

PureTech Health plc  
Annual report and accounts 2015



# Developing 21<sup>st</sup> century medicines for a new era in healthcare



## Contents

### Overview

- 01 Highlights of the year
- 02 Pipeline
- 04 A new era in healthcare
- 05 Letter from the Chairman

### Strategic report

- 07 Letter from the Chief Executive Officer
- 10 How PureTech aims to build value for investors
- 12 Market opportunity and demand
- 14 PureTech's differentiated approach
- 16 Our platform
- 17 Management and network
- 18 Strong fundamentals
- 19 External validation
- 20 Advanced pipeline
- 21 Valuation of the Company's growth stage businesses
- 32 Risk management

### Governance

- 35 Viability Statement
- 36 Key performance indicators
- 37 Financial review
- 40 Chairman's overview
- 41 Board of Directors
- 44 The Board
- 49 Corporate Social Responsibility
- 50 Directors' Report for the year ended 31 December 2015
- 55 Report of the Nomination Committee
- 56 Report of the Audit Committee
- 59 Directors' Remuneration Report for the year ended 31 December 2015
- 60 Directors' Remuneration Policy
- 65 Annual Report on Remuneration

### Financial statements

- 70 Independent Auditor's Report to the Members of PureTech Health plc only
- 74 Consolidated Statements of Comprehensive Loss
- 75 Consolidated Statements of Financial Position
- 76 Consolidated Statement of Changes in Equity
- 78 Consolidated Statements of Cash Flows
- 79 Notes to the Consolidated Financial Statements
- 116 PureTech Health plc Balance Sheet
- 117 PureTech Health plc Statement of Changes in Equity
- 118 PureTech Health plc Statement of Cash Flows
- 119 Notes to the Financial Statements

121 Company information

### Getting around this document

- For further information within this document
- Additional information online at [puretechhealth.com](http://puretechhealth.com)

## The PureTech Advantage

PureTech is **reinventing the healthcare research and development model** to develop 21st century medicines.

The Company has a **robust pipeline of advanced programs**, including five that are post human proof of concept, focused on addressing some of society's largest healthcare needs.

PureTech starts with big problems and, with **leading experts**, looks at the landscape in an unbiased way. The Company targets areas of growing scientific and technical insights that it believes have reached an inflection point and will result in rapid innovation and potential realisation of value.

Multiple **value-creating milestones are on the horizon** with 20 clinical trials. In the next two years, PureTech is **expected to complete six additional human proof-of-concept studies and multiple pivotal or registration studies**.

PureTech's businesses have achieved **significant outside validation** from Fortune 100 companies including Janssen Biotech (a subsidiary of Johnson & Johnson), Verily (Google) and Pfizer. Additionally, the Company has built successful partnerships with leading industry and patient advocacy organisations.

Following a highly successful IPO, the Company has a **strong financial position** with approximately **\$314 million in consolidated cash** (including short term investments).

With the healthcare industry undergoing major transformation and convergence, the time is right to develop new treatment and prevention paradigms. PureTech's operating model is designed to provide the **upside potential of biotechnology while diversifying the risk** similar to that of a pharmaceutical company.

### Market opportunity and demand

➤ Strategic report — p12



### Strong fundamentals

➤ Strategic report — p18



### PureTech's differentiated approach

➤ Strategic report — p14



### External validation

➤ Strategic report — p19



### Management and network

➤ Strategic report — p17



### Advanced pipeline

➤ Strategic report — p20



Consolidated cash and short term investments:

**\$313.7m**

2014: \$62.7m

PureTech cash and short term investments:

**\$255.5m**

2014: \$53.2m

Value of seven growth stage businesses:

**\$291.7m**

2014: \$222.4m

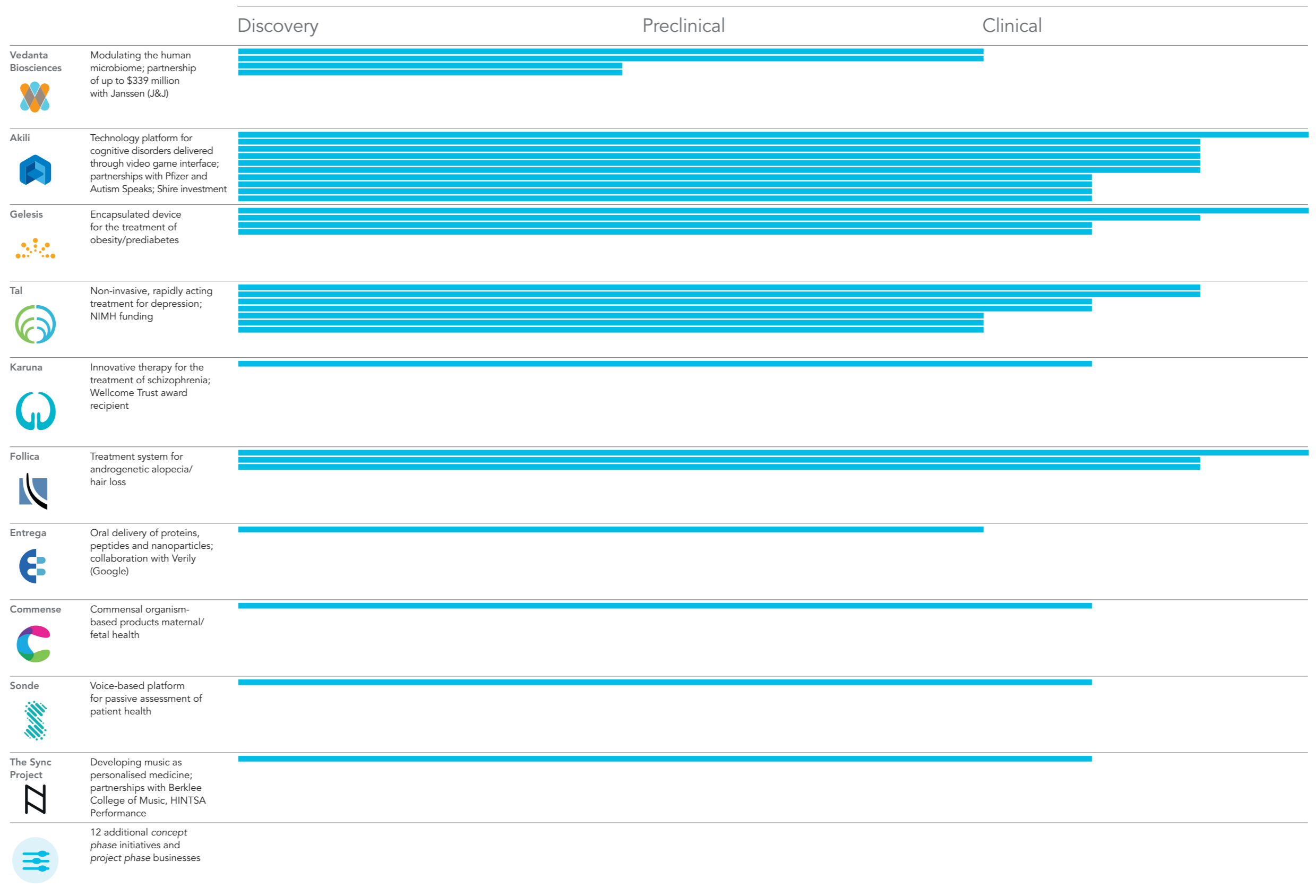
Number of patents and patent applications:

**209**

2014: 111

- PureTech successfully raised \$196 million in its initial public offering on the Main Market of the London Stock Exchange.
- PureTech appointed two additional prestigious Board members and named several distinguished scientists, physicians and industry leaders to its advisory network.
- PureTech's businesses also made excellent progress:
  - Vedanta Biosciences, pioneering the development of a novel class of microbiome-based immune targeting medicines, entered into an up to \$339 million licensing agreement with Janssen Biotech, Inc. ("Janssen"), a subsidiary of Johnson & Johnson, for one product candidate. Vedanta Biosciences has a platform and multiple other product candidates in the pipeline.
    - Growth stage businesses — page 24
  - Akili, developing a technology platform for cognitive disorders delivered through a video game interface, completed a pilot clinical study in paediatric attention deficit hyperactivity disorder ("ADHD") in patients that showed statistically significant improvements on multiple outcomes measuring attention, impulsivity and working memory.
    - Growth stage businesses — page 25
  - Gelesis, developing a capsulated device to treat obesity, 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.
    - Growth stage businesses — page 26
  - Tal Medical, developing a rapidly acting treatment 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.
    - Growth stage businesses — page 27
  - Karuna Pharmaceuticals, developing a novel treatment for schizophrenia, received a Translation Fund Award from the Wellcome Trust.
    - Growth stage businesses — page 28

PureTech has a robust pipeline of advanced programs focused on addressing some of society's largest healthcare needs, with many catalysts including 20 clinical studies.



Multi-billion dollar markets\*

Vedanta Biosciences  
**\$12bn**

Akili Interactive  
**\$10bn**

Gelesis  
**\$25bn**

Tal Medical  
**\$8bn**

Karuna  
**\$16bn**

Follica  
**\$5bn**

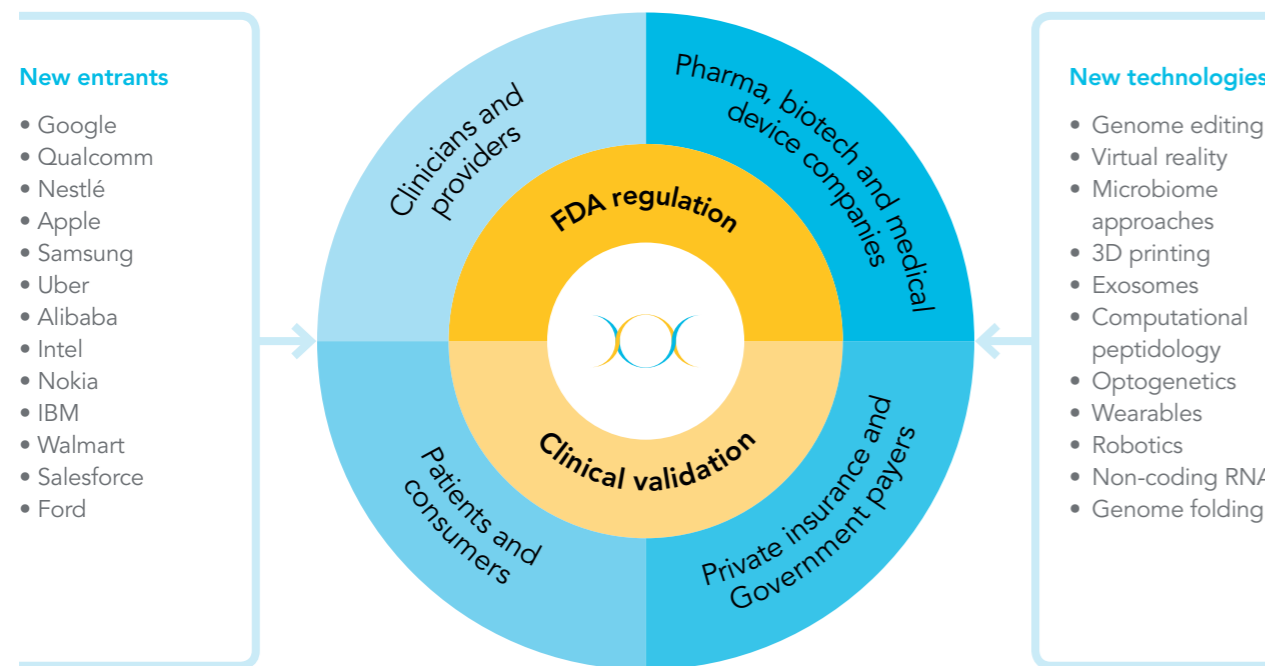
Entrega  
**\$6bn**

\* Estimated total addressable markets

— Studies/product candidates

## A new era in healthcare

The healthcare industry is undergoing major transformation, with new entrants changing the M&A landscape, increased patient involvement, changing regulatory and reimbursement environments and the convergence of new technologies.



Representative listing of companies and technologies, not all inclusive.

## Letter from the Chairman



“  
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.”

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.

“  
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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.

“  
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.

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

6 April 2016

## Strategic report

### Letter from the Chief Executive Officer



“  
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.

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 programs 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 U.K., 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.

“  
We are focused on healthcare markets with multi-billion dollar potential.

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.

#### In brief

**\$248m**

gross proceeds raised in 2015

**4**

new partnerships formed with industry leaders and patient organisations

**20**

clinical studies advancing through our pipeline

**2 years**

Multiple pivotal studies will read-out over the next two years



We also continue to develop our early-stage pipeline as we build for the future, with new programs undergoing quiet de-risking experiments and our discovery team working closely with leading scientists on the next big ideas.

#### 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;



We have attracted some of the brightest minds to PureTech as we expand our team to drive continued growth.

- 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 programs 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



Our model gives us many shots on goal with independent technologies, avoiding the binary risk of a typical single platform biotech company.

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.

Twenty 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 readouts 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.



Twenty clinical studies are advancing through our pipeline. Over the next two years, we have many catalysts.

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

6 April 2016

## How PureTech aims to build value for investors

### Growth stage

Focused on developing and launching innovative therapeutics in billion dollar markets. PureTech Board of Directors approval required to advance programs to this stage and funding allocation based upon the operating plan, potential value inflection milestones and budget. These businesses are nearing the point of potentially generating revenues, whether from partnerships, products sales, or sale of entire business or product lines.

### Project phase

De-risking programs by conducting key experiments to either shut down the program or drive value. Project phase is typically led by PureTech management team and at least one member of the PureTech Board of Directors. Programs are housed in independent businesses to align management incentives & enable flexibility going forward. Approximately \$2 million spent per business at this phase.

### Concept phase

Discovering the most promising breakthroughs through a theme-driven process involving leading domain experts in addition to the PureTech Scientific Advisory Board. Repeating academic work, filing and licensing IP. Approximately \$350,000 per initiative spent at this phase.

## How PureTech aims to build value for investors — continued



“  
At the nexus of converging disciplines, creating 21<sup>st</sup> century medicines.”

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 advisers 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 advisers of that business to be compensated via equity in the businesses they are working on.
- Decisions about how to allocate funding to different programs 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 maintains the cash and decision-making optionality to support the most promising programs as they grow and develop.”

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 as set forth on pages 21 to 23.

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 programs will experience some attrition and PureTech maintains the cash and decision-making optionality to support the most promising programs 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.

#### In brief

**\$3tn**

U.S. healthcare expenditures

**\$130bn**

cost of Adverse Drug Reactions

**50%**

of Fortune 50 companies are entering the healthcare market

**\$723bn**

healthcare global M&A in 2015

## Market opportunity and demand

### Traditional models must evolve to drive healthcare innovation.

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

In 2014, global healthcare costs were estimated to average 10.5 percent of Gross Domestic Product<sup>1</sup>. 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<sup>2</sup>. 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 Organization 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<sup>3</sup>, 50 percent of total annual prescription costs<sup>4</sup>.

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<sup>5</sup>.

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. See page 16 of this report for a description of the PureTech platform areas.

#### 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<sup>6</sup>. Companies, including Alphabet (Google), Nestlé, Apple, Samsung, Alibaba, IBM and Walmart now have significant stakes in the healthcare arena.



## Market opportunity and demand — continued

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<sup>7</sup>. Digital medicine could become of central importance as healthcare evolves towards a patient-centred, prevention paradigm.

### The challenge to developing new and safe medicines will likely find solutions in cross-disciplinary thinking, which has historically spawned major medical advances.

#### 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<sup>8</sup>.

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, 14 August, 2013
- 2 World Health Organizations: [http://www.who.int/topics/chronic\\_diseases/en/](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>




# 2016

						
Sync Read-out of first pilot study	Akili Read-out of Pfizer Alzheimer's study	Tal Read-out of Tal 90-patient confirmatory proof-of-concept study	Entrega Read-out of large animal proof-of-concept study	Follica Initiate multi-site clinical study	Karuna Read-out of 60-patient KarXT proof-of-concept study	Commense Read-out of preclinical study for metabolic and immunological phenotypes

Partial listing of potential catalysts, not all inclusive.

# 2017

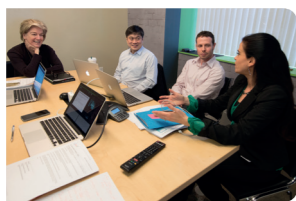
						
Gelesis Read-out of Gelesis200 proof-of-concept study	Vedanta Potential start of first-in-human study for lead assets	Akili Read-out of ADHD pivotal study	Gelesis Read-out of 336+ patient U.S. pivotal study	Follica Read-out of registration study	Akili ADHD product potential launch	Vedanta Read-out of P1b study



## PureTech's differentiated approach



PureTech is exploring creative, and often unexpected, ways of impacting human health outside of traditional drug development strategies.



### 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 programs 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. See page 16 of this report for a description of the PureTech framework.

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 programs originate from a systematic and rigorous theme-driven process (see fig. on page 10). 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



PureTech's approach has the potential upside of biotechnology while diversifying its risk similar to a pharmaceutical company.

#### In brief

2-4

new project phase businesses launched per year by PureTech

650

technologies reviewed every year

#### Advantages of PureTech's structure & process — continued

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 programs 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



PureTech's programs are housed in independent operating businesses to maximise growth flexibility and align management incentives.

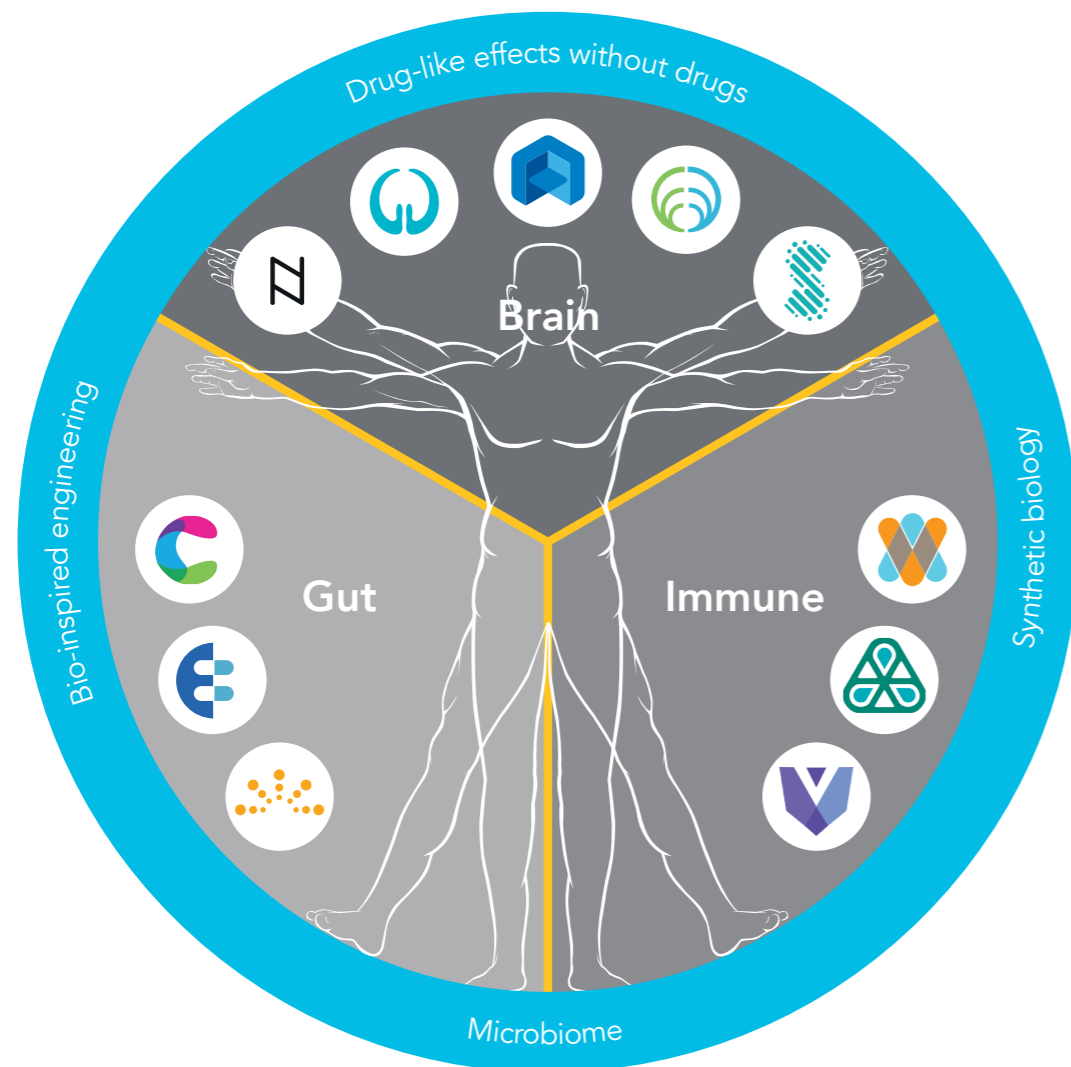
businesses and enables those leaders to function in an entrepreneurial way, with all of the same motivating factors as in an independent biotechnology business. At the same time, PureTech's shared expertise and infrastructure across its businesses provides capital discipline and limits the most common risks associated with biotech, allowing PureTech to build value and divert cash to its most successful programs 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.

