through experiments that are designed to probe the key unanswered questions.

The benefits of PureTech's structure

PureTech's structure has significant advantages over traditional pharmaceutical companies:

- Each technology is housed in an independent business at the time that intellectual property is licensed or created, enabling the management and advisors of that business to be compensated via equity in the businesses they are working on.
- Decisions about how to allocate funding to different programmes are made by the PureTech senior leadership and Board of Directors, whose primary compensation is through PureTech, thereby ensuring complete alignment with PureTech's shareholders.
- PureTech has a strict stage-gating of funding allocation, with approximately $350,000 allocated during the "concept" phase, approximately $2 million allocated during the "project" or de-risking phase, and such amount allocated during the "growth" stage as the Board of Directors of PureTech shall approve based upon the businesses' operating plan, potential value inflection milestones and budget.

PureTech currently has 10 concept phase initiatives and five project phase businesses quietly advancing technologies through this de-risking process. PureTech does not include its concept and project phase assets in its calculation of the value of the Aggregate Holdings of its growth stage businesses.

Emerging from this process, PureTech has seven growth stage businesses focused on developing innovative medicines in billion dollar healthcare markets and has ownership or exclusive control over 200 patents and patent applications. PureTech has progressed and increased support of these businesses as they achieved external validation including strategic partnerships, outside funding, technology proof of concept and/or peer review in prestigious scientific journals.

The Company fully expects that even these de-risked programmes will experience some attrition and PureTech maintains the cash and decision making optionality to support the most promising programmes as they grow and develop, allocating cash to those that are successful when others are deprioritised based on clinical results.

PureTech is deeply passionate about improving the lives of patients, with a focus on operating with the highest level of integrity and commitment to long term shareholder value.

Safe and efficacious approaches to chronic and infectious diseases are urgently needed

In 2014, global health care costs were estimated to average 10.5 percent of Gross Domestic Product[1]. Chronic diseases, such as those impacting the central nervous system (e.g. depression, schizophrenia, ADHD, autism), the immune system (e.g. oncology, auto-immune disorders) and the gastrointestinal system (e.g. obesity, diabetes, metabolic disease) represent the leading cause of mortality in the world[2].

PureTech is focused on these areas of need as well as on adjacent areas like infectious diseases which are recognised as a serious global threat by the World Health Organisation due to growing bacterial resistance to existing antibiotics and a dearth of new therapies on the horizon.

The barrier to innovation is increasing with regulators' and society's greater emphasis on safety and perceived value. Adverse drug reactions (ADRs) associated with conventional drugs have been estimated to potentially cost in excess of $130 billion per year[3], 50 percent of total annual prescription costs[4]. All new medicines will be challenged to adhere to higher safety standards.

At a time when the need for new safe and effective medicines is enormous, the pharmaceutical industry continues to struggle with an "innovation gap". Pharmaceutical R&D returns declined from 10.1 percent in 2010 to 4.2 percent in 2015[5].

PureTech believes traditional models must evolve to drive healthcare innovation. For example, a compelling and unconventional approach taken by PureTech includes utilising technologies to provide a 'drug-like effect without drugs', leading to creation of new classes of medicines with drug-like efficacy and a very high intrinsic safety profile.

Cross-disciplinary R&D continues to drive medical innovation

The challenge to developing new and safe medicines will likely find solutions in cross-disciplinary thinking, which has historically spawned major medical advances. Growing areas of importance to medicine include the microbiome, which was once in the realm of the food industry but is now being widely recognised for its critical role in areas like immunity, host defence and metabolism. Recently, bacterial biology gave rise to CRISPR-based genome editing tools with wide-ranging health applications including cancer, genetic disease and drug discovery. The discovery of novel functions of exosomes opened a new frontier in cell signalling and enables new strategies for drug delivery. Language processing technologies developed to safeguard cyber security have demonstrated potential in detecting vocal biomarkers for disease.

With most biopharma companies operating within silos, PureTech's approach of going between and beyond existing disciplines is a key differentiator and central to PureTech's discovery and preclinical process which is expected to yield two to four new project phase businesses per year.

Digital medicines hold promise for safe, patient-centred care

Digital medicine is a rapidly maturing cross-disciplinary field that possesses exceptional potential for developing effective and safe diagnostics and therapeutics. Driven by the convergence of technology and healthcare, non-traditional players are changing the healthcare M&A landscape. Fifty percent of the Fortune 50 companies entered the healthcare market in 2013[6]. Companies, including Alphabet (Google), Nestlé, Apple, Samsung, Alibaba, IBM and Walmart now have significant stakes in the healthcare arena.

Ongoing, no- or low-burden monitoring, and the delivery of customised, just-in-time therapeutic interventions in non-critical settings provide tremendous potential to alter how, when and where we test, diagnose and manage our health.

Just as combining continuous glucose monitors and insulin pumps allowed diabetics precise closed-loop care, digital medicine could realise closed-loop care for cognitive disorders including ADHD and autism, mental health conditions, sleep, pain, post-traumatic stress disorder, traumatic brain injury and Parkinson's disease, among others. Such interventions could potentially avert catastrophic health events

that require hospitalisation, aligning with the cost saving incentives of healthcare providers transitioning to value-based reimbursement.

The rise of the well-informed patient-consumer offers a growing market for digital medicine in addition to traditional payers. Healthcare is the fastest growing on-demand sector, reflecting heavy emphasis on patients' values of convenience, simplicity and speed, with annual investment growing at a compounded annual growth rate of 224 percent from 2010 to 2014 which is expected to quadruple by 2017[7]. Digital medicine could become of central importance as healthcare evolves towards a patient-centred, prevention paradigm.

Surge in healthcare deals likely to funnel toward convergent, clinically validated approaches

The healthcare sector led global mergers and acquisitions valued at more than $723 billion in 2015, up 66 percent over 2014. Following closely behind was the technology sector, with more than $713 billion in M&A in 2015[8].

The convergence of technology and health presents two new and significant sources of funding and partnerships for life sciences start-ups: traditional pharmaceutical companies and non-traditional players. Pharmaceutical companies are transitioning to a fully centralised model and they are looking to boost productivity by outsourcing innovation and R&D to smaller companies. Non-traditional players are entering healthcare with deep pockets, wanting to establish early dominance in the gap between consumer expectations and medical infrastructure.

Start-ups with a strong understanding of science, experience navigating regulatory pathways and clinical sector expertise will possess a strong advantage in this new era of converging disciplines. PureTech is proactively tackling this with strong management understanding of multiple sectors, leveraging rapid prototyping and big data to achieve clinical validation for medical applications, reimbursement and revenues.

1: World Healthcare Outlook, Economist Intelligence Unit, August 14, 2013
2: World Health Organizations: http://www.who.int/topics/chronic_diseases/en/
3: Pharmacoeconomics, 1999, http://www.ncbi.nlm.nih.gov/pubmed/10537962
4: Total Retail Sales for Prescription Drugs Filled at Pharmacies, 2014 http://kaiserf.am/1XO68HF
5: Deloitte LLP, Measuring the return from pharmaceutical innovation 2015
6: Strategy+Business. The Future of Health is More, Better, Cheaper. http://bit.ly/1uEJ1FT
7: Accenture. Healthcare: For Here or To Go? http://bit.ly/1QXTm98
8: Dealogic. Global M&A Volume Surpasses $5tn for the First Time on Record. http://bit.ly/1pODgjV

PureTech's differentiated approach

Targeting areas of growing insight and significant need

PureTech focuses on areas of accelerating biological insight and innovation coupled with substantial medical need. The Company's current programmes are primarily directed to three such areas – the central nervous system (CNS), the immune system, and the gastrointestinal system (GI) – along with the interfaces and interactions between and among those systems. For example, the human microbiome is a significant area of focus for PureTech with applications that span across the GI-CNS-immune axis.

Across these areas and interfaces, PureTech is exploring creative, and often unexpected, modalities of impacting human health outside of traditional drug development strategies. In particular, we are developing therapies with the potential to demonstrate 'drug-like effects without drugs' and advancing engineering inspired by biology.

"Drug-like effects without drugs"

Digital medicine shows great promise in its potential to achieve the efficacy of pharmaceuticals with an improved safety profile. PureTech has invested a considerable effort in digital medicine, which the Company defines as digital therapeutic modalities that can modify the course of a disease or medical condition. Akili, the Sync Project and Sonde have resulted from this focus area. Additionally, PureTech is pursuing the potential for new modalities with drug-like efficacy and a very high intrinsic safety profile to be delivered to large markets like depression, cognitive disorders and obesity. PureTech has been encouraged by the regulatory feedback in these areas with Tal Medical, Gelesis and Akili all receiving positive feedback from FDA regarding their plans and the safety profiles of these approaches enabling accelerated paths to market compared to drugs.

Engineering inspired by biology

PureTech is applying biological principles to develop new engineering solutions for medicine. For example, Entrega's platform to deliver injectable drugs orally is based on a new encapsulated muco-adhesive patch and the Gelesis encapsulated device was enabled by a breakthrough in polymer science. Also, Vedanta Biosciences is developing one of the first drugs based on defined cocktails of microbes that occur naturally in the gut for the treatment of autoimmune conditions, infectious diseases and allergies. PureTech is developing a number of new initiatives in synthetic biology, co-opting natural systems to better design and deliver drugs.

A new kind of healthcare company

Advantages of PureTech's structure & process

PureTech's programmes originate from a systematic and rigorous theme-driven process. First, the Company identifies a theme – an area of significant unmet medical need where there exists rapidly emerging scientific research and the potential for potentially disruptive solutions.

PureTech then recruits leading scientists to establish a theme specific Scientific Advisory Board (SAB). The Company works with the SAB to cultivate new ideas and evaluate potential technologies, to prioritise and only pursue those with strong scientific basis and commercial and clinical potential. PureTech performs an unbiased analysis of hundreds of scientific discoveries focused on the particular healthcare problem –

more than 650 per year – and works with the leading experts in that therapeutic or technology area and complementary fields to select the most promising breakthroughs to advance. This unbiased approach proactively involves perspectives from other fields – a reflection of PureTech's recognition that improving health is a cross-disciplinary endeavour.

Upon selecting and in-licensing the most promising technologies, PureTech typically pursues further intellectual property protection and conducts experiments to validate the technologies. Throughout this process, it manages the new project phase businesses while building a growth leadership team and providing capital to fund development. Finally, project phase businesses are matured to the growth stage upon achieving key milestones that grant strong external validation of technology and unlock new funding avenues.

This process has resulted in an advanced pipeline of seven growth stage businesses, five project phase businesses and 10 concept phase initiatives. The Company plans to launch an additional 2-4 new businesses per year. Across PureTech's pipeline in the next two years, six additional human proof-of-concept studies and multiple pivotal or registration studies are expected to read-out.

Biotech-like upside without the binary risk profile

The changing face of healthcare innovation requires new infrastructures to bring promising solutions to market. PureTech's approach has the potential upside of biotechnology while diversifying its risk similar to a pharmaceutical company. The Company's structure has significant advantages over pharmaceutical companies as programmes are housed in independent operating companies to maximise growth flexibility and align management incentives. This structure enables PureTech to issue equity to the leaders of the specific businesses and enables those leaders to function in an entrepreneurial way, with all of the same motivating factors as in an independent biotechnology business. At the same time, PureTech's shared expertise and infrastructure across its businesses provides capital discipline and limits the most common risks associated with biotech, allowing PureTech to build value and divert cash to its most successful programmes as milestones are achieved.

PureTech's Board of Directors and senior leadership team are focused on driving the greatest value for its shareholders. As growth stage businesses near the stage of harvesting, PureTech focuses on scenario planning to maximise value for PureTech and its shareholders. In some cases, an inflection point followed by an attractive acquisition offer may be the optimal way to increase value, while in other cases, the launch of a product with multi-billion dollar potential may be the ideal outcome. In launching products, PureTech's leadership team will consider benefits of commercial partnerships that help to drive value. PureTech's decision-making group is compensated primarily through equity at a PureTech level and is therefore completely aligned with PureTech shareholders to make decisions that will drive the most value for these shareholders. PureTech generally maintains the majority share of the equity in its businesses and controls the underlying business's board of directors to direct the strategy of the business.

Management and network

Industry-leading, cross-disciplinary team

PureTech's recognition that improving health is a cross-disciplinary endeavour drives its approach to solving problems. PureTech's employees and Directors have collectively been involved in the development of drugs, medical devices and technologies which have been credited with an impact on millions of people and in the launch of multi-billion dollar companies. This wealth of experience is further boosted by PureTech's senior advisors, expanded in 2015 to include Dr. Harry Leider (Chief Medical Officer of Walgreens Co.), Dr. David Edwards (the Gordon McKay Professor of the Practice of Idea Translation at the Harvard John A. Paulson School of Engineering and Applied Sciences), Dr. Donald Ingber (Founding Director of the Wyss Institute for Biologically Inspired Engineering at Harvard University), Dr. Sachin Jain (Chief Operating Officer and Chief Medical Officer of CareMore Health and former Chief Medical Information and Innovation Officer at Merck) and Mr. Robert Perez (former CEO at Cubist).

Finally, the PureTech multidisciplinary Scientific Advisory Board was established in 2015, with experts in areas ranging from synthetic biology (Jim Collins, Ph.D., Termeer Professor of Medical Engineering & Science and Professor of Biological Engineering at MIT), to optogenetics (Ed Boyden, Ph.D., professor of Biological Engineering and Brain and Cognitive Sciences at the Massachusetts Institute of Technology MIT Media Lab and the MIT McGovern Institute), to medical imaging (Sam Gambhir, M.D., Ph.D., Ludwig Professor and Chair, Department of Radiology and Director of the Molecular Imaging Program at Stanford University). Each member was chosen for their leadership in their respective fields, and shared vision in addressing major healthcare problems in unexpected ways.

Additionally, PureTech has selected its experienced team of employees for their creativity and entrepreneurial skills from a pool of candidates from top institutions. In addition to extensive healthcare expertise, PureTech's internal team comprises cross-disciplinary specialists with expertise in life, computer and physical sciences as well as chemical and biomedical engineering.

Industry-leading international advisory network

Alongside PureTech's internal team, the Company has established an international advisory network comprising more than 60 experts across multiple disciplines. The advisors contribute individual expertise and also function as part of a broader, collaborative network. The Directors believe that this network provides PureTech with access to some of the most promising technologies within a theme, at the stage where they are first being explored in the laboratories of their origin. For example, these leading scientists often introduce PureTech to up-and-coming scientists and researchers who are potentially making breakthroughs in a particular field. This network enhances PureTech's ability to evaluate and validate those technologies that it believes show strong commercial and clinical potential and ultimately focus on a select few of some of the most promising within the selected theme. PureTech's advisory network has international reach, complementing PureTech's extensive relationships within Boston's healthcare community.

Strong fundamentals

PureTech's differentiated business model allows for the Company to support its existing businesses while actively identifying new technologies. PureTech invests in the growth of its businesses in a disciplined manner and its model affords the Company the ability to build value and allocate funds to its successful businesses as milestones are achieved. Having raised net proceeds of $236 million during 2015, PureTech is well-positioned to achieve its strategic goals, with approximately $256 million of cash and short term investments at 31 December 2015. These funds enable PureTech to drive forward its growth stage businesses to major milestones. This capital also enables PureTech to develop its internal infrastructure as well as to build and scale its pipeline. PureTech's growth stage businesses maintain a strong cash position, with PureTech and outside investor funding, reflected by the consolidated cash and short term investments of approximately $313.7 million.

One of PureTech's competitive advantages is its institutional expertise in creating innovative new therapeutics and driving their growth through strategic, operational and financial leadership. As important as PureTech's strong cash position is its ability to build its pipeline through the effective management and growth of its businesses. With a structure to incentivise the teams that drive forward its various businesses, PureTech guides the direction of its businesses to help maximise value for its shareholders. PureTech has average holdings of approximately 73 percent in its businesses, and effective control over all.

PureTech's strong cash position in conjunction with its controlling stakes in its businesses provides it alternatives with regard to funding its businesses and optimising its capital allocation strategy. Since its businesses are generally majority-owned, PureTech has the flexibility to tune the level of outside funding for each business depending on market conditions with an emphasis on those investors who contribute value beyond capital. With a keen focus on long term returns, PureTech is also able to take advantage of market movements. For example, when partners and investors are highly enthusiastic about certain healthcare sectors, PureTech can attract relatively inexpensive capital to businesses exploring those areas.

In particular, as its growth stage businesses continue to advance, cash inflows could come from a number of sources, including launch of products, licensing revenue, royalties, as well as sale of a business.

PureTech has the ability to influence the strategic direction of each of its businesses, with the PureTech Board of Directors and senior leadership sitting on the underlying business boards as part of their roles in PureTech. This allows PureTech to take a holistic view of capital allocation across its businesses, with the goal of maximising value for its shareholders.

