



Futura Medical
Advanced Transdermal Technology

**EXPERTISE
INNOVATION
FOCUS**

Futura Medical plc

Annual Report and Accounts

For the year ended 31 December 2013

Stock Code: FUM

About Futura Medical

What we do

Futura's innovation strategy applies advanced science to develop products with compelling commercial potential using our advanced proprietary transdermal technology.

Our key strengths

Technological strengths

We have strong IP on all products under development. Our expertise is in transdermal delivery.

Commercial strengths

We are focused on products for which there are substantial market opportunities. We currently have agreements with a number of key industry players. We specialise within the growing consumer healthcare sector.

Financial strengths

We maintain a high ratio of research and development spend relative to administrative cost and a 'virtual' organisational structure.



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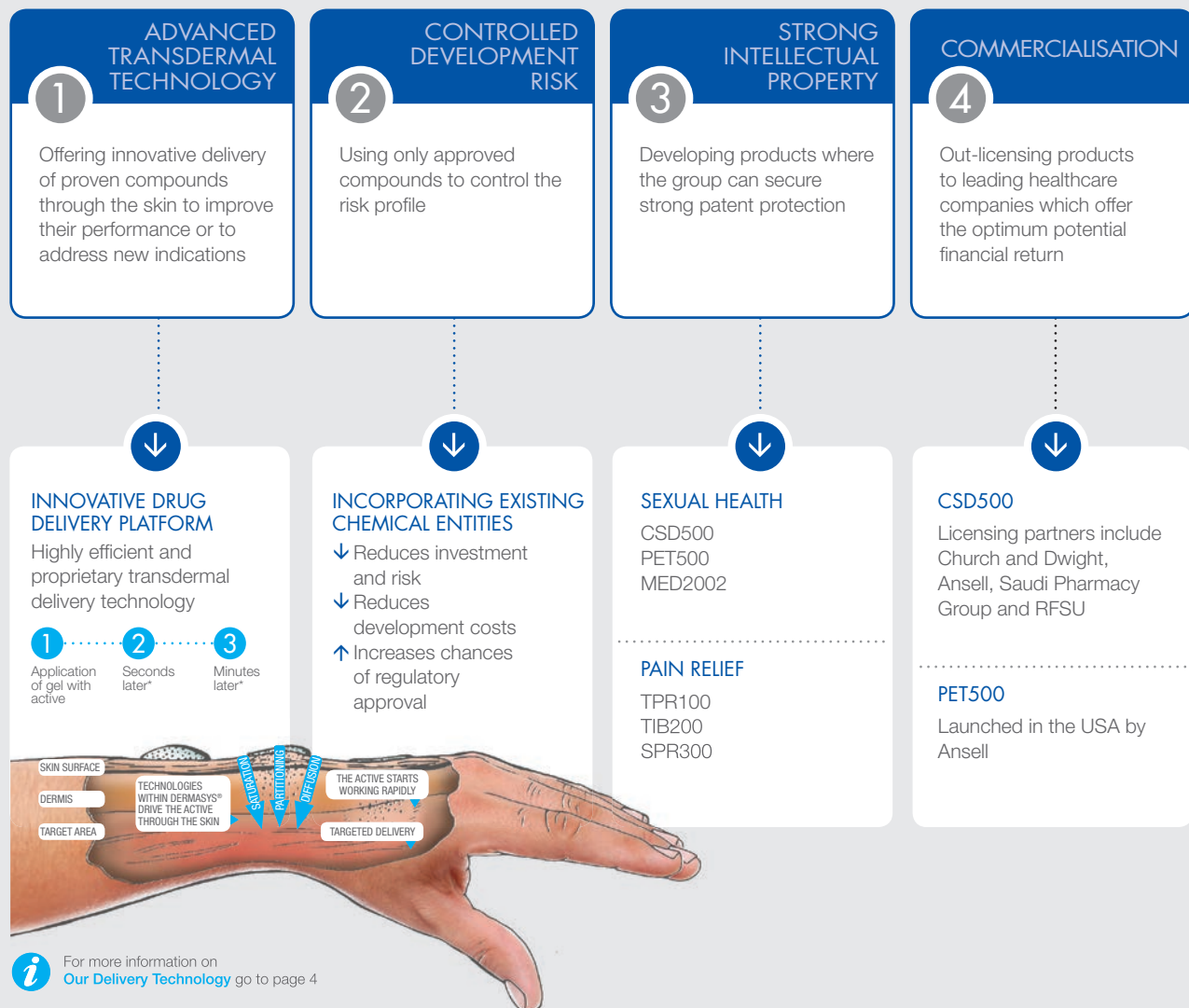
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Our Strategy

Futura's innovation strategy applies advanced science to develop products with compelling commercial potential and is driven by the following four criteria.