## Our platform

PureTech is focused on areas that it believes have reached an inflection point that will result in rapid innovation and potential realisation of value. While not limited to these areas, PureTech's current businesses are largely focused on the immune system, the central nervous system (brain), the gastrointestinal system (gut), and the signalling and interfaces between these systems.

The Company is pursuing creative and, potentially, disruptive ways to impact human health, including developing therapies with the potential to demonstrate 'drug-like effects without drugs' and advancing engineering inspired by biology. The Company continues to identify areas with significant unmet medical need, large market opportunities and the potential for new technologies to change current treatment paradigms.



## Management and network



**Advisers and team members are chosen for their leadership in their respective fields, and shared vision in addressing major healthcare problems in unexpected ways.**

### 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 advisers, 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 multi-disciplinary 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 advisers 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.

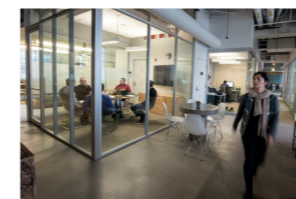
### In brief

**2015**

established multi-disciplinary Scientific Advisory Board

**60**

experts across multiple fields in PureTech's network of advisers



## Strong fundamentals



**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.**

In brief

**\$313.7m**

consolidated cash and short term investments



PureTech's differentiated business model allows 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.**

In brief

**\$339m**

potential upfront and milestone payments from Vedanta's partnership with Janssen

**5**

financing rounds closed with external partners

**4**

new partnerships with external parties

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 programs, which has significantly progressed over the course of 2015 with several of PureTech's programs approaching commercialisation stage.

### In brief

6

human proof-of-concept studies are expected to read-out in next 2 years

20

clinical studies advancing through pipeline

PureTech has a robust pipeline of programs, 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 ("Aggregate Holdings", see page 22).

### 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 three-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 at clinical stage and already have strong teams in place.



## Valuation of the Company's growth stage businesses



The view presented in the valuation of the Aggregate Holdings is usually not reflective of the highest possible value and is not necessarily the most favourable valuation that could ultimately be assigned by an investor or partner.

### 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 this Annual Report.

Growth Stage Business	Value of PureTech's holdings (\$ millions) in growth stage businesses as at:			
	31 December 2015 <sup>(4)</sup>	31 December 2014 <sup>(5)</sup>	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%
<b>Aggregate Holdings</b>	<b>\$291.7</b>	<b>\$222.4</b>	<b>\$69.3</b>	<b>31.2%</b>

### 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:
  - o (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.

## In brief

**\$291.7m**

Aggregate Value of Growth Stage Business Holdings

**31.2%**

Increase in value of Aggregate Holdings

## Valuation of PureTech's growth stage businesses — continued

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, outlined in the table above. 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 advisers and service providers of the relevant business.



**Approximately 60% of the value of the Aggregate Holdings at 31 December 2015 is supported by third-party investments and partnerships.**

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 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 our Shareholders.**

## In brief

**5 and 10**

*project phase* businesses and *concept phase* initiatives whose values are **not included** in the Aggregate Holdings

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 note 4 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 have 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.



## Modulating the human microbiome



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.



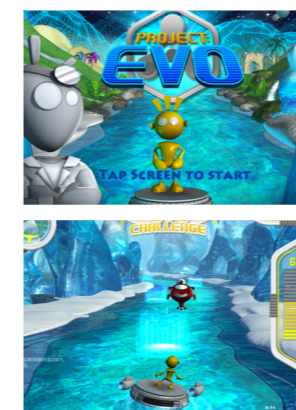
Vedanta Biosciences is pioneering the development of a new class of therapies that modulate pathways of interaction between the human microbiome and the host immune system.

<b>Market potential and unmet need</b>	<ul style="list-style-type: none"> <li>Autoimmune diseases affect over 20 million patients in the U.S. and are an area of major unmet need.</li> <li>The Company believes that many of the existing interventions are limited by toxicities and systemic immune suppression.</li> <li>Vedanta is also developing candidates for infectious pathogens resistant to antibiotics that are urgent threats across the world and account for hundreds of thousands of hospitalisations and tens of thousands of deaths in the U.S. alone.</li> </ul>
<b>Innovative approach to solving the problem</b>	<ul style="list-style-type: none"> <li>Recent discoveries have suggested that the gut microbiome influences important processes within the gut relating to the proper functioning of the immune system as well as resistance to infections.</li> <li>Vedanta Biosciences' approach is to pharmacologically restore the balance of bacteria in the gut in order to treat autoimmune, inflammatory, and infectious diseases safely and effectively.</li> </ul>
<b>IP</b>	<ul style="list-style-type: none"> <li>Vedanta Biosciences currently owns or has exclusive rights to 20 patents and patent applications in 5 families of patent filings related to compositions and uses of Clostridium clusters IV and XIVa, which are among the most abundant colonisers in the human intestine.</li> <li>In particular, Vedanta Biosciences has obtained a worldwide exclusive licence (subject to certain rights granted to the Japanese government under Japanese law and rights reserved by the University of Tokyo) from the University of Tokyo to a family of broad patent filings with priorities dating back to June 2010.</li> <li>The patent filings aim to cover compositions of bacteria, their methods of use in prevention and treatment of a range of autoimmune, inflammatory and infectious diseases and methods of isolation and production of products for human and animal use.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>Vedanta Biosciences has assembled an advisory and operating team with leading expertise in immunology and microbiology.</li> <li>Scientific advisory board members and co-founders comprise Dr. Ruslan Medzhitov (Yale and HHMI), Dr. Brett Finlay (UBC and HHMI), Dr. Kenya Honda (inventor of Vedanta Biosciences' lead product; Keio University and RIKEN), Dr. Dan Littman (NYU and HHMI) and Dr. Alexander Rudensky (Sloan Kettering and HHMI).</li> <li>Dr. Bernat Olle serves as CEO and Dr. Bruce Roberts (previously Sanofi-Genzyme Group Vice President) serves as CSO.</li> <li>The Board of Directors is chaired by Mr. Chris Viehbach and also comprises Dr. Bennett Shapiro, Dr. John LaMattina and Mr. David Steinberg. See pages 41 to 43 for biographies of PureTech directors.</li> </ul>
<b>Milestones achieved</b>	<ul style="list-style-type: none"> <li>VE202 has demonstrated preclinical efficacy for IBD and allergy.</li> <li>Vedanta Biosciences has out-licensed VE202 to Janssen for a non-refundable upfront payment and milestone payments up to \$339 million, plus royalties from the high single digits to the low teens.</li> <li>Vedanta has identified multiple additional development candidates for infectious diseases and inflammatory diseases.</li> <li>Data on Vedanta Biosciences' technologies has been featured in high impact academic journals such as <i>Nature</i> and <i>Science</i>.</li> </ul>
<b>Expected milestones and timing</b>	<ul style="list-style-type: none"> <li>VE202 is expected to enter clinical studies in the first half of 2017 in IBD.</li> <li>VE303 is expected to enter clinical studies in the first half of 2017 for an infectious disease indication.</li> </ul>
<b>PureTech ownership</b>	<ul style="list-style-type: none"> <li>As of 31 December 2015, PureTech had holdings of 83.8 percent in Vedanta on a diluted basis as defined on page 21.</li> </ul>

## Technology platform for cognitive disorders delivered through a video game interface



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. To date, Akili has undertaken 10 clinical trials as well as a number of smaller scale feasibility testing efforts.



Akili is a clinical stage business developing a new type of medicine that addresses a new target for cognition.

<b>Market potential and unmet need</b>	<ul style="list-style-type: none"> <li>There are a number of conditions where the brain's executive function is negatively impacted including ADHD, autism, Alzheimer's disease, depression and traumatic brain injury. These markets all have significant unmet needs in terms of efficacy and safety, but are generally only currently served by centrally-acting drugs, and in-person behavioural therapy.</li> <li>The market for ADHD therapeutics is projected to be approximately \$10 billion by 2020, and the Company believes that all of the potential markets for which its product, Project: EVO, are relevant represent significant opportunities as either a drug alternative or synergistic co-administration.</li> </ul>
<b>Innovative approach to solving the problem</b>	<ul style="list-style-type: none"> <li>Akili's technology is non-invasive and designed to be patient friendly, while potentially having treatment effects that approach pharmacological efficacy.</li> </ul>
<b>IP</b>	<ul style="list-style-type: none"> <li>Akili currently owns or has exclusive rights to nine patent applications in three families of patent filings.</li> <li>One family of patents is exclusively licensed from UCSF that covers Akili's cognitive methods. The other two families are owned and filed by Akili and aim to cover its adaptive algorithm methods and methods of measuring cognitive function.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>Akili has assembled a cross-disciplinary advisory and operating team that has expertise in neuroscience, clinical trials in related disorders, video game design, data science and consumer engagement.</li> <li>Scientific and clinical advisory board members include Dr. Adam Gazzaley (UCSF), Dr. Daphne Bavelier (URochester), Dr. Stephen Faraone (SUNY Upstate Medical University), Dr. Robert Schultz (UPenn), and Dr. Geraldine Dawson (Duke).</li> <li>Dr. Eddie Martucci, Mr. Matthew Omernick (previously LucasArts) and Mr. Scott Kellogg (previously Afferent, Sontra Medical and UltraCision) serve as CEO, CCO and VP Operations, respectively.</li> <li>The BOD is comprised of Ms. Daphne Zohar (PureTech), Mr. Joichi Ito (PureTech), Dr. Bennett Shapiro (PureTech), Dr. Eric Elenko (PureTech), Dr. Adam Gazzaley (UCSF), Mr. James Gates (TPG Capital), and Mr. John Spinale (Jazz Venture Partners and formerly Disney). See pages 41 to 43 for biographies of PureTech directors.</li> </ul>
<b>Milestones achieved</b>	<ul style="list-style-type: none"> <li>Proof-of-concept treatment data resulting from a randomised, sham-controlled study on Akili's technology was published in <i>Nature</i>, and the article was featured on the cover.</li> <li>An open-label pilot study in 80 children confirmed Project: EVO's safety and feasibility, and exploratory outcome measurements demonstrated that Project: EVO improved attention, inhibition and working memory in children with ADHD, including both objective measures and subjective parent-reported symptoms.</li> </ul>
<b>External validation</b>	<ul style="list-style-type: none"> <li>Akili has entered into a collaboration with Pfizer, who is funding a study testing the ability of Project: EVO to serve as a biomarker and cognitive enhancer in patients with prodromal (pre-symptomatic) Alzheimer's disease.</li> <li>Akili raised a \$30.5 million financing round in January 2016 from investors including JAZZ Venture Partners, Canepa Healthcare Partners and several founders of TPG Capital, and had also previously received an investment from Shire.</li> <li>Akili also has a partnership with Autism Speaks, a leading autism advocacy organisation, in which DELSIA, the venture philanthropy arm of Autism Speaks, will fund a randomised, controlled efficacy study of Project: EVO in children and adolescents affected by autism and co-morbid attention deficits.</li> </ul>
<b>Expected milestones and timing</b>	<ul style="list-style-type: none"> <li>The Alzheimer's pilot biomarker study funded by Pfizer could potentially read-out in the second quarter of 2016.</li> <li>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.</li> </ul>
<b>PureTech ownership</b>	<ul style="list-style-type: none"> <li>PureTech will have holdings of 63.3 percent in Akili on a diluted basis after the investment of the second tranche of the January 2016 financing round as defined on page 21.</li> </ul>

## Encapsulated device for the treatment of obesity/prediabetes



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 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.

### Market potential and unmet need

- Globally there are more than 1.9 billion adults 18 years of age or older who are overweight or obese.
- There are few safe and effective drug-based or surgical treatments, and the pharmaceutical products approved for weight loss are believed to be absorbed into the bloodstream and carry the risk of systemic toxicities.

### Innovative approach to solving the problem

- Given the challenges associated with pharmacological treatments of obesity, Gelesis decided to explore solutions that potentially have a non-systemic mechanism of action and a balanced profile of safety and efficacy.
- Gelesis product candidates are innovative hydrogels engineered to rapidly absorb and release water at specific locations in the GI tract, acting mechanically to take up stomach volume, slow transit of food through the GI and slow the absorption of sugars.

### IP

- Gelesis currently owns 124 patents and patent applications in five families of patent filings.
- Patents covering use of Gelesis' technology for treating obesity and reducing calorie consumption have been granted or allowed in the U.S., Europe, Australia, China, Japan, Mexico and Russia providing potential patent protection until at least 2031.
- The patent filings aim to cover composition of matter, methods of use and methods of production for its product candidates. In addition, Gelesis also relies on know-how, trade secrets and continuing technological innovation to develop and maintain its proprietary position.

### Team

- Gelesis has assembled advisory and operating teams with expertise in obesity research and materials science to develop and commercialise its product candidates.
- Scientific advisory board members comprise Dr. Caroline Apovian (Boston University), Dr. Louis J. Aronne (Weill-Cornell Medical, Columbia University) and Dr. Arne Astrup (UCopenhagen), among others.
- The BOD is chaired by Dr. John LaMattina (PureTech) and also comprises Dr. Raju Kucherlapati (PureTech), Mr. Stephen Muniz (PureTech), Mr. Elon Boms (Launch Capital), Ms. Meghan Fitzgerald (Cardinal Health), and Mr. Robert Forrester (Verastem). See pages 41 to 43 for biographies of PureTech directors.
- The team includes Mr. Yishai Zohar\* (Gelesis founder & co-founder of PureTech, and Zeta, Ltd.), Dr. Eyal Ron (previously Sensei Biomaterials) and Dr. Hassan Heshmati (previously Sanofi) who serve as CEO, CTO and CMO respectively. Dr. Alessandro Sannino (inventor of Gelesis' lead product) serves as Chief Project Scientist.

### Milestones achieved

- In a completed 128-patient, three-month human proof-of-concept clinical trial ("FLOW"), Gelesis100 demonstrated in the 2.25 g arm:
  - Statistically significant weight loss in the ITT population.
  - At least 10 percent mean weight loss in 26 percent of patients; at least 5 percent mean weight loss in 43 percent of patients.
  - A majority of prediabetic patients returned to normal fasting blood glucose status.
  - Safety profile similar to placebo.
  - Dramatic weight loss in the prediabetic subpopulation.
- In July 2015, Gelesis received positive confirmation from the U.S. Food and Drug Administration ("FDA") that its ongoing study ("GLOW") is a nonsignificant risk device study, allowing the Company to expand the study to U.S. sites and convert GLOW into a pivotal study, accelerating the time to FDA submission by nearly one year.

### External validation

- Gelesis has raised nearly \$40 million from investors outside of PureTech over the last year, and over \$90 million since founding, with nearly \$75 million coming from external investors.

### Expected milestones and timing

- 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.

### PureTech ownership

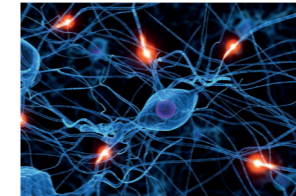
- As of 31 December 2015, PureTech had holdings of 22.5 percent in Gelesis on a diluted basis. PureTech would also receive a 2 percent royalty from sale, as defined on page 21.

\* Ms. Daphne Zohar, PureTech's CEO, recuses herself from all decisions regarding Gelesis and the rest of the PureTech board votes on Gelesis decisions in her absence.

## Non-invasive, rapidly acting treatment for depression



Tal Medical aims to redefine the clinical practice of psychiatry by introducing a safe, acute depression treatment as a standard clinical practice.



Tal Medical is a clinical stage neuroscience business, developing a non-invasive, rapid-acting neuro-modulation therapy for depression.

### Market potential and unmet need

- Major depressive disorder ("MDD"), which currently affects approximately 6.7 percent of the U.S. adult population, is one of the leading causes of disability worldwide.
- In spite of multiple antidepressant drugs on the market with expected \$13-17 billion worldwide sales in 2017 and several other available treatments, there remains substantial unmet need in depression – antidepressants take 4 to 10 weeks to take effect, do not work in one in four patients, and have numerous side effects.

### Innovative approach to solving the problem

- The brain is fundamentally an electrochemical network of circuits that uses tiny electrical pulses to communicate.
- In mental health disorders, certain circuits change their electrical activity patterns to become hyper- or hypo-active (like 'brain arrhythmias').
- Tal Medical's approach uses Low Field Magnetic Stimulation ("LFMS"), a non-invasive electromagnetic technology invented at McLean Hospital/Harvard University, to modulate (normalise) the electrical activity of dysregulated brain circuits underlying depression.

### IP

- Tal Medical currently has exclusive rights to 11 patents and patent applications in two families of patent filings, which originated from McLean Hospital.
- The two patent families aim to cover both magnetic field stimulation techniques and LFMS devices.

### Team

- Tal Medical has assembled a team with expertise in neuroscience and medical device development, in addition to strong business acumen.
- SAB members comprise Dr. Maurizio Fava (MGH and Harvard), Dr. Mark George (MUSC), Dr. Steven Paul (formerly President of R&D at Eli Lilly, NIMH), Dr. Robert Post (GWU and NIMH), and Dr. Atul Pande (Tal Medical, formerly head of Neuroscience at GSK).
- Two senior strategy advisers include: Mr. John Abele (Boston Scientific co-founder) and Honourable Patrick Kennedy (former U.S. Representative, U.S. Mental Health Parity Act of 2008 lead author).
- Mr. Jan Skvarka (formerly Bain and PWC), Dr. Atul Pande (formerly GSK, Pfizer, Eli Lilly), Mr. Mike Madden (formerly NinePoint Medical, Boston Scientific and Medtronic), Dr. Andrew Miller, and Mr. Jason Bhardwaj (formerly Medtronic, Bain, Wellist) serve as CEO, CMO, EVP Product Development, COO and VP Marketing, respectively.
- The BOD comprises Ms. Daphne Zohar (PureTech), Dr. Bennett Shapiro (PureTech), Dr. Raju Kucherlapati (PureTech), Dr. Steven Paul (formerly President of R&D at Eli Lilly) and Mr. Jan Skvarka (Tal Medical). See pages 41 to 43 for biographies of PureTech directors.