Finally, an important advantage of PureTech's business model is its diversification of technical risk. PureTech's businesses have relatively independent risk profiles, which means that as some businesses reach de-risking milestones, including potentially negative results, PureTech can choose to divert its capital to back the potential winners. As a result, PureTech is protected from funding high-risk, low-return assets, and can direct its funds towards its businesses that have demonstrated technical success or have a higher potential for meaningful returns.

External validation

Validating PureTech's technologies through partnerships and external financings is a significant strategic goal for PureTech. During 2015, businesses in PureTech's pipeline formed four partnerships, including those with Janssen, a subsidiary of Johnson & Johnson, and with Autism Speaks, and closed five funding rounds with external partners. PureTech's businesses also continued to successfully progress collaborations with Pfizer and Verily, Google's life sciences division. Data supporting PureTech's businesses have been published in top-tier scientific journals such as *Science* and *Nature*.

In January 2015, Vedanta Biosciences entered into a partnership with Janssen, a subsidiary of Johnson & Johnson, out-licensing one product candidate, VE202 for up to $339 million in a non-refundable upfront and milestones payments, plus royalties on commercial sales from the high single digits to the low teens. This partnership allowed Vedanta Biosciences to further develop its platform with non-dilutive funding, preserving PureTech's equity stake and allowing PureTech to maintain a controlling interest. In addition to the funding the partnership provides, it also allows Vedanta Biosciences to leverage the resources of a larger partner to drive forward the development of VE202. Vedanta Biosciences has a platform with multiple additional product candidates.

Akili entered into a partnership with Autism Speaks, a leading autism science and advocacy organisation. This partnership allowed Akili to receive non-dilutive funding to support a controlled clinical study to determine the efficacy of Akili's cognitive gaming intervention platform in children with co-occurring high-functioning autism and ADHD. Having relationships with patient advocacy groups like Autism Speaks will be beneficial in building market awareness for Akili's product candidate. Along with Akili's previously formed relationships with Pfizer and Shire, this represents strong validation of our technology.

During 2015, Gelesis (twice), Tal Medical, Follica, and Karuna all closed financing rounds with external partners, with Akili closing a round post-period end. External financing rounds provide further validation for the technology plus, in the case of equity financings, validation of the business values, as was the case for Gelesis, Akili, and Tal Medical. In July 2015, Karuna received the Wellcome Trust's Translation Fund Award, comprising a low-interest, unsecured convertible note of up to $3.8 million to fund Karuna's combination proof-of-concept study, to demonstrate the potential of Karuna's lead therapy, KarXT.

Advanced pipeline

PureTech has a robust pipeline of programmes, which has significantly progressed over the course of 2015, with several of PureTech's businesses approaching commercialisation stage. PureTech's most advanced businesses are considered growth stage, and are formally valued at the conclusion of every year. PureTech's earlier stage businesses are considered project phase and concept phase, and are not included in the ownership adjusted value of our growth stage businesses.

Growth stage businesses

Given the progress of PureTech's growth stage businesses, PureTech's ownership adjusted value of these businesses has increased by $69.3 million or 31.2 percent, from $222.4 million to $291.7 million, including the first tranche of the Akili financing which closed in January 2016. The increase in PureTech's ownership adjusted value, net of new investments by PureTech, was approximately $46.3 million, or approximately 20.8 percent.

Late-stage pipeline

Both Akili and Gelesis are funded through the read-out of their pivotal studies in the first half of 2017, with sufficient funding to also begin commercialisation activities as they prepare for product launches within the next two years. Gelesis may potentially have a 3-month proof-of-concept study read-out in the second half of 2016 for Gelesis200, and also has two ongoing mechanistic studies for Gelesis100. Beyond its pivotal study in ADHD, Akili is also exploring its product in nine separate clinical studies. Follica is progressing towards its registration study, and is expected to initiate its registration study in the second half of 2016.

Mid-stage pipeline (clinical)

Tal Medical has two ongoing randomised controlled studies with a total planned enrolment of 210 patients expected to read-out in the third and fourth quarters of 2016, respectively, that are the equivalent of Phase 2b studies. If successful, these studies could serve as the basis for initiating a pivotal study. Tal Medical also has five ongoing research projects to better understand the mechanism of action of low field magnetic stimulation and possible applications in other indications. Karuna plans to have its 60-patient study read-out by the end of 2016.

Preclinical pipeline

Vedanta Biosciences and Entrega both also made significant progress towards the clinic in 2015. VE202, licensed to Janssen, is expected to enter the clinic in the first half of 2017. VE303 has demonstrated efficacy in animal models of C. *difficile* infections, and may also enter the clinic within the next year, and there are multiple other candidates in other indications including autoimmune, allergy and oncology. Entrega has further refined its drug delivery platform technology through large animal studies, and expects to have a dataset available to announce in the second half of 2016.

Project phase and concept phase

Unlike its growth stage businesses, PureTech's project phase businesses and concept phase initiatives are not assigned values by PureTech, but form the basis of PureTech's next growth stage businesses. PureTech's pipeline is also primarily focused on three therapeutic areas of accelerating biological insight

and substantial unmet medical need – the central nervous system, the immune system, and the gastrointestinal tract and associated metabolic system – and, despite not being formally valued, the most advanced of these are now clinical stage and already have strong teams in place.

Valuation of PureTech's growth stage businesses

All of PureTech's growth stage businesses are currently majority owned, except for Gelesis in which PureTech holds approximately 22.5 percent on a diluted basis and is also a co-inventor with rights to royalties upon launch. All growth stage businesses are fully consolidated in PureTech's consolidated financial statements prepared in accordance with IFRS. As a result, the consolidated statements of financial position incorporated within PureTech's consolidated financial statements do not include current valuations of the growth stage businesses. As a means of promoting transparency, the Directors also present, as supplementary information, ownership adjusted valuations of the growth stage businesses in aggregate. This valuation disclosure has been prepared on the basis of the AICPA Guidelines. The AICPA Guidelines do not represent, but are consistent with, valuation principles adopted under IFRS. The growth stage business valuations are not presented as alternative measures to, and should be read in conjunction with, PureTech's consolidated financial information prepared in accordance with IFRS and as set out in the Annual Report.

	Value of PureTech's holdings ($ millions) in growth stage businesses as at:			
Growth Stage Business	**31 December 2015[6]**	**31 December 2014[5]**	**Dollar change year-over-year**	**Percent change year-over-year**
Vedanta Biosciences	$83.0	$67.0	$16.0	23.9%
Akili	$45.9	$26.7	$19.2	71.9%
Gelesis	$56.8	$44.9	$11.9	26.5%
Tal	$30.6	$27.3	$3.3	12.1%
Karuna	$36.4	$24.9	$11.5	46.2%
Follica	$23.3	$18.2	$5.1	28.0%
Entrega	$15.7	$13.4	$2.3	17.2%
Aggregate Holdings	**$291.7**	**$222.4**	**$69.3**	**31.2%**

Notes:

(1) The Aggregate Holdings as at 31 December 2015 excludes cash, cash equivalents and short term investments held at the PureTech level. As at 31 December 2015, PureTech held such amounts totalling $255.5 million (this amount includes the amount subsequently invested by PureTech in the first tranche of the Akili financing round in January 2016 of $11.5 million). The Aggregate Holdings includes ownership adjusted cash balances and short term investments amounting to $30.4 million. Cash balances and short term investments are as at 31 December 2015, with the exception of Akili in which case the cash balance is as immediately following the first tranche of the January 2016 financing round.

(2) The value of the PureTech's growth stage business holdings represents the Company's interest in the equity value of each growth stage business, calculated as follows: (Business Enterprise Value − Debt + Cash) × PureTech's percentage ownership plus the present value of PureTech's expected future royalty stream associated with a particular business, plus the value of debt provided by PureTech LLC to that operating company, when applicable.

(3) The values attributed to royalty streams include royalties in respect to Gelesis (2015: $14.6 million, 2014: $9.7 million), Karuna (2015: $9.9 million, 2014: $7.5 million), and Follica (2015: $8.7 million, 2014: $6.9 million). The values attributed to debt held by PureTech include debt held by Karuna (2015: $2.9 million, 2014: $0.3 million), Entrega (2015: $2.1 million, 2014: $0.3 million), Follica (2015: $1.4 million, 2014: $0.1 million), and Vedanta (2015: $0.5 million, 2014: $0.4 million).

(4) The relevant ownership interests were calculated on a diluted basis, including issued and outstanding shares and outstanding warrants, written commitments to issue options, and options to purchase shares, but excluding unallocated shares authorised to be issued pursuant to equity incentive plans and any shares issuable upon conversion of outstanding convertible promissory notes. Although not included in the Aggregate Holdings, PureTech also holds majority stakes in its project phase businesses, while concept phase initiatives are, in effect, wholly owned.
(5) The Aggregate Holdings as at 31 December 2014 has been calculated on the basis of PureTech's percentage ownership interest as at 31 December 2014 or in the case of Gelesis and Tal, as at the date of the initial closing of the financings rounds that occurred in the first quarter of 2015.
(6) The Aggregate Holdings as at 31 December 2015 has been calculated on the basis of PureTech's percentage ownership interest as at 31 December 2015 or in the case of Akili, as at the date of the first tranche of the financing round that occurred in January 2016.

There can be no guarantee that the aforementioned valuation of PureTech's growth stage businesses will be considered to be correct in light of the future performance of our businesses, or that PureTech would be able to realise proceeds in the amount of such valuations, or at all, in the event of a sale or other monetisation event by it of any of its growth stage businesses.

At the close of each annual financial period, the Directors estimate and formally approve, the value of PureTech's growth stage businesses which is used to derive the Aggregate Value of Growth Stage Business Holdings ("Aggregate Holdings"). The Directors engage an external valuation expert in assisting the Company in estimating the Aggregate Holdings. The Aggregate Holdings was $291.7 million as at 31 December 2015 or, in the case of Akili, immediately after the closing of the first tranche of the financing round in January 2016 in which PureTech contributed $11.5 million of approximately $22.0 million committed by PureTech. The Aggregate Holdings is comprised of PureTech's ownership- adjusted interests in its seven growth stage businesses. The Aggregate Holdings does not include PureTech's interests in its five project phase businesses, in which PureTech holds, on average, approximately 90 percent on a diluted basis, or PureTech's interests in its 10 concept phase initiatives, which are wholly owned by PureTech.

Each growth stage business has an equity incentive plan in place which has the potential to dilute PureTech's ownership. The equity incentive plans are for the benefit of employees, directors and other advisors and service providers of the relevant business.

The Company's Prospectus filed in conjunction with its initial public offering disclosed the initial Aggregate Holdings valuation of the growth stage businesses of $222.4 million as of 31 December 2014. This information was provided in the Prospectus to assist potential shareholders and other key stakeholders in gaining a baseline understanding of the Company's business model and underlying portfolio of growth stage businesses. In future filings, the Company expects to disclose the total Aggregate Holdings value, but not the value of each growth stage business making up the total amount, as we believe that such information could affect the Company's ability to realise the highest possible value for these businesses. The Company's business model relies on the ongoing discussion with third-party investors and partners in its growth stage businesses. Disclosing the individual valuation of the Company's ownership stake in each growth stage business, as part of communicating our Aggregate Holdings, provides potential third-party partners and investors negotiating leverage due to the Company's voluntary election to communicate a balanced view on the Aggregate Holdings to PureTech's shareholders. The view presented in the valuation of the Aggregate Holdings is usually not reflective of the highest possible value and is not the most favourable valuation that could ultimately be assigned by an investor or partner. In the interests of promoting transparency, PureTech provides the following notes on our approach to valuation.

The Aggregate Holdings has increased by $69.3 million to $291.7 million or 31.2 percent. Excluding the impact of the amounts invested by PureTech of $23.0 million (inclusive of the first tranche of the Akili financing round in January 2016 of $11.5 million) subsequent to the 31 December 2014 valuation, the

value of the Aggregate Holding increased by approximately 20.8 percent. Approximately 60 percent of the value of the Aggregate Holdings at 31 December 2015 is supported by third-party investments and partnerships. This includes third-party financings in the case of Gelesis, Tal and Akili as well as an executed partnership between Vedanta Biosciences and Janssen.

Valuation methodology

Each growth stage business is evaluated by the Company when requesting further investment from PureTech based on a range of inputs, including, amongst others, business performance, market and competitor analyses.

The Aggregate Holdings represents the sum of the parts of valuations based on recent third party equity investments at the business level for Gelesis and Akili (2014 – Gelesis and Tal) and risk adjusted net present value from discounted cash flow valuations for Vedanta Biosciences, Entrega, Karuna, Tal, and Follica (2014 – Vedanta Biosciences, Entrega, Karuna, Follica and Akili).

Further details of the methodology applied by the Directors in determining the Value of Growth Stage Business Holdings is set out in the accompanying audited financial statements.

PureTech's project phase businesses and concept phase initiatives

The Directors believe that PureTech has adopted a conservative approach in providing valuation disclosure in respect of our growth stage businesses only. The Directors believe that the project phase businesses and concept phase initiatives, established international advisory network and theme driven business creation process provide significant opportunities to create and realise significant further value for PureTech's shareholders.

In addition to its seven growth stage businesses, PureTech has five project phase businesses which are at an earlier stage in PureTech's process and will form the basis of future growth stage businesses.

PureTech's existing growth stage businesses have all emerged from PureTech's established model. PureTech's platform, infrastructure and international advisory network enables it to explore new themes on an ongoing basis. PureTech currently has 10 concept phase initiatives with the potential to become the foundation for our future businesses.

PureTech's employees have built up extensive knowledge in areas that are critical to its business such as opportunity analysis, design of key experiments, as well as filing and licensing intellectual property. PureTech also relies on leading service providers, consultants and vendors including leading law firms with intellectual property expertise, regulatory consultants and contract research organisations whose expertise the Company can employ in a disciplined manner while conducting key validating experiments. The Directors believe this combination of established working relationships and broad expertise across the team enables PureTech to manage its business with efficiency and reduced risk and ultimately provides PureTech with a reproducible model to grow our business and generate further value for its shareholders.

Portfolio review

Summary

Growth stage business	Overview
Vedanta Biosciences	A preclinical stage company developing a microbiome immune system drug discovery platform and drug candidates for the treatment of immune-mediated diseases.
Gelesis	A clinical stage company developing products that seek to induce weight loss and improve glycaemic control through an orally administered capsule that expands in the GI tract as it absorbs water.
Akili	A clinical stage company developing technology and products for the screening, diagnosis and treatment of neurological disorders such as ADHD, autism and depression through computer software.
Tal	A clinical stage medical device company developing an innovative, noninvasive neurostimulation treatment for psychiatric disorders including depression and bipolar disorder.
Karuna	A clinical stage company developing an innovative combination therapy for the treatment of schizophrenia.
Entrega	A preclinical stage company developing a drug platform for the oral administration of proteins, peptides and other difficult-to-deliver payloads, including magnetic nanoparticles.
Follica	A clinical stage company developing products to generate new human hair follicles and hair.

Project phase business	Overview
The Sync Project	Developing a platform and products that seek to explore and leverage the health potential of music by utilising a platform that takes in physiological data from sensors and correlates that data with musical data components (e.g. beat and rhythm).
Sonde Health	Developing voice-based tools for the passive assessment and tracking of patient health.
Commense	Developing commensal organism-based products for the improvement of human health in, for example, early childhood.
Alivio Therapeutics	Alivio Therapeutics is centred around a proprietary drug delivery platform for drugs that treat inflammation and underlying disorders that cause inflammation.
Vor BioPharma	Vor BioPharma is a preclinical immuno-oncology business that is developing novel targeted therapies for cancer.

Growth Stage Businesses

Vedanta Biosciences is pioneering the development of a new class of therapies that are designed to modulate pathways of interaction between the human microbiome and the host immune system. Vedanta Biosciences is a leader in the microbiome field focused on the discovery, development, and manufacturing of drugs based on live commensal microbes. Using its proprietary technology platform, Vedanta Biosciences has isolated a vast collection of human-associated bacterial strains and characterised how the immune system recognises and responds to these microbes. Vedanta Biosciences has out-licensed the rights to one of its product candidates, VE202, to Janssen, a subsidiary of Johnson & Johnson, for a non-refundable upfront payment and development and commercialisation milestone payments of up to $339 million plus tiered royalties from the high single digits to the low teens. Using its proprietary microbiome technology platform, Vedanta Biosciences has also generated a pipeline of additional drug candidates which are being developed for infectious disease, immune tolerance, inflammation, and immuno-oncology, including one candidate at a similar stage of development as VE202. VE202 is expected to enter clinical studies in the first half of 2017 in IBD. VE303 is expected to enter clinical studies in the first half of 2017 for an infectious disease indication.