*These are estimates and will vary according to the therapeutic indication

Highlights

- CSD500 – Significant commercial, technical and regulatory progress:

Multiple licensing deals signed, covering key geographic areas including North America, key European countries, Middle East and North Africa, the Nordic region and China

Formal award of CE mark from EU regulators

Formal award of ISO 13485 certification of quality management system

Major product and supply chain improvements to increase shelf life and reduce cost of goods

- PET500 – Launched in the USA by Ansell under the brand name EPIC®

- Pain Relief – Two new products added to the portfolio

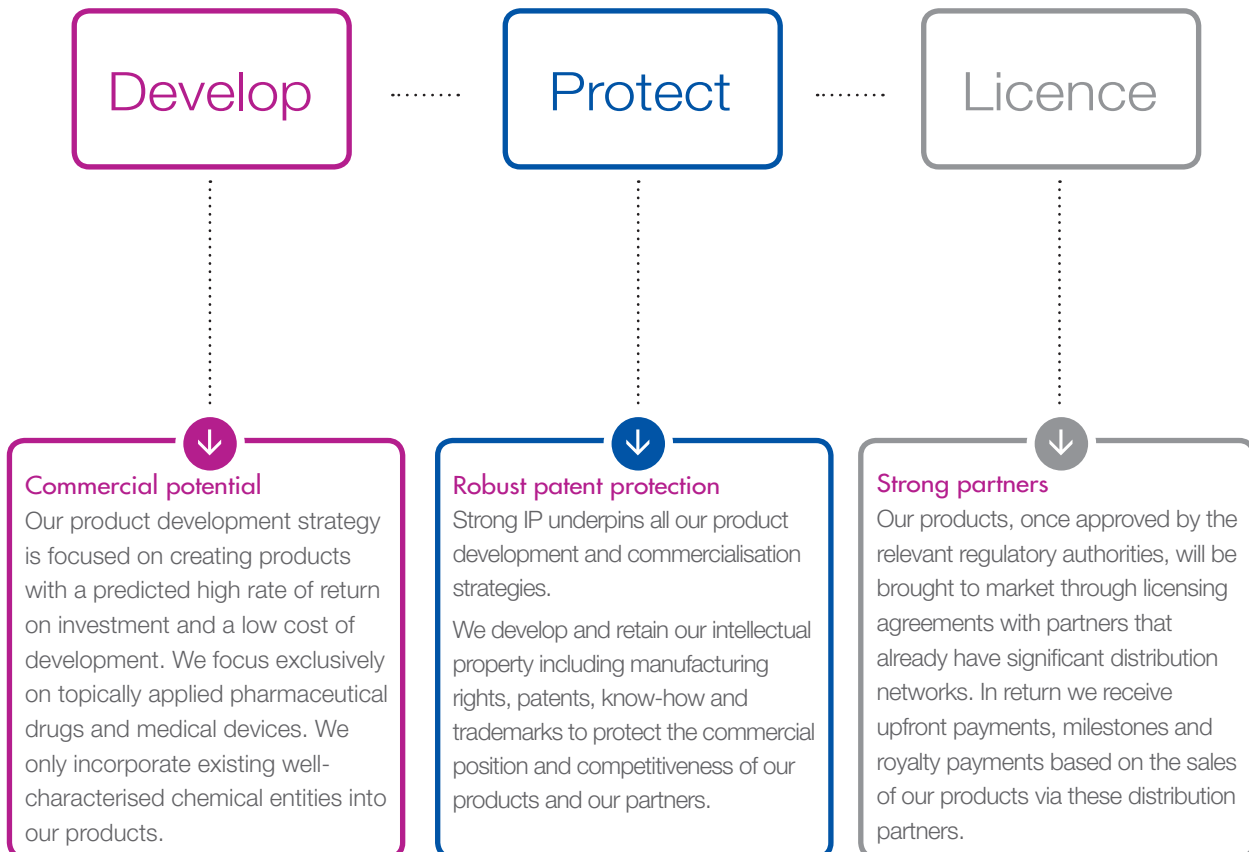
- Net loss of £2.21 million (2012: net loss of £2.18 million) with net cash outflow in year of £1.83 million (2012: net cash inflow of £0.23 million)

- Cash resources of £0.99 million at 31 December 2013 (31 December 2012: £2.82 million); tax credit receivable £0.31 million at 31 December 2013 (31 December 2012: £0.26 million)

- Successful post year end fundraising of £12.0 million (before expenses) to provide additional working capital and build greater value in our product pipeline



Our Business Model



Develop

Protect

Licence

Commercial potential

Our product development strategy is focused on creating products with a predicted high rate of return on investment and a low cost of development. We focus exclusively on topically applied pharmaceutical drugs and medical devices. We only incorporate existing well-characterised chemical entities into our products.