### Milestones achieved

- Two randomised, sham-controlled clinical trials with 117 subjects carried out by McLean Hospital have tested LFMS in MDD and BPD patients to date and demonstrated rapid onset-of-action (within minutes after completion of a single 20-minute LFMS session), a clinically meaningful effect size, and strong safety profile.
- Specifically, on the Hamilton Depression Rating Scale-17, a questionnaire commonly used in depression trials to measure severity of depression, the treatment showed a statistically significant 3.1 point improvement over sham treatment.

### External validation

- Tal Medical closed an external financing round in 2015 of nearly \$15 million, with nearly \$10 million coming from investors outside of PureTech.
- Tal Medical's ongoing 90-patient proof-of-concept study is funded by the NIMH's Rapidly Acting Treatments for Treatment Resistant Depression program, which is designed to test promising rapid-acting interventions.

### Expected milestones and timing

- Tal Medical's 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.
- Tal Medical is in process of finalising the protocol for a pivotal study in BPD; the study will potentially start in the first half of 2017.
- Potential launch of Tal Medical's product candidate for MDD is 2019.

### PureTech ownership

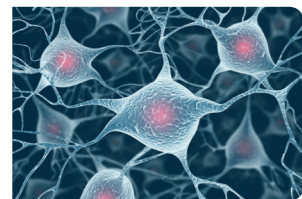
- As of 31 December 2015, PureTech had holdings of 54.2 percent in Tal Medical on a diluted basis as defined on page 21.

## Innovative therapy for the treatment of schizophrenia



Karuna is pursuing innovative therapies for the treatment of schizophrenia.

Karuna's lead program, 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.



<b>Market potential and unmet need</b>	<ul style="list-style-type: none"> <li>• Schizophrenia affects up to one percent of the population worldwide.</li> <li>• Antipsychotics are the mainstay therapy; however, drugs currently in use all rely on the same fundamental mechanism of action and can have serious side effects which can reduce compliance and patients often experience residual symptoms throughout their lives, leading to significant remaining unmet medical need.</li> </ul>
<b>Innovative approach to solving the problem</b>	<ul style="list-style-type: none"> <li>• Xanomeline, a muscarinic agonist, had shown considerable efficacy in treating schizophrenia, but had tolerability concerns associated with peripheral activation of muscarinic receptors.</li> <li>• By pairing xanomeline with trospium chloride, a muscarinic antagonist that acts only in the periphery (outside the central nervous system), Karuna believes it could potentially alleviate the tolerability issues with xanomeline while maintaining its efficacy profile.</li> </ul>
<b>IP</b>	<ul style="list-style-type: none"> <li>• Karuna currently has exclusive rights to four pending patent applications in Europe, Canada, Japan and the U.S., which originated from PureTech.</li> <li>• The patent filings aim to cover pharmaceutical compositions and methods of use for the treatment of disorders ameliorated by muscarinic receptor activation.</li> <li>• Karuna has an exclusive worldwide licence to xanomeline from Eli Lilly, the company that originally developed the drug.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>• Karuna has assembled a team with expertise in mental health and combination drug formulation/therapy.</li> <li>• Dr. Alan Breier serves as Chief Clinical Adviser (Indiana University, Larue Carter Hospital, formerly Eli Lilly (Chief Medical Officer), NIMH, and Maryland Psychiatric Research Center).</li> <li>• Dr. Eric Elenko (PureTech) serves as acting CEO.</li> <li>• Dr. Richard Kavoussi (previously at GSK VP and Neuroscience Therapeutic Area Lead, and MCP-Hahnemann/Drexel University) serves as CMO.</li> <li>• The BOD also comprises Mr. Stephen Muniz (PureTech), Dr. Bennett Shapiro (PureTech), Dr. Andrew Miller (PureTech) and Dr. Edmund Harrigan (previously Pfizer, Neurogen, Seperacor). See pages 41 to 43 for biographies of PureTech Directors.</li> </ul>
<b>Milestones achieved</b>	<ul style="list-style-type: none"> <li>• Xanomeline has been dosed by Eli Lilly in over 800 patients, and has demonstrated efficacy in reducing psychosis and improving cognition in placebo-controlled human trials in both Alzheimer's disease and schizophrenia.</li> <li>• In a double-blind, placebo-controlled monotherapy trial in schizophrenia patients carried out by Indiana University, a significant 24-point reduction over placebo was observed in the Positive and Negative Symptom Scale ("PANSS"). Existing drugs have been approved with pivotal studies typically showing a 5 to 10 reduction in the PANSS.</li> </ul>
<b>External validation</b>	<ul style="list-style-type: none"> <li>• Karuna 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 for Karuna's lead program, KarXT.</li> </ul>
<b>Expected milestones and timing</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>PureTech ownership</b>	<ul style="list-style-type: none"> <li>• As of 31 December 2015, PureTech had holdings of 80.3 percent in Karuna on a diluted basis as defined on page 21.</li> </ul>

## Treatment system for androgenetic alopecia/hair loss



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 ("Penn"), serve as the foundational observations on which the technology is based.



<b>Market potential and unmet need</b>	<ul style="list-style-type: none"> <li>• Androgenetic alopecia represents the most common form of hair loss in men and women, with an estimated 65 million people who warrant treatment in the U.S. alone.</li> <li>• Only two drugs, both with limited efficacy, are currently approved for the treatment of androgenetic alopecia. The most effective current approach for the treatment of hair loss is hair transplantation, comprising a range of invasive procedures.</li> <li>• As a result, the Company believes that there is significant unmet need for safe, effective, non-surgical treatments which grow new hair.</li> </ul>
<b>Innovative approach to solving the problem</b>	<ul style="list-style-type: none"> <li>• Follica is developing a proprietary device platform designed to 1) generate an 'embryonic window' via skin disruption in adults, creating new follicles from epithelial stem cells, and 2) enhance the effect of its technique through the application of various drugs and chemicals.</li> </ul>
<b>IP</b>	<ul style="list-style-type: none"> <li>• Follica currently owns or has exclusive rights to 32 patents and patent applications in four families of patent filings</li> <li>• The patent families aim to cover the composition of matter, methods of use and design of devices for delivery of active agents to promote hair follicle regeneration.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>• Follica has assembled a team with expertise in dermatology and medical device development.</li> <li>• The scientific advisory board is co-chaired by Dr. R. Rox Anderson (MGH and Harvard) and Dr. George Cotsarelis (lead inventor of Follica's technology, UPenn), and also comprises Dr. Sarah Millar (Penn), and Dr. Ken Washenik (Bosley and previously Aderans Research Institute).</li> <li>• Mr. David Tharp (previously Merck KGaA) and Mr. Scott Kellogg (previously Afferent, Sontra Medical and UltraCision) serve as COO and VP Operations, respectively.</li> <li>• The BOD comprises Ms. Daphne Zohar (PureTech) Mr. Stephen Muniz (PureTech), Dr. Bernat Olle (Vedanta), and Ms. Alison Lawton (previously Sanofi-Genzyme). See pages 41 to 43 for biographies of PureTech directors.</li> </ul>
<b>Milestones achieved</b>	<ul style="list-style-type: none"> <li>• Follica's product concept originated from basic science demonstrating new hair follicle formation in adult mice following skin disruption, the results of which were published in <i>Nature</i>.</li> <li>• Follica's three clinical studies of patients with androgenetic alopecia demonstrated hair follicle neogenesis via biopsy following skin disruption and/or hair growth through target area hair count. One of these studies demonstrated that skin disruption alone was safe and generates new follicles as well as new hair, but did not achieve its primary endpoint as the chosen investigational compound (lithium gluconate 8 percent gel) did not further enhance the effect. A separate clinical study, published by third-party academics, indicated that the combination of skin disruption and an approved hair-growth compound, minoxidil, showed a 4x enhancement versus the efficacy of the compound alone.</li> </ul>
<b>Expected milestones and timing</b>	<ul style="list-style-type: none"> <li>• Follica plans to initiate a registration study in the second half of 2016, with data read-out in 2017.</li> <li>• If the data are favourable, Follica would potentially plan to seek FDA clearance in 2017, with commercial release to follow as soon as 2018.</li> </ul>
<b>PureTech ownership</b>	<ul style="list-style-type: none"> <li>• As of 31 December 2015, PureTech had holdings of 58.6 percent in Follica on a diluted basis as defined on page 21.</li> </ul>



## Oral delivery of proteins, peptides and nanoparticles



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 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.

<b>Market potential and unmet need</b>	<ul style="list-style-type: none"> <li>The total market for injectable biologics could grow to greater than \$250 billion by 2017.</li> <li>Injectable formulations can be limited in their therapeutic potential, as a result of issues with compliance, and can be difficult and even potentially be unsafe to deliver to patients.</li> </ul>
<b>Innovative approach to solving the problem</b>	<ul style="list-style-type: none"> <li>Entrega is developing a mucoadhesive wafer-based platform made from generally recognised as safe ("GRAS") materials to for the oral delivery of biologics, vaccines and other forms of medication that are not efficient in reaching the bloodstream when taken orally.</li> </ul>
<b>IP</b>	<ul style="list-style-type: none"> <li>Entrega currently owns or has exclusive rights to nine patent applications in three families of patent filings.</li> <li>The three patent families aim to cover composition of matter, methods of use and methods of making of mucoadhesive devices for delivery of active agents and oral drug devices and drug formulations.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>Entrega has assembled a team with expertise in drug formulation and drug delivery engineering.</li> <li>The scientific advisory board is chaired by Dr. Robert Langer (PureTech) and also comprises Dr. Colin Gardner (formerly Merck, J&amp;J, and co-founder of TransForm Pharmaceuticals), and Dr. Samir Mitragotri (scientific co-founder, UCSB).</li> <li>The BOD is chaired by Dr. Robert Langer (PureTech) and also comprises Mr. Stephen Muniz (PureTech), Mr. David Steinberg (PureTech), Mr. Rob Armstrong (formerly Eli Lilly), Mr. Howie Rosen (former President of ALZA), and Dr. Andrew Miller (Tal Medical). See pages 41 to 43 for biographies of PureTech Directors.</li> </ul>
<b>Milestones achieved</b>	<ul style="list-style-type: none"> <li>Entrega has generated proof-of-concept delivery data for peptides in small animals as well as ex vivo proof-of-concept data demonstrating wafer adhesion to intestinal tissues.</li> </ul>
<b>External validation</b>	<ul style="list-style-type: none"> <li>Entrega has a partnership with Verily, Google's life sciences division, focused on developing nanoparticle formulations for oral delivery with Entrega's technology.</li> </ul>
<b>Expected milestones and timing</b>	<ul style="list-style-type: none"> <li>Entrega expects a read-out of proof-of-concept delivery data in large animals in the second half of 2016.</li> </ul>
<b>PureTech ownership</b>	<ul style="list-style-type: none"> <li>As of 31 December 2015, PureTech had holdings of 67.5 percent in Entrega on a diluted basis as defined on page 21.</li> </ul>

## Project phase businesses

PureTech currently has five *project phase* businesses and 10 *concept phase* initiatives originating from its theme-driven process. These businesses are not included in the Aggregate Holdings described on pages 21 to 23.

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

Alivio Therapeutics is centered 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

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.

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.

Risk	Impact	Mitigation
<p>1</p> <p>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.</p>	<p>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.</p>	<p>Before making any decision to develop any technology, extensive due diligence is carried out by the Group which covers all the major business risks including technological feasibility, market size, strategy, adoption and intellectual property. 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 tranced so as to fund programs 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.</p>
<p>2</p> <p>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.</p>	<p>A critical failure of a clinical trial may result in termination of the program 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.</p>	<p>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 pre-clinical experiments are done prior to a clinical trial to attempt to assess the odds of the success of the trial. In the event of the outsourcing of these trials, care and attention is given to assure the quality of the vendors used to perform the work.</p>

Risk	Impact	Mitigation
<p>3</p> <p>The pharmaceutical industry is highly regulated. Regulatory authorities across the world enforce a range of laws and regulations which govern the testing, approval, manufacturing, labelling and marketing of pharmaceutical products. Stringent standards are imposed which relate to the quality, safety and efficacy of these products. These requirements are a major determinant of whether it is commercially feasible to develop a drug substance or medical device given the time, expertise, and expense which must be invested. 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.</p>	<p>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.</p>	<p>The Group manages its regulatory risk by employing highly-experienced clinical managers and regulatory affairs professionals who, where appropriate, will commission advice from external advisers and consult with the regulatory authorities on the design of the Group's pre-clinical and clinical programs. 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.</p>
<p>4</p> <p>There is a risk of adverse reactions with all drugs and medical devices. If any of the Group's products are found to cause adverse reactions or unacceptable side effects, then product development may be delayed, additional expenses may be incurred if further studies are required, and, in extreme circumstances, it may prove necessary to suspend or terminate development. This may occur even after regulatory approval has been obtained, in which case additional trials may be required 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.</p>	<p>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.</p>	<p>The Group designs its products with safety as a top priority and conducts extensive pre-clinical and clinical trials which test for and identify any adverse side effects. Insurance is in place to cover product liability claims which may arise during the conduct of clinical trials.</p>
<p>5</p> <p>The Group may not be able to sell its products profitably if reimbursement from third-party payers such as private health insurers and government health authorities is restricted or not available because for example it proves difficult to build a 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.</p>	<p>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.</p>	<p>The Group engages reimbursement experts to conduct pricing and reimbursement studies for its products to ensure that a viable path to reimbursement, or direct user payment, is available. The Group also closely monitors the competitive landscape for all of its products and adapts its business plans accordingly.</p>

Risk	Impact	Mitigation
<p>6</p> <p>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 licenses 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.</p>	<p>The failure of the Group to obtain patent protection and maintain the secrecy of key information may significantly decrease the amount of revenue the Group may receive from product sales. Any infringement litigation against the Group may result in the payment of substantial damages by the Group and result in a significant decrease in the Group's value.</p>	<p>The Group spends significant resources 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.</p>
<p>7</p> <p>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.</p>	<p>The strategic aim of the business is to generate profits for its shareholders through the commercialisation of technologies through product sales, strategic partnerships and sales of businesses. The timing and size of these potential inflows is uncertain and should revenues from our activities not be achieved, or in the event that they are achieved but at values significantly less than the amount of capital invested, then it would be difficult to sustain the Group's business.</p>	<p>The Group retains significant cash in order to support funding of its 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.</p>
<p>8</p> <p>The Group operates in complex and specialised business domains and requires highly qualified and experienced management to implement its strategy successfully. The Group and many of its businesses are located in the United States which is a highly competitive employment market. Moreover, the rapid development which is envisaged by the Group may place unsupportable demands on the Group's current managers and employees, particularly if it cannot attract sufficient new employees. There is also risk that the Group may lose key personnel at the Group or its businesses.</p>	<p>The failure to attract highly effective personnel or the loss of key personnel would have an adverse impact on the ability of the Group to continue to grow and may negatively affect the Group's competitive advantage.</p>	<p>The Board annually seeks external expertise to assess the competitiveness of the compensation packages of its senior management. Senior management continually 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.</p>

The Strategic Report on pages 7 to 34 was approved by the Board of Directors.

By order of the Board



Stephen Muniz  
Company Secretary

6 April 2016

## Viability Statement

### Puretech Health plc Viability Statement

In accordance with the provision of C.2.2 of the U.K. Corporate Governance Code 2014, the Directors have assessed the prospects of the Group over a three-year period to 31 December 2018. This period coincides with the timeframe highlighted in the Group's recent prospectus which noted that the Company's pre-offering cash (and short term investments) and the offering proceeds would be used to fund infrastructure costs, pipeline development and progress the existing *growth stage* businesses toward meaningful milestone events substantially through 2018. The Directors confirm they have a reasonable expectation that the Group will continue to operate and meet its obligations as they fall due over the period of the assessment. In making this statement the Directors carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

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

- The Group has control over the *growth stage* and *project phase* businesses that allows the Group to retain significant control over the timing of funding events and significant expenditures.

- The Group's business model is structured so that the Group is not reliant on the successful outcomes of any one business. In addition, the fact that the businesses are development stage in nature means that the Group is not reliant on cash inflows from sales of product or services during the period of this assessment. This also means that the Group is not highly susceptible to conditions in one or more market sectors in this timeframe. Although engaging with collaboration partners is highly valuable to the Group from a validation and, in some cases, funding perspective, the Group is not reliant on cash flows from such sources over the period of assessment.

- The Group's short term investments, which represent a significant balance, are highly liquid and forecasted to support infrastructure costs, pipeline development activities and the necessary funding of the *growth stage* businesses to reach significant development milestones over the period of the assessment.

The Board reviews the near term liquidity of the Group and regularly considers funding plans of the business units in its assessment of long term cash-flow projections. While the review has considered all of the principal risks identified by the Group, the Board focused on pathway to regulatory approval of each business's products candidates. Further, the Board has considered access to external capital, milestone funding based on existing

arrangements and the ability of the businesses to enter collaboration agreements, which are all highly likely to generate cash in-flows, were not included in the assessment.

The Directors note the Group's ownership stakes in the businesses are expected to be illiquid in nature. The Group anticipates holding these ownership stakes at least through achievement of significant milestones. It is also expected that certain of these ownership stakes may not be successful and could result in a loss of the amounts previously invested with no opportunity for recovery. However, even in this scenario, the Group's liquidity is expected to remain sufficient to achieve remaining milestone events.

The Directors have concluded, based on the Group's strong financial position and readily available cash reserves (inclusive of short term investments), the Group is highly likely to be able to fund the requirements of the infrastructure, pipeline development activities and the amounts considered necessary for *growth stage* businesses to reach significant development milestones over the period of the assessment. Therefore, there is a reasonable expectation that the Group has adequate resources and will continue to operate over the period of the assessment. In addition, this is without consideration of other funding sources, such as external participation in equity financings of businesses and milestone funding based on existing arrangements, which the Group expects will create some positive cash in-flows in the period of assessment.

## Key performance indicators

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

### Value of Growth Stage Businesses

# \$291.7m

2014: \$222.4m

#### Progress

The value of the Group's 7 *growth stage* businesses increased by approximately 31% from 31 December 2014 to 31 December 2015.

### Amount of Financings for Businesses

# \$74.6m

2014: \$8m

#### Progress

Gelesis, Tal Medical, Karuna, Follica and Entrega each closed financings in 2015.

### Number of Patents and Patent Applications

# 209

2014: 111

#### Progress

The Company continued to aggressively pursue patent protection for its technologies during 2015.

### Number of Partnerships entered into by the Group

# 4

2014: 2

#### Progress

In 2015, the Group entered into partnerships with Janssen, a subsidiary of Johnson & Johnson, Autism Speaks, Berklee College of Music and HINTSA Performance.

### Number of Project Phase Businesses Created

# 3

2014: 2

#### Progress

Sonde, Alivio Therapeutics and Vor Biopharma were each created in 2015.

### Number of Technologies Reviewed

# 776

2014: 521

#### Progress

The Company continued to identify and review innovative technologies that form the basis of its businesses.

## Financial review

### Cash Raised in 2015

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

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 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.

### 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

### Results of Operations

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

(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 — continued**

for research and development work performed under specified programs 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 pre-clinical 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 programs.

**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

**Financial Position**

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

(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.

**Net finance costs — continued**

in the value of conversion rights embedded in the preferred stock of several *growth stage* businesses.

**Financial position**

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

**Cash Flows**

	2015 \$ millions	2014 \$ 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 <sup>(1)</sup>	285.9	64.7

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

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**

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 \$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.

## Chairman's overview



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

Dear Shareholder,

I am pleased to introduce our first Corporate Governance Report since our successful IPO in 2015.

This section sets out our governance framework and the work of the Board and its committees. As a Board we are responsible for ensuring there is an effective governance framework in place. This includes setting the Company's strategic objectives, ensuring the right leadership and resources are in place to achieve these objectives, monitoring performance, ensuring that sufficient internal controls and protections are in place and reporting to shareholders. An effective governance framework is also designed to ensure accountability, fairness and transparency in the Company's relationships with all of its stakeholders whether shareholders, employees, partners, the government or the wider patient community. We believe that good corporate governance is essential for building a successful and sustainable business.