Akili is a clinical stage business developing a new type of medicine that addresses a new target for cognition. Akili's technology, originally discovered at UCSF, is being delivered in a consumer-grade action video game interface and applied to diagnosing and treating cognitive disorders. Akili's lead product is designed to monitor and improve the brain's executive function, which is impacted in a number of disorders such as attention deficit hyperactivity disorder (ADHD), autism, Alzheimer's disease and traumatic brain injury. Akili completed a pilot clinical study in paediatric ADHD in patients that showed

statistically significant improvements on multiple outcomes measuring attention, impulsivity and working memory. To date, Akili has undertaken 10 clinical trials as well as a number of smaller scale feasibility testing efforts. The Alzheimer's pilot biomarker study funded by Pfizer could potentially read-out in the second quarter of 2016. Akili expects its pivotal study in ADHD to read-out in the first half of 2017, with a potential product launch in the second half of 2017.

Gelesis is a clinical stage business focused on the development of novel therapies to induce weight loss and improve glycaemic control in overweight and obese patients, including those with prediabetes and diabetes. Gelesis100, one of the Gelesis' product candidates and a first-in-class therapeutic, is currently being evaluated in a six-month pivotal study. Gelesis is also advancing Gelesis200, created from the same proprietary technology platform as Gelesis100, as a product optimised to improve glycaemic control in prediabetics and type 2 diabetics who may or may not require weight loss. Gelesis raised $49.5 million in financing and initiated a weight loss pivotal trial for Gelesis100 following a non-significant risk designation from the U.S. Food and Drug Administration (FDA), accelerating its clinical timeline for FDA submission by approximately one year. Gelesis100's pivotal study could potentially read-out in the first half of 2017, with a potential product launch in 2018. Gelesis200's three-month efficacy proof-of-concept study could potentially read-out by the end of 2016.

Tal Medical, a clinical stage neuroscience business developing a non-invasive, rapid-acting neuro-modulation therapy for depression, attracted $14.0 million in financing, enrolled the first subjects in a dose optimisation study and received positive confirmation from the FDA that the study qualifies as a non-significant risk. Tal Medical's ongoing 90-patient proof-of-concept study is funded by the NIMH's Rapidly Acting Treatments for Treatment Resistant Depression programme, which is designed to test promising rapid-acting interventions. Tal Medical's Major Depressive Disorder (MDD) proof-of-concept study is expected to read-out in the third quarter of 2016, with its dose optimisation study reading out in the fourth quarter. The potential launch of Tal Medical's product candidate for MDD is 2019. Tal Medical is in the process of finalising the protocol for a pivotal study in bipolar disorder; the study will potentially start in the first half of 2017.

Karuna is pursuing innovative therapies for the treatment of schizophrenia. Karuna's lead programme, KarXT, is a product candidate consisting of xanomeline, a novel clinical-stage muscarinic acetylcholine receptor agonist (activator) that has demonstrated efficacy in reducing psychosis and improving cognition in placebo-controlled human trials, and trospium chloride, an FDA-approved and well-established muscarinic receptor antagonist (blocker) that studies have shown does not enter the central nervous system. If successful, KarXT could provide a new mechanism for treating schizophrenia, a field in which few safe and effective new mechanisms have emerged over the last half-century. Karuna has received the Wellcome Trust's Translation Fund Award, consisting of an unsecured convertible note of up to $3.8 million from the Wellcome Trust for its planned combination proof of concept study. Karuna's combination proof-of-concept study could potentially read-out by the end of 2016, which, if successful, could be the basis for initiating a Phase 2 study in 2017.

Follica is a clinical stage business utilising its regenerative biology platform technology to develop a novel treatment for hair loss. Follica's technology employs a technique designed to stimulate the growth of new follicles and hair through disruption of the skin, followed by treatment with drugs and chemicals to enhance the effect on these new hair follicles and potentially further develop new hair. Follica has completed three human clinical studies of patients with androgenetic alopecia to demonstrate hair growth and new hair follicle formation following application of its technology. Follica has also performed and funded preclinical work which, together with research from the University of Pennsylvania, serve as

the foundational observations on which the technology is based. Follica plans to initiate a registration study in the second half of 2016, with data read-out in 2017. If the data are favourable, Follica would potentially plan to seek FDA clearance in 2017, with commercial release to follow as soon as 2018.

Entrega is developing a platform technology for the oral delivery of biologics, vaccines and other forms of medication that are otherwise not efficient in reaching the bloodstream when taken orally. To underpin its technology, Entrega has generated proof of concept data demonstrating that Entrega's system can deliver therapeutic peptides, including insulin, into the bloodstream of healthy rats. Entrega has initiated a series of large animal experiments designed to refine and validate this initial model. Entrega has a partnership with Verily, Google's life sciences division, focused on developing nanoparticle formulations for oral delivery with Entrega's technology. Entrega expects a read-out of proof-of-concept delivery data in large animals in the second half of 2016.

Project Phase Businesses

PureTech currently has five project phase businesses and 10 concept phase initiatives originating from its theme-driven process. In 2015, Alivio Therapeutics and Vor BioPharma advanced to the project phase. PeerIn and Knode have been deprioritised based on their lack of strategic fit with PureTech's current focus areas.

Alivio Therapeutics is centred around a proprietary drug delivery platform for drugs that treat inflammation and underlying disorders that cause inflammation. There are dozens of diseases where inflammation is a central part of the underlying disease pathology. Inflammatory diseases represent a multi-billion dollar market despite the fact that current treatments may have limited efficacy and side effects. The approach that Alivio is taking may result in both improved safety and efficacy of currently used agents. The platform may also enable the delivery of agents that would otherwise not have clinical utility allowing for the introduction of novel agents to treat inflammatory-related conditions. Because of the platform nature of Alivio's technology, it has the potential to be used with multiple agents.

Commense is developing novel microbiome derived therapeutics by priming, seeding and maintaining beneficial microbes before birth, at birth, and beyond. Decades of research support the view that microbial exposures early in life play a major role in healthy development and are believed to be very important for many conditions including diabetes, asthma, rheumatoid arthritis and Crohn's disease. Recent work has begun to reveal the sources of these beneficial microbes, as well as strategies to optimise their transfer, colonisation, and persistence in the host. Commense was co-founded by a team of world-class microbiome researchers that have helped to pioneer these discoveries in order to turn them into products with breakthrough potential to improve health in children worldwide.

Sonde Health

Sonde Health is developing a proprietary voice-based technology platform with the potential to transform the way we monitor and diagnose mental and physical health. A key unmet need for medicine is low- or no-burden monitoring technologies that can provide clinically meaningful information about a range of health and disease states on devices people already own and use every day. Although not widely recognised outside of specialised research communities, the human voice is a rich source of objective health information that can be accessed through signal processing and computational analysis to reveal health-related changes in the function of the major systems involved in speech production. Saying a single phrase requires complex coordination of multiple neural circuits in the brain, precise control of the respiratory system, and carefully timed and coordinated activation of the musculoskeletal system

elements that control articulation along the entire vocal tract. Disease-specific disruptions in any one (or more) of these systems produce subtle, but characteristic changes in the non-linguistic features of the voice that are consistent across individuals and can be analysed computationally.

The Sync Project

In the growing digital medicine industry, Sync is positioned to become the first algorithmic music therapeutics company. Sync's goal is to create music as personalised medicine through the application of machine learning to a unique dataset combining music characteristics and biometric data. Sync has built a novel end-to-end version of the platform that will allow the company to gather this dataset a) quicker than potential competitors and b) through an innovative model combining both an open consumer community (large population studies) and focused clinical studies. Sync has identified initial conditions for human pilot studies including sleep, pain and athletic performance and has begun clinical studies in the latter. Sync is led by CEO Marko Ahtisaari, former Chief of Design at Nokia.

Vor BioPharma

Vor BioPharma is a preclinical immuno-oncology business that is developing novel targeted therapies for cancer. In recent years, targeted immunotherapies have shown remarkable progress in the clinic, yet their applicability beyond a small subset of cancers is currently limited. Vor is collaborating with some of the world's leading oncologists and immunologists to develop a breakthrough new technology platform to address this major challenge. Importantly, Vor's focus is to build an approach that has the potential to yield a pipeline of new therapies for malignancies that cannot be adequately addressed using existing approaches.

Concept Phase Initiatives

PureTech is also pursuing 10 different concept phase initiatives in areas like infectious disease, oncology, immunology and metabolism. Although these are earlier stage, these initiatives form the basis for PureTech's future project phase businesses and round out PureTech's early-stage pipeline.

Risk Management

The execution of the Group's strategy is subject to a number of risks and uncertainties. As a developer of early stage technologies attempting to address 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, its financial condition, its development, results of operations, businesses and/or future prospects.

1. The science and technology being developed or commercialised by 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.

   Impact: The failure of any of the Group's businesses would 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 fund raising at the Group or business level more difficult.

   Mitigation: 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. A capital disciplined 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 tranched 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' strategy and to oversee proper execution thereof. The Group uses its extensive network of advisers to ensure that each business has appropriate domain expertise as it develops and executes on its strategy.

2. Clinical trials and other tests to assess the commercial viability of the product 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.

   Impact: 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 significantly impact the amount of capital required for the business to become fully sustainable on a cash flow basis.

Mitigation: The Group has dedicated internal resources to establish and monitor each of the clinical programmes in order to try and 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.

3. 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. Moreover, approval in one territory offers no guarantee that regulatory approval will be obtained in any other territory. The Group may not obtain regulatory approval for its products. 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.

   Impact: The failure of one of the Group's products to obtain any required regulatory approval may result in a significant decrease in the Group's value.

   Mitigation: The Group manages its regulatory risk by employing highly-experienced clinical managers and regulatory affairs professionals who, where appropriate, will commission advice from external advisers 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.

4. 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 or 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.

   Impact: Unacceptable adverse reactions or 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.

   Mitigation: 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.

5. 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 strong enough 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 Company. 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 Company.

   Impact: The failure of the Group to obtain reimbursement from third-party payers, as well as competition from other products, may significantly decrease the amount of revenue the Group may receive from product sales. This may result in a significant decrease in the Group's value.

   Mitigation: 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.

6. The Group may not be able to obtain patent protection for its products or maintain the secrecy of its trade secrets and know-how. If the Group is unsuccessful in doing so, others may market the 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 Company licences certain intellectual property rights from third parties. If the Company fails to comply with its obligations under these agreements it may enable the other party to terminate the agreement. This could impair the Company's freedom to operate and potentially lead to third parties preventing it from selling certain of its products.

   Impact: 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.

   Mitigation: The Group spends significant resources using top tier advisers in the prosecution of its patent applications. 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 Company's employment and advisory contracts. Licences are monitored for compliance with their terms.

7. The Group expects to continue to incur substantial expenditure in further research and development activities of its businesses. There is no guarantee that the Group will become profitable and, even if it does so, it may be unable to sustain profitability.

Impact: 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.

Mitigation: The Group retains significant cash in order to support funding of its businesses. 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 funding for its businesses.

8. 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 at the Group or its businesses.

   Impact: 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.

   Mitigation: The Board annually seeks external expertise to assess the competitiveness of the compensation packages of its senior management. Senior management continually monitor and assess compensation levels to ensure the Group remains competitive in the employment market. The Group maintains an extensive recruiting network through its Board members, advisers and scientific community involvement. The Group also employs an executive as a full-time in-house recruiter.

This Strategic Report was approved by the Board of Directors.

By order of the Board

Stephen Muniz
Company Secretary

Responsibility statement of the Directors in respect of the Annual Financial Report

The responsibility statement set out below has been reproduced from the Annual Report and Accounts and relates to that document and not this announcement.

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 loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Strategy 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

Financial review

Cash Raised in 2015

	2015 $ millions
Proceeds from Initial Public Offering	$183.4
Proceeds from Private Equity Financings	52.2
Total Cash Raised by PureTech in 2015	**$ 235.6**
Proceeds from Outside Investors from Financings of *Growth Stage* Businesses	$50.3
Proceeds from Receipt of Milestone Payments	10.0
Total Cash Raised for Group in 2015	**$295.9**

The financial results for year reflect a transformational period for the Group. During 2015, the Group significantly strengthened its financial position, liquidity and ability to fund its pipeline by raising more than $295 million, including proceeds of $196 million from the Company's listing on the London Stock Exchange ("Initial Public Offering" or "IPO") which contributed $183.4 million net of expenses.

The Group also completed a private equity financing in early 2015 resulting in net proceeds of $52.2 million, realised $50.3 million of proceeds from outside investors in subsidiary equity financings and issuance of convertible notes, as well as $10.0 million in a non-refundable payment from Janssen, a subsidiary of Johnson & Johnson. The cash reserves generated by these Company fund raisings, proceeds from outside investors and receipt of the milestone payment will be used to fund infrastructure costs, pipeline development and progress the existing *growth stage* businesses toward meaningful milestone events.

During 2015, PureTech has scaled up its functions and continued to source new technologies and platforms. The *growth stage* businesses have expanded their research and development activities and focused on building out their teams. As of 31 December 2015, the Group had $255.5 million of cash reserves at the PureTech level to fund activities of the Group, including pipeline development and participating in financings of the businesses.

In addition, the Group has successfully financed its *growth stage* businesses by deploying some of its cash reserves, while attracting meaningful outside investment. This has resulted in increased funding at the *growth stage* businesses totalling, $69.8 million, with $19.5 million coming from the Group and $50.3 million provided from outside interests.

Results of Operations

	2015 $ millions		2014 $ millions	
Revenue	**$11.8**		$2.2	
Operating Costs(4)(5)	**(43.6)**	(1)	(16.6)	(1)
Other Income	**0.5**		—	
Net Finance Costs	**(2.1)**	(2)	(2.4)	(2)
Adjusted Loss before Income Taxes	**(33.4)**	(3)	(16.8)	(3)
Provision for Income Taxes	**(1.9)**		0.3	
Adjusted Loss	**$(35.3)**	(3)	$(16.5)	(3)

(1) Stated before the effect of share-based payment of $11.3 million (2014 – $2.8 million), depreciation of $0.4 million (2014 – $0.2 million) and amortisation of $0.3 million (2014 – $0.2 million).

(2) Stated before the effect of the IAS 39 fair value accounting charge of $7.5 million (2014 – $56.4 million) and finance cost – subsidiary preferred shares of $3.5 million in 2015.

(3) Stated before the charges discussed in footnotes 1 and 2, above.

(4) For 2015, operating costs for our reportable segments and Parent Company and other stated prior to share-based compensation, depreciation and amortisation were $27.9 million, $2.3 million and $13.4 million for *growth stage* businesses, *project phase* businesses and Parent Company and other, respectively.

(5) Parent Company and other operating costs before share-based compensation, depreciation and amortisation and the cost of professional services totalling $5.5 million associated with our IPO, which is non-recurring in nature, was $7.9 million for 2015.

Revenue

The Group's operations do not yet generate continuing product revenues. Some of the *growth stage* businesses currently generate revenue from collaborations with third parties. Future revenue from *growth stage* businesses are expected to be earned under licence and collaboration agreements and may include non-refundable licence fees. In addition, Gelesis has received government grants for certain capital expenditures and expenses incurred for research and development work performed under specified programmes in Italy and the European Union.

Consolidated revenue increased by $9.6 million to $11.8 million in 2015. This is primarily attributable to revenue at *growth stage* businesses increasing almost entirely as a result of a $10.0 million non-refundable milestone payment Vedanta Biosciences received as part of its collaboration with Janssen, to develop and commercialise VE202, a microbiome product candidate with an initial focus on inflammatory bowel disease.

Operating costs

Operating costs are comprised of personnel costs, consulting, professional and legal fees and business development, as well as research and development expenses mainly in the form of preclinical activities, clinical studies, intellectual property registration, licensing technologies and the cost of acquiring, developing and manufacturing clinical study materials. Personnel and consultation costs are primarily related to the remuneration of staff, directors and advisers in the form of salaries, bonuses, taxes and adviser fees.

Group operating costs before the impact of share-based payment charges, depreciation and amortisation of intangibles increased by $27.0 million. Included in operating costs in 2015 are $7.9 million of professional services associated with the equity raise transactions. This includes costs related to PureTech's IPO, which were not otherwise offset against the net proceeds of the offering and other related costs. Substantially all of these costs are not expected to be recurring in nature.

The Group's operating costs also reflected increases due to significantly higher external costs related to research and development expenses at the *growth stage* business units, added headcount and higher average compensation levels relative to 2014 and an expanding footprint requiring additional space and lease costs and the higher cost profile associated with being a newly public company. Parent Company operating costs before share-based compensation, depreciation and amortisation and the cost of professional services associated with the IPO was $7.9 million for 2015.

The Directors anticipate that operating costs will increase as the Group continues to advance the pipeline, source new technologies and progress the existing development programmes.

Net finance costs

Net finance costs, before consideration of the charge related to finance costs – IAS 39 fair value accounting of $7.5 million ($56.4 million – 2014) and finance costs – subsidiary preferred shares of $3.5 million in 2015, decreased by $0.3 million, primarily driven by the conversion of notes payable into equity holdings for certain *growth stage* businesses during 2015, as well as the favourable effect of interest income was a greater offset in 2015 driven by higher balances in short term investments and a more favourable interest rate environment.