Robust patent protection

Strong IP underpins all our product development and commercialisation strategies. We develop and retain our intellectual property including manufacturing rights, patents, know-how and trademarks to protect the commercial position and competitiveness of our products and our partners.

Strong partners

Our products, once approved by the relevant regulatory authorities, will be brought to market through licensing agreements with partners that already have significant distribution networks. In return we receive upfront payments, milestones and royalty payments based on the sales of our products via these distribution partners.

Licensing partnerships

CSD500 – Futura has an exclusive licensing agreement with Church & Dwight Co. Inc. (“Church & Dwight”) for the distribution rights to CSD500 in North America and in a number of key European territories. Church & Dwight’s condom brand Trojan® is the number one condom brand in North America and the world’s second biggest condom brand by product sales.

In June we licensed the rights to CSD500 to Saudi Pharmacy Group, a Middle Eastern healthcare company for 15 countries in the Middle East and North Africa region (“MENA”). In December we licensed the rights to CSD500 to Ansell Limited (“Ansell”) for China and to RFSU AB (“RFSU”), the market leader for condoms in Scandinavia, for four countries in the Nordic region.

PET500 – Futura has an exclusive worldwide agreement with Ansell, one of the world’s major sexual health companies, for the commercialisation of PET500, our product for enhanced sexual control. PET500 is a topical spray that combines our DermaSys® AquaFree delivery system with a well-known mild topical anaesthetic to delay male ejaculation. PET500 has now been launched in the USA under the brand name EPIC®.

Our Expertise

DermaSys® is Futura's advanced transdermal technology platform.

dermasys®

Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. DermaSys® is a versatile technology that can be tailored to suit the specific active compound being used and the therapeutic indication. Such targeted delivery offers an optimised profile in terms of dose, onset time and duration of effect, as well as an improved safety profile through lower systemic uptake and the reduced risk of side effects. Whilst developing PET500, our product for enhanced sexual control, we also expanded the DermaSys® delivery technology platform by producing a new and unique delivery system, DermaSys® AquaFree, which does not contain water.



MED2002

Topical gel for the treatment of erectile dysfunction



PET500

Performance enhancement spray for men



TPR100

Topical diclofenac pain relief gel



TIB200

Topical ibuprofen pain relief gel



SPR300

Topical methyl salicylate pain relief gel

1

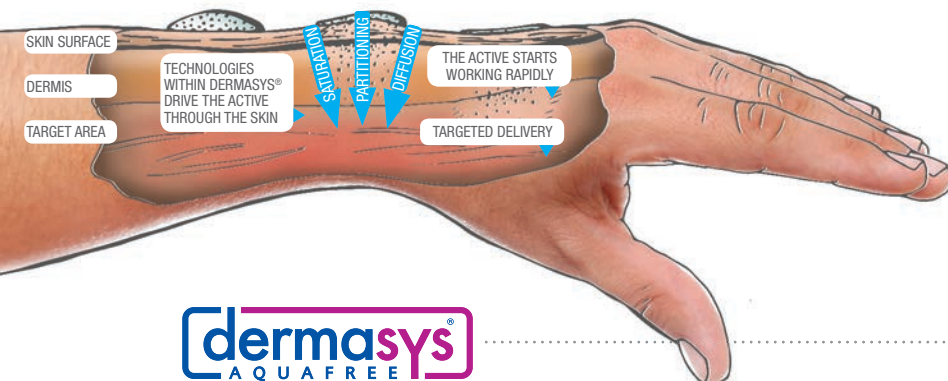
Application of gel with active

2

Seconds later*

3

Minutes later*



DermaSys® AquaFree enables drugs that are water sensitive (hydrolytically unstable or which have only limited hydrolytic stability) to be developed into potentially commercially attractive products with the additional benefit of rapid transdermal delivery.