The Company was admitted to the premium listing segment of the Official List of the U.K. Listing Authority and to trading on the main market of the London Stock Exchange on 24 June 2015 ("Admission"). The Listing Rules of the Financial Conduct Authority, including the application of the U.K. Corporate Governance Code as published by the Financial Reporting Council in September 2014 ("Governance Code"), have only therefore applied to the Company

since that date. On listing, the Board committed itself to the highest standards of corporate governance and undertook to maintain a sound framework for the control and management of the Group. In this report we provide details of that framework. The key constituents necessary to deliver a robust structure are in place and, accordingly, this report includes a description of how the Company has applied the principles and provisions of the Governance Code since 24 June 2015 and how it intends to apply those principles in the future.

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

Joichi Ito  
Chairman

6 April 2016

## Board of Directors



Ms. Daphne Zohar  
Chief Executive Officer and Executive Director

Ms. Daphne Zohar is a co-founder and the Chief Executive Officer of PureTech and a member of the Board. A successful entrepreneur, Ms. Zohar created PureTech, assembling a leading team to help implement her vision for the Company, and attracting \$475 million to the Company and its businesses. Ms. Zohar has been recognised as a top leader and innovator in biotechnology by a number of sources, including BioWorld, MIT's Technology Review, the Boston Globe, and Scientific American. She sits on the boards of, amongst others, PureTech, the Sync Project, Follica, Akili, Karuna and Tal Medical. She also sits on the Technology Development Fund Advisory Board at Children's Hospital Boston, is an Editorial Adviser to Xconomy, a U.S. technology news company and is a Member of the Distinguished Faculty of the Biotechnology and the Ethical Imagination Global Summit organised by the Emory University Center for Ethics.



Mr. Joichi Ito  
Non-Executive Chairman

Mr. Ito, the director of the MIT Media Lab, is a leading thinker and writer on innovation, global technology policy, and the role of the Internet in transforming society in substantial and positive ways. He sits on the boards of Sony Corporation, Knight Foundation, the John D. and Catherine T. MacArthur Foundation, The New York Times Company and The Mozilla Foundation. In Japan, Mr. Ito was a founder of Digital Garage, and helped establish and later became CEO of the country's first commercial Internet service provider. He was an early investor in numerous companies, including Twitter, Flickr, littleBits, Formlabs, and Kickstarter. Mr. Ito's honours include TIME magazine's 'Cyber-Elite' listing in 1997 (at age 31) and selection as one of the 'Global Leaders for Tomorrow' by the World Economic Forum (2001). In 2008, BusinessWeek named him one of the '25 Most Influential People on the Web.' In 2011, he received the Lifetime Achievement Award from the Oxford Internet Institute. In 2014, Mr. Ito was inducted into the SXSW Interactive Festival Hall of Fame and awarded the Golden Plate Award by the Academy of Achievement. Mr. Ito received the degree of Doctor of Literature, honoris causa, from The New School in 2013 and Doctor of Humane Letters, honoris causa, from Tufts University in 2015.



Dr. Raju Kucherlapati  
Independent Non-Executive Director

Dr. Kucherlapati was a founder and formerly a board member of Abgenix, Cell Genesys and Millennium Pharmaceuticals. He is currently the Paul C. Cabot Professor of Genetics and a Professor of Medicine at Harvard Medical School and was the first Scientific Director of the Harvard-Partners Center for Genetics and Genomics. He is a fellow of the American Association for the Advancement of Science and a member of the Institute of Medicine of NAS. Dr. Kucherlapati received his Ph.D. from the University of Illinois. He trained at Yale and has held faculty positions at Princeton University, University of Illinois College of Medicine and the Albert Einstein College of Medicine. His laboratory at Harvard Medical School is involved in cloning and characterisation of human disease genes with a focus on human syndromes with a significant cardiovascular involvement, use of genetic/genomic approaches to understand the biology of cancer and the generation and characterisation of genetically modified mouse models for cancer and other human disorders. He served on the editorial board of the New England Journal of Medicine and was Editor in Chief of the journal Genomics.



**Dr. John LaMattina**  
Independent Non-Executive Director

Dr. LaMattina was previously President at Pfizer Global Research and Development and Senior Vice President, Pfizer. During his 30-year career at Pfizer, Dr. LaMattina held positions of increasing responsibility for Pfizer Central Research, including Vice President of U.S. Discovery Operations in 1993, Senior Vice President of Worldwide Discovery Operations in 1998 and Senior Vice President of Worldwide Development in 1999. During Dr. LaMattina's leadership tenure Pfizer discovered and/or developed a number of important new medicines including Tarceva, Chantix, Zolofit, Selzentry and Lyrica, along with a number of other medicines currently in late stage development for cancer, rheumatoid arthritis and pain. He is the author of numerous scientific publications and U.S. patents. Dr. LaMattina received the 1998 Boston College Alumni Award of Excellence in Science and the 2004 American Diabetes Association Award for Leadership and Commitment in the Fight Against Diabetes. He was awarded an Honorary Doctor of Science degree from the University of New Hampshire in 2007. In 2010 he was the recipient of the American Chemical Society's Earle B. Barnes Award for Leadership in Chemical Research Management. Dr. LaMattina received a B.S. in Chemistry from Boston College in 1971 and received a Ph.D. in Organic Chemistry from the University of New Hampshire in 1975. He then moved on to Princeton University as a National Institutes of Health Postdoctoral Fellow in the laboratory of Professor E. C. Taylor. Dr. LaMattina serves on the board of directors of Ligand Pharmaceuticals, Zafgen, Inc. and Vedanta Biosciences and is Chairman of the board of Gelesis. He is the author of 'Devalued and Distrusted – Can the Pharmaceutical Industry Restore its Broken Image', 'Drug Truths: Dispelling the Myths About Pharma R&D' and an author of the Drug Truths blog at Forbes.com.



**Dr. Robert Langer**  
Non-Executive Director

Dr. Langer is a co founder of PureTech. He is the David H. Koch Institute Professor at MIT and one of only 13 Institute Professors (the highest honour awarded to a faculty member). Dr. Langer has written over 1,300 articles and has over 1,100 issued or pending patents worldwide. His patents have been licensed or sublicensed to over 300 pharmaceutical, chemical, biotechnology and medical device companies. Dr. Langer is the most cited engineer in history. He served as a member of the FDA's Science Board, the FDA's highest advisory board, from 1995 to 2002 and as its Chairman from 1999 to 2002. Dr. Langer has received over 220 major awards, including the 2006 U.S. National Medal of Science, the Charles Stark Draper Prize in 2002, considered the equivalent of the Nobel Prize for engineers and the world's most prestigious engineering prize and the 2012 Priestley Medal, the highest award of the American Chemical Society. He is also the only engineer to ever receive the Gairdner Foundation International Award. In 1998, he received the Lemelson MIT prize, the world's largest prize for invention for being 'one of history's most prolific inventors in medicine'. Among numerous other awards, Dr. Langer has received the Dickson Prize for Science, Heinz Award, the Harvey Prize, the John Fritz Award (given previously to inventors such as Thomas Edison and Orville Wright), the General Motors Kettering Prize for Cancer Research, the Dan David Prize in Materials Science and the Albany Medical Center Prize in Medicine and Biomedical Research. In 2006, he was inducted into the National Inventors Hall of Fame. Dr. Langer is one of a few people ever elected to all four U.S. National Academies and the youngest in history to ever receive this distinction. In January 2015, Dr. Langer was awarded the 2015 Queen Elizabeth Prize for Engineering.



**Dame Marjorie Scardino**  
Senior Independent Director

Dame Marjorie Scardino served as Chief Executive of The Economist for 12 years and then from 1997 through 2012 became the Chief Executive of Pearson plc, the world's leading education company and the owner of Penguin Books and The Financial Times Group. She is currently the Chairman of The MacArthur Foundation and is also a member of the non profit boards of Oxfam, The Royal College of Art and The Carter Center, as well as the for profit boards of Twitter, where she sits on the Audit Committee, and International Airlines Group (the holding company of British Airways, Iberia and other airlines). Dame Marjorie has received a number of honorary degrees, and in 2003 was dubbed a Dame of the British Empire. She is also a member of the Royal Society of Arts in the U.K. and the American Association of Arts and Sciences.



**Dr. Bennett Shapiro**  
Non-Executive Director

Dr. Shapiro is a co-founder of PureTech and a member of the Board. From 1990 to 2003 Dr. Shapiro was an Executive Vice President at Merck Research Laboratories (of Merck & Co.). Dr. Shapiro initially led Worldwide Basic Research and was responsible for all the basic and preclinical research activities at Merck. He later led Worldwide Licensing and External Research and was responsible for Merck's relationships with the academic and industrial biomedical research community. His leadership resulted in the discovery, development and registration of approximately 25 drugs and vaccines. Previously, he was Professor and Chairman of the Department of Biochemistry at the University of Washington, where he worked from 1970 to 1990. He is the author of over 120 papers on the molecular regulation of cellular behaviour and the biochemical events that integrate the cascade of cellular activations at fertilisation. Dr. Shapiro received his bachelor's degree in Chemistry from Dickinson College and his MD from Jefferson Medical College. Following an internship in Medicine at the University of Pennsylvania Hospital, he was a Research Associate at the NIH, then a Visiting Scientist at the Institut Pasteur in Paris and returned to the NIH as Chief-Section on Cellular Differentiation in the Laboratory of Biochemistry prior to joining the University of Washington. Dr. Shapiro has been a Guggenheim Fellow, a Fellow of the Japan Society for the Promotion of Science and a Visiting Professor at the University of Nice. He has served on many institutional advisory boards and scientific review panels. Dr. Shapiro served as a director of Celera Corporation, and currently serves as a director of, amongst others, Momenta Pharmaceuticals Inc., Ikaria Inc., Vedanta Biosciences, Tal Medical and Akili. He also is a director of the Drugs for Neglected Diseases initiative and the Mind and Life Institute.



**Mr. Christopher Viehbacher**  
Independent Non-Executive Director

Mr. Viehbacher is the Managing Partner of Gurnet Point Capital. He is also the Chairman of the Board of Directors of Boston Pharmaceuticals and of Vedanta Biosciences as well as the Vice-Chair of Nuvelution. He is a member of the Board of Directors of Pronutra. Mr. Viehbacher is a Trustee of Northeastern University and the Past-Chair of the CEO Roundtable on Cancer. Mr. Viehbacher is the former Chief Executive Officer and member of the board of directors of Sanofi, a Fortune 50 biopharmaceutical company with a market capitalisation of over \$100 billion. During Mr. Viehbacher's six-year tenure, Sanofi underwent a significant business transformation, completing over \$30 billion of acquisitions, most notably that of Genzyme Ltd. Mr. Viehbacher was also the Executive Chairman of the board of Genzyme Ltd in Boston. Prior to joining Sanofi, Mr. Viehbacher spent 20 years with GlaxoSmithKline ultimately as President of its North American pharmaceutical division and as a member of the Board of Directors of GSK plc. He began his career with PricewaterhouseCoopers LLP and qualified as a Chartered Accountant. Mr. Viehbacher has co chaired the Chief Executive Officer Roundtable on Neglected Diseases with Bill Gates, an organisation that led to over 1.3 billion people being treated for such diseases free of charge and he continues to chair the Chief Executive Officer Roundtable on Cancer. He was the Chairman of the Board of the Pharmaceutical Research and Manufacturers of America as well as President of the European Federation of Pharmaceutical Industries and Associations. At the World Economic Forum at Davos, Mr. Viehbacher was a Chair of the Health Governors and co chaired an initiative to create a Global Charter for Healthy Living. He was also a member of the International Business Council. Mr. Viehbacher has received the Pasteur Foundation Award for outstanding commitment to safeguarding and improving health worldwide. He has also received France's highest civilian honour, the Légion d'Honneur. Various awards from the Thompson Reuters/Extel Investor Survey, including top Chief Executive Officer and top European Company, have recognised his commitment to investor relations.



**Mr. Stephen Muniz**  
Executive Vice President, Legal and Operations, and Executive Director

Mr. Muniz is the Executive Vice President of Legal Operations and a member of the Board. Prior to joining PureTech, Mr. Muniz was a Partner in the Corporate Department of Locke Lord LLP, where he practiced law for 10 years. Mr. Muniz's practice at Locke Lord LLP focused on the representation of life science venture funds as well as their portfolio companies in general corporate matters and in investment and liquidity transactions. Prior to joining Locke Lord LLP, Mr. Muniz was a law clerk to Hon. Raya Dreben at the Massachusetts Appeals Court. He was also a Kauffman Entrepreneur Fellow, a programme sponsored by the Kauffman Foundation. Mr. Muniz also sits on the board of directors of Karuna, Entrega, Follica and Gelesis. Mr. Muniz has a BA in Economics and Accounting from The College of the Holy Cross and a JD from the New England School of Law where he graduated summa cum laude. Mr. Muniz was Valedictorian of the 1997 New England School of Law Commencement and has been awarded the Amos L. Taylor Award for Excellence in Scholarship, the New England Scholar Award and the NESL Trustee Scholar Award.

## Role and responsibilities of the Board

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

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

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

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

process of review and challenge by the Board. Once made, the Executive Directors are fully empowered to implement those decisions.

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

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

- approval and monitoring of the Group's strategic aims and objectives;
- approval of the annual operating and capital expenditure budget;
- changes to the Group's capital structure, the issue of any securities and material borrowing of the Group;
- approval of the annual report and half-year results statement, accounting policies and practices or any matter having a material impact on future financial performance of the Group;
- ensuring a sound system of internal control and risk management;
- approving Board appointments and removals, and approving policies relating to directors' remuneration;
- strategic acquisitions by the Group;
- major disposals of the Group's assets or subsidiaries;
- approval of all circulars, prospectuses and other documents issued to shareholders

governed by the Financial Conduct Authority's ("FCA") Listing Rules, Disclosure Rules or Transparency Rules or the City Code on Takeovers and Mergers;

- approval of terms of reference and membership of Board committees;
- considering and, where appropriate, approving directors' conflicts of interest; and
- approval, subject to shareholder approval, of the appointment and remuneration of the auditors.

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

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

## Board Size and composition

As at 31 December 2015 and up to the date of approval of this Annual Report, there were nine Directors on the Board: the Non-Executive Chairman, two Executive Directors and six Non-Executive

## Board size and composition — continued

Directors. The biographies of all of these Directors are provided on pages 41 and 43. During the year, Mr. Christopher Viehbacher and Dame Marjorie Scardino joined the Board prior to the Company's initial public offering.

The Company's policy relating to the terms of appointment and the remuneration of both Executive and Non-Executive Directors is detailed in the Directors' Remuneration Report on pages 59 to 69.

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

The Board may appoint any person to serve as a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following AGM and then shall be eligible for election by the shareholders. The forthcoming AGM on 9 May 2016 will be the first since registering as a public company. In accordance with the Governance Code, all of the Directors will be offering themselves for election at the AGM to be held on 9 May 2016, full details of which are set out in the notice of meeting accompanying this Annual Report.

## Non-Executive Directors

The Company's Non-Executive Directors are Mr. Joichi Ito (Chairman), Dr. Raju Kucherlapati, Dr. John LaMattina, Dr. Robert Langer, Dame Marjorie Scardino, Dr. Bennett Shapiro, and Mr. Christopher Viehbacher. The Non-Executive Directors provide a wide range of skills and experience to the Group. Each Non-Executive Director has significant senior level experience as well as an extensive network in

each of their own fields, an innovative mindset and an independent judgement on issues of strategy, performance and risk are well placed to constructively challenge and scrutinise the performance of management. In addition, each non-executive director also serves as a member of one or more boards of directors of Group's businesses and are key drivers for the Group's *concept phase* initiatives.

## Senior Independent Director

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

## The roles of Chairman and Chief Executive

The Company's Chairman is Mr. Joichi Ito. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for the leadership and conduct of the Board and for ensuring effective communication with shareholders. The Chairman facilitates the full and effective contribution of Non-Executive Directors at Board and Committee meetings, ensures that they are kept well informed and ensures a constructive relationship between the Executive Directors and Non-Executive Directors. The Chairman also ensures that the Board committees carry out their duties, including reporting back to

the Board either orally or in writing following their meetings at the next Board meeting, depending on its proximity to the meeting of the relevant committee.

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

## Independence

The U.K. Corporate Governance Code recommends that at least 50 percent of the Board of a U.K. premium listed company, excluding the Chairman, be comprised of Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement. The Board regards Dr. Kucherlapati, Dr. LaMattina, Dame Marjorie Scardino and Mr. Viehbacher as Independent Non Executive Directors for the purposes of the U.K. Corporate Governance Code. In reaching this determination for Dr. Kucherlapati, Dr. LaMattina and Mr. Viehbacher, the Board duly considered (i) their directorships and links with other Directors through their involvement in other operating companies; and (ii) their equity interests in PureTech and/or the operating companies. The Board



Independence — continued

is satisfied that the judgement, experience and challenging approach adopted by each of Dr. Kucherlapati, Dr. LaMattina and Mr. Viehbacher should ensure that they each make a significant contribution to the work of the Board and its committees. Therefore, the Board has determined that Dr. Kucherlapati, Dr. LaMattina and Mr. Viehbacher are of independent character and judgement, notwithstanding the circumstances described at (i) and (ii) above and has determined that Dame Marjorie Scardino is independent of character and judgement, notwithstanding her holding of shares in the Company. Accordingly, 50 percent of the Company's Board, excluding the Chairman, is comprised of non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement.

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

Board support, indemnity and insurance

The Company Secretary is responsible to the Board for ensuring Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance and relevant regulatory matters. All Directors have access to the impartial advice and services of the Company Secretary. There is also an agreed procedure for Directors to take independent professional advice at the Company's

expense. In accordance with the Company's Articles of Association and a contractual Deed of Indemnity, the Directors have been granted an indemnity issued by the Company to the extent permitted by law in respect of liabilities incurred to third parties as a result of their office. The indemnity would not provide any coverage where a director is proved to have acted fraudulently or with wilful misconduct. The Company has also arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Board meetings and decisions

The Board meets regularly during the year, as well as on an ad hoc basis as required by business need. The Board had 10 scheduled meetings in 2015, and details attendance are set forth in the table below:

Directors	Number of Board Meetings Attended
Daphne Zohar	10/10
Joichi Ito	10/10
Raju Kucherlapati	10/10
John LaMattina	9/10
Robert Langer	7/10
Marjorie Scardino (from 20 May 2015)	6/7
Bennett Shapiro	9/10
Christopher Viehbacher (from 6 March 2015)	6/9
Stephen Muniz	10/10

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

The schedule of Board and Committee meetings each year is, so far as is possible, determined before the commencement of that year and all Directors or, if applicable, all Committee members, are expected to attend each meeting. Supplementary meetings of the Board and/or the Committees are held as and when necessary. Each member of the Board receives in advance of each

scheduled meeting detailed Board packages, which include an agenda based upon matters to be addressed and appropriate presentation and background materials. If a Director is unable to attend a meeting due to exceptional circumstances, he or she will nonetheless receive the meeting materials and discuss the materials with the Chief Executive Officer. The Chairman, Chief Executive Officer and senior management team work together to ensure that the Directors receive relevant information to enable them to discharge their duties and that such information is accurate, timely and clear. This information includes quarterly management accounts containing analysis of performance against budget as well as a summary of the operational performance of each of the Group's businesses against its goals. Additional information is provided as appropriate for the topics being addressed at the meeting. At each meeting, the Board receives presentations from the Chief Executive Officer and, by invitation, other members of senior management as required. This ensures that all Directors are in a position to monitor effectively the overall performance of the Group, and to contribute to the development and implementation of its strategy.