The Group's IAS 39 fair value accounting charge relates to derivative liabilities associated with subsidiary preferred stock conversion rights, convertible notes and warrants. This change is driven by increases in the equity value of the underlying businesses. When the Group realises an increase in the value of the businesses that we consolidate, a charge will be recognised. The charge related to IAS 39 fair value accounting decreased by $48.9 million to $7.5 million in 2015. The year-over-year decrease is attributable to the automatic conversion options embedded in Gelesis' preferred stock which accounted for $50.7 million of the net finance cost in 2014. The significant increase related to Gelesis' preferred stock in 2014 was attributable to the significant increase in the equity value of Gelesis. The charge in 2015 of $7.5 million was driven by the increase in the value of conversion rights embedded in the preferred stock of several *growth stage* businesses.

Financial Position

	2015	2014
	$ millions	$ millions
Assets		
Total non-current assets	**$8.6**	$4.3
Total current assets(1)(2)	**318.2**	66.7
Total assets	**326.8**	71.0
Non-current liabilities	**2.2**	0.7
Total current liabilities	**160.5**	93.7
Total liabilities	**$162.7**	$94.4

(1) Includes consolidated cash, cash equivalents and short term investments totalling $313.7 million (2014 – $62.7 million).

(2) PureTech had cash, cash equivalents and short term investments totalling $255.5 million at 31 December, 2015.

The financial position of Group was significantly strengthened in 2015. Cash, cash equivalents and short term investments increased by $251.0 million. The Group completed a private equity financing in early 2015 resulting in net proceeds of $52.2 million, its IPO in June 2015 resulted in $183.4 million in net proceeds, $50.3 million of proceeds was realised from outside investors, and $10.0 million in a non-refundable milestone payment was received from the Janssen collaboration agreement. As a result, PureTech has cash and cash equivalents of approximately $255.5 million as of 31 December 2015.

As noted above, the Group significantly increased spending on its operations during 2015. In addition, the Directors anticipate that the Company's pre-2015 funds and the proceeds of the financings in 2015 will be used to continue to fund infrastructure costs, pipeline development and progress the existing *growth stage* business units toward meaningful milestone events.

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

- Property and equipment increased by $3.5 million due to leasehold improvements related to the new main offices located in Boston, Massachusetts, as well as acquisition of equipment by certain *growth stage* businesses as they expand their research and development activities.
- Intangible assets increased $1.2 million primarily as a result of the acquisition of intellectual property by Gelesis.
- Current liabilities increased significantly in 2015 primarily as a result of equity financings involving the issuance of preferred shares by Tal Medical and Gelesis to outside investors for $48.5 million in funding and the increase in derivative liability associated with the new equity financings and previously existing derivatives.

Cash Flows

	2015	2014
	$ millions	$ millions
Net cash outflow from operating activities	**$(28.6)**	$(10.5)
Net cash inflow/(outflow) from investing activities	**$(184.2)**	$0.7
Net cash inflow from financing activities(1)	**$285.9**	$64.7

(1) Janssen Biotech non-refundable milestone payment included in operating activities.

As noted above, the equity financings undertaken by the Group and other activities during the year have resulted in significant cash inflows. The Company's pre-2015 cash, together with the cash raised during 2015, will be used to fund infrastructure costs, pipeline development and progress the existing *growth stage* business units toward meaningful milestone events. Cash that cannot be immediately deployed in these efforts has been used to purchase short term investments (e.g. U.S. Treasuries), as described below. As of 31 December 2015, the Group has $255.5 million of cash reserves at the PureTech level to fund activities of the Group, including pipeline development and participating in financings of the businesses.

The Group's net operating cash outflow funded the payment of operating expenses which are largely cash based. Cash inflows were primarily driven by the receipt of a $10 million non-refundable payment from Janssen.

The net cash inflow from financing activities during 2015 was from a private equity financing in early 2015 resulting in net proceeds of $52.2 million, its IPO in June 2015 resulting in $183.4 million in net proceeds, and approximately $50 million of proceeds from outside investors in subsidiary financings. These funds were used, in part, to fund $179.6 million of net purchases of short term investments (e.g. U.S. Treasuries) and $4.7 million of purchases of property and equipment and intangible assets.

The Group is focused on maintaining liquidity as well as capital preservation of short term investment. As a result, surplus cash reserves have been invested in highly-rated, short duration investments, primarily

U.S. Treasuries under one year. The Group monitors market conditions to manage any risk to the short term investment portfolio and investigates opportunities to increase the yield on the amounts invested, while maintaining PureTech's liquidity and capital preservation. At 31 December 2015, the Group had $0.4 million of cash reserves held in Euros at a foreign bank. These cash reserves are used to fund the operation of Gelesis' Italian manufacturing and R&D subsidiary. The Directors believe it is prudent to have these cash reserves denominated in Euro to fund operations and maintain some diversification of currency exchange risk.

Financial Statements

Consolidated Statements of Comprehensive Loss

For the years ended December 31:	**Note**	**2015**	**2014**
		$'000	**$'000**
Revenue	3	11,828	2,222
Operating expenses:			
General and administrative expenses	5	(36,471)	(14,397)
Research and development expenses	5	(18,999)	(5,270)
Operating loss		**(43,642)**	**(17,445)**
Other income		448	—
Finance costs:			
Finance income	7	262	189
Finance costs – subsidiary preferred shares	7	(3,515)	—
Finance costs – contractual	7	(2,364)	(2,594)
Finance costs – IAS 39 fair value accounting	7	(7,509)	(56,371)
Net finance costs		**(13,126)**	**(58,776)**
Loss before taxes		**(56,320)**	**(76,221)**
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		**(33,461)**	**(16,647)**
Finance costs – IAS 39 fair value accounting	7	(7,509)	(56,371)
Finance costs – subsidiary preferred shares	7	(3,515)	—
Share-based payment expense	6	(11,095)	(2,811)
Depreciation of tangible assets	9	(452)	(176)
Amortisation of intangible assets	10	(288)	(216)
Loss before taxes		**(56,320)**	**(76,221)**
Taxation	24	(1,924)	278
Loss for the year		**(58,244)**	**(75,943)**
Other comprehensive (loss)/income:			
Items that are or may be reclassified as profit or loss			
Foreign currency translation differences		(262)	58
Unrealised gain/(loss) on available for sale investments		24	—
Total other comprehensive (loss)/income		(238)	58
Total comprehensive loss for the year		**(58,482)**	**(75,885)**
Loss attributable to:			
Owners of the Company		(39,393)	(41,643)
Non-controlling interests	15	(18,851)	(34,300)
		(58,244)	**(75,943)**
Comprehensive loss attributable to:			
Owners of the Company		(39,631)	(41,585)
Non-controlling interests	15	(18,851)	(34,300)
		(58,482)	**(75,885)**
Loss per share			
Basic (loss) per share	8	$(0.21)	$(0.51)
Diluted (loss) per share	8	$(0.21)	$(0.51)

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Consolidated Statements of Financial Position

For the years ended 31 December:	Note	2015	2014
		$'000	$'000
Assets			
Non-current assets			
Property and equipment, net	9	4,519	1,227
Available for sale investments		106	78
Intangible assets, net	10	3,871	2,999
Other non-current assets		57	5
Total non-current assets		8,553	4,309
Current assets			
Trade and other receivables	12	706	1,750
Prepaid expenses and other current assets		2,964	1,836
Other financial assets	11	826	472
Short term investments	20	178,955	701
Cash and cash equivalents	11	134,751	61,960
Total current assets		318,202	66,719
Total assets		**326,755**	**71,028**
Equity and liabilities			
Equity			
Share capital		4,523	2,362
Merger reserve		138,506	86,755
Share premium		181,744	—
Translation reserve		(93)	169
Other reserve		12,863	3,139
Accumulated deficit		(111,420)	(70,421)
Parent equity	13	226,123	22,004
Non-controlling interests	15	(62,070)	(45,317)
Total equity		**164,053**	**(23,313)**
Non-current liabilities			
Deferred revenue	3	291	561
Other long term liabilities		1,887	107
Total non-current liabilities		2,178	668
Current liabilities			
Deferred revenue	3	2,458	3,293
Trade and other payables	18	7,223	4,731
Subsidiary:			
Notes payable	16	4,955	6,948
Derivative liability	20	65,501	52,794
Warrant liability	17,20	14,263	14,125
Preferred shares	14	65,502	11,494
Other current liabilities		622	288
Total current liabilities		160,524	93,673

Total liabilities	**162,702**	**94,341**
Total equity and liabilities	**326,755**	**71,028**

Consolidated Statement of Changes in Equity
For the years ended 31 December:

	Note	Share Capital Shares	Amount $'000	Share premium $'000	Merger reserve $'000	Translation reserve $'000	Other reserve $'000	Accumulated deficit $'000	Total Parent equity $'000	Non-controlling interests (see Note 15) $'000	Total equity $'000
Balance at 1 January 2014		63,658,930	1,273	—	31,238	111	1,558	(35,064)	(884)	(7,143)	(8,027)
Net loss		—	—	—	—	—	—	(41,643)	(41,643)	(34,300)	(75,943)
Foreign currency exchange		—	—	—	—	58	—	—	58	—	58
Total comprehensive loss for the period		**—**	**—**	**—**	**—**	**58**	**—**	**(41,643)**	**(41,585)**	**(34,300)**	**(75,885)**
Issuance of shares (net of issuance costs of $414,000)	13	37,402,400	748	—	55,093	—	—	—	55,841	—	55,841
Conversion of convertible notes	13,14	331,560	7	—	493	—	—	390	890	—	890
Issuance of shares for services	13	175,730	4	—	261	—	—	—	265	—	265
Conversion of partnership and profits interests	13,14	16,065,690	321	—	(321)	—	—	—	—	—	—
Issuance of shares as equity incentives	13	464,657	9	—	(9)	—	—	—	—	—	—
New funds into non-controlling interests	15	—	—	—	—	—	—	—	—	1,031	1,031
Gain arising from change in NCI	15	—	—	—	—	—	—	5,992	5,992	(5,992)	—
Amount re-classified to realised gain included in earnings	13	—	—	—	—	—	(143)	—	(143)	—	(143)
Dividends	13	—	—	—	—	—	—	(96)	(96)	—	(96)
Equity-settled share-based payments	6	—	—	—	—	—	1,724	—	1,724	1,087	2,811
Balance 31 December 2014		**118,098,967**	**2,362**	**—**	**86,755**	**169**	**3,139**	**(70,421)**	**22,004**	**(45,317)**	**(23,313)**
Net loss		—	—	—	—	—	—	(39,393)	(39,393)	(18,851)	(58,244)
Foreign currency exchange		—	—	—	—	(262)	—	—	(262)	—	(262)
Unrealised gain		—	—	—	—	—	24	—	24	—	24
Total comprehensive loss for the period		**—**	**—**	**—**	**—**	**(262)**	**24**	**(39,393)**	**(39,631)**	**(18,851)**	**(58,482)**
Issuance of shares	13	24,006,500	480	—	51,751	—	—	—	52,231	—	52,231

Issuance of IPO shares (net of issuance costs of $11.8m)	13	67,599,621	1,352	157,923	—	—	—	—	159,275	—	159,275
Issuance of Overallotment shares (net of issuance costs of $772,000)	13	10,139,943	202	23,948	—	—	—	—	24,150	—	24,150
New funds into non-controlling interests	15	—	—	—	—	—	—	—	—	—	—
Gain/(loss) arising from change in NCI	15	—	—	—	—	—	—	(1,727)	(1,727)	694	(1,033)
Issuance of shares as equity incentives		6,328,720	127	(127)	—	—	—	—	—	—	—
Conversion of convertible notes		—	—		—	—	—	88	88	—	88
Subsidiary distribution to members		—	—	—	—	—	9	33	42	—	42
Equity-settled share-based payments	6	—	—	—	—	—	9,691	—	9,691	1,404	11,095
Balance 31 December 2015		**226,173,751**	**4,523**	**181,744**	**138,506**	**(93)**	**12,863**	**(111,420)**	**226,123**	**(62,070)**	**164,053**

Consolidated Statements of Cash Flows

For the year ended 31 December:	**Note**	**2015**	**2014**
		$'000	**$'000**
Cash flows from operating activities:			
Loss for the year		(58,244)	(75,943)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Non-cash items:			
Depreciation and amortisation	9,10	740	455
Equity-settled share-based payment expense	6	11,095	2,811
Subsidiary research and development tax credit		(395)	—
Non-cash rent expense		248	—
Unrealised (loss)/gain on foreign currency transactions		12	233
Issuance of shares for services		—	265
Finance costs	7	13,126	58,776
Other adjustments		—	(10)
Changes in operating assets and liabilities:			
Accounts receivable, net	12	1,112	794
Other financial assets		(354)	(349)
Prepaid expenses and other current assets		(780)	(636)
Deferred revenues	3	(1,104)	1,083
Other long term liabilities		1,164	(393)
Accounts payable and accrued expenses	18	4,319	2,371

Net cash used in operating activities		**(28,611)**	**(10,543)**
Cash flows from investing activities:			
Purchase of property and equipment	9	(3,455)	(367)
Purchases of intangible assets	10	(1,155)	(53)
Proceeds from sale of available for sale investments		—	186
Purchases of short term investments		(385,383)	(2,219)
Proceeds from maturity of short term investments		205,752	3,200
Net cash provided (used in)/by investing activities		**(184,241)**	**747**
Cash flows from financing activities:			
Proceeds from issuance of convertible notes	16	1,845	7,615
Proceeds from subsidiary notes payable	16	—	1,461
Repayments of long term debt	16	(366)	(20)
Proceeds from the issuance of shares, net of issuance costs	13	52,231	55,841
Proceeds from initial public offering, net of issuance costs		159,275	—
Proceeds for overallotment shares		24,150	—
Proceeds from issuance of share capital and warrants in subsidiaries		48,760	—
Other financing activities		42	(174)
Net cash provided by financing activities		**285,937**	**64,723**
Effect of exchange rates on cash and cash equivalents		(294)	(138)
Net increase in cash and cash equivalents		72,791	54,789
Cash and cash equivalents at beginning of year		61,960	7,171
Cash and cash equivalents at end of year		134,751	61,960
Supplemental disclosure of non-cash investment and financing activities:			
Conversion of subsidiary notes payable and accrued interest into preferred stock		5,936	5,523
Gain/(Loss) on NCI		(2,098)	3,808

1. Accounting policies

Basis of preparation

The financial information set within this document does not constitute the company's statutory accounts for the years ended 31 December 2015 or 2014 but is derived from those accounts. Statutory accounts for 2015 will be delivered to the registrar of companies in due course. The auditor has reported on those accounts; their report were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

PureTech is comprised of PureTech Health plc (the "Parent" or the "Company") 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 trading on the Main Market of the London Stock Exchange. PureTech is a cross-disciplinary healthcare company developing innovative products that could improve the lives of patients. PureTech is focused on areas of growing scientific and technical insights that it believes are at an important inflection point, including the central nervous, gastro-intestinal and immune systems, and the interactions and signalling between them. PureTech has a pipeline of more than 30 programmes and 20 clinical studies targeting multi-billion dollar market opportunities. PureTech's advanced programmes include five with human proof of concept and multiple with pivotal or registration study read-outs in the next two years. PureTech's leading team and Board, along with an advisory

network of more than 60 expert founder-scientists and advisers across multiple disciplines, gives PureTech access to potentially ground-breaking science and technological innovation. With healthcare undergoing major transformation, PureTech is well positioned to develop and launch medicines for the 21st century. The Group provides a combination of experienced management and administrative support to its businesses in which it typically holds a significant ownership interest. Cash contributed by PureTech Health plc to its subsidiaries is used to fund research and to create a management structure and operations.

The Annual Report and Accounts of PureTech and its subsidiaries are presented for the year ended 31 December 2015. 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.

Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis.

Use of judgements 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 estimates are made by the Group when determining the appropriate methodology for valuing the subsidiary businesses for disclosure purposes and then in deriving the estimated fair value including making certain estimates of the future earnings potential of the businesses and determining the appropriate discount rate. Significant judgement is applied in determining:

- valuation of aggregate holdings of *growth stage* businesses;
- valuation of warrants, convertible notes and derivatives;
- financial instrument classification (debt vs. equity);
- revenue recognition.

Information about these critical judgements and estimates is included in the following notes.

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 December 2018. Following the equity offering which occurred in June 2015, the Group has sufficient cash reserves to continue to provide capital to its existing portfolio businesses and to create and fund *project phase* and *growth stage* businesses at a similar rate to previous years through 2018, assuming broadly our expected level of required investments in businesses and other operating expenditures.