**These are estimates and will vary according to the therapeutic indication*

Our Pipeline

Sexual Healthcare



Description: Performance enhancement spray for men
Status: Available throughout the USA



Description: Condom containing an erectogenic gel
Status: Initial launches commencing in H2 2014 in EU and MENA



Description: Topical gel for erectile dysfunction
Status: In phase II/III, evaluating commercialisation options



Pain Relief



Description: Topical methyl salicylate pain relief gel
Status: In phase III, advisors retained to assist with out-licensing



Description: Topical ibuprofen pain relief gel
Status: In phase III, advisors retained to assist with out-licensing



Description: Topical diclofenac pain relief gel
Status: In phase III, advisors retained to assist with out-licensing



Chairman's and Chief Executive's Review

2013 was a year of significant progress in the development of the business.



We made major progress in the commercialisation of our lead product, the novel condom CSD500. In the first quarter of 2013, we licensed marketing rights to the major US consumer products group Church & Dwight, whose condom brand Trojan® is the market leader in the USA. This licensing deal covers North America and key European countries and is in line with a strategy we implemented last year of licensing the product on a territorial basis to leading brands in geographic territories worldwide. During the year, we also licensed CSD500 to commercial partners with leading brands and strong distribution capabilities in territories including Scandinavia, Middle East and North Africa, and China.

As a further evolution of our strategy we intend, as announced in March 2014, to launch CSD500 in at least one European country under a Futura owned brand name. Distribution will be outsourced to an established European condom distributor thereby maintaining Futura's outsourced strategy. This approach where appropriate will add a further route to market for CSD500 and will broaden our experience, and options, as we continue to commercialise our product pipeline.

We expect the initial launches of CSD500 to take place in the second half of 2014 in MENA and at least one European country followed by further launches in 2015. We are continuing in negotiations for the licensing of CSD500 in a number of territories, including South America, creating the possibility of further launches during the current year.

2013 was an important year for PET500, our innovative spray for enhanced sexual control, licensed worldwide to Ansell. The launch of PET500 is being carefully managed by Ansell and, following the early distribution in some trade channels of the product under the LifeStyles® range during 2013, PET500 is now being made available in stores and online throughout the USA under the brand name EPIC®.

We also made considerable progress during 2013 in our earlier stage pain relief portfolio which has been expanded to three products that have generated considerable interest from potential licensees and commercial partners.

As a vindication of the increasing momentum in our business, we were successful in raising £12.0 million (before expenses) in an equity fundraising announced on 7 March 2014.

This fundraising will enable us to build greater value in our product pipeline by allowing us to fund clinical and regulatory work and then to out-license products at a later stage in their development. This optimises the speed of development, reduces clinical and regulatory risk for potential distributors and should enhance shareholder value.

The fundraising also allows us to actively progress the development of MED2002, our treatment for erectile dysfunction. MED2002 is a topical gel that shares the same active ingredient as CSD500, and we believe it presents a substantial commercial opportunity. Futura retains the worldwide rights to the product and intends to begin a pivotal clinical study later this year. We also intend to adopt a similar strategy for our pain relief portfolio by completing the remaining clinical work to build greater value in the products prior to a licensing decision.

Whilst the recent fundraising has improved our cash position we will maintain our tight fiscal strategy. We intend to increase clinical development spend but will continue to run our business prudently and to manage our cash resources accordingly.

Portfolio updates – Sexual healthcare

CSD500: Condom containing an erectogenic gel

CSD500 benefits from three marketing claims, clinically proven and approved by the regulatory authorities: the maintenance of a firmer erection, maximised penile size and a longer lasting sexual experience for women. These claims were established in a statistically significant user study involving 108 couples.

The product's unique intellectual property position has been protected throughout the world including the principal consumer markets within Europe, the USA and Canada through patents now granted in 37 countries.

In August 2012, we announced that we had regained the worldwide rights to CSD500 from Reckitt Benckiser. Regaining the rights allowed us to relicense the product at a more advanced stage in its development. It also gave us the opportunity to license the product on a territorial basis to strong brands in different geographic regions.

The considerable progress made with CSD500 since regaining the rights has highlighted the benefits of retaining greater control of our products as we advance them through the development and commercialisation process.

To date, we have licensed rights to CSD500 as follows:

Licensee	Territorial Licensing Rights
Church & Dwight	North America & key European countries
Saudi Pharmacy Group	Key countries in the Middle East and North Africa
RFSU	The Nordic region
Ansell	China

Discussions are ongoing in connection with further territories.