The majority of Board meetings are held at the Group's offices in Boston, Massachusetts, U.S., which gives members of the Company's senior management team, as well as the senior management of the subsidiary businesses, the opportunity to formally present to the Board on new technology development and business strategies. At least one Board meeting is held each year in London.

Each Director also serves on the boards of directors of the Group's subsidiary businesses. These subsidiary boards of directors meet regularly during the year, as well as

Directors' Conflicts of Interest — continued

on an ad hoc basis as required by business need. This service enables to the Directors to have deep understanding of the businesses and contribute significantly to the strategy and oversight of these businesses.

Directors' conflicts of interest

Each Director has a statutory duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty is in addition to the continuing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she is interested. The Company's Articles of Association permit the Board to authorise conflicts or potential conflicts of interest. The Board has established procedures for managing and, where appropriate, authorising any such conflicts or potential conflicts of interest. In deciding whether to authorise any conflict, the Directors must have regard to their general duties under the CA 2006 and their overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the Directors are able to impose limits or conditions when giving authorisation to a conflict or potential conflict of interest if they think this is appropriate. The authorisation of any conflict matter, and the terms of any authorisation, may be reviewed by the Board at any time. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Induction, awareness and development

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

During 2016, the Chairman will review and agree with each Non Executive Director their individual training and development needs. In addition, under the guidance of the Chairman, the Company Secretary will establish a formal induction training process for new Directors.

Board effectiveness and performance evaluation

Due to the short period of time since the Board was constituted in connection with the IPO, a performance evaluation of the Board and its Committees was not undertaken in 2015. Beginning in 2016, a performance evaluation of the Board and its Committees will be carried out annually to ensure that each of the Directors demonstrates commitment to his or her respective role and has sufficient time to meet his commitment to the Company. This review will include each of the Board and Committee members completing a detailed and tailored survey and one-to-one discussions between the Chairman and each of the individual Directors. A summary of the results of the review, together with the

Chairman and Company Secretary's observations and recommendations, will be prepared and shared with members of the Board.

In addition to the above, the Non-Executive Directors, led by the Senior Independent Director, will appraise the Chairman's performance, following which the Senior Independent Director will provide feedback to the Chairman. The performance of each of the Directors on the Board will be reviewed by the Chairman as part of the annual appraisal process. In addition to the aforementioned annual reviews, the performance of Executive Directors will be reviewed by the Board on an ongoing basis, as deemed necessary, in the absence of the Executive Director under review.

Committees of the Board

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

Internal Control

The Board fully recognises the importance of the guidance contained in Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Group's internal controls were in place during the whole of 2015, were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2015.

Internal control — continued

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

Control environment and procedures

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are communicated clearly throughout the whole organisation.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These policies and procedures are reviewed and the effectiveness of the systems of internal control is assessed at least annually by the Board.

Identification and evaluation of risks

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

frequently if deemed appropriate. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out on pages 32 to 34.

Information and financial reporting systems

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

Principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are formally reviewed by the Board at least annually and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. A summary of the key risks affecting the Group and the steps taken to manage these is set out on pages 32 to 34.

Relations with stakeholders

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

The Board's primary shareholder contact is through the Chief Executive

Officer. The Chairman, the Senior Independent Director and other Directors, as appropriate, make themselves available for contact with major shareholders and other stakeholders in order to understand their issues and concerns.

The Company plans to use the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 5.00 pm on 9 May 2016 at the Mondrian Hotel, 20 Upper Grand, London SE1 9PD, is enclosed with this report. Details of the resolutions and the explanatory notes thereto are included with the Notice. To ensure compliance with the Governance Code, the Board proposes separate resolutions for each issue and proxy forms allow shareholders who are unable to attend the AGM to vote for or against or to withhold their vote on each resolution. In addition, to encourage shareholders to participate in the AGM process, the Company proposes to offer electronic proxy voting through the Registrar's website and through the CREST service. The results of all proxy voting will be published on the Group's website after the AGM. Shareholders who attend the AGM will have the opportunity to ask questions to the Chairman, Non-Executive Directors and the Executive Directors in attendance.

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

Political expenditure

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

# Corporate Social Responsibility

Policy statement

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

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

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

Our business ethics and social responsibility

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

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

The Group's management and employees are fundamental to its

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

Greenhouse gas emissions

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

Though the Group's day-to-day operational activities have a relatively limited impact on the environment, we do recognise that the more significant impact occurs indirectly through the nature and operations of our subsidiary businesses.

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

Since the Company's listing in June 2015, we have begun establishing processes to enable regular and

routine reporting of greenhouse gas emissions on a consistent basis. It has not been practicable to provide data concerning the annual quantity of emissions from activities for which the Group is responsible (including the combustion of fuel and the operation of any facility); nor has it been practicable to disclose the annual quantity of emissions resulting from the purchase of electricity, heat, steam, or cooling by the Group for its own use. We anticipate tracking such information in future years and reporting the information to our shareholders.

Employee diversity, employment policies and human rights

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice. The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise. The Group has 69 employees (as at 1 March 2016). A breakdown of staff by gender can be seen in the illustrations below. The Group supports the rights of all people as set out in the UN Universal Declaration of Human Rights and ensures that all transactions the Group enters into uphold these principles.

Breakdown of staff by gender as at 1 March 2016:

	Female	Male
Staff	12 (19%)	51 (81%)
Senior Management	2 (33%)	4 (67%)
Board of Directors	2 (22%)	7 (78%)

The Directors present their report and the audited consolidated financial statements for the financial year ended 31 December 2015.

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

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

## Directors

The membership of the Board and biographical details of the directors can be found on pages 41 to 43 and are deemed to be incorporated into this report. Descriptions of the terms of the service contracts of the directors is set forth in page 67 of this report.

All directors shall retire from office and will offer themselves for

reappointment by the members at the Company's first upcoming Annual General Meeting ("AGM").

Details of the interests of directors in the share capital of the Company as of 31 December 2015 are set out in the Directors' Remuneration Report on pages 59 to 69. There have been no changes in such interests from 31 December 2015 to 31 March 2016.

## Results and dividends

The Group generated a loss for the year ended 31 December 2015 of \$58.2 million (2014 \$75.9 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2015.

## Share capital

As at 31 December 2015, the ordinary issued share capital of the Company stood at 237,387,951 shares of £0.01 each. Details on share capital are set out in note 13 to the financial statements, page 99.

The Company's issued ordinary share capital comprises a single class of ordinary shares. Details on movements in issued share capital can be found in note 13 to the financial statements, page 99.

Pursuant to a corporate reorganisation undertaken in connection with the Company's initial public offering, the Company purchased its own deferred share of £1.00 on 18 June 2015 for a price of £1.00.

## Rights of ordinary shares

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

## Substantial shareholders

As at 31 March 2016, the Company had been advised that the shareholders listed below interests of 3% or more in its ordinary share capital (other than interests of the Directors which were detailed on page 67 of the Directors'

Remuneration Report). Other than as shown, so far as the Company (and its Directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

## Relationship Agreement

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

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

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

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

- conduct all agreements, arrangements, transactions and relationships with any member of the Group on an arm's length basis and on a normal commercial basis and in accordance with the related party transaction requirements of Chapter 11 of the Listing Rules;
- not take any action that would have the effect of preventing the Company from complying with its obligations under the

Listing Rules or precludes or inhibits any member of the Group from carrying on its business independently of Invesco, its associates and any person with whom it is acting in concert;

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

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

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

## Powers of the Directors

Subject to the Company's Articles of Association, U.K. legislation and any directions given by special resolution, the business of the Company is managed by the Board of Directors. Details of the matters reserved for the Board can be found in the Corporate Governance Report on pages 40 to 69.

## Articles of Association

The Articles of Association of the Company can only be amended by special resolution at a general meeting of the shareholders. No amendments are proposed at the 2016 AGM.

## Directors' liabilities (directors' indemnities)

As at the date of this report, the Company has granted qualifying third party indemnities to each of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, directors and officers of the Company and its subsidiaries have been and continue to be covered by directors' & officers' liability insurance. See further description of indemnity and insurance on page 46.

## Political donations

No political contributions/donations for political purposes were made by the Company or any subsidiary company in the Group to any political party, politician, elected official or candidate for public office during the financial year ended 31 December 2015.

## Significant agreements

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

The following have served as Directors of the Company during the 2015 financial year.

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

Shareholder	%
Invesco Asset Management Limited	32%
Lansdowne Partners International Limited	5%
Recordati SA	4%

**Financial instruments**

The financial risk management and internal control processes and policies, and exposure to the risks associated with financial instruments can be found in note 21 to the Financial Statements, the Corporate Governance section of the Annual Report on pages 40 to 69 and in the Strategic Report on pages 1 to 39.

**Sustainable development and environmental matters**

The Corporate Social Responsibility section of this report focuses on the health and safety, environmental and employment performance of the Company's operations, and outlines the Company's core values and commitment to the principles of sustainable development and development of community relations programmes. Details of the Company's policies and performance, as well as disclosures concerning greenhouse gas emissions, are provided in the Corporate Social Responsibility Section on pages 49.

**Related party transactions**

Details of related party transactions can be found in note 23 of the Financial Statements on pages 112 to 113.

**Issuances of equity by major subsidiary undertaking**

In March 2015, prior to PureTech's IPO, its major subsidiary Gelesis closed a \$22.3 million financing, including the conversion of promissory notes, with Invesco Asset Management Limited contributing \$15 million for 1,208,554 preferred shares and PureTech contributing \$3 million in the financing for 241,711 preferred shares. The funding will help support further development of Gelesis' lead product, Gelesis100, as well as Gelesis200.

Also in March 2015, prior to PureTech's IPO, its major subsidiary Tal Medical closed a \$14.0 million financing, excluding the conversion of promissory notes, with Invesco Asset Management Limited contributing \$7 million for 1,400,000 preferred shares and other third-party investors contributing \$2 million for 400,000 preferred shares. PureTech contributed \$5 million in the financing for 1,000,000 preferred shares. The funding will help support further development of Tal Medical's neuromodulation technology.

In December 2015, PureTech's major subsidiary Gelesis closed a \$31.5 million financing with Invesco Asset Management Limited contributing \$14 million for 1,128,122 preferred shares and other third-party investors, including Cormorant Asset Management and the Pritzker/Vlock Family office, contributing \$10.5 million for 846,091 preferred shares. PureTech contributed \$7 million in the financing for 564,061 preferred shares. The funding will help support further development of Gelesis' lead product, Gelesis100, as well as Gelesis200.

Invesco Asset Management Limited is a substantial shareholder of PureTech.

**Future business developments**

Information on the Company and its subsidiaries' future developments can be found in the Strategic Report on pages 1 to 39.

**Post balance sheet 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.

**Going concern**

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period ending 31 December 2018. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Annual General Meeting**

The AGM will be held on 5.00 pm on 9 May 2016 at the Mondrian Hotel, 20 Upper Grand, London SE1 9PD. The Notice of the Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 6 April 2016.

**Pension schemes**

Information on the Company's 401K Plan can be found in the Directors' Remuneration Report on pages 59 to 69.

**Whistleblowing, anti-bribery and corruption**

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

**Disclosure of information under Listing Rule 9.8.4R**

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

Listing Rule Requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under reviews and details of any related tax relief.	N/A
Information required in relation to the publication of unaudited financial information.	N/A
Details of any long term incentive schemes.	Directors' Remuneration Report, pages 59 to 69
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	N/A
Details of any non-pre-emptive issues of equity for cash.	Issuance of equity described on page 52
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	N/A
Details of parent participation in a placing by a listed subsidiary.	N/A
Details of any contract of significance in which a Director is or was materially interested.	N/A
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Invesco Asset Management Relationship Agreement, page 51 and Invesco Asset Management investments in PureTech subsidiaries, page 52
Details of any provision of services by a controlling shareholder.	N/A
Details of waiver of dividends or future dividends by a shareholder.	N/A
Board statements in respect of relationship agreement with the controlling shareholder.	Invesco Asset Management Relationship Agreement, page 51

**Appointment of auditor**

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

**Disclosure of information to auditor**

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

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

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

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

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with U.K. Accounting Standards.

**Statement of Directors' responsibilities**  
— continued

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategy Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and 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

6 April 2016

## Report of the Nomination Committee



Robert Langer  
Chairman, Nomination Committee

**Committee responsibilities**

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

**Committee membership**

The Nomination Committee is chaired by Dr. Robert Langer and its other members are Mr. Joichi Ito and Dr. Bennett Shapiro in compliance with the Code. Dr. Shapiro joined the Nomination Committee on 5 June, 2015 in connection with the Company's initial public offering. The biographies of the Committee members can be found on pages 41 to 43.

The U.K. Corporate Governance Code (the "Governance Code") recommends that a majority of the members of a nomination committee should be independent non-executive directors. The Board regards Dr. Robert Langer and Dr. Bennett Shapiro as meeting the independence criteria set out in the Governance Code as it is applied to their service on the Nomination Committee. In reaching this determination for Dr. Langer and Dr. Shapiro, the Board duly considered (i) their directorships and links with other Directors through their involvement in other operating companies; (ii) their equity interests in PureTech and/or the operating companies; and the circumstance that each of them were founding Directors of the Company. The Board also duly considered the extent to which these matters may impact their service on the Nomination Committee. After such consideration, the Board has determined Dr. Langer and Dr. Shapiro to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement in their service on the Nomination Committee.

The Committee meets as required to initiate the selection process of, and make recommendations to, the Board with regard to the appointment of new Directors. During 2015, the Nomination Committee met one time prior to the Company's initial public

offering to review the structure, size and composition of the Board in light of the recommendations of the Governance Code. Dr. Langer and Mr. Ito participated in that meeting. Dr. Shapiro was not yet a member of the Committee at the date of that meeting as it occurred prior to the Company's initial public offering. The Chief Executive Officer and the EVP of Legal and Operations were invited to and attended the meeting.

**Diversity policy**

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

**Board and Committee evaluation**

Due to the short period of time since the Board was constituted in connection with the IPO, a performance evaluation of the Board and its Committees was not undertaken in 2015. Beginning in 2016, a performance evaluation of the Board and its Committees will be carried out annually to ensure that they continue to be effective and that each of the Directors demonstrates commitment to his or her respective role and has sufficient time to meet his commitment to the Company

**Action plan for next year**

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



Christopher Viehbacher  
Chairman, Audit Committee

## Committee responsibilities

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

## Committee membership

The Committee is comprised of three independent Non-Executive Directors, Mr. Christopher Viehbacher, Dr. Raju Kucherlapati and Dame Marjorie Scardino, with Mr. Viehbacher as Chair. Mr. Viehbacher has experience as a Chartered Accountant and has held senior executive positions in his career. The Board has deemed this to be recent and relevant financial experience qualifying him to be Chairman of the Committee. The biographies of the Committee members can be found on pages 41 to 43. The Committee met three times during the year, with Mr. Viehbacher and Dr. Kucherlapati in attendance for all of the meetings and Dame Scardino in attendance for two of the three meetings. The Chief Executive Officer, the Chief Financial Officer (EVP of Legal, Finance and Operations prior to the hiring of the Chief Financial Officer in September 2015) and the external auditor were invited to and attended all of the meetings. When appropriate, the Committee met with the auditor without any members of the executive management team being present.

## Activities during the year

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

### Valuation of Aggregate Holdings of growth stage businesses

The valuation of the Group's seven growth stage businesses involves the use of material judgements and represents a key audit risk. This valuation is determined primarily from discounted cash flow models and implied values from recent third-party investment participation (when available). At least annually, the Committee discusses with

management and the auditor the approach that has been taken in assessing the valuation models and all key assumptions used to determine the reported value of the Aggregate Holdings of growth stage businesses. At 31 December 2015, the Group reports the value of the Aggregate Holdings of growth stage businesses has increased to \$291.7 million from the 31 December 2014 value of \$222.4 million. The Committee satisfied itself that the reported values of the Aggregate Holdings of the Group's growth stage businesses were prepared using reasonable valuation models which are based on reasonable underlying business assumptions.

### Valuations of warrants, convertible notes and derivatives

Another area of material judgement in the financial statements and, therefore, audit risk relates to the valuation of the warrants, convertible notes and derivatives, which at year end had a carrying value totalling \$79.8 million. These valuations rely, in large part, on the valuation of the Group's growth stage businesses and determine the amount of gain (loss) on the derivative liabilities.

### Financial instrument classification (debt versus equity)

As part of the Group's strategy to finance the businesses, it creates financial instruments commensurate with the economics of each transaction. Often these arrangements are unique and contain terms that can make it difficult to determine whether the financial instrument should be classified as debt or equity on the Group's statement of financial position. The Committee believes that the Group considered the pertinent terms and underlying economics of each of the financial instruments and has appropriately classified them as debt or equity.

## Revenue recognition

Given that the Company's businesses are in the development stage and most of its near term revenue has been earned through collaboration agreements, determining when revenue is earned is highly judgemental and often results in large amounts recognised in a single period. The Committee believes that all reported revenue was earned in the year based on application of accounting principles to the terms of the underlying contracts and reflect the substance of the transactions as well as the activities in the period.

## Regulatory compliance

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

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

The Committee carried out a thorough review of the Group's 2015 Annual Report and Accounts and its 2015 Half-yearly Report resulting in the recommendation of both for approval by the Board. In carrying out its review, the Committee gave particular consideration to whether the Annual Report, taken as a whole, was fair, balanced and understandable, concluding that it was. It did this primarily through consideration of the reporting of the Group's business model and strategy, the competitive landscape in which it operates, the significant risks it faces, the progress made against its strategic objectives and the progress made by, and changes in fair value of, its operating companies during the year.

## Going concern

At least annually, the Committee considers the going concern principle on which the financial statements are prepared. As a business which seeks to establish and fund in new businesses, as well as support existing businesses with further capital, the business model is currently inherently cash consuming. Following the initial public offering which occurred in June 2015, the Group has sufficient cash reserves to continue to provide capital to its existing 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 funding of the Company's businesses and other operating expenditures. An inability to raise future funds through financings with outside investors, strategic arrangements and licensing deals may require the Group to modify its level of capital deployment into its businesses or to more actively seek to monetise one or more businesses but these would not in themselves threaten the viability of the Group overall.

The Committee has had a role in supporting the Group's compliance with the U.K. Corporate Governance Code, which applies to the Group for the 2015 financial year. The Board has included a statement regarding the Group's longer-term viability on page 35. The Committee worked with management and assessed that there is a robust process in place to support the statement made by the Board. Similarly, the Committee worked with management to ensure that the current processes underpinning its oversight of internal controls provide appropriate support for the Board's statement on the effectiveness of risk management and internal controls.

## Risk and internal controls

The principal risks the Group faces are set out on pages 32 to 34. During the current fiscal period, the Committee requested that management undertake a process to review internal controls around financial reporting and safeguarding of assets. Management worked with a qualified adviser to catalogue the current internal controls in these areas and determine areas where controls would need to scale up to meet the increased complexity and growth objectives of the Group. As a result, the Committee believes that the Group has adequate controls in this area and appropriate plan to evolve the control structure in a timely manner.

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

## Internal audit

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

### External audit

The effectiveness of the external audit process is dependent on appropriate risk identification. In December, the Committee discussed the auditor's audit plan for 2015. This included a summary of the proposed audit scope and a summary of what the auditor considered to be the most significant financial reporting risks facing the Group together with the Auditor's proposed audit approach to these significant risk areas. The main areas of audit focus for the year were the valuation of *growth stage* businesses, valuation of warrants, convertible notes and derivatives, classification of financial instruments between debt and equity, revenue recognition and ensuring there had been regulatory compliance for those parts of the business covered by FCA regulations.