Basis of consolidation

The Company was formed on 8 May 2015. On 18 June 2015, a reorganisation of PureTech's corporate structure was completed through which the Company became the sole owner of PureTech Health, LLC ("PureTech LLC"). Preceding this reorganisation, on 18 June 2015 each outstanding PureTech LLC preferred share was converted into one Series 1 Common Share of PureTech LLC. Thereafter, pursuant to an agreement entered into between the Company, PureTech LLC and each of the members of PureTech LLC who had signed joinder signature pages, the issued and outstanding PureTech LLC Common Shares were exchanged as follows: (i) each Series 1 Common Share was exchanged for 10 Ordinary Shares; (ii) each Series 2 Common Share was exchanged for Ordinary Shares in the Company on the basis of an exchange ratio calculated by reference to 10 Ordinary Shares for each Series 2 Common Share, adjusted for the currency exchange rate of £1:$1.5648 and to take account of the Series 2 Common Share floor price of $4.31 per share associated with each Series 2 Common Share so exchanged, with each such number of Ordinary Shares to be issued by the Company being rounded down to the nearest whole number; and (iii) each Series 3 Common Share was exchanged for Ordinary Shares in the Company on the basis of an exchange ratio calculated by reference to ten Ordinary Shares for each Series 3 Common Share, adjusted for the currency exchange rate of £1:$1.5648 and to take account of the Series 3 Common Share floor price of $11.45 per share associated with each Series 3 Common Share so exchanged, with each such number of Ordinary Shares to be issued by the Company being rounded down to the nearest whole number. This has been accounted for as a common control transaction under IFRS 3.B1 (see note 13), therefore the consolidated financial information for each of the years ended 31 December 2015 and 2014 comprises an aggregation of financial information of the Company and the consolidated financial information of 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. For entities for which the Group's ownership percentage is less than 50 percent, which are Gelesis and its subsidiaries, it was determined that the Group has control of these entities as the Group controls the majority of the board of directors, holds the largest equity shareholding of Gelesis and has employees as members of Gelesis' management.

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 14, certain of the Group's subsidiaries' outstanding preferred shares have been classified as a liability.

Subsidiary(4)	Ownership percentage of voting stock as at 31 December(3)	
Significant subsidiaries	**2015**	2014
Akili Interactive Lab, Inc.	**64.40%**	64.40%
Alivio Therapeutics, Inc.	**100.00%**	n/a
Commense Inc.	**100.00%**	100.00%
Enlight Biosciences, LLC	**86.00%**	86.00%
Endra, Inc. (indirectly held through Enlight)	**12.90%**	12.90%
Entrega Inc. (indirectly held through Enlight)	**85.90%**	85.90%
Follica Incorporated	**72.10%**	72.10%
Gelesis, Inc.	**22.10%**	34.40%
Gelesis, S.r.l. (indirectly held through Gelesis)	**22.10%**	34.40%

Gelesis, LLC (indirectly held through Gelesis)	**22.10%**	34.40%
Karuna Pharmaceuticals, Inc.	**90.70%**	90.70%
Knode Inc. (indirectly held through Enlight)	**86.00%**	86.00%
Mandara Sciences, LLC	**98.30%**	98.30%
The Sync Project Inc.	**100.00%**	100.00%
Appeering, Inc.	**100.00%**	100.00%
PureTech Management, Inc.	**100.00%**	100.00%
PureTech Health, LLC(1)	**100.00%**	n/a
Sonde Health, Inc.	**100.00%**	n/a
T1D Innovations LLC(2)	**n/a**	98.80%
Tal Medical, Inc.	**64.50%**	79.80%
Vedanta Biosciences, Inc.	**100.00%**	100.00%
Vor Biopharma Inc.	**100.00%**	n/a
Nontrading holding companies		
Endra Holdings, LLC (held indirectly through Enlight)	**86.00%**	86.00%
Ensof Holdings, LLC (held indirectly through Enlight)	**86.00%**	86.00%
Gelesis 2012, Inc. (held indirectly through Gelesis)	**22.10%**	34.40%
PureTech Securities Corp.	**100.00%**	n/a
Inactive subsidiaries		
Ensof Biosystems, Inc. (held indirectly through Enlight)	**86.00%**	86.00%
Libra Biosciences, Inc.	**100.00%**	100.00%

Notes:

(1) On 18 June 2015 PureTech Health 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.

(2) On 12 March 2015 the T1D Innovations LLC entity was dissolved.

(3) Represents ownership percentage used in allocations to non-controlling interests except for Akili, Entrega, Mandara, Karuna, Follica, Tal and Gelesis in which cases the percentage allocated to non-controlling interests was 100%, 0%, 2%, 0%, 81%, 0% and 50%, respectively, where in these cases there are liability classified preferred shares in issue.

(4) All subsidiaries are registered in the U.S. except for Gelesis, S.r.l. which is registered in Italy.

The financial information of the subsidiaries is prepared for the same reporting period as the parent 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 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 on the balance sheet date. Exchange differences are recognised in profit or loss. Non monetary balances that are not re-measured 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 security 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. Unrealised gains and losses are recognised in other comprehensive income/(loss). Available for sale financial assets are presented in the consolidated balance sheets as non current assets, unless the Group intends to dispose of them within 12 months of 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 non payment, 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 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 subsidiary notes payable, subsidiary preferred shares, trade and other payables, subsidiary derivative liability and subsidiary warrant liability. Subsidiary notes payable and trade and other payables are initially recognised at fair value less the value attributed to any separately accounted for embedded derivatives. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. The amortisation is included in financial costs contractual in the consolidated statements of comprehensive loss.

Derivative liabilities include features within the subsidiary notes payable and subsidiary preferred shares that require bifurcation from the notes under IAS 39; Financial Instruments: Recognition and

Measurement and liability classified warrants. Derivative liabilities are carried at fair value with changes recognised in finance costs in the consolidated statements of comprehensive loss (see note 20). 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 Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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 bifurcated from the host 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 finance costs in the consolidated statements of comprehensive 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 stock and preferred stock 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 finance costs in the consolidated statements of comprehensive 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 stock 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 considers its capital to comprise 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 expenditure that is directly attributable to the acquisition of the asset. Assets under construction represent leasehold improvements and machinery and equipment to be used in operations or R&D 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 lives of the related assets:

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 licences 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 licences over their estimated useful lives, which is typically the remaining life of the underlying patents.

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

The Group elected not to file a consolidated Federal tax return for the years ended 31 December 2015 and 2014. The Group has elected to file individual returns at the subsidiary level.

Current Income Tax
Current 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 Income Tax
Deferred tax is recognised in respect of 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 tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities where the Group intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred taxes are recognised in profit or loss except to the extent that it relates 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 is any indication of impairment. If any such indication exists, 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 profit and 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) and 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 profit and loss. The only amounts reclassified from other comprehensive income/(loss) into operating loss were realised gains related to the sale of an investment.

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 occurs 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 profit or loss.

Share-based Payments

The Group issues shares to employees and non employees as equity-based compensation.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The options granted to employees are measured at fair value, using the terms and conditions upon which the options were granted. The total amount to be expensed is determined by reference to the fair value of the options granted, adjusted for the impact of any market

performance, service conditions and other non market performance vesting conditions. For share-based payment awards with non vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes.

The fair value of the share-based compensation to non employees is re-measured at fair value as the award vests. The fair value of services received in exchange for shares is determined using the fair value of the share that was issued, which is typically the issue price of the share.

Employee benefits

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are 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 to pay this amount as a result of 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 balance sheet when the Group has a present legal or constructive obligation as a result of 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 subscription agreements, collaboration agreements and government grants entered into by the Group's subsidiaries. Revenue is measured at the fair value of consideration received or receivable and 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 from services under subscription and collaboration 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 from government grants is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. The Group submits qualifying expenses and capital purchases for reimbursement only after qualifying for the grant programmes, which occur after capital purchases and/or research and development costs have been incurred.

Deferred revenue and deferred costs
Deferred revenue includes amounts that have been billed per the contractual terms but have 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 as non-current the portion of deferred revenue and deferred costs that are expected to be recognised beyond one year, or one operating cycle.

Finance income and finance costs
Finance income mainly comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using 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.

Other income
Other income includes a research and development tax credit related to a subsidiary. Other income is recognised based on the contractual terms of the agreement.

Fair value measurements
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. 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 leases as either finance or operating leases at inception, depending on whether substantially all the risks and rewards of ownership transfer to the Group. Leases where the lessee has substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. The Group had only operating leases during the reporting periods. Payments

made under operating leases are recognised in profit or 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 Directors.

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 2016, and have not been applied in preparing the consolidated financial information. Management has yet to complete an analysis of these new standards, interpretations and amendments to existing standards on the results of its operations, financial position, and disclosures. The Group intends to adopt these standards on their respective effective dates.

The following three are amended or new standards and interpretations that may impact the Group:

IFRS 9, Financial instruments
The standard addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It 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 OCI 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 OCI 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 actually use 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 is in the process of assessing the impact of IFRS 9.

IFRS 15, Revenue from contracts with customers
The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is amended to be effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. Management has yet to complete an analysis of this new standard and its impact.

IFRS 16, Leases
The standard changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. Management has yet to complete an analysis of this new standard and its 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 loss consists of the following:

For the years ended 31 December:	**2015 $000s**	2014 $000s
Subscription fees	**1,175**	1,750
Collaboration revenue	**10,565**	262
Grant revenue	**88**	210
Total revenue	**11,828**	2,222

Deferred revenue recorded in the consolidated statements of financial position consists of the following:

As at 31 December:	**2015 $000s**	2014 $000s
Subscription fees	**333**	816
Collaboration revenue	**2,040**	2,380
Grant revenue	**85**	97
Deferred revenue, current	**2,458**	3,293
Subscription fees	**—**	142
Grant revenue	**291**	419
Deferred revenue, non-current	**291**	561
Total deferred revenue	**2,749**	3,854

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 two 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 and profit generating activities of the Group are generated within the U.S. and accordingly, no geographical disclosures are provided.

Growth stage businesses

Businesses in this segment are those whose activities focus on actively developing products to solve major healthcare problems in varied markets. All businesses shown below are included in one operating segment which is also a reportable segment:

Subsidiary	Principal Activities & Target Market
Vedanta Biosciences	A preclinical stage company developing a microbiome immune system drug-discovery platform and drug candidates for the treatment of immune-mediated diseases.
Gelesis	A clinical stage company developing products that seek to induce weight loss and potentially improve glycaemic control through an orally administered capsule that expands in the GI tract as it absorbs water.
Akili	A clinical stage company developing technology and products for the screening, diagnosis and treatment of neurological disorders such as ADHD, autism and depression through computer software.
Tal	A clinical stage medical device company developing an innovative, noninvasive neurostimulation treatment for psychiatric disorders including depression and bipolar disorder.
Karuna	A clinical stage company developing an innovative combination therapy for the treatment of schizophrenia.
Entrega	A preclinical stage company developing a drug platform for the oral administration of proteins, peptides and other difficult-to-deliver payloads, including magnetic nanoparticles.
Follica	A clinical stage company developing products to generate new human hair follicles and hair.

Project phase businesses

Businesses in this segment are those whose activities are focused on financing, sourcing and creating new product candidates and newly created businesses whose technologies are in the process of validation. This segment includes the following businesses:

Subsidiary	Principal Activities & Target Market
***Project phase* businesses**	
The Sync Project	Developing a platform and products that seek to explore and leverage the health potential of music by utilising a platform that takes in physiological data from sensors and correlates that data with musical data components (e.g. beat and rhythm).
Sonde Health	Developing voice-based tools for the passive assessment and tracking of patient health.
Commense	Developing commensal organism-based products for the improvement of human health in, for example, early childhood.
Alivio	Developing a proprietary drug delivery platform for drugs that treat inflammation and associated disorders.
Vor	Developing novel targeted immunotherapies for cancer.
Other businesses	
Enlight Biosciences, LLC	Development of digital health technologies.
Mandara Sciences, LLC	Improvement of health through food through the creation of innovative nutrition technology companies.
Knode	A technology platform being developed to identify experts in healthcare and

Appeering	other research-based disciplines based on the content they have produced. Identifying healthcare expert networks and reviewing their conversations and content on social media.

The Group expects subsidiaries within the *project phase* will become *growth stage* businesses. Upon the transition of a *project phase* business to the *growth stage*, the Group plans to retrospectively restate operating segments as if the subsidiary had been a *growth stage* business for all periods presented.

Information about reportable segments

The following provides detailed information of the Group's two reportable segments and Parent activity as of and for the years ended 31 December 2015 and 2014, respectively:

	2015			
	Growth stage businesses $000s	**Project phase businesses $000s**	**Parent company & other $000s**	**Consolidated $000s**
Consolidated Statements of Comprehensive Loss				
Revenue	**10,189**	**1,639**	**—**	**11,828**
General and administrative expenses	**(14,672)**	**(1,377)**	**(20,422)**	**(36,471)**
Research and development expenses	**(17,736)**	**(981)**	**(282)**	**(18,999)**
Total operating expenses	**(32,408)**	**(2,358)**	**(20,704)(2)**	**(55,470)(1)**
Other income	**448**	**—**	**—**	**448**
Net finance costs	**(13,725)**	**(4)**	**603**	**(13,126)**
Loss from continuing operations	**(35,496)**	**(723)**	**(20,101)**	**(56,320)**
Provision for income taxes	**(2,158)**	**(85)**	**319**	**(1,924)**
Loss for the year	**(37,654)**	**(808)**	**(19,782)**	**(58,244)**
Other comprehensive income/(loss)	**(262)**	**—**	**24**	**(238)**
Total Comprehensive Loss for the Year	**(37,916)**	**(808)**	**(19,758)**	**(58,482)**
Total comprehensive loss attributable to:				
Owners of the Company	**(19,032)**	**(523)**	**(20,076)**	**(39,631)**
Non-controlling interests	**(18,651)**	**(200)**	**—**	**(18,851)**
Consolidated Statements of Financial Position				
Total assets	**68,350**	**1,509**	**256,896**	**326,755**
Total liabilities	**168,224**	**2,969**	**(8,491)**	**162,702**
Net (liabilities)/assets	**(99,874)**	**(1,460)**	**265,387**	**164,053**

(1) For 2015, operating expenses for our reportable segments, Parent company and other and in total, stated prior to share-based compensation, depreciation and amortisation were $27.9 million, $2.3 million, $13.4 million and $43.6 million for *growth stage* businesses, *project phase* businesses, Parent company and other and in total, respectively.

(2) Parent company and other operating expenses further adjusted for the cost of professional services totalling $5.5 million associated with our IPO, which is non-recurring in nature, was $7.9 million for 2015.

	2014			
	Growth stage businesses $000s	Project phase businesses $000s	Parent company & other $000s	Consolidated $000s
Consolidated Statements of Comprehensive Loss				
Revenue	219	2,003	—	2,222
General and administrative expenses	(8,288)	(2,278)	(3,831)	(14,397)
Research and development expenses	(4,905)	(279)	(86)	(5,270)
Total operating expenses	(13,193)	(2,557)	(3,917)	(19,667)
Net finance costs	**(59,043)**	**(4)**	**271**	**(58,776)**
Loss from continuing operations	(72,017)	(558)	(3,646)	(76,221)
Provision for income taxes	278	—	—	278
Loss for the year	(71,739)	(558)	(3,646)	(75,943)
Other comprehensive income/(loss)	—	—	58	58
Total Comprehensive Loss for the Year	(71,739)	(558)	(3,588)	(75,885)
Total comprehensive loss attributable to:				
Owners of the Company	(37,439)	(558)	(3,588)	(41,585)
Non-controlling interests	(34,300)	—	—	(34,300)
Consolidated Statements of Financial Position				
Total assets	15,710	1,421	53,897	71,028
Total liabilities	95,749	2,067	(3,475)	94,341
Net (liabilities)/assets	(80,039)	(646)	57,372	(23,313)

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 company creation process.

The activity between the Parent and the reporting segments has been eliminated in consolidation. These elimination amounts are included in the Parent Company and other amounts shown above.

The proportion of net assets shown above that is attributable to non controlling interest is disclosed in note 15.

The Group's externally generated revenue outside of the United States was $89,000 and $210,000 for the years ended 31 December 2015 and 2014, respectively.

The Group's non current assets consist of investments, property and equipment, intangible assets and other assets, of which $1.2 million and $1.1 million were located in Italy as of 31 December 2015 and 2014, respectively.

Growth stage business valuation

At the close of each annual financial period, the Directors estimate, and formally approve, the value of all *growth stage* businesses in the Group, which is used to derive the Aggregate Value of Growth Stage Business Holdings ("Aggregate Holdings"). The Aggregate Holdings was $291.7 million and $222.4 million as at 31 December 2015 and 2014, respectively.