In addition to re-licensing the product, we also took control of the manufacturing process by appointing a contract condom manufacturer in Europe and seeking European Union ("EU") regulatory approval. On 17 October 2013 we announced the award of the CE mark, which granted marketing authorisation to the product in all EU territories and also in a number of non-EU territories that recognise the CE mark process. We also expect a further contract condom manufacturer to gain regulatory approval later this year, adding greater flexibility and robustness to the supply chain for our licensing partners.

Our manufacturing strategy is designed to enable licensees to get CSD500 to market in the shortest time possible, although licensees might decide to transfer manufacture to their own facilities, which would be subject to a supplementary application to add a new manufacturing site under the existing CE mark approval, depending on their requirements.

During the year, we also improved the technical and commercial specifications of CSD500. These improvements are expected to extend the shelf life of the product and significantly reduce the cost of goods for the shared benefit of Futura and its licensing partners. A patent relating to these changes was filed in March 2013, giving us the potential to extend CSD500's patent protection beyond the current patent expiry date in 2023.

Chairman's and Chief Executive's Review (continued)

In addition to this intellectual property protection, Futura is also seeking to develop the global brand awareness of the novel erectogenic gel in CSD500 by giving it the brand name Zanifil[®] and stipulating that the Zanifil[®] logo appears on the outer packaging of all condoms produced by our licensing partners.

During 2014 we expect to announce further distribution agreements as we build the global distribution platform for CSD500. Precise launch timings and brand positioning remain commercially sensitive to our respective licensees and we therefore ask shareholders to be mindful of the restrictions we have to comply with in connection with launch information.

MED2002: Treatment for erectile dysfunction

MED2002, which uses our DermaSys[®] drug delivery system, is our topical gel for the treatment of men with erectile dysfunction ("ED"). We regained worldwide rights to the product at the same time as regaining the rights to CSD500, with which it shares the same active ingredient.

ED is a condition that affects, to some degree, as many as 52% of men aged 40 or over¹. During the year, we received the results of market research we commissioned into the potential opportunity that MED2002 represents in ED.

This market research highlighted the potential benefits of MED2002 when compared with PDE5 inhibitors, the class of drugs that includes Viagra[®]. The potential benefits of MED2002 were shown to include: a faster onset of action, a favourable safety profile, a 30 minute duration of action and the product's suitability for all men, including the estimated 7.5% of ED sufferers who would not be prescribed any of the PDE5 inhibitors due to contra-indications of other medications taken by them. The research found that up to 68% of men are dissatisfied with their PDE5 inhibitors and that MED2002 could potentially capture as much as a 30% share of ED patients.

The fundraising allows us to actively progress the development of MED2002 which we believe presents a substantial commercial opportunity. There is considerable clinical overlap between MED2002 and CSD500 as both products share the same active ingredient. This will be of benefit as we progress the product's clinical development. Futura intends to begin a pivotal clinical study later this year.

PET500: Enhanced sexual control

PET500 is a topical spray that combines our highly efficient DermaSys[®] AquaFree delivery system with a well-known mild topical anaesthetic. PET500 is licensed to Ansell, one of the world's major sexual health companies, who have worldwide rights to the product and have launched the product in the USA under the name EPIC[®], as part of their well-known LifeStyles[®] brand. Under the terms of the licensing agreement Futura will receive a significant royalty rate on sales.

EPIC[®] is designed to take effect rapidly and to delay male ejaculation, thereby offering enhanced sexual control. Ansell distributed the product early in some trade channels during 2013 and EPIC[®] is now available in stores throughout the USA and online.

Ansell is also developing a combination product, called UPHORIA[™], in which EPIC[®] will be packaged with an existing product, LifeStyles EXCITE[™], a personal lubricant designed to promote enhanced stimulation and sensitivity for women.

2014 is the first year during which Futura will receive revenues from EPIC[®]. It is therefore an exciting year for the Company, and we look forward to providing updates on the product's sales growth in due course. In conjunction with Ansell we are also beginning to explore the commercialisation of the product in other countries worldwide.

Note¹: Massachusetts Male Aging Study (MMAS), J Urol. 1994 Jan; 151 (1): 54-61

PET500 – EPIC® Advertisement (USA)

Ansell has now launched PET500 under the brand name EPIC® in stores and online in the USA. The advertisement below ran in a magazine for adult channels distributors.