### Appointment and independence

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

### Non-audit work

The Committee approves all fees paid to the auditor for non-audit work. Where appropriate, the Committee sanctions the use of KPMG LLP for non-audit services in accordance with the Group's non-audit services policy. Since its appointment as the Group's auditor, KPMG LLP has undertaken non-audit work, including a review of management's assessment of internal controls and tax advisory services. An analysis of audit and non-audit fees is provided in note 5 to the financial statements on page 92.

## Directors' Remuneration Report for the year ended 31 December 2015



Dr. Bennett Shapiro  
Chairman, Remuneration Committee

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

- **This Annual Statement:** summarising and explaining the major decisions on, and any substantial changes to, Directors' remuneration in the year;
- **The Directors' Remuneration Policy:** setting out the basis of remuneration for the Group's Directors from the 2016 AGM onwards; and
- **The Annual Report on Remuneration:** setting out the remuneration earned by the Group's Directors in the year ended 31 December 2015, together with how the policy will be implemented in 2016.

The Directors' Remuneration Policy will be subject to a binding shareholder vote and the Annual Report on Remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 9 May 2016. In the future, the Directors' Remuneration Policy will be subject to a binding vote every three years (sooner if changes are made to the policy) and the Annual Report on Remuneration will be subject to an annual advisory vote.

### Overview of our remuneration policy

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

### Committee membership

The Committee is comprised of Dr. Bennett Shapiro, Dr. Raju Kucherlapati and Dr. John LaMattina, with Dr. Shapiro as Chair. The biographies of the Committee members can be found on pages 41 to 43. The Committee met three times during the year, with Dr. LaMattina in attendance for all of the meetings and Dr. Shapiro and

Dr. Kucherlapati in attendance for two of the three meetings. The Chief Executive Officer and the EVP of Legal and Operations were invited to and attended all of the meetings. However, no executive was permitted to participate in discussions or decisions about their personal remuneration.

### Performance and reward in 2015

During 2015 PureTech's performance has been strong and this has been reflected in the annual bonus outcomes. The majority of the annual bonus was linked to the achievement of a successful IPO, and this, combined with strong progress in portfolio companies with regard to clinical trials and financing activities, resulted in both Executive Directors satisfying the performance goals set at the beginning of 2015. See highlights on 2015 on page 1.

### The year ahead

For 2016, the following key decisions have been made in relation to how the policy will be implemented:

- Base salaries will be increased by 3 percent in line with the general workforce.
- The annual bonus maximum will remain at 100 percent of base salary.
- The first awards will be made under the Performance Share Plan ("PSP").

The Committee recommends that shareholders vote to approve the Directors' Remuneration Policy and the Annual Report on Remuneration.

This Remuneration Policy Report has been prepared in accordance with the provisions of the Companies Act 2006 (the "CA 2006") and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). It also meets the requirements of the U.K. Listing Authority's Listing Rules and the Disclosure and Transparency Rules. It is intended that the Remuneration Policy, set out in this report, if approved, will, for the purposes of section 226D(6)(b) of the CA 2006, take effect after the AGM on 9 May 2016.

## Introduction and overview

Prior to Admission, the Remuneration Committee undertook a review of the Group's senior executive Remuneration Policy. This review paid particular regard to the market practice of U.S. peer companies to ensure that packages are competitive, recognising the predominantly U.S. market in which the Group competes for talent. At the same time the structure of the packages has been designed to be in line with U.K. corporate governance best practice. In undertaking the review, the Remuneration Committee sought independent specialist advice.

The key aims of the Remuneration Policy are to:

- promote the long term success of the Group;
- attract, retain and motivate high calibre senior management and focus them on the delivery of the Group's long term strategic and business objectives;
- be simple and understandable, both externally and internally;

- achieve consistency of approach across senior management within the Group to the extent appropriate and informed by relevant market benchmarks; and
- encourage widespread equity ownership across the executive team to ensure a long term focus and alignment of interest with shareholders.

As stated above, PureTech's market for talent is predominantly in the U.S., and as a result, its policy is influenced by U.S. remuneration practices. At PureTech's U.S. competitors, market practice includes grants of time-vesting share options and restricted shares without performance conditions to both executive and non-executive directors, and non-executive director remuneration is structured differently than in the U.K. and has a significant share-based component. However, PureTech's Remuneration Policy aims to strike a balance between the requirements of U.K. corporate governance best practice and the need to provide competitive packages in relation to the U.S. market. For example, in PureTech's policy, the Company does not grant share awards without performance conditions for its Executive Directors and has the option to grant equity awards to its Non-Executive Directors.

Competition for qualified personnel in the biotechnology, pharmaceutical and medical device field is intense and the Company faces competition for the hiring of scientific and clinical personnel from other biotechnology, pharmaceutical and medical device companies, as well as universities and research institutions. As a result, PureTech's ability to retain and motivate its employees and senior executives as set out in the following Remuneration Policy is critical to its business.

## Consideration of shareholder views

The Committee will carefully consider shareholder feedback received in relation to the AGM each year. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the annual review of Remuneration Policy.

Representatives of the Remuneration Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be made to the Remuneration Policy or its implementation. Details of votes cast for and against the resolution to approve the prior year's remuneration report and any matters discussed with shareholders during the year will be set out in the Annual Report on Remuneration.

## Consideration of employment conditions elsewhere in the Group

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

## Summary of Remuneration Policy

Element	How component supports corporate strategy	Operation	Maximum	Performance targets and recovery provisions
<b>Base salary</b>	To recognise the market value of the employee and the role.	Normally reviewed annually. Salaries are benchmarked periodically primarily against biotech, pharmaceutical and specialty finance companies listed in the U.S. and U.K. The committee also considers U.K.-listed general industry companies of similar size to PureTech as a secondary point of reference.	There is no prescribed maximum base salary or annual salary increase. The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take account relevant market movements.  Current salary levels are set out in the Annual Report on Remuneration.	Not applicable.
<b>Pension</b>	To provide a market competitive level of contribution to pension.	The company operates a 401k Plan for its U.S. Executive Directors.	Under the 401k Plan, Company contributions are capped at the lower of 3 percent of base salary or the maximum permitted by the U.S. IRS (\$8,000 for 2016).	Not applicable.
<b>Benefits</b>	To provide a market competitive level of benefits.	Includes: private medical and dental cover, disability, life insurance.  Other benefits may be provided where relevant.	Cost paid by the company.	Not applicable.
<b>Annual Bonus Plan ("ABP")</b>	To drive and reward annual performance of individuals, teams and the Group.	Based on performance during the relevant financial year.  Paid in cash.	Up to 100 percent of base salary.	Performance period: Normally one year.  Payments are normally based on a scorecard of strategic and/or financial measures.  Up to 50 percent of base salary normally payable for the achievement of 'target' performance and 100 percent of base salary payable for the achievement of stretch performance.  Recovery and withholding provisions are in place.
<b>Long term incentives</b>	To drive and reward sustained performance of the Group and to align the interests with those of shareholders.	The Company can make long term incentive awards with the following features: <ul style="list-style-type: none"> <li>• performance shares.</li> <li>• vesting is dependent on the satisfaction of performance targets and continued service.</li> <li>• performance and vesting periods are normally three years.</li> </ul>	400 percent of salary. (500 percent of salary exceptional limit).  Participants may benefit from the value of dividends paid over the vesting period to the extent that awards vest. This benefit is delivered in the form of cash or additional shares at the time that awards vest.  Individual award sizes are set out in the Annual Report on Remuneration.	Performance period: Normally three years.  Up to 25 percent of an award vests at threshold performance (0 percent vests below this), increasing to 100 percent pro-rata for maximum performance.  Normally, at least half of any award will be measured against TSR targets with the remainder measured against relevant financial or strategic measures.  Recovery and withholding provisions are in place.
<b>Share ownership</b>	Further aligns executives with investors, while encouraging employee share ownership.	The Committee requires that Executive Directors who participate in a long term incentive plan operated by the Company retain half of the net shares vesting under any long term incentive plan until a shareholding requirement is met.	Minimum of 200 percent of base salary.	None.



Summary of Remuneration Policy — continued

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

Notes:

- (1) A description of how the Company intends to implement the policy set out in this table from the 2016 AGM is set out in the Annual Report on Remuneration.
- (2) For non-U.S. Executive Directors, the 401k Plan may not be an appropriate pension arrangement. In such cases an alternative pension arrangement may be offered. Any such arrangement would take account of market levels of pension provision in the relevant geography, and normally any Company contribution would be limited to 15 percent or less of base salary.
- (3) Below Board, a lower annual bonus opportunity and PSP award size may apply. In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals, together with the fact that remuneration of the Executive Directors and senior executives typically has a greater emphasis on performance-related pay.
- (4) The choice of the performance metrics for the annual bonus scheme reflect the Committee's belief that incentive compensation should be appropriately challenging and linked to the delivery of the Company's strategy. Further information on the choice of performance measures and targets is set out in the Annual Report on Remuneration.
- (5) The performance conditions applicable to the PSP (see Annual Report on Remuneration) are selected by the Remuneration Committee on the basis that they reward the delivery of long term returns to shareholders and are consistent with the Company's objective of delivering superior levels of long term value to shareholders.
- (6) The Committee operates the PSP in accordance with the plan rules and the Listing Rules and the Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan.
- (7) While current policy is that PSP awards vest after three years subject to continued service and performance targets, the Committee will consider developments in best practice when setting future long term incentive grant policies and, in particular, whether the introduction of a post-vesting holding period, in addition to the existing shareholding guidelines, is appropriate for the Company.
- (8) For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the vesting/exercise of share awards granted in the past). Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.
- (9) Executive Directors may participate in any HMRC-approved all-employee share scheme.

Recovery and withholding provisions

Recovery and withholding provisions ("clawback and malus") may be operated at the discretion of the Remuneration Committee in respect of awards granted under the Performance Share Plan and in certain circumstances under the Annual Bonus Plan (including where there has been a material misstatement of accounts, or in the event of fraud, gross misconduct or conduct having a materially detrimental effect on the Company's reputation). The issue giving rise to the recovery and withholding must be discovered within three years of vesting and there is flexibility to recover overpayments by withholding future incentive payments and recovering the amount direct from the employee.

Reward scenarios

The charts below show how the composition of 2016 remuneration for the Chief Executive Officer and the EVP, Legal and Operations varies at different levels of performance under the policy set out above, as a percentage of total remuneration opportunity and as a total value.

Approach to recruitment and promotions

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

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

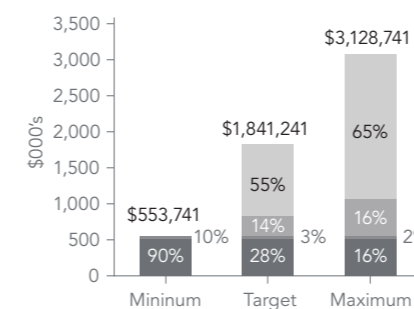
In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer if required in order to facilitate, in exceptional circumstances, the recruitment of the relevant individual. It would seek to ensure,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

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

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

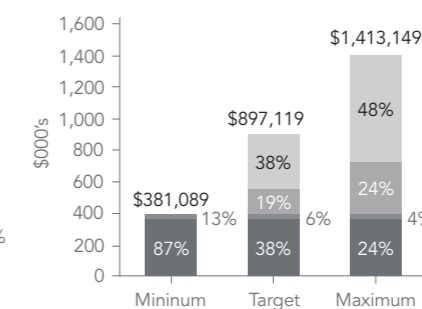
If appropriate the Committee may agree on a recruitment of a new executive a notice period in excess of 12 months but to reduce this to at most 12 months over a specified period.

Chief Executive Officer



- Performance share plan
- Annual bonus plan
- Benefits and pension
- Salary

EVP, Legal and Operations



- Performance share plan
- Annual bonus plan
- Benefits and pension
- Fixed pay

Notes:

- (1) The minimum performance scenario comprises the fixed elements of remuneration only, including:
  - Salary as for FY2016 as set out in the Annual Report on Remuneration.
  - Pension and benefits as disclosed for FY2015 in the Annual Report on Remuneration.
- (2) The On-Target level of bonus is taken to be 50 percent of the maximum bonus opportunity (50 percent of salary), and the On-Target level of LTIP vesting is assumed to be 50 percent of the face value of the LTIP award (i.e. 200 percent of base salary for the CEO and 100 percent of base salary for the EVP, Legal and Operations). These values are included in addition to the components/values of Minimum remuneration.
- (3) Maximum assumes full bonus pay-out (100 percent of base salary only) and the full face value of the LTIP (i.e. 400 percent of base salary for the CEO and 200 percent of base salary for the EVP, Legal and Operations), in addition to fixed components of Minimum remuneration.
- (4) No share price growth has been factored into the calculations.

**Service contracts**

Executive Directors' service contracts do not provide for liquidated damages, do not provide for longer periods of notice on a change of control of the Company and do not provide for additional compensation on an Executive Director's cessation of employment with the Group. Typically, a notice period would be between 60 and 180 days.

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

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

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

**Policy on termination of employment**

The policy on termination is that the Company does not make payments beyond its contractual obligations and the commitments entered into as part of any incentive plan operated by the Company. In addition, Executive Directors will be expected to mitigate their loss. The Committee ensures that there have been no unjustified payments for failure.

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

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

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

**External appointments**

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

**Non-Executive Directors**

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

**Annual Report on Remuneration**

**Implementation of the Remuneration Policy for the year ending 31 December 2016**

**Base salary**

Base salary levels for the Executive Directors were reviewed in January 2016 and an increase of 3 percent was awarded. This increase was in line with the increase for the general workforce. The table below shows the base salaries for both Executive Directors:

		2015 Base salary	2016 Base salary
Daphne Zohar	Chief Executive Officer	\$500,000	\$515,000
Stephen Muniz	EVP, Legal and Operations	\$334,000	\$344,020

**Pension**

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

**Benefits**

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

**Annual bonus**

For 2016, the operation of the annual bonus arrangement will be similar to that operated in 2015. The maximum annual bonus will continue to be 100 percent of base salary for both Executive Directors. The 2016 annual bonus will be based on financial measures including NAV and revenue, and strategic measures. Bonus outcomes will be disclosed in the FY2016 Annual Report and Accounts.

**Long term incentives**

The first awards under the PSP will be made to both Executive Directors in 2016. As set out in our prospectus at the time of listing, the CEO will receive a PSP award with a face value of 400 percent of base salary. The EVP, Legal and Operations will receive an award with a face value of 200 percent of base salary. Both awards will be subject to a performance condition based on the achievement of absolute Total Shareholder Return ("TSR") targets, NAV growth targets and strategic measures. In detail:

- 50 percent of the shares under award will vest based on the achievement of TSR targets.
- 25 percent of the shares under award will vest based on the achievement of NAV growth targets.
- 25 percent of the shares under award will vest based on the achievement of strategic targets.

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

**Non-Executive Directors**

A summary of current fees is as follows:

	FY2015	FY2016	% increase
Chairman fee	\$125,000	\$125,000	0%
Basic fee	\$75,000	\$75,000	0%
<b>Additional fees:</b>			
Chairmanship of a committee	\$10,000	\$10,000	0%
Membership of a committee	\$5,000	\$5,000	0%
Membership of a subsidiary board	0	\$0 to \$10,000	n/a

**Implementation of the Remuneration Policy for the year ending 31 December 2015**

The details in tables labelled audited have been audited by KPMG LLP.

## Annual remuneration

The table below sets out remuneration paid in relation to the period in 2015 since its IPO. Comparable amounts for the 2014 financial year have not been shown as PureTech was not listed at that time.

	2015 Post IPO Remuneration (\$000s) (audited)						Total
	Basic Salary/ Fees	Benefits <sup>1</sup>	Annual Bonus Plan	Performance Share Plan	Pension	Other payments	
<b>Executive Directors</b>							
Daphne Zohar <sup>2</sup>	250	12.7	246	—	4.3	—	513
Stephen Muniz <sup>3</sup>	168	12.2	165	—	4.3	—	350
<b>Non-Executive Directors</b>							
Joichi Ito	69.1	—	—	—	—	—	67.5
Raju Kucherlapati	45	—	—	—	—	—	45
John LaMattina	42.5	—	—	—	—	—	42.5
Robert Langer	45	—	—	—	—	—	45
Marjorie Scardino	42.5	—	—	—	—	—	42.5
Bennett Shapiro	47.5	—	—	—	—	—	47.5
Christopher Viehbacher	45	—	—	—	—	—	45
<b>TOTAL</b>	<b>753</b>	<b>24.9</b>	<b>411</b>	<b>—</b>	<b>8.6</b>	<b>—</b>	<b>863</b>

(1) Benefits comprise the following elements; private medical, disability and dental cover and parking.

(2) In respect of the full year 2015, Ms. Zohar was paid a salary of \$464,966 and an annual bonus of \$458,933.

(3) In respect of the full year 2015, Mr. Muniz was paid a salary of \$312,099 and an annual bonus of \$306,958.

## Annual bonus outcome for 2015

For the 2015 annual bonus, targets were set for a balanced scorecard at the beginning of the year. 77.5 percent of the annual bonus was based on the successful preparation and execution of an IPO. The remaining 22.5 percent was based on the achievement of positive clinical data from a portfolio company, achievement of a significant strategic financing or partnership and the creation of new companies relating to IP or products. During 2015, management performed very strongly against these targets. The successful execution of the IPO resulted in full payment of 77.5 percent of the bonus. In addition, the receipt of positive clinical data, the securing of three strategic financings and the creation of three new companies relating to IP or products resulted in full payment of the remaining 22.5 percent of the bonus. As a result, both Executive Directors received the maximum bonus amount for 2015.

## Long term incentive awards granted during the year

No PSP awards were granted to Directors during 2015.

## Payments for Loss of Office

There were no payments for Loss of Office during 2015.

## Payments to past Directors

No payments to past Directors were made during 2015.

## Statement of Directors' shareholding and share interests

There are no outstanding awards under the PSP.

## Directors' shareholdings

The table below sets out Directors' shareholdings which are beneficially owned or subject to a service condition. As of 31 December 2015, there were no shareholdings held by Directors that were subject to performance conditions or in the form of options.

Director	Director Shareholdings (audited)					
	Interests in ordinary shares not subject to service condition		Share awards subject to service condition <sup>4</sup>		Total	
	At IPO	31 Dec 2015	At IPO	31 Dec 2015	At IPO	31 Dec 2015
Daphne Zohar <sup>1</sup>	7,693,440	8,866,232	4,196,717	3,023,925	11,890,157	11,890,157
Stephen Muniz	1,344,350	1,689,289	1,441,820	1,096,881	2,786,170	2,786,170
Joichi Ito	234,556	565,447	1,154,373	830,133	1,388,929	1,395,579
Raju Kucherlapati <sup>3</sup>	1,441,126	1,696,379	1,018,705	763,452	2,459,831	2,459,831
John LaMattina	858,737	1,040,713	549,595	411,619	1,408,332	1,452,332
Robert Langer	2,383,040	2,528,215	549,594	411,619	2,932,634	2,939,834
Marjorie Scardino	—	—	732,603	732,503	732,603	782,710
Bennett Shapiro	2,080,380	2,218,355	549,594	411,619	2,629,974	2,629,974
Christopher Viehbacher <sup>2</sup>	—	—	1,025,646	1,025,646	1,025,646	1,025,646

(1) Ms. Zohar's shareholding in the Company is indirect. Ms. Zohar owns or has a beneficial interest in 100 percent of the share capital of Zohar LLC which in turn owns all of the ordinary shares set forth in the table.

(2) Mr. Viehbacher's shareholding in the Company is held through his trust, Viehbacher 2015 GRAT u/a/d 22 May, 2015.

(3) Dr. Kucherlapati's shareholding in the Company is held in part through his trust, Raju Kucherlapati Grantor Retained Annuity Trust dated 1 May, 2015, which holds 1,206,570 ordinary shares.

(4) Awards set out in this column were made prior to the Company's initial public offering and were disclosed in the prospectus for such initial public offering.