	Ownership adjusted value of growth stage business holdings	
	2015	2014
Growth stage businesses	**$ million**	$ million
Vedanta Biosciences	**83.0**	67.0
Gelesis	**56.8**	44.9
Akili	**45.9**	26.7
Tal	**30.6**	27.3
Karuna	**36.4**	24.9
Entrega	**15.7**	13.4
Follica	**23.3**	18.2
Total Growth Stage Businesses	**291.7**	222.4

The methodology for the Group's *growth stage* business valuations, extracts of which are set out below, is based on the American Institute of Certified Public Accountants' Valuation of Privately Held Company Equity Securities Issued as Compensation ("AICPA Guidelines"). The AICPA Guidelines do not represent, but are consistent with, valuation principles adopted under IFRS.

The Aggregate Holdings excludes cash, cash equivalents and short term investments balances of $255.5 million and $53.2 million held at the PureTech level as at 31 December 2015 and 2014. In 2015 the Aggregate Holdings includes the $11.5 million invested by PureTech in the first tranche of the Akili financing round in January 2016. In 2014 Aggregate Holdings includes, in the case of Gelesis and Tal, cash balances (inclusive of amounts invested by PureTech) as at immediately following their March 2015 financing rounds and in the case of Vedanta Biosciences the cash balance includes the non-refundable payment from Janssen, received in January 2015 which, in conjunction with development and commercialisation milestone payments plus tiered royalties, gives Janssen access to certain intellectual property.

The Aggregate Holdings has been calculated on the basis of PureTech's percentage ownership as at 31 December 2015 and 2014. Where *growth stage* businesses have raised financing from external parties subsequent to 31 December 2015, the ownership adjusted value reflects the percentage ownership immediately following the financing and the valuation implied by that external investment on a post new money basis. In the case of Akili in 2015, the value is immediately after the closing of the first tranche of the financing round in January 2016 and in the cases of Tal and Gelesis in 2014 as at the date of initial closing of financing rounds that occurred in the first quarter of 2015.

PureTech's percentage ownership has been calculated on a diluted basis, including issued and outstanding shares and outstanding warrants and options to purchase shares, but excluding unallocated shares authorised to be issued pursuant to equity incentive plans and any shares issuable upon conversion of outstanding convertible promissory notes.

Valuation methodology

The Aggregate Holdings represents the sum of the parts ("SOTP") of, principally, risk adjusted net present value ("rNPV") from discounted cash flow ("DCF") valuations (for Entrega, Karuna, Tal, Vedanta Biosciences and Follica), and valuations based on recent investments at the business level (Gelesis and Akili). In the absence of recent arm's length, third-party investments at the business level which could otherwise have formed the basis for the valuations, DCF valuations are used for the valuation of PureTech's businesses and any anticipated royalty streams paid directly to PureTech stemming from licence agreements with some of the *growth stage* businesses. DCF valuations are highly sensitive to key input assumptions, including estimates associated with discount rates and projected financial performance. Due to the stage of development of the Business Holdings, projections are particularly sensitive to certain key assumptions namely:

- Discount rate and in particular the varying components of the Equity Risk Premium;
- The ability to predict the investment and timing of achieving technical and commercial viability;
- Projected revenue and operating costs in the post product development phase of each Business; and
- The size and share of addressable market for intellectual property, products and services developed.

Notwithstanding the fact that the valuation methodologies applied are based on the AICPA Guidelines and while the Directors consider the methodologies and assumptions adopted in each valuation are supportable, reasonable and robust, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investment existed and the differences could be significant. The AICPA Guidelines do not represent, but are consistent with, valuation principles adopted under IFRS. The business valuations are not presented as alternative measures to, and should be read in conjunction with, the Group's consolidated financial information.

5. 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:	**2015**	2014
General and administrative	**28**	32
Research and development	**36**	11
Total	**64**	43

The aggregate payroll costs of these persons were as follows:

For the years ending 31 December:	**2015 $000s**	2014 $000s
General and administrative	**18,093**	7,230
Research and development	**5,591**	2,434
Total	**23,684**	9,664

Total operating expenses were as follows:

For the years ending 31 December:	**2015 $000s**	2014 $000s
Salaries and wages	**10,912**	6,341
Payroll taxes	**914**	165
Healthcare benefits	**896**	305
Share-based payments	**11,095**	2,811
Other payroll cost	**(133)**	42
Total	**23,684**	9,664
Other SG&A expenses	**18,378**	7,167
Other R&D expenses	**13,408**	2,836
Total operating expenses	**55,470**	19,667

Auditor's remuneration	**2015 $000s**	2014 $000s
Audit of these financial statements	**690**	—
Audit of the financial statements of subsidiaries	**—**	—
Audit-related assurance services	**30**	—
IPO-related assurance services	**2,212**	—
Taxation	**—**	—
	2,932	—

The Group has incurred $2.2 million of assurance service costs related to the initial public offering on 24 June 2015. In the prior year, there was no requirement for the Group to carry out an audit.

See note 6 for further disclosures related to share-based payments and note 23 for management's remuneration disclosures.

6. Share-based payments

The Performance Share Plan ("PSP")
In June 2015, the Company adopted the PSP. Under the PSP, awards over Ordinary Shares may be made to the Directors, senior managers and employees of, and other individuals providing services to the Company and its businesses 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 year ended 31 December 2015, the Company issued 608,524 options to purchase shares under this plan.

As of 31 December 2015, 34,273 options were exercisable. The intrinsic value of the vested portion of such options is $56,000.

PureTech incurred stock based compensation expense of $83,000 for the year ended 31 December 2015.

Fair value measurements
The fair value of the shares awarded by the PureTech Directors during 2015 was estimated at the grant date using the Black Scholes option valuation model that uses the following weighted average assumptions:

	2015
Expected award life (in years)	**5.9**
Expected award price volatility	**30.62%**
Risk-free interest rate	**1.78%**
Expected dividend yield	**—**
Grant date fair value	**$0.75**
Share price at grant date	**$2.28**

Expected volatility has been 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 advisers. 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.

Shares granted and outstanding at 31 December 2015 as incentive equity by PureTech LLC as converted to plc shares were 17,993,972. 6,791,825 shares were exercisable at year end. The intrinsic value of the vested portion of such shares is $1.9 million.

PureTech LLC incurred stock-based compensation expense of $7.1 million and $637,000 for the years ended 31 December 2015 and 2014, respectively.

Fair value measurements

The fair value of the shares awarded by the PureTech LLC Directors during 2014 and 2015 was estimated at the grant date using the Black Scholes option valuation model that uses the following weighted average assumptions:

	2015	2014
Expected award life (in years)	**3.1**	3.5
Expected award price volatility	**25.22%**	25.70%
Risk-free interest rate	**0.98%**	0.97%
Expected dividend yield	**—**	—
Grant date fair value	**$9.97**	$0.12
Share price at grant date	**$19.45**	$0.48

Expected volatility has been 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 LLC 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.

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:

	Gelesis	Akili	Karuna	Tal	Vedanta Biosciences	Knode	Entrega	Follica	The Sync Project	Commense	Total
Outstanding as of 1 January 2014	1,114,049	643,000	541,927	290,000	—	—	687,500	—	—	—	3,276,476
Granted during the year	489,131	—	—	1,203,397	550,000	194,063	—	—	—	—	2,436,591
Exercised during the year	—	(5,000)	—	—	—	—	—	—	—	—	(5,000)
Forfeited during the year	—	—	—	(263,597)	—	(39,583)	(25,000)	—	—	—	(328,180)
Outstanding as of 31 December 2014	1,603,180	638,000	541,927	1,229,800	550,000	154,480	662,500	—	—	—	5,379,887
Granted during the year	122,685	263,746	27,500	396,136	177,500	—	422,500	396,655	850,000	212,500	2,869,222
Exercised during the year	(15,500)	—	—	—	—	(1,875)	—	—	—	—	(17,375)
Forfeited during the year	—	—	—	—	—	(3,125)	—	—	—	—	(3,125)
Outstanding as of 31 December 2015	1,710,365	901,746	569,427	1,625,936	727,500	149,480	1,085,000	396,655	850,000	212,500	8,228,609

The exercise prices for the options granted in 2014 were $0.85, $0.02 and $0.05 per share for Tal, Vedanta Biosciences and Knode, respectively. The exercise prices for the options granted in 2015 were $2.38, $2.69, $2.35, $10.74, $2.28, $0.75, $0 and $0 for Akili, Karuna, Tal, Vedanta Biosciences, Entrega, Follica, The Sync Project and Commense, respectively.

Significant subsidiary plan

Gelesis 2006 Stock Option Plan

In May 2006, the Directors of Gelesis, approved the 2006 Stock Incentive Plan (the "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 2015, the number of shares that remain available for issuance under the Gelesis Plan was 267,580.

The options granted under the 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 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 stock-based compensation expense of $2.2 million and $2.0 million for the years ended 31 December 2015 and 2014.

Gelesis fair value measurements

The fair value of the stock options awarded under the Gelesis Plan was estimated at the grant date using the Black Scholes option valuation model, taking into account the terms and conditions upon which options are granted, with the following weighted average assumptions:

Assumption/Input	**2015**	2014
Expected award life (in years)	**7.8**	5.6
Expected award price volatility	**72.84%**	71.70%
Risk-free interest rate	**2.05%**	1.80%
Expected dividend yield	**—**	—
Grant date fair value	**$7.34**	$6.92
Share price at grant date	**$9.13**	$10.05

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 $1.7 million and $157,000 for the years ended 31 December 2015 and 2014, 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 loss:

	2015	2014
For the years ended 31 December:	**$000s**	$000s
General and administrative	**9,318**	1,440
Research and development	**1,777**	1,371
Total	**11,095**	2,811

There was no income tax benefit recognised for share-based payment arrangements during the periods presented.

7. Finance cost, net

The following table shows the breakdown of finance income and costs:

For the years ended 31 December:	**2015**	2014
	$000s	$000s
Finance income		
Realised gain on available for sale investments	**—**	143
Interest from financial assets not at fair value through profit or loss	**262**	46
Total finance income	**262**	189
Finance costs		
Contractual interest expense on convertible notes	**(598)**	(41)
Interest expense on other borrowings	**(200)**	(438)
Non-cash interest expense on convertible notes	**(37)**	(2,115)
Loss on extinguishment of subsidiary notes payable	**(1,856)**	—
Gain on foreign currency exchange	**327**	—
Total finance costs – contractual	**(2,364)**	(2,594)
Loss from change in fair value of warrant liability	**(138)**	(11,432)
Loss on fair value measurement of derivative liability	**(7,371)**	(44,939)
Total finance costs – IAS 39 fair value accounting	**(7,509)**	(56,371)
Total finance costs – subsidiary preferred shares	**(3,515)**	—
Total finance costs	**(11,024)**	(56,371)
Finance costs, net	**(13,126)**	(58,776)

See note 20 for further disclosure related to loss on fair value measurement of derivative liability.

8. Earnings per share

The calculation of basic and diluted earnings per share has been calculated by dividing the loss for the period attributable to ordinary shareholders of $39.4 million (2014: $41.6 million), by the weighted average number of ordinary shares outstanding of 185,281,244 (2014: 82,453,369) during the year ended 31 December 2015:

Loss attributable to ordinary shareholders:

	2015		2014	
	Basic	**Diluted**	Basic	Diluted
	$000s	**$000s**	$000s	$000s
Loss for the year, attributable to the owners of the Company	**(39,393)**	**(39,393)**	(41,643)	(41,643)
Loss attributable to ordinary shareholders	**(39,393)**	**(39,393)**	(41,643)	(41,643)

Weighted-average number of ordinary shares

	2015		2014	
	Basic	**Diluted**	Basic	Diluted
Issued ordinary shares at 1 January	**118,100,407**	**118,100,407**	63,658,930	63,658,930
Effect of shares issued	**67,180,837**	**67,180,837**	18,794,439	18,794,439
Weighted average number of ordinary shares	**185,281,244**	**185,281,244**	82,453,369	82,453,369

Loss per share

		2015		2014	
		Basic	**Diluted**	Basic	Diluted
Loss per share	**$ (0.21)**	**$ (0.21)**		$ (0.51)	$ (0.51)

The potentially dilutive securities excluded from the computation of diluted weighted average shares outstanding as they would be anti-dilutive was 9,441,126 and 4,416,643 as at 31 December 2015 and 2014, respectively.

9. Property and equipment

Property and equipment, net, consists of the following at:

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 2014	808	95	163	172	432	1,670
Additions, net of transfers	300	3	27	37	—	367
Exchange differences	(109)	—	—	(21)	(31)	(161)
Balance as of 31 December 2014	999	98	190	188	401	1,876
Additions, net of transfers	1,723	70	362	1,302	400	3,857
Exchange differences	(107)	—	—	(21)	(31)	(159)
Balance as of 31 December 2015	**2,615**	**168**	**552**	**1,469**	**770**	**5,574**

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 2014	(241)	(59)	(127)	(30)	—	(457)
Depreciation	(110)	(8)	(26)	(32)	—	(176)
Exchange differences	(16)	—	—	—	—	(16)
Balance as of 31 December 2014	(367)	(67)	(153)	(62)	—	(649)
Depreciation	(246)	(22)	(62)	(122)	—	(452)
Exchange differences	36	—	—	10	—	46

Balance as of 31 December 2015	**(577)**	**(89)**	**(215)**	**(174)**	**—**	**(1,055)**

Property & 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 2014	632	31	37	126	401	1,227
Balance as of 31 December 2015	**2,038**	**79**	**337**	**1,295**	**770**	**4,519**

Depreciation of property and equipment is included in general and administrative expenses and research and development expenses in the consolidated statement of comprehensive loss.

10. Intangible assets

Intangible assets consist of licences of intellectual property acquired by the Group through various agreements with third parties. Licences and intellectual property acquired 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	Licences $000s
Balance at 1 January 2014	3,725
Additions	53
Balance at 31 December 2014	3,778
Additions	1,160
Balance at 31 December 2015	**4,938**

Accumulated amortisation	Licences $000s
Balance at 1 January 2014	(563)
Amortisation	(216)
Balance at 31 December 2014	(779)
Amortisation	(288)
Balance at 31 December 2015	**(1,067)**

Intangible assets, net	Licences $000s
Balance at 31 December 2014	2,999
Balance at 31 December 2015	**3,871**

Amortisation expense is included in research and development expenses in the consolidated statements of comprehensive loss. Amortisation expense, recorded using the straight-line method, was approximately $288,000 and $216,000 for the years ended 31 December 2015 and 2014, respectively.

11. Cash and cash equivalents

As of 31 December:	**2015**	2014
	$000s	$000s
Bank balances	**135,577**	62,432
Restricted cash	**(826)**	(472)
Total cash and cash equivalents	**134,751**	61,960

Restricted cash represents cash reserved as collateral against letters of credit with a bank issued for the benefit of a landlord in lieu of a security deposit for office space leased by the Parent and its subsidiaries. The restricted cash is held in certificate of deposits and is classified as current assets within other financial assets in the consolidated balance sheet.

12. Trade and other receivables

As of 31 December:	**2015**	2014
	$000s	$000s
Trade Receivables	**636**	1,748
Other Receivables	**70**	2
Total trade and other receivables	**706**	1,750

13. Equity

On 9 January, 2015, the Company completed a private financing round with Invesco Asset Management Limited as the lead investor and issued 24,006,500 ordinary shares resulting in cash proceeds of $52.2 million.

On 18 June 2015, the Company acquired the entire issued share capital of PureTech LLC in return for 159,648,387 Ordinary Shares. This has been accounted for as a common control transaction and has been given effect retrospectively for all periods presented herein. It has therefore been deemed that the share capital was issued in line with movements in share capital as shown prior to the transaction taking place. In addition the merger reserve records amounts previously recorded as share premium.

On 24 June 2015 the Company's entire issued ordinary share capital of 227,248,008 ordinary shares of one pence each were 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 for listed securities. The Initial Public Offering ("IPO") was for 67,599,621 new ordinary shares issued by the Company at 160 pence per ordinary share. This resulted in $159.3 million of net proceeds from the IPO (net of issue cost of $11.8 million) reflected in the share premium balance as of 31 December 2015. Included in operating expenses in 2015 is $5.5 million of professional services associated with the IPO which were not otherwise offset against the net proceeds of the offering.

The Company had the option, at its absolute discretion, to pay an incentive fee to the IPO underwriter. PureTech paid $1.2 million, which was expensed upon payment.

The IPO also included an over-allotment option equivalent to 15 percent of the total number of new ordinary shares, or 10,139,943. The stabilisation manager gave notice to exercise in full its over-allotment

option on 2 July 2015. As a result, the Company issued 10,139,943 ordinary shares at the offer price of 160 pence per share achieving further net proceeds for the Company of £15.7 million, or approximately $24.2 million (net of issue cost of approximately $772,000). The total number of issued ordinary shares, including unvested equity incentive awards, and voting rights in the Company after issuing the over-allotment shares is 237,387,951.