MALE PERFORMANCE ENHANCER

EPIC:

Extending beyond the usual or ordinary, especially in size or scope

- GOOD FOR UP TO 25 LEGENDARY LONG-LASTING EXPERIENCES
- WON'T TRANSFER TO PARTNER

BE EPIC. LIVE THE LIFESTYLE.

LifeStyles® FAST-ACTING EPIC™ PERFORMANCE ENHANCER
Male Genital Desensitizing Spray Lidocaine 10 mg/Spray

- TARGETED DELIVERY SYSTEM
- WON'T TRANSFER TO PARTNER
- CONTROLLED ENDURANCE

EPIC
HELPS IN TEMPORARILY PROLONGING THE TIME UNTIL EJACULATION

LifeStyles®

Manufactured by Ansell and Distributed by Paradise Marketing, Vista, CA 92081. FDA Compliant.

Chairman's and Chief Executive's Review (continued)

Portfolio updates – Pain relief management

During the year we made significant progress with our pain relief portfolio, culminating in the addition of two new compounds to complement TPR100. The two new compounds, TIB200 and SPR300, use ibuprofen and methyl salicylate respectively as their active ingredients.

In vitro studies have shown that very high levels of skin permeation were achieved with each of ibuprofen and methyl salicylate when using Futura's transdermal delivery system, DermaSys[®]. This rapid skin permeation offers potential benefits including: improved speed of onset, greater depth of penetration and longer duration of pain relief.

The two new programmes complement TPR100, which uses DermaSys[®] with the non-steroidal anti-inflammatory drug ("NSAID") diclofenac as its active ingredient.

Together the three programmes present a portfolio opportunity for a potential licensing partner and an advisory firm was appointed in the year to assist in exploiting the commercial potential of this product group. To date at least 15 companies have expressed interest in the portfolio and elements of the portfolio for various territories worldwide. Our recent fundraising has strengthened our position for the remaining Phase III clinical development of our pain relief portfolio. It is our intention to build greater value in the portfolio prior to making a licensing decision.

The pain relief portfolio comprises:

TPR100: Topical pain relief

A topical gel combining the NSAID diclofenac with the DermaSys[®] delivery system. TPR100 has been shown to achieve in excess of eight times higher permeation through human skin and 35 times greater bioavailability than that achieved by the UK's best-selling topically applied diclofenac-based pain relief product, Voltarol[®] Emulgel.

Graphs showing the superior skin penetration of TPR100, and the two new pain relief programmes are available by following the link:

www.futuramedical.com/archive/painreliefclinicalgraphs.pdf.

TIB200: Topical ibuprofen

A topical gel combining the well-known analgesic ibuprofen with the DermaSys[®] delivery system. TIB200 has been shown to achieve in excess of twenty times higher permeation through isolated human skin compared with the UK's best-selling topically applied ibuprofen-based topical pain relief product, Nurofen[®] gel.

SPR300: Sensory pain relief

A topical gel combining methyl salicylate and menthol with the DermaSys[®] delivery system. SPR300 has been shown to achieve in excess of four times higher permeation through isolated human skin compared with the UK's best-selling topically applied methyl salicylate/menthol-based topical pain relief product, Deep Heat[®].

In addition SPR300 was directly compared with the best-selling over-the-counter topically applied gels sold in the USA, Icy Hot[®] and Bengay[®], and showed similarly improved permeation rates.

No further clinical work is required to obtain regulatory approval for SPR300 in the USA or Canada. We are currently in discussions with potential commercial partners for these major territories and will update shareholders in due course. In the meantime we are completing the development work required in order to obtain regulatory clearances and prepare the product for launch in the USA and Canada.

Early Stage Product Development

Futura's highly efficient DermaSys[®] delivery system is a versatile asset and we are currently working on a number of potential products at various stages. We look forward to providing further updates as appropriate.

People

We would like to offer our sincere thanks to all of our staff, scientific advisers and commercial partners for their contribution to the development of the Company throughout the year.

Outlook

After a year of solid progress across our product portfolio, 2014 will be a landmark year for Futura during which we will receive our first recurring revenues. We already have our first product PET500 (brand name EPIC[®]) on the market in the USA and expect the launch of CSD500 on a multi-country basis later this year. Following our recent fundraising, we are ideally positioned to drive value for the Company and to generate returns for shareholders.

John Clarke

Chairman

James Barder

Chief Executive

Board of Directors

The Board of Directors has overall responsibility for the Group.