## Directors service contracts

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

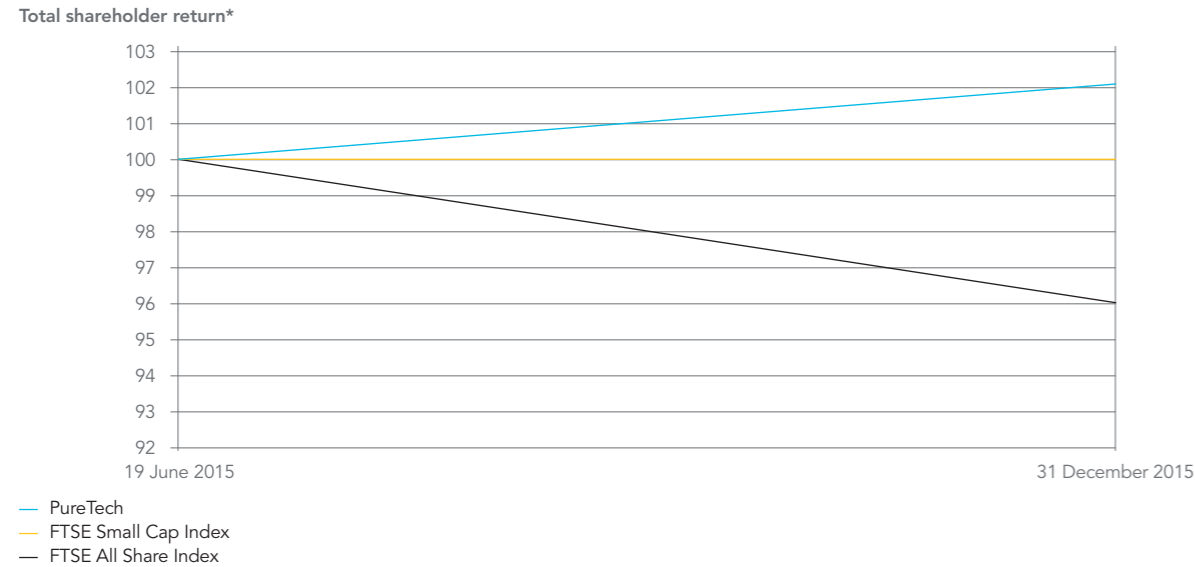
Executive Directors	Notice period	Contract date	Maximum potential termination payment	Potential payment on change of control/liquidation
Daphne Zohar	180 days	18 June 2015	12 months' salary	Nil
Stephen Muniz	60 days	18 June 2015	12 months' salary	Nil

Contracts will continue until terminated by notice either by the Company or the Director.

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

TSR performance graph and table

The graph shows the Company’s performance, measured by total shareholder return (“TSR”), compared with the FTSE All Share and FTSE Small Cap Index (excluding investment trusts) since IPO. The Committee considers these to be relevant indices for TSR comparison given the current ranking of the company in the FTSE.



\* Source: Thomson Reuters

This graph shows the growth in value, by 31 December 2015, of £100 invested in PureTech Health plc on 19 June 2015 compared with the growth in value of £100 invested in the FTSE Small Cap Index and the FTSE AL Share Index.

Chief Executive Remuneration History

Year	Incumbent	Role	Single figure of total remuneration post-IPO	Annual bonus pay-out against maximum	PSP Vesting against maximum opportunity
2015	Daphne Zohar	Chief Executive Officer	513,121	100%	n/a <sup>1</sup>

(1) No PSP awards vested during 2015.

Percentage change in remuneration of CEO and employees

As 2015 is our first year of being listed, there are no comparable numbers to show the percentage change in remuneration of the CEO and employees. This information will be provided in the 2017 Annual Report and Accounts.

Relative importance of spend on pay

As 2015 is our first year of being listed, there are no comparable numbers to show the percentage change in remuneration of the CEO and employees. This information will be provided in the 2017 Annual Report and Accounts.

Details of the Remuneration Committee, advisers to the Committee and their fees

The Remuneration Committee is comprised of Dr. Shapiro, Dr. LaMattina and Dr. Kucherlapati, with Dr. Shapiro being the Chairman of the Committee. The Committee received independent remuneration advice from New Bridge Street (“NBS”) post-IPO. This independent adviser was appointed by the Committee and is accountable to it and provides no other services to the Company. The terms of engagement between the Committee and NBS are available from the Company Secretary on request. The Committee also consults with the CEO and EVP, Legal and Operations. However, no executive is permitted to participate in discussions or decisions about their personal remuneration. NBS do not provide any other services to the Company, and during the year fees in respect of remuneration advice provided since IPO amounted to £5,538. NBS is a founder member of the Remuneration Consultants’ Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence.

Statement of voting at AGM

The first AGM will be held on 5.00 pm on 9 May 2016 at The Mondrian Hotel, 20 Upper Ground, London SE1 9PD. Information regarding the voting outcome will be disclosed in next year’s annual report on remuneration.

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

On behalf of the Board of Directors

Stephen Muniz  
Company Secretary

6 April 2016

# Independent Auditor's Report to the Members of PureTech Health plc only

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of PureTech Health plc for the year ended 31 December 2015 set out on pages 74 to 120. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

## Valuation of subsidiaries disclosure (\$291.7 million)

Refer to page 56 (Audit Committee Report) and pages 90 to 91 (financial disclosures)

The risk – The Group owns multiple subsidiaries which it owns a majority interest or otherwise exercises control. The results and financial position of the subsidiaries are consolidated in the Group accounts. Although the fair values of the Group's holdings in subsidiaries are not included in the Group's Statement of Financial Position, the financial statements do include additional disclosure in relation to the **Aggregate Value of Growth Stage Business Holdings** of the subsidiaries which are determined to be in the *growth stage*, as, in the directors' view, the fair value of the subsidiaries is very pertinent to the shareholders and other users of the financial statements. The valuation methodologies are based on net present value from discounted cash flows or recent third-party investment (see note 4 for more details). The Group's subsidiaries are, for the most part, still at the development stage and the majority do not yet generate revenues. Due to the inherent uncertainty involved in forecasting the trading of such companies and the relevance of the **Aggregate Value of Growth Stage Business Holdings** disclosures in the Group accounts, this has been determined to be a significant risk.

Our response – In this area our audit procedures included, among others,

- Assessing the appropriateness of the valuation model used for each subsidiary, obtaining an understanding of how the forecasts are compiled and assessing for consistency with the approach taken in the prior year.
- We obtained and analysed the valuations prepared by an external expert on behalf of the Company.
- We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used in the valuations.
- We critically assessed the appropriateness of the assumptions underlying the forecasts, including assumptions over projected revenue and operating costs and the discount rates applied, assessing also for consistency with the assumptions used in the prior year. In doing this we used our knowledge of each subsidiary and its industry with reference to both internal management information and externally derived data and benchmarks, including market size data, royalty rates and competitor analyses based on information from public material.
- Where valuations are based on the implied value from the most recent third-party investment we assessed the accuracy of the data used and the reasonableness of the conclusion in the context of the wider value of the entity.
- We also assessed whether the Group's disclosures were consistent with the valuations performed and whether the Group's disclosures adequately highlight the uncertainty inherent in the valuations.

## Financial instruments – classification and determination of embedded derivatives (\$150.2 million)

Refer to page 56 (Audit Committee Report), pages 82 to 83 (accounting policy) and pages 100 to 109 (financial disclosures)

The risk – The Group finances its operations and subsidiaries partly through financial instruments such as preferred shares, convertible notes and warrants. There is a significant level of judgement in relation to assessing the terms of the instruments to identify whether the instruments meets the criteria to be classified as debt or equity; reviewing the terms of the contract to determine any host instrument and whether there are any separable embedded derivatives; assessing whether the instruments should be classified as current or non-current and determining the impact on the non-controlling interest calculation of the debt versus equity classification of the shares in issue at the subsidiaries. Due to these factors this has been determined to be a significant risk.

Our response – in this area our audit procedures included, among others:

- We critically assessed the conclusions reached by the Group in relation to the debt versus equity classification of the issued financial instruments by reviewing the key terms and features of the contracts and applying and interpreting the relevant sections of the accounting standards;
- We considered the Group's determination as to whether the financial instruments contained embedded derivatives. This was achieved by reviewing the key terms of the contracts, identifying a host contract, and assessing whether each feature met the definition of an embedded

derivative and whether they should be bifurcated;

- We considered the Group's determination of whether any separable embedded derivative should be liability or equity classified based on the terms of the related contracts;
- We assessed the Group's assessment of whether the instruments should be classified as current or non-current by considering the key terms of instruments and assessing the impact on the classification;
- We challenged the Group's assessment of the implications of the debt versus equity classification of the preferred shares issued at subsidiary level on the NCI calculation in the group by inspecting the source documentation to identify the key features which would determine the classification and then considering the impact of this classification on the NCI calculation;
- We also assessed whether the Group's disclosures were consistent with the conclusions reached in relation to both the classification of the financial instruments and the determination of whether there are embedded derivatives within the host contracts.

## Valuations – preferred shares, warrants, convertible notes and derivatives (\$150.2 million)

Refer to page 56 (Audit Committee Report), pages 82 to 83 (accounting policy) and pages 100 to 109 (financial disclosures)

The risk – as noted above, the Group finances its operations and subsidiaries partly through financial instruments such as preferred shares, convertible notes and

warrants, some of which have been determined to contain embedded derivatives. Determining the fair value of the warrants and embedded derivatives that required separation related to the preferred shares and convertible notes involves a significant level of judgement around the assumptions used, and internal and external factors that may impact the assumptions. Due to these factors this has been determined to be a significant risk.

Our response – in this area our audit procedures included, among others:

- Critically assessing the appropriateness of the valuation models used and assessing for consistency with the approach taken in the prior year;
- We obtained and analysed the valuations prepared by an external expert on behalf of the Company;
- We used our own valuation specialist to assist us in critically assessing the key inputs which require significant estimation and judgement in their selection and can have a significant impact on the derived fair value, specifically the time to the conversion event which is relevant where there are conversion options, the probability weighting, the discount rate and the volatility assumptions. These key inputs were assessed for reasonableness by reference to external data or internal information such as available market information and comparability to those used in the prior period;
- We also considered the adequacy of the Group's disclosures in relation to the key assumptions related to the valuations and whether the group's disclosures adequately highlight the uncertainty inherent in the valuations.

**Revenue recognition (\$11.8 million)**

Refer to page 57 (Audit Committee Report), page 85 (accounting policy) and page 88 (financial disclosures)

The risk – Revenue recognition involves a significant level of judgement due to the non-standard nature of some of the contracts that make up the revenue streams of the Group (subscription revenue, collaboration revenue and grant revenue) and the judgement required in assessing the implications of the terms of bespoke agreements in relation to the appropriate revenue recognition policy such as in relation to the timing of recognition of the revenue and the accounting for the associated costs.

Our response – in this area our audit procedures included, among others,

- We challenged the Group's assessment of the accounting treatment to be adopted related to key revenue streams by inspecting the significant revenue contracts and critically assessing whether the key terms were in line with the Group's assessment;
- We challenged whether this accounting treatment was in accordance with the applicable accounting standards;
- We agreed a sample of cash receipts related to the contracts to source documentation and we assessed whether revenue has been recognised in the appropriate period in line with the determined accounting treatments and revenue recognition policy;
- We consider management's assessment of the implications

of the costs associated with the contracts and in which period these should be recognised.

- We also assessed the adequacy of the Group's disclosures in relation to the revenue recognition accounting policies adopted.

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

The materiality for the Group financial statements as a whole was set at \$0.7 million. This has been determined with reference to a benchmark of total expenses (being general and administrative expenses and research and development expenses) (of which it represents 1.5 percent), which we consider to be one of the principal considerations for the members of the Company in assessing the financial performance of the Group, since the Group's activities are currently principally in relation to expenditure on developing forms of intellectual property which can be exploited commercially to generate income and growth in the future.

We report to the audit committee any corrected or uncorrected misstatements exceeding \$35,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four reporting components, we subjected three to audits for Group reporting purposes and one to specified risk-focused audit procedures. The latter was not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages of the Group's results as shown in the table below.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality, which ranged from \$150,000 to \$500,000, having regard to the mix of size and risk profile of the components. The work on three of the four components was performed by component auditors and the rest by the Group team.

The Group audit team maintained close communication with the component audit team throughout the engagement including but not limited to discussions and meetings in relation to risks identified, the audit approach to be adopted, the results of procedures performed and significant findings and visited the site at which three of the components are located.

**4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

	Number of Components	Group revenue	Group loss before tax	Group total assets
Audits for Group reporting purposes	3	95%	99%	98%
Audit procedures over significant accounts	1	5%	1%	2%
Total	4	100%	100%	100%

- information given in the Corporate Governance Statement set out on pages 40 to 69 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

**5 We have nothing to report on the disclosures of principal risks**

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

- the Directors' statement of risk management on pages 32 to 34, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

**6 We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (U.K. and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial

statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 35, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 50 to 54 relating to the Company's compliance with the eleven provisions of the 2014 U.K. Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

**Other matter – prior period financial statements**

In forming our opinion on the financial statements, which is not modified, we note that the prior period financial statements were not audited. Consequently, International Standards on Auditing (U.K. and Ireland) require the auditor to state that the corresponding figures contained within these financial statements are unaudited.

**Scope of report and responsibilities**

As explained more fully in the Directors' Responsibilities Statement (set out on pages 53 to 54), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Charles le Strange Meakin (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

6 April 2016

## Consolidated Statements of Comprehensive Loss

For the years ended 31 December:

	Note	2015 \$000s	2014 \$000s
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)
<b>Operating loss</b>		<b>(43,642)</b>	<b>(17,445)</b>
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)
<b>Net finance costs</b>		<b>(13,126)</b>	<b>(58,776)</b>
<b>Loss before taxes</b>		<b>(56,320)</b>	<b>(76,221)</b>
<b>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</b>		<b>(33,461)</b>	<b>(16,647)</b>
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)
<b>Loss before taxes</b>		<b>(56,320)</b>	<b>(76,221)</b>
Taxation	24	(1,924)	278
<b>Loss for the year</b>		<b>(58,244)</b>	<b>(75,943)</b>
<b>Other comprehensive (loss)/income:</b>			
<b>Items that are or may be reclassified as profit or loss</b>			
Foreign currency translation differences		(262)	58
Unrealised gain on available for sale investments		24	—
Total other comprehensive (loss)/income		(238)	58
<b>Total comprehensive loss for the year</b>		<b>(58,482)</b>	<b>(75,885)</b>
<b>Loss attributable to:</b>			
Owners of the Company		(39,393)	(41,643)
Non-controlling interests	15	(18,851)	(34,300)
		<b>(58,244)</b>	<b>(75,943)</b>
<b>Comprehensive loss attributable to:</b>			
Owners of the Company		(39,631)	(41,585)
Non-controlling interest	15	(18,851)	(34,300)
		<b>(58,482)</b>	<b>(75,885)</b>
<b>Loss per share</b>			
Basic (loss) per share	8	\$ (0.21)	\$ (0.51)
Diluted (loss) per share	8	\$ (0.21)	\$ (0.51)

See accompanying notes to the consolidated financial information.

## Consolidated Statements of Financial Position

For the years ended 31 December:

	Note	As of 31 December	
		2015 \$000s	2014 \$000s
<b>Assets</b>			
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>8,553</b>	<b>4,309</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>318,202</b>	<b>66,719</b>
<b>Total assets</b>		<b>326,755</b>	<b>71,028</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
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)
<b>Total equity</b>		<b>164,053</b>	<b>(23,313)</b>
<b>Non-current liabilities</b>			
Deferred revenue	3	291	561
Other long term liabilities		1,887	107
<b>Total non-current liabilities</b>		<b>2,178</b>	<b>668</b>
<b>Current liabilities</b>			
Deferred revenue	3	2,458	3,293
Trade and other payables	18	7,223	4,731
<b>Subsidiary:</b>			
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
<b>Total current liabilities</b>		<b>160,524</b>	<b>93,673</b>
<b>Total liabilities</b>		<b>162,702</b>	<b>94,341</b>
<b>Total equity and liabilities</b>		<b>326,755</b>	<b>71,028</b>

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

The financial statements on pages 74 to 115 were approved by the Board of Directors and authorised for issue on 6 April 2016 and signed on its behalf by:



Daphne Zohar  
Chief Executive Officer

6 April 2016

# Consolidated Statement of Changes in Equity

For the years ended 31 December:

Consolidated Statement of Changes in Equity — continued

	Note	Share Capital			Merger reserve \$000s	Translation reserve \$000s	Other reserve \$000s	Accumulated deficit \$000s	Total Parent equity \$000s	Non-controlling interests (see Note 15) \$000s	Total equity \$000s
		Shares	Amount \$000s	Share premium							
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
<b>Total comprehensive loss for the period</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>58</b>	<b>—</b>	<b>(41,643)</b>	<b>(41,585)</b>	<b>(34,300)</b>	<b>(75,885)</b>
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
<b>Total comprehensive loss for the period</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(262)</b>	<b>24</b>	<b>(39,393)</b>	<b>(39,631)</b>	<b>(18,851)</b>	<b>(58,482)</b>
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 interest	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
<b>Balance 31 December 2015</b>		<b>226,173,751</b>	<b>4,523</b>	<b>181,744</b>	<b>138,506</b>	<b>(93)</b>	<b>12,863</b>	<b>(111,420)</b>	<b>226,123</b>	<b>(62,070)</b>	<b>164,053</b>

See accompanying notes to the consolidated financial information.



# Consolidated Statements of Cash Flows

For the years ended 31 December:

	Note	2015 \$000s	2014 \$000s
<b>Cash flows from operating activities:</b>			
Loss for the year		(58,244)	(75,943)
<b>Adjustments to reconcile net operating loss to net cash used in operating activities:</b>			
<b>Non-cash items:</b>			
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)
<b>Changes in operating assets and liabilities:</b>			
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		1,614	(393)
Accounts payable and accrued expenses	18	4,319	2,371
<b>Net cash used in operating activities</b>		<b>(28,611)</b>	<b>(10,543)</b>
<b>Cash flows from investing activities:</b>			
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
<b>Net cash provided (used in)/by investing activities</b>		<b>(184,241)</b>	<b>747</b>
<b>Cash flows from financing activities:</b>			
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 from overallotment shares		24,150	—
Proceeds from issuance of share capital and warrants in subsidiaries		48,760	—
Other financing activities		42	(174)
<b>Net cash provided by financing activities</b>		<b>285,937</b>	<b>64,723</b>
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
<b>Supplemental disclosure of non-cash investment and financing activities:</b>			
Conversion of subsidiary notes payable and accrued interest into preferred stock		5,936	5,523
Gain/(Loss) on NCI		(2,098)	3,808

See accompanying notes to the consolidated financial information.

# Notes to the Consolidated Financial Statements

## 1. Accounting policies

### Basis of preparation

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 programs and 20 clinical studies targeting multi-billion dollar market opportunities. PureTech's advanced programs 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 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.

## 1. Accounting policies — continued

### 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.

## 1. Accounting policies — continued

Subsidiary <sup>(4)</sup>	Ownership percentage of voting stock as at 31 December <sup>(3)</sup>	
	2015	2014
<b>Significant subsidiaries</b>		
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 <sup>(1)</sup>	100.00%	n/a
Sonde Health, Inc.	100.00%	n/a
T1D Innovations LLC <sup>(2)</sup>	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
<b>Nontrading holding companies</b>		
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
<b>Inactive subsidiaries</b>		
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.