Equity	Note	**31 December 2015 $000s**	31 December 2014 $000s
Share capital, £0.01 par value, issued and fully paid 226,173,751 and 118,098,967 as of 31 December 2015 and 31 December 2014 respectively		**4,523**	2,362
Share premium		**181,744**	—
Merger reserve		**138,506**	86,755
Translation reserve		**(93)**	169
Other reserves		**12,863**	3,139
Accumulated deficit		**(111,420)**	(70,421)
Equity attributable to owners of the Group		**226,123**	22,004
Non-controlling interests	15	**(62,070)**	(45,317)
Total equity		**164,053**	(23,313)

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.

In 2014, the Group issued 37,402,400 shares, resulting in net proceeds of $55.8 million, net of issuance costs of $414,000. In conjunction with this financing, PureTech LLC converted 16,065,690 fully vested Profits Interests and Partnership Shares into common shares and the Directors authorised 13,258,902 common shares as equity incentives for management, Directors and advisers. Also in 2014, PureTech LLC issued 175,730 shares for consulting services. Upon the conversion of convertible promissory notes, PureTech LLC issued 331,560 shares.

Other reserves comprise the cumulative credit to share-based payment reserves corresponding to share-based payment expenses recognised through profit or loss.

14. 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 stock of the subsidiary at the option of the holder and mandatorily convertible into common stock of the subsidiary upon a subsidiary listing on a public market at a price above those specified in the agreements or upon the vote of the holders of a majority of the subsidiary preferred shares. The conversion feature has been accounted for as a derivative liability at fair value with the residual proceeds allocated to the subsidiary preferred share at issuance. The preferred shares are entitled to a vote with 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:	**2015 $000s**	2014 $000s
Akili	**2,625**	1,763
Follica	**94**	—
Gelesis	**52,640**	9,731
Tal	**10,143**	—
Subsidiary preferred shares	**65,502**	11,494

In the event of any voluntary or involuntary liquidation, dissolution or winding up of a subsidiary, the holders of subsidiary preferred shares then 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 subsidiary preferred holders upon a liquidation event of the subsidiaries, is as follows:

As of 31 December:	**2015 $000s**	2014 $000s
Akili	**4,613**	4,613
Follica	**2,020**	2,020
Gelesis	**60,490**	14,451
Karuna	**413**	—
Tal	**11,430**	—
Total	**78,966**	21,084

As of 31 December 2014, the Group determined that the balance of the subsidiary preferred shares classified as a current liability was appropriately stated at the issuance amounts, given the high degree of uncertainty associated with the ultimate conversion of the shares to common stock. However, during 2015 the Group determined that the uncertainty related to conversion to common stock had been reduced as funding was obtained from the IPO and other sources and the businesses had progressed toward significant milestone events. As such, the Group has begun to accrete the subsidiary preferred shares liability up to the minimum liquidation preference amount based on the estimated date of conversion to common stock.

For the two-year period ending 31 December 2015, the Group recognised the following changes in subsidiary preferred shares:

2014
Akili, a *growth stage* business, closed on an additional $8.1 million equity investment, of which $3 million was provided by PureTech. Of the $8.1 million equity investment, $5.1 million was due to the conversion of convertible notes, including $1 million of convertible notes held by PureTech.

2015
In March 2015, Gelesis closed an $18.0 million private equity financing of which PureTech invested $3.0 million in the financing. Also, in conjunction with this transaction, preferred shares were issued upon conversion of $4.3 million of outstanding convertible notes.

In March 2015, Tal closed a $14.5 million private equity financing of which PureTech invested $5.0 million in the financing. Also, in conjunction with this transaction, preferred shares were issued upon conversion of outstanding convertible notes.

In December 2015, Gelesis closed a $31.5 million private equity financing of which PureTech invested approximately $7 million.

In 2015, the Company reclassified certain Tal and Karuna balances that were previously classified as equity.

15. Non-controlling interest

The following summarises the changes in the equity classified non-controlling ownership interest in subsidiaries by reportable segment:

	Growth stage businesses $000s	Project phase businesses $000s	Total $000s
Non-controlling interest as of 1 January 2014	(7,148)	5	(7,143)
New funds into non-controlling interest	1,031	—	1,031
Share of comprehensive loss	(34,300)	—	(34,300)
Effect of change in Group's ownership interest	(4,905)	—	(4,905)
Non-controlling interest as of 31 December 2014	(45,322)	5	(45,317)
New funds into non-controlling interest	—	—	—
Share of comprehensive loss	(18,854)	3	(18,851)
Effect of change in Group's ownership interest	2,098	—	2,098
Non-controlling interest as of 31 December 2015	**(62,078)**	**8**	**(62,070)**

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.

For the year ended 31 December:	2015 Growth Stage Businesses $000s	2015 Project Phase Businesses $000s	2014 Growth Stage Businesses $000s	2014 Project Phase Businesses $000s
Statement of Comprehensive Loss				
Revenue	**189**	**1,175**	209	1,750
Loss for the year	**(32,695)**	**986**	(68,198)	201
Other comprehensive loss	**—**	**—**	—	—
Total comprehensive loss	**(32,695)**	**986**	(68,198)	201
Comprehensive loss attributable to NCI	**(18,854)**	**3**	(34,300)	—
Statement of Financial Position				
Non-current assets	**4,976**	**1,518**	4,110	4
Current assets	**44,594**	**4,201**	6,628	1,339
Total Assets	**49,570**	**5,719**	10,738	1,343
Non-current liabilities	**(12,439)**	**—**	(526)	(142)
Current liabilities	**(130,712)**	**(1,140)**	(92,716)	(1,400)
Total Liabilities	**(143,151)**	**(1,140)**	(93,242)	(1,542)
Net Liabilities	**(93,581)**	**4,579**	(82,504)	(199)
Carrying amount of NCI	**(61,600)**	**(470)**	(40,778)	5
Statement of Cash Flows				
Cash flows from operating activities	**(20,084)**	**986**	(9,227)	201
Cash flows from investing activities	**(2,463)**	**—**	(373)	—
Cash flows from financing activities	**40,041**	**—**	8,348	—
	17,494	**986**	(1,252)	201

16. Subsidiary notes payable

The notes payable balance consists of the following:

As of 31 December:	2015 $000s	2014 $000s
Loans	**2,281**	2,459
Convertible notes	**2,674**	4,489
Total subsidiary notes payable	**4,955**	6,948

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 all of Follica's assets, including Follica's intellectual property. The loans totalled approximately $1.2 million at 31 December 2015 and 2014.

In May 2014, Gelesis entered into a grant and loan agreement with an Italian economic development agency. Borrowings under the loan totalled €980,000 (approximately $1.1 million and $1.2 million at 31 December 2015 and 2014, respectively), and the loan bears interest at 0.33 percent per year. Gelesis is

required to make interest payments only in 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 settlement of the Notes.

Substantially all Notes become due and payable on or after either 31 December of the year of issuance on the thirtieth (30th) day following a demand by the majority of Note holders, as defined. Substantially all of the Notes bear interest at a rate of 8 percent (or 12 percent upon an event of Default, as defined) or 10 percent (or 15 percent upon an event of Default, as defined). Interest is calculated based on actual days elapsed for a 360-day calendar year. Generally, the Notes cannot be prepaid without approval from a majority of the holders of a subsidiary's 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 Borrower 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, as defined, the unpaid principal and interest amounts are automatically converted into shares of the subsidiary at the conversion price equal to the price shares are sold at upon a Qualified Financing, less a discount. The discounts range from 5 percent to 25 percent.
- Optional conversion feature–upon a Non Qualified Financing, as defined, holders may convert the outstanding principal balance and unpaid interest to shares at the conversion price equal to the price shares are sold at upon a Non Qualified Financing, less a discount. The discounts range from 5 percent to 25 percent.
- 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, as defined, 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	Gelesis	Tal	Karuna	Follica	Entrega	Knode	Endra, Inc	Akili	PureTech LLC	Total
1 January 2014	299,000	—	900,000	505,000	—	125,000	50,000	75,000	1,148,000	—	3,102,000
Gross Principle	50,000	3,940,000	500,000	—	—	—	—	—	2,625,000	500,000	7,615,000
Discount	—	(1,576,000)	(86,482)	—	—	—	—	—	(991,080)	—	(2,653,562)
Accretion	18,032	568,000	21,620	—	—	—	—	—	1,027,930	—	1,635,582
Conversion	—	—	(900,000)	—	—	—	—	—	(3,809,850)	(500,000)	(5,209,850)
Repayment	—	—	—	—	—	—	—	—	—	—	—
31 December 2014	367,032	2,932,000	435,138	505,000	—	125,000	50,000	75,000	—	—	4,489,170
Gross Principle	—	—	—	1,644,582	200,000	—	—	—	—	—	1,844,582
Discount	—	—	—	(166,306)	(40,000)	—	—	—	—	—	(206,306)
Accretion	7,513	227,834	64,862	166,306	40,000	—	—	—	—	—	506,515
Conversion	—	(3,159,834)	(500,000)	—	—	—	—	—	—	—	(3,659,834)
Repayment	(300,000)	—	—	—	—	—	—	—	—	—	(300,000)
31 December 2015	**74,545**	**—**	**—**	**2,149,582**	**200,000**	**125,000**	**50,000**	**75,000**	**—**	**—**	**2,674,127**

In August 2015, Karuna, entered into an agreement to issue up to $3.8 million of convertible notes to the Wellcome Trust subject to meeting certain development milestones. At 31 December 2015, the Company has drawn down $1.6 million of the note.

In May 2015, Vedanta Biosciences repaid convertible notes and related accrued interest of $366,000.

In conjunction with its March 2015 private financing, Gelesis converted convertible notes and related accrued interest of $3.5 million into preferred shares. The conversion also includes $759,000 of related convertible note derivatives.

In March 2015, Tal, also in conjunction with its private financing, converted convertible notes and related accrued interest of $517,000 interest into preferred shares. The conversion also includes $200,000 of related convertible note derivatives.

During 2014, all outstanding Convertible Notes and related accrued interest of Akili, totalling $4.1 million, were converted into 2,312,603 shares of Akili preferred stock. In conjunction with this conversion, the outstanding derivative related to the converted notes was converted into subsidiary preferred shares in the amount of $1.3 million.

In February 2014, all outstanding convertible notes and accrued interest of Tal, totalling $1.1 million, were converted into 820,932 shares of Tal preferred stock. In conjunction with this transaction, the outstanding derivative related to the converted notes was converted into accumulated deficit in the amount of $321,000.

During 2014, outstanding convertible notes and related accrued interest of PureTech, totalling $507,000, were converted into 331,560 shares. In conjunction with this transaction, the outstanding derivative related to the converted notes was converted into accumulated deficit in the amount of $70,000.

17. Subsidiary warrants

The following is a summary of the warrants on subsidiary shares outstanding related to various borrowings, stock issuances and business transactions:

Issued	Classification	Exercisable for	Number of Shares	Recorded value as at 31 December: 2015 $000s	2014 $000s
Gelesis and Gelesis LLC					
Aug-08	Equity	Common stock	1,314	**6**	6
May-09	Equity	Common stock	1,314	**6**	6
May-09	Equity	Common stock	1,501	**1**	1
Nov-09	Equity	Common stock	28,361	**18**	18
Apr-11	Liability	Series A-1 preferred stock	—	**664**	801
Jun-12	Liability	Series A-3 preferred stock	238,190	**2,830**	2,447
Aug-13	Liability	Series A-4 preferred stock	719,677	**7,561**	8,134
Aug-13	Equity	Common stock	719,677	**52**	52
Follica					
Jul-13	Liability	Preferred stock	2,263,508	**2,593**	2,219
Aug-13	Liability	Preferred stock	193,023	**222**	189
Jan-14	Liability	Preferred stock	193,023	**223**	190
Oct-14	Liability	Preferred stock	146,697	**170**	145
Dec-15	Equity	Common stock	19,688	**20**	—
Total Liabilities				**14,263**	14,125
Total Equity				**103**	83

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. 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 or (iii) a sale of Gelesis.

- In 2011, Gelesis issued a warrant to purchase shares of Series A-1 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 equal to the quotient of $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 or (iii) a sale of Gelesis. The fair value of the warrants was $664,000 and $801,000 at 31 December 2015 and 2014, 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 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 $708,000 at the date of issuance and was recorded as an intangible licence asset, and a corresponding warrant liability. The fair value of the warrants was $2.8 million and $2.5 million at 31 December 2015 and 2014, respectively.

In August 2013, in connection with the issuance of Series A 4 convertible preferred stock, or Series A 4, Gelesis issued contingent warrants to purchase 719,677 shares of Series A 4 at an exercise price of $0.04 per share. The warrants were required to be issued if Gelesis did not complete an IPO, or was liquidated, dissolved, wound up or sold prior to February 2015. Such an IPO or other event did not occur prior to February 2015 and the warrants were issued at that time. The warrants will expire 10 years from the date of issuance.

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 $7.5 million and $8.1 million at 31 December 2015 and 2014, respectively.

The following weighted average assumptions were used to determine the fair value of the warrants at 31 December 2015:

	Series A-1 Warrants	Series A-3 Warrants	Series A-4 Warrants
Expected term	5.3 years	6.5 years	7.6 years
Expected volatility	59.00%	68.00%	72.00%
Expected dividend yield	—	—	—
Risk-free interest rate	1.76%	2.01%	2.09%
Estimated fair value of the convertible preferred stock	$4.44	$3.00	$3.77
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 2014:

	Series A-1 Warrants	Series A-3 Warrants	Series A-4 Warrants
Expected term	6.3 years	7.5 years	8.6 years
Expected volatility	74.00%	59.00%	57.00%
Expected dividend yield	—	—	—
Risk-free interest rate	1.76%	1.97%	2.07%
Estimated fair value of the convertible	$3.68	$3.65	$3.63

preferred stock			
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 stock warrants at various dates in 2013 and 2014. Each of the warrants has an exercise price of $0.1425 and a contractual term of ten years from the date of issuance. The warrants issued in 2013 and January 2014 were deemed to have no value at the time of their issuance. The warrant liability has been marked to market at each subsequent reporting date and at 31 December 2015 and 2014 the warrants were deemed to have a value of $3.2 million and $2.7 million, respectively.

A warrant was issued in 2015 for 19,688 shares of common stock at an exercise price of $0.75 per. 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 the warrants at 31 December:

	2015	2014
Expected term	**7.56-8.80 years**	8.56-9.80 years
Expected volatility	**59.93%-63.96%**	59.34%-60.43%
Expected dividend yield	**—**	—
Risk-free interest rate	**2.02%-2.15%**	2.02%-2.15%
Estimated fair value of the convertible preferred stock	**$1.25**	$1.08
Exercise price of warrants	**$0.14**	$0.14

18. Trade and other payables

	2015	2014
As of 31 December:	**$000s**	$000s
Trade payables	**2,393**	1,614
Accrued expenses	**4,830**	3,117
Total trade and other payables	**7,223**	4,731

19. 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.

In December 2014, the Company entered into a 10-year lease for 9,446 square feet of office space beginning in April 2015 and ending on 31 August 2025. The lease requires a letter of credit of $350,000, which is held in a certificate of deposit, as further discussed in note 11. The lease has a base rent of approximately $444,000, which increases by approximately two percent per year over the lease term.

In August 2015, Vedanta entered into a lease for 9,027 square feet of office space beginning February 2016 and ending December 2022. The lease requires a letter of credit of $350,000, which is held in a certificate of deposit, as further discussed in note 11. The lease has an initial base rent of approximately $330,000, which increases to approximately $576,000 over the lease term.

In November 2015, Akili entered into a lease for 3,603 square feet of office space beginning December 2015 and ending January 2019. The lease requires a security deposit of approximately $21,000 recorded as other non-current assets. The lease has a base rent of approximately $128,000, which increase approximately 3 percent per year over the lease term.

Minimum rental commitments under non cancellable leases were payable as follows:

As of 31 December:	**2015 $000s**	2014 $000s
Within one year	**867**	331
Between one and five years	**4,255**	2,330
More than five years	**3,570**	2,387
Total minimum lease payments	**8,692**	5,048

Total rent expense under these leases was approximately $432,000 and $296,000 during the years ended 31 December 2015 and 2014, respectively. Rent expense is included in general and administrative expenses in the consolidated statements of comprehensive loss.

20. Financial instrument and related disclosures

All of the Group's financial assets and liabilities, with the exception of the derivative and warrant liabilities, are measured at amortised cost. The derivative and warrant liabilities are carried at fair value with changes recognised in through Finance costs, net in the consolidated statements of comprehensive loss. Assumptions of the Group in the estimation of fair value of the derivative liability are below and refer to note 17 for assumptions used in the estimation of the warrant fair value.