The Board of Directors ("the Board") comprises a Non-Executive Chairman, a Chief Executive, two independent Non-Executive Directors and two further Executive Directors. The Board retains full control of the Group with day-to-day operational control delegated to the Executive Directors. The full Board meets bi-monthly and on any other occasions it considers necessary. The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy, approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters.

The Chairman provides strategic and operational guidance bringing to bear his extensive experience of the healthcare sector. He also oversees the duties performed by the Chief Executive and ensures that they are in line with Board expectations with a particular emphasis on monitoring product development. The Chief Executive manages the day to day running and strategic direction of the Group in line with the policy decisions given by the Board and shareholder expectations with particular emphasis on the commercial direction of the Group.

John Clarke
Non-Executive Chairman



Current roles

John Clarke became Chairman of Futura Medical plc in February 2012. He is a member of the Nominations Committee and the Remuneration Committee. He is also a Director of the US-based Consumer Healthcare Products Association and Non-Executive Chairman of Science in Sport plc.

Past roles

Appointed President of GSK Consumer Healthcare in 2006, a position from which he stepped down in October 2011. Under his leadership, GSK Consumer Healthcare became one of the fastest-growing companies in its industry. Director of Provexis plc.

Brings to the Board

Extensive experience of the healthcare sector, having worked at GSK for more than 35 years.

James Barder
Chief Executive



Current roles

James Barder joined the Group as Chief Executive in June 2001. He assists the Remuneration Committee and the Nominations Committee (but is not a member of and does not vote on either). He has overall responsibility for all activities of the Group, is a principal contact for shareholder and investor relations matters and leads licensing and distribution negotiations. He first became involved with the Group in 1997. He is also a Non-Executive Director of Lorega Limited.

Past roles

Managing Director of Aon Capital Markets Limited. He has predominantly worked in the field of insurance and finance including firms he founded.

Brings to the Board

Over 25 years of experience in setting up, managing and running companies.

**David Davies,
BSc (Hons), MBA**
Chief Development Officer



Current roles

David Davies joined the Board in September 2001. He is responsible for all product development and quality management programmes for the Group. He is also Company Secretary of a registered charity Ordinary 2 Extraordinary Limited.

Past roles

Porton Down, Glaxo Group Research, Wellcome Research, Zambon Limited, PPD Pharmaco Limited and Clintrials Research Limited.

Brings to the Board

Over 25 years of experience in pharmaceutical and healthcare product development.

**Derek Martin, BSc
(Hons), ACA**
Finance Director and
Company Secretary



Current roles

Derek Martin joined the Board in September 2008. He oversees the Group's finance function, its compliance procedures and is a principal contact for shareholder and investor relations matters.

Past roles

Senior financial roles in a diverse range of industries including retail, software, telecoms and advertising, media and sales promotion.

Brings to the Board

Over 25 years of experience in finance.

**Jonathan Freeman,
BA (Hons), MBA**
Senior Independent Non-
Executive Director and
Chairman of Remuneration
Committee and Audit
Committee



Current roles

Jonathan Freeman joined the Board in July 2003 and was appointed Senior Independent Non-Executive Director in November 2003. He chairs the Audit Committee and the Remuneration Committee and is also a member of the Nominations Committee. He is also a Director of PhotonStar LED Group plc and Hume Securities plc.

Past roles

Director of Beeson Gregory, Chief Executive Officer of Syndicate Asset Management plc.

Brings to the Board

Over 20 years of experience in the financial services sector, guidance on City regulatory matters, corporate finance and investor relations.

Lisa Arnold
Independent Non-Executive
Director and Chair of
Nominations Committee



Current roles

Lisa Arnold joined the Board in March 2008. She chairs the Nominations Committee and is also a member of the Remuneration Committee and the Audit Committee. She also has a number of appointments on the boards of pension funds including Allied Domecq, Whitbread and Tate & Lyle.

Past roles

Senior investment banking analyst positions at NatWest Markets, UBS and Commerzbank. She has also worked in consultancy and Non-Executive roles in the pensions, healthcare and technology sectors and was most recently a Non-Executive Director of the UK's Medicines and Healthcare products Regulatory Agency ("MHRA"), for nine years where she also chaired the Risk & Audit Committee.

Brings to the Board

Over 20 years of experience of financial markets and healthcare sectors and associated governance frameworks.

Remuneration Report

Remuneration Committee: composition and terms of reference

The Remuneration Committee comprises the three independent Non-Executive Directors and is chaired by Jonathan Freeman.

The purpose of the Remuneration Committee is to ensure that the Executive Directors and other employees are fairly rewarded for their individual contribution to the overall performance of the Group. The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these. There were four Remuneration Committee meetings during 2013.