## 1. Accounting policies — continued

### 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.

## 1. Accounting policies — continued

### 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.

## 1. Accounting policies — continued

### 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.

## 1. Accounting Policies — continued

### 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.

## 1. Accounting Policies — continued

### 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
<b>Total revenue</b>	<b>11,828</b>	<b>2,222</b>

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
<b>Deferred revenue, current</b>	<b>2,458</b>	<b>3,293</b>
Subscription fees	—	142
Grant revenue	291	419
<b>Deferred revenue, non-current</b>	<b>291</b>	<b>561</b>
<b>Total deferred revenue</b>	<b>2,749</b>	<b>3,854</b>

### 4. Operating segments

#### Basis for segmentation

The Directors are the Group's strategic decision makers. The Group's operating segments are reported based on the financial information provided to the Directors at least quarterly for the purposes of allocating resources and assessing performance. The Directors monitor the results of 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.

### 4. Operating segments — continued

#### 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
<b>Project phase businesses</b>	
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.
<b>Other businesses</b>	
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 other research-based disciplines based on the content they have produced.
Appeering	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			Consolidated \$000s
	Growth stage businesses \$000s	Project phase businesses \$000s	Parent company & other \$000s	
<b>Consolidated Statements of Comprehensive Loss</b>				
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)
<b>Total operating expenses</b>	<b>(32,408)</b>	<b>(2,358)</b>	<b>(20,704)<sup>(2)</sup></b>	<b>(55,470)<sup>(1)</sup></b>
Other income	448	—	—	448
Net finance costs	(13,725)	(4)	603	(13,126)
<b>Loss from continuing operations</b>	<b>(35,496)</b>	<b>(723)</b>	<b>(20,101)</b>	<b>(56,320)</b>
Provision for income taxes	(2,158)	(85)	319	(1,924)
<b>Loss for the year</b>	<b>(37,654)</b>	<b>(808)</b>	<b>(19,782)</b>	<b>(58,244)</b>
Other comprehensive income/(loss)	(262)	—	24	(238)
<b>Total Comprehensive Loss for the Year</b>	<b>(37,916)</b>	<b>(808)</b>	<b>(19,758)</b>	<b>(58,482)</b>
<b>Total comprehensive loss attributable to:</b>				
Owners of the Company	(19,032)	(523)	(20,076)	(39,631)
Non-controlling interests	(18,651)	(200)	—	(18,851)
<b>Consolidated Statements of Financial Position</b>				
Total assets	68,350	1,509	256,896	326,755
Total liabilities	168,224	2,969	(8,491)	162,702
<b>Net (liabilities)/assets</b>	<b>(99,874)</b>	<b>(1,460)</b>	<b>265,387</b>	<b>164,053</b>

(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.

## 4. Operating segments — continued

	2014			Consolidated \$000s
	Growth stage businesses \$000s	Project phase businesses \$000s	Parent company & other \$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
<b>Net (liabilities)/assets</b>	<b>(80,039)</b>	<b>(646)</b>	<b>57,372</b>	<b>(23,313)</b>

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.

Growth stage businesses	Ownership adjusted value of growth stage business holdings	
	2015 \$ million	2014 \$ 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
<b>Total Growth Stage Businesses</b>	<b>291.7</b>	<b>222.4</b>

## 4. Operating segments — continued

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
<b>Total</b>	<b>64</b>	<b>43</b>

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
<b>Total</b>	<b>23,684</b>	<b>9,664</b>

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
<b>Total</b>	<b>23,684</b>	<b>9,664</b>
Other SG&A expenses	18,378	7,167
Other R&D expenses	13,408	2,836
<b>Total operating expenses</b>	<b>55,470</b>	<b>19,667</b>

	2015 \$000s	2014 \$000s
Auditor's remuneration		
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	—	—
	<b>2,932</b>	<b>—</b>

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.



## 6. Share-based payments — continued

### 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)
<b>Outstanding as of 31 December 2015</b>	<b>1,710,365</b>	<b>901,746</b>	<b>569,427</b>	<b>1,625,936</b>	<b>727,500</b>	<b>149,480</b>	<b>1,085,000</b>	<b>396,655</b>	<b>850,000</b>	<b>212,500</b>	<b>8,228,609</b>

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.

## 6. Share-based payments — continued

### 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:

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

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 \$000s	2014 \$000s
<b>Finance income</b>		
Realised gain on available for sale investments	—	143
Interest from financial assets not at fair value through profit or loss	262	46
<b>Total finance income</b>	<b>262</b>	<b>189</b>
<b>Finance costs</b>		
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)	—
<b>Total finance costs</b>	<b>(11,024)</b>	<b>(56,371)</b>
<b>Finance costs, net</b>	<b>(13,126)</b>	<b>(58,776)</b>

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 \$000s	Diluted \$000s	Basic \$000s	Diluted \$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)
<b>Balance as of 31 December 2015</b>	<b>2,615</b>	<b>168</b>	<b>552</b>	<b>1,469</b>	<b>770</b>	<b>5,574</b>

Accumulated Depreciation and Impairment Loss	Laboratory and Manufacturing Equipment \$000s	Furniture and Fixtures \$000s	Computer Equipment and Software \$000s	Leasehold Improvements \$000s	Construction in process \$000s	Total \$000s
Balance as of 1 January 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
<b>Balance as of 31 December 2015</b>	<b>(577)</b>	<b>(89)</b>	<b>(215)</b>	<b>(174)</b>	<b>—</b>	<b>(1,055)</b>

Property and Equipment, net	Laboratory and Manufacturing Equipment \$000s	Furniture and Fixtures \$000s	Computer Equipment and Software \$000s	Leasehold Improvements \$000s	Construction in process \$000s	Total \$000s
Balance as of 31 December 2014	632	31	37	126	401	1,227
<b>Balance as of 31 December 2015</b>	<b>2,038</b>	<b>79</b>	<b>337</b>	<b>1,295</b>	<b>770</b>	<b>4,519</b>

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
<b>Balance at 31 December 2015</b>	<b>4,938</b>
Accumulated amortisation	Licences \$000s
Balance at 1 January 2014	(563)
Amortisation	(216)
Balance at 31 December 2014	(779)
Amortisation	(288)
<b>Balance at 31 December 2015</b>	<b>(1,067)</b>
Intangible assets, net	Licences \$000s
Balance at 31 December 2014	2,999
<b>Balance at 31 December 2015</b>	<b>3,871</b>

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 \$000s	2014 \$000s
Bank balances	135,577	62,432
Restricted cash	(826)	(472)
<b>Total cash and cash equivalents</b>	<b>134,751</b>	<b>61,960</b>

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 \$000s	2014 \$000s
Trade Receivables	636	1,748
Other Receivables	70	2
<b>Total trade and other receivables</b>	<b>706</b>	<b>1,750</b>

## 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)
<b>Equity attributable to owners of the Group</b>		<b>226,123</b>	<b>22,004</b>
Non-controlling interests	15	(62,070)	(45,317)
<b>Total equity</b>		<b>164,053</b>	<b>(23,313)</b>

Shareholders are entitled to vote on all matters submitted to shareholders for a vote. Each ordinary share is entitled to one vote. Each ordinary share is entitled to receive dividends when and if declared by the Company's Directors. The Company has not declared any dividends in the past.

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	—
<b>Subsidiary preferred shares</b>	<b>65,502</b>	<b>11,494</b>

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	—
<b>Total</b>	<b>78,966</b>	<b>21,084</b>

#### 14. Subsidiary preferred shares — continued

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
<b>Non-controlling interest as of 31 December 2015</b>	<b>(62,078)</b>	<b>8</b>	<b>(62,070)</b>

### 15. Non-controlling interest — continued

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.

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

### 16. Subsidiary notes payable

The notes payable balance consists of the following:

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

#### Loans

In October 2010, Follica entered into a loan and security agreement with Lighthouse Capital Partners VI, L.P. ("Lighthouse Capital"). The loans are secured by all of Follica's assets, including Follica's intellectual property. The loans totaled 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 totaled €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.

### 16. Subsidiary notes payable — continued

#### 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)
<b>31 December 2015</b>	<b>74,545</b>	<b>—</b>	<b>—</b>	<b>2,149,582</b>	<b>200,000</b>	<b>125,000</b>	<b>50,000</b>	<b>75,000</b>	<b>—</b>	<b>—</b>	<b>2,674,127</b>

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.

**16. Subsidiary notes payable — continued**

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
<b>Gelesis and Gelesis LLC</b>					
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
<b>Follica</b>					
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	—
<b>Total Liabilities</b>				<b>14,263</b>	14,125
<b>Total Equity</b>				<b>103</b>	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 share. The warrants terminate upon the earlier of (i) 7 May 2019, (ii) five years after the effective date of an initial public offering of Gelesis, or (iii) the sale of Gelesis.
- In 2009, Gelesis issued a warrant to purchase, 28,361 shares of Gelesis' common stock and in 2011 the warrant exercise price was amended to \$0.56 per share. The warrant terminates upon the earlier of (i) 30 November 2019 (ii) three years after the effective date of an initial public offering or (iii) a sale of Gelesis.

**17. Subsidiary warrants — continued**

- 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 preferred stock	\$3.68	\$3.65	\$3.63
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 share. The warrant is classified within equity and expires on 14 December 2020.

**17. Subsidiary warrants — continued**

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**

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

**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
<b>Total minimum lease payments</b>	<b>8,692</b>	<b>5,048</b>

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
<b>Financial assets</b>						
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
<b>Total financial assets</b>	<b>315,295</b>	<b>—</b>	<b>313,706</b>	<b>1,589</b>	<b>—</b>	<b>315,295</b>
<b>Financial liabilities</b>						
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
<b>Total financial liabilities</b>	<b>—</b>	<b>157,444</b>	<b>—</b>	<b>72,725</b>	<b>79,764</b>	<b>157,444</b>
	2014					
	Carrying amount		Fair Value			
	Financial assets \$000s	Financial liabilities \$000s	Level 1 \$000s	Level 2 \$000s	Level 3 \$000s	Total \$000s
<b>Financial assets</b>						
Cash and cash equivalents	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
<b>Total financial assets</b>	<b>64,888</b>	<b>—</b>	<b>62,661</b>	<b>2,227</b>	<b>—</b>	<b>64,888</b>
<b>Financial liabilities</b>						
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
<b>Total financial liabilities</b>	<b>—</b>	<b>90,092</b>	<b>—</b>	<b>16,225</b>	<b>66,919</b>	<b>90,092</b>

## 20. Financial instrument and related disclosures — continued

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)	—
<b>Balance as of 31 December 2015</b>	<b>65,164</b>	<b>337</b>	<b>14,263</b>

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

Measurement Date	Range of Values		
	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%

## 20. Financial instrument and related disclosures — continued

### Probability Weighted Expected Return Method Inputs

Measurement Date	Range of Values	
	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.



## 21. Capital and financial risk management — continued

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

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 \$000s	2014 \$000s
Neither past due nor impaired	496	1,250
Past due 30-90 days	—	—
Past due 90-365 days	210	500
<b>Total</b>	<b>706</b>	<b>1,750</b>

### 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 \$000s	Within 3 months \$000s	3 to 12 months \$000s	1 to 5 years \$000s	Total \$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
<b>Total</b>	<b>78,302</b>	<b>75,707</b>	<b>1,950</b>	<b>1,072</b>	<b>78,729</b>

	2014				
	Carrying amount \$000s	Within 3 months \$000s	3 to 12 months \$000s	1 to 5 years \$000s	Total \$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
<b>Total</b>	<b>23,461</b>	<b>17,221</b>	<b>3,630</b>	<b>2,971</b>	<b>23,822</b>

## 21. Capital and financial risk management — continued

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
<b>Total</b>	<b>30</b>	<b>40</b>	<b>50</b>	<b>75</b>	<b>100</b>

### 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 license 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 \$000s	2014 \$000s
Short-term employee benefits	2,150	1,612
Share-based payments	2,235	282
<b>Total</b>	<b>4,385</b>	<b>1,894</b>

Wages and employee benefits include salaries, health care and other non cash benefits. Share-based payments are generally subject to vesting terms over future periods.

#### Convertible debt issued to directors, key management personnel and key personnel of the businesses

Certain members of the Group have invested in convertible notes issued by the Group's subsidiaries. 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	—	—	—	—	—	—
<b>Balance as of 31 December 2015</b>	<b>58</b>	<b>—</b>	<b>—</b>	<b>46</b>	<b>64</b>	<b>168</b>

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.

### 23. Related parties — continued

#### 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 <sup>(1)</sup>
Mr. Joichi Ito	Akili (Series A-2 preferred)	26,627	—	0.30%
Ms. Daphne Zohar <sup>(2)</sup>	Gelesis (common)	34,444	618,734	5.20%
Dame Marjorie Scardino	—	—	—	—
Dr. Bennett Shapiro <sup>(4)</sup>	Akili (Series A-2 preferred) <sup>(3)</sup>	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) <sup>(3)</sup>	14,451	—	0.10%
	Vedanta Biosciences (common)	—	25,000	0.50%
Dr. Robert Langer	Entrega (common)	—	250,000	5.00%
Dr. Raju Kuchelapati	Enlight (Class B common)	30,000	—	3.00%
Dr. John LaMattina <sup>(4)</sup>	Akili (Series A-2 preferred)	37,372	—	0.40%
	Gelesis (common) <sup>(4)</sup>	54,120	63,050	1.30%
	Gelesis (Series A-1 preferred) <sup>(4)</sup>	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	—	—	—	—
<b>Senior Managers</b>				
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 \$000s	2014 \$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 \$000s	2014 \$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.

## 24. Taxation — continued

### 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 \$000s	2014 \$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. \$000s	Foreign \$000s	Total \$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.

## PureTech Health plc Balance Sheet

As of 31 December:

	Note	2015 \$000s
<b>Non-current assets</b>		
Investment in subsidiary	2	141,348
<b>Total non-current assets</b>		141,348
<b>Current assets</b>		
Related party receivables	3	189,306
<b>Total current assets</b>		189,306
<b>Total assets</b>		330,654
<b>Equity</b>		
Share capital	4	4,523
Share premium	4	181,744
Merger reserve	4	138,506
Other reserve	4	84
Accumulated deficit	4	(1,929)
<b>Total equity</b>		322,928
<b>Current liabilities</b>		
Trade and other payables		296
Related party payables	5	7,430
<b>Total current liabilities</b>		7,726
<b>Total equity and liabilities</b>		330,654

Registered number: 09582467

The company presents its financial statements from the date of incorporation on 8 May 2015 to 31 December 2015. The financial statements on pages 116 to 120 were approved by the Board of Directors and authorised for issue on 6 April 2016 and signed on its behalf by:



**Daphne Zohar**  
Chief Executive Officer

6 April 2016

## PureTech Health plc Statement of Changes in Equity

	Share Capital		Share Premium \$000s	Merger Reserve \$000s	Other Reserve \$000s	Accumulated deficit \$000s	Total equity \$000s
	Shares	Amount \$000s					
<b>Balance 8 May 2015</b>	—	—	—	—	—	—	—
<b>Total comprehensive loss for the period</b>							
Issuance of shares	219,845,031	4,396	181,871	138,506	—	—	324,773
Issuance of shares as equity incentives	6,328,720	127	(127)	—	—	—	—
Equity-settled share based payments	—	—	—	—	84	—	84
Net loss	—	—	—	—	—	(1,929)	(1,929)
<b>Balance 31 December 2015</b>	<b>226,173,751</b>	<b>4,523</b>	<b>181,744</b>	<b>138,506</b>	<b>84</b>	<b>(1,929)</b>	<b>322,928</b>

# PureTech Health plc Statement of Cash Flows

For the year ended 31 December:

	2015 \$000s
Cash flow from operating activities:	
Net income	(1,929)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>	
<b>Non-cash items:</b>	
Stock compensation expense	83
<b>Change in operating assets and liabilities:</b>	
Increase in accounts payable and accrued expenses	1,846
<b>Net cash used in operating activities</b>	—
<b>Cash flows from investing activities:</b>	
<b>Net cash provided (used in)/by investing activities</b>	—
<b>Cash flows from financing activities:</b>	
<b>Net cash provided (used in)/by financing activities</b>	—
<b>Non-cash investing and financing activities:</b>	
Proceeds from issuance of Growth preferred shares, net of issuance costs	52,231
Proceeds from initial public offering, net of issuance costs	159,275
Proceeds from over-allotment shares	24,150
Reclassification of PTV LCC equity to PLC	89,117
Vesting of Equity incentive shares	127

The Parent Company does not have cash holdings or maintain accounts with financial institutions. The above cash flow does not present cash flows from investing or financing activities, as all cash is maintained by its subsidiaries.

# Notes to the Financial Statements

## 1. Accounting policies

### Basis of preparation and measurement

The financial statements of PureTech Health plc (the "Parent Company") have been prepared under the historical cost convention, in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs"). A summary of the significant accounting policies which have been applied consistently throughout the year are set out below.

### Functional and presentation currency

The functional currency of the Parent Company is U.S. Dollars. The financial statements of the Parent Company are presented in U.S. Dollars.

### Investments

Investments are stated at historic cost less any provision for impairment in value and are held for long term investment purposes. Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

### Impairment

If there is an indication that an asset might be impaired, the Parent Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows ("DCF") attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

### Financial instruments

Currently the Parent Company does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the Parent Company.

## 2. Investment in subsidiary

	2015 \$000s
Balance at 8 May	—
Additions	141,348
Impairment	—
Disposals	—
Effect from currency translation	—
<b>Balance at 31 December</b>	<b>141,348</b>

Investment in subsidiary represents the Parent Company's investment in PureTech, LLC as a result of the reverse acquisition described above in note 13 of the Group's financial statements immediately prior to the Parent Company's the initial public offering on the London Stock Exchange in June of 2015. PureTech LLC operates in the U.S. as a U.S.-focused scientifically-driven research and development company that conceptualises, sources, validates and commercialises unexpected and potentially disruptive approaches to advance the needs of human health. For a summary of the Parent Company's indirect subsidiaries see note 2 of Consolidated Financial Statements of PureTech Health plc.

### 3. Related party receivables

The Parent Company has accounts receivable from its operating subsidiary PureTech LLC of \$189.3 million as a result of cash received from the IPO.

### 4. Share capital and reserves

PureTech plc was incorporated with the Companies House under the Companies Act 2006 as a public company on 8 May 2015.

On 24 June 2015 the Company's entire issued ordinary share capital was admitted to the premium listing segment of the Official List of the U.K. Listing Authority and to trading on the Main Market of the London Stock Exchange 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 approximately \$159.3 million of net proceeds from the IPO (net of issue cost of approximately \$11.8 million) reflected in the share premium balance as of 31 December 2015.

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).

### 5. Related party payables

The Parent Company has accounts payable to its operating subsidiary PureTech LLC of \$7.4 million related to IPO costs. However, there is no intention of its settlement in the foreseeable future.

### 6. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss for the year was \$1.9 million.

### 7. Directors' remuneration, employee information and share-based payments

The remuneration of the Directors of the Parent Company is disclosed in note 23 on page 112. Full details for their remuneration can be found in the Directors' Remuneration Report on pages 59 to 69. Full detail of the share-based payment charge and related disclosures can be found in note 6 on page 93 to the consolidated financial statements.

The Parent Company had no employees during 2015.

## Company information

### Directors, Secretary and Advisors to PureTech

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09582467

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(Chairman)  
Ms. Daphne Zohar  
(Chief Executive Officer)  
Dame Marjorie Scardino  
(Senior Independent Non-Executive Director)  
Dr. Bennett Shapiro  
(Non-Executive Director)  
Dr. Robert Langer  
(Non-Executive Director)  
Dr. Raju Kucherlapati  
(Independent Non-Executive Director)  
Dr. John LaMattina  
(Independent Non-Executive Director)  
Mr. Christopher Viehbacher  
(Independent Non-Executive Director)  
Mr. Stephen Muniz  
(Executive Vice President, Legal and Operations)

#### Company Secretary

Stephen Muniz

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