Financial instruments by category at 31 December:

	2015					
	Carrying amount		**Fair Value**			
	Financial assets $000s	**Financial liabilities $000s**	**Level 1 $000s**	**Level 2 $000s**	**Level 3 $000s**	**Total $000s**
Financial assets						
Cash and cash equivalents	134,751	—	134,751	—	—	134,751
U.S. Treasuries	178,955	—	178,955	—	—	178,955
Certificates of deposit	826	—	—	826	—	826
Other deposits	57	—	—	57	—	57
Loans and receivables:						
Trade and other receivables	706	—	—	706	—	706
Total financial assets	**315,295**	**—**	**313,706**	**1,589**	**—**	**315,295**
Financial liabilities						
Trade and other payables	—	7,223	—	7,223	—	7,223
Subsidiary warrant liability	—	14,263	—	—	14,263	14,263
Subsidiary derivative liability	—	65,501	—	—	65,501	65,501
Subsidiary preferred shares	—	65,502	—	65,502	—	65,502
Financial liabilities measured at amortised cost:						
Subsidiary notes payable	—	4,955	—	4,955	—	4,955
Total financial liabilities	**—**	**157,444**	**—**	**72,725**	**79,764**	**157,444**

	2014					
	Carrying amount		Fair Value			
	Financial assets $000s	Financial liabilities $000s	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Financial assets						
Cash and cash equivalents	61,960	-	61,960	-	-	61,960
U.S. Treasuries	701	-	701	-	-	701
Certificates of deposit	472	-	-	472	-	472
Other deposits	5	-	-	5	-	5
Loans and receivables:						
Trade and other receivables	1,750	-	-	1,750	-	1,750
Total financial assets	**64,888**	**-**	**62,661**	**2,227**	**-**	**64,888**
Financial liabilities						
Trade and other payables	-	4,731	-	4,731	-	4,731
Subsidiary warrant liability	-	14,125	-	-	14,125	14,125
Subsidiary derivative liability	-	52,794	-	-	52,794	52,794
Subsidiary preferred shares	-	11,494	-	11,494	-	11,494
Financial liabilities measured at amortised cost:						
Subsidiary notes payable	-	6,948	-	6,948	-	6,948
Total financial liabilities	**-**	**90,092**	**-**	**16,225**	**66,919**	**90,0952**

The embedded derivatives associated with the subsidiary convertible promissory notes 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 at inception, 31 December 2015 and 2014 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 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 liabilities and warrant liabilities measured at fair value using significant unobservable inputs ("Level 3") as of and for the years ended 31 December 2015 and 2014 is as follows:

	Derivative Liability-Preferred Stock Conversion $000s	Derivative Liability-Convertible Notes $000s	Warrant Liability $000s
Balance as of 1 January 2014	2,075	504	2,548
Value of derivatives at issuance	4,159	2,675	145
Change in fair value	45,487	(414)	11,432
Settlement of derivatives	—	(1,692)	—
Balance as of 31 December 2014	51,721	1,073	14,125
Value of derivatives at issuance	6,041	206	—

Change in fair value	7,402	26	138
Settlement of derivatives	—	(968)	—
Balance as of 31 December 2015	**65,164**	**337**	**14,263**

The change in the fair value of derivatives and warrants is recorded in Finance costs, net in the consolidated statements of comprehensive loss.

At each measurement date, the fair value of the conversion rights embedded in the preferred shares was determined using 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, guideline transaction method, or through a recent arm's length financing round. Second, the value of the subject preferred shares was determined using either an option pricing allocation model or a probability weighted expected return model, where the conversion rights of the preferred shareholders were included and then excluded. 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.

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 as follows:

Option Pricing Model Inputs

	Range of Values		
Measurement Date	Expiration Date	Volatility	Risk-Free Rate
28/2/2014	3.5 years	60.00%	0.94%
31/3/2014	5 years	75.00%	1.73%
31/12/2014	2.0-5.0 years	60.00%	0.67%-1.65%
30/6/2015	1.5-4.5 years	35.0%-65.0%	0.48%-1.53%
31/12/2015	1.5-4.0 years	35.0%-60.0%	0.86%-1.54%

Probability Weighted Expected Return Method Inputs

	Range of Values	
Measurement Date	Time to Anticipated Exit Event	Probability of IPO/M&A/Dissolution Sale
31/3/2014	1.0 year	40.0%/45.0%/15.0%
31/12/2014	0.33 years	70.0%/25.0%/5.0%
30/6/2015	0.38-0.50 years	70.0%/30.0%/0.0%
31/12/2015	1.33 years	70.0%/30.0%/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	As at 31 December: At Issuance	2015	2014
Time to next qualified equity financing	1-2.03 years	0.5-1 years	0.16-0.25 years
Implied discount rate	11.3%-2,459.0%	11.0%-31.7%	18.3%-34.8%
Probabilities of a qualified financing	0%-100%	45.0%-75.0%	10%-90%

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 2015, and, accordingly, adjustments may be recorded in the consolidated statements of comprehensive loss at that time.

21. Capital and financial risk management

The Company's financial strategy policy is to support its strategic priorities, maintain investor and creditor confidence, and to 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 projects. 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 the Group's 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 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 secure and protected, Group's policy is to hold any excess funds in highly liquid and readily available financial instruments and maintain exposure to other financial risks to insignificant.

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 following balances:

	2015	2014
	$000s	$000s
Cash and cash equivalents	**134,751**	61,960
Short term investments	**178,955**	701
Trade and other receivables	**706**	1,750
Total	**314,412**	64,411

The Group invests 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 customer, 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:

	2015	2014
	$000s	$000s
Neither past due nor impaired	**496**	1,250
Past due 30-90 days	**—**	—
Past due 90-365 days	**210**	500
Total	**706**	1,750

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 shortage of funds 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 as at 31 December 2015 based on contractual undiscounted payments:

		2015			
	Carrying amount	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**
Subsidiary notes payable	4,955	4,310	—	1,072	5,382
Trade and other payables	7,223	5,341	1,882	—	7,223
Subsidiary preferred shares	65,502	65,502	—	—	65,502
Other liabilities	622	554	68	—	622
Total	**78,302**	**75,707**	**1,950**	**1,072**	**78,729**

		2014			
	Carrying amount	Within 3 months	3 to 12 months	1 to 5 years	Total
	$000s	$000s	$000s	$000s	$000s
Subsidiary notes payable	6,948	785	3,570	2,954	7,309
Trade and other payables	4,731	4,731	—	—	4,731
Subsidiary preferred shares	11,494	11,494	—	—	11,494
Other liabilities	288	211	60	17	288
Total	23,461	17,221	3,630	2,971	23,822

In addition to the above financial liabilities, the Group is required to spend the following minimum amounts under intellectual property licence agreements:

	2016 $000s	2017 $000s	2018 $000s	2019 $000s	2020 $000s
Licence fees	30	40	50	75	100
Total	**30**	**40**	**50**	**75**	**100**

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the 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 is 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 the Group's 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. In order 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 13.

As discussed in note 14, 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 stockholders and before any payment shall be made to holders of common stock.

22. Commitments and contingencies

Gelesis has entered into a patent licence and assignment agreement whereby it will be required to pay approximately $8 million upon the achievement of certain milestones, pay royalties on future sales and/or a percentage of sublicense income. None of the milestones have been met.

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 entered into an agreement which grants Janssen Biotech, Inc. ("JBI"), a subsidiary of Johnson & Johnson, the exclusive right and licence to make, use, sell, import and otherwise develop or commercialise any licensed product during the term of the agreement. Vedanta has entered

into a licence agreement whereby it agreed to pay 10 percent of the licence fee income generated by the JBI Agreement to the University of Tokyo. As of 31 December 2015, the Company received an upfront payment of $10 million from JBI, resulting in $1 million in payments to 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 the milestones have been met and the amounts of any potential future milestone or royalty payments cannot be reliably measured as of the date of the financial information.

23. Related parties

Transactions with key management personnel compensation.

Key management personnel compensation

Key management includes executive directors and members of the executive management team of the Group. The compensation of key management personnel of the Group was as follows for the years ended 31 December:

	2015	2014
	$000s	$000s
Short-term employee benefits	**2,150**	1,612
Share-based payments	**2,235**	282
Total	**4,385**	1,894

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. Activity of related parties by subsidiary are presented below.

	Vedanta Biosciences	Akili	Tal	Karuna	PeerIn	Total
Balance as of 1 January 2014	—	51	317	39	54	461
Loans advanced	50	50	—	—	—	100
Loan repayments made	—	—	—	—	—	—
Interest charged	3	8	4	4	5	24
Interest paid	—	—	—	—	—	—
Conversions	—	(109)	(321)	—	—	(430)
Balance as of 31 December 2014	53	—	—	43	59	155
Loans advanced	—	—	—	—	—	—
Loan repayments made	—	—	—	—	—	—
Interest charged	5	—	—	3	5	13
Interest paid	—	—	—	—	—	—
Conversions	—	—	—	—	—	—
Balance as of 31 December 2015	**58**	**—**	**—**	**46**	**64**	**168**

The notes issued by Vedanta Biosciences, have no stated maturity date but are payable upon demand of a majority of noteholders. The notes issued by Akili are also payable upon demand of a majority of shareholders no earlier than 31 December 2015. 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 16.

All of the outstanding principal and interest on the notes issued by Akili to related parties during 2013 and 2014 totalling $109,000 was converted to 70,460 Series A 2 preferred shares in December 2014.

All of the outstanding principal and interest on the notes issued by Tal to related parties during 2011 totalling $321,000 was converted to 247,747 Series A 2 preferred shares in February 2014.

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 2015:

Directors	Business name (share class)	Number of shares held as at 31 December 2015	Number of options held as at 31 December 2015	Ownership interest(1)
Mr. Joichi Ito	Akili (Series A-2 preferred)	26,627	—	0.30%
Ms. Daphne Zohar(2)	Gelesis (common)	34,444	618,734	5.20%
Dame Marjorie Scardino	—	—	—	—
Dr. Bennett Shapiro(4)	Akili (Series A-2 preferred)(3)	33,088	—	0.30%
	Gelesis (common)	24,010	10,841	0.50%
	Gelesis (Series A-1 preferred)	23,419	—	0.50%
	Tal (Series A-2 preferred)(3)	14,451	—	0.10%
	Vedanta Biosciences (common)	—	25,000	0.50%
Dr. Robert Langer	Entrega (common)	—	250,000	5.00%
Dr. Raju Kucherlapati	Enlight (Class B common)	30,000	—	3.00%
Dr. John LaMattina(4)	Akili (Series A-2 preferred)	37,372	—	0.40%
	Gelesis (common)(4)	54,120	63,050	1.30%
	Gelesis (Series A-1 preferred)(4)	49,524	—	1.30%
	Tal (Series A-2 preferred)	114,411	—	1.20%
	Vedanta Biosciences (common)	—	25,000	0.50%
Mr. Christopher Viehbacher	—	—	—	—

Mr. Stephen Muniz	—	—	—	—
Senior Managers				
Dr. Eric Elenko	—	—	—	—
Mr. David Steinberg	—	—	—	—

Notes:

(1) Ownership interests are as at 31 December 2015 calculated on a diluted basis, including issued and outstanding shares, warrants and options (and written commitments to issue options) to purchase shares, but excluding unallocated shares authorised to be issued pursuant to equity incentive plans, and any shares of common stock issuable upon conversion of outstanding convertible promissory notes.

(2) Common stock and options held by Yishai Zohar, 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.

(3) Shares held through Dr. Bennett M. Shapiro and Ms. Fredericka F. Shapiro, JTWROS. 49,523 shares of common stock and 49,523 shares of Series A 1 preferred stock in Gelesis held by Dr. John and Ms. Mary LaMattina. 12,642 shares in Gelesis held individually by Dr. LaMattina.

(4) In addition, the following Directors hold convertible notes issued by businesses: (i) Dr. Bennett Shapiro holds convertible notes issued by Vedanta Biosciences in the aggregate principal amount of $50,000 and (ii) Dr. John LaMattina holds convertible notes issued by PeerIn in the aggregate principal amount of $50,000.

Directors and senior managers hold 32,974,173 shares and 13.9% voting rights of the Company as of 31 December 2015.

Transactions with other related parties
Management services and overhead agreement with a stockholder
PureTech has entered into an agreement with AZTherapies, Inc. to provide management services, including operating, legal and administrative services, as well as office space and infrastructure services. As compensation for these services, AZTherapies, Inc. issued 50,000 and 150,000 shares of its common stock to PureTech during each of the years ended 31 December 2015 and 2014. The value of these shares was determined based on the fair value of the services received. The scientific founder and chairman of AZTherapies, Inc. is Dr. David Elmaleh, Ms. Zohar's father, and is also a shareholder of PureTech.

24. Taxation

Amounts recognised in profit or loss:

	2015	2014
	$000s	$000s
Net loss	**(58,244)**	(75,943)
Income taxes expense/(benefit)	**1,924**	(278)
Net loss before taxes	**(56,320)**	(76,221)

Recognised income tax expense/(benefit)

	2015	2014
	$000s	$000s
Federal	**1,895**	36
Foreign	**95**	73
State	**(16)**	10
Total current income tax expense	**1,974**	119
Federal	**—**	—
Foreign	**(50)**	(397)
State	**—**	—
Total deferred income tax (benefit)	**(50)**	(397)
Total income tax expense/(benefit), recognised	**1,924**	(278)

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:

	2015	2014
	%	%
Weighted average statutory rate	**34.00%**	34.00%
Effect of state tax rate in U.S.	**3.24%**	0.90%
Credits	**0.27%**	0.19%
Share-based payment measurement	**-0.54%**	3.84%
Mark to market adjustments	**-4.53%**	-24.39%
Income of partnerships not subject to tax	**-3.97%**	-1.45%
Accretion on preferred shares	**-2.12%**	0.00%
Other	**-3.92%**	-1.95%
Current year losses for which no deferred tax asset is recognised	**-25.85%**	-10.78%
	-3.42%	0.36%

The Group is subject to taxation in the U.S. and U.K. Additionally, the Group is 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 percent. The Group is generally subject to a 34 percent rate applicable to smaller taxpayers.

U.S. corporations are routinely subject to audit by federal and state tax authorities in the normal course of business. Gelesis is currently under examination by the IRS for the financial year ended 31 December 2012. The Group does not expect an unfavourable outcome from this tax audit which would adversely impact the Group's financial condition, results of operations or cash flows.

Deferred tax assets

Deferred tax assets have not been recognised for the U.S. amounts in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the

benefits therefrom. Deferred tax assets have been recognised for the foreign amounts in respect of the following items:

	2015	2014
	$000s	$000s
Operating tax losses	**22,057**	11,239
Capital loss carryovers	**758**	758
Research credits	**850**	925
Investment in subsidiaries	**1,061**	791
Other	**2,568**	550
Share-based payments	**7,256**	4,253
Deferred tax assets	**34,550**	18,516
Other	**(1,590)**	(171)
Deferred tax liabilities	**32,960**	18,345
Deferred tax assets/(liabilities), net, recognised	**—**	(55)
Deferred tax assets/(liabilities), net, not recognised	**32,960**	18,400

Deferred tax is measured at the rates that are expected to apply in the period when the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the statement of financial position date.

There were no movements in deferred tax recognised in income or equity for the United States in 2015 or 2014 as the deferred tax asset was not recognised in any of those years. There was movement in deferred tax recognised in income or equity in 2015 and 2014 for the foreign jurisdiction in the following amounts, respectively ($55,000) and ($412,000).

The Group considers earnings generated from its foreign subsidiary in Italy to be permanently re-invested, therefore U.S. taxes have not been provided on undistributed earnings.

Uncertain tax positions

The changes to uncertain tax positions from 1 January 2014 through 31 December 2015, were as follows:

	U.S.	Foreign	Total
	$000s	$000s	$000s
Gross tax liabilities at 1 January 2014	—	53	53
Additions based on tax provisions related to the current year	—	3	3
Additions to tax positions of prior years	—	34	34
Reductions due to settlements with tax authorities	—	—	—
Reductions for positions of prior years	—	—	—
Gross tax liabilities at 31 December 2014	—	90	90
Additions based on tax provisions related to the current year	—	—	—
Additions to tax positions of prior years	78	—	78
Reductions due to settlements with tax authorities	—	—	—
Reductions for positions of prior years	—	(57)	(57)
Gross tax liabilities at 31 December 2015	**78**	**33**	**111**

Included in the balance of uncertain tax positions at 31 December 2015 was approximately $33,000 of unrecognised tax benefits that, if recognised, would affect the annual effective income tax rate.

The liability for uncertain tax benefits as of 31 December 2015 and 2014 included accrued interest of $2,000 and $4,000, respectively.

25. Subsequent events

In January 2016, Akili closed a $30.5 million private equity financing of which $16 million was received in the initial closing in January 2016 and $14.5 million is to be received upon the final closing in September 2016. PureTech invested approximately $11.5 million of the initial closing. PureTech's ownership interest in Akili remains substantially the same as it was prior to the financing.