The Board retains responsibility for overall remuneration policy. The terms of reference of the Remuneration Committee are set out in the Governance pages of the Investors section on the Group's website at www.futuramedical.com.

Policy on Executive Directors' remuneration

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group. Direct benchmarking of remuneration is difficult given the specialised nature and size of the Group. The Remuneration Committee recommends to the Board remuneration packages by reference to individual performance and uses the knowledge and experience of the Committee members, published surveys relating to AIM companies, the pharmaceutical industry and market changes generally. The Remuneration Committee has responsibility for recommending any long-term incentive schemes.

The Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group. Earnings from such roles are not disclosed to the Group.

There are four main elements of the remuneration package for Executive Directors and staff:

(i) Basic salaries and benefits in kind

Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising death in service cover and private medical insurance are available to all staff and Executive Directors. Benefits in kind are non-pensionable.

(ii) Share options and other share-based incentives

The Group operates approved and unapproved share option schemes for the Executive Directors and other employees to motivate those individuals through equity participation. Unapproved share options are occasionally granted to key consultants. Exercise of share options under the schemes is subject to specified exercise periods and compliance with the AIM Rules.

The schemes are overseen by the Remuneration Committee which recommends to the Board all grants of share options based on the Remuneration Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate.

The UK Corporate Governance Code ("the Code") refers to the requirement for the performance related elements of remuneration to form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of the shareholders. In the development phase of the Group and during the early stages of revenue generation, the Remuneration Committee currently considers that the best alignment of these interests is through the continued use of incentives for performance through the award of share options or other share-based arrangements.

The Group operates a long-term incentive plan ("LTIP"). The quantum of any awards receivable by the staff, Executive Directors and the Chairman will depend on achieving set Group performance milestones and the share price at the time relative to targets set in advance. As a guide, if all of the approved milestones are achieved at the share price

targets over the next 48 months and if the Group exercised its discretion to settle the awards in equity then the additional shares issued in after tax settlement would be equivalent to approximately 6.11% of the issued share capital.

(iii) Bonus scheme

The Group has a discretionary bonus scheme for staff and Executive Directors.

(iv) Pension contributions

The Group pays a defined contribution to the pension scheme of Executive Directors and other employees. The individual pension schemes are private and their assets are held separately from those of the Group.

Salaries and benefits were reviewed in December 2012 to cover the 2013 calendar year. The timing of the review enables the Group's performance over the preceding financial year and the strategy for the forthcoming year to be considered.

Service contracts

The Executive Directors are employed under service contracts requiring six months' notice by either party. Non-Executive Directors and the Chairman receive payments under appointment letters which are terminable by three months' notice by either party. The service contracts of the Non-Executive Directors are made available for inspection at the AGM.

All Directors are also Directors of the subsidiary company, Futura Medical Developments Limited.

Policy on Non-Executive Directors' remuneration

The Non-Executive Directors and the Chairman each receive a fee for their services as a director, which is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-Executive Directors and the Chairman are reimbursed for travelling and other incidental expenses incurred on Group business.

The Board encourages the ownership of Futura shares by Executive and Non-Executive Directors alike and in normal circumstances does not expect Directors to undertake dealings of a short-term nature.

The Non-Executive Directors receive a proportion of their remuneration in the form of shares. The quantum of shares is determined at the start of each calendar year based on the average closing mid-price of the last ten trading days prior to the year end. The award for 2013 was settled on 31 December 2013 by the issue of 52,092 shares at 58.15 pence per share. The 2014 award has been determined at 63.25 pence per share and the Non-Executive Directors accrue these shares over 2014 and receive them on 31 December 2014.

The Board considers ownership of Futura shares by Non-Executive Directors as a positive alignment of their interest with shareholders. The Board will periodically review the shareholdings of the Non-Executive Directors and will seek guidance from its advisers if, at any time, it is concerned that a shareholding may, or could appear to, conflict with their duties as an independent Non-Executive Director of the Group.

Remuneration Report (continued)

Directors' emoluments

The emoluments of the Directors, who represent the key management personnel, were as follows:

	Year ended 31 December 2013					Year ended
	Salary & Directors' Fees £	Share Awards £	Benefits In Kind £	Pension £	Total £	31 December 2012 Total £
Executive Directors						
James Barder	199,842	–	5,388	26,318	231,548	223,349
David Davies	165,119	–	3,265	25,564	193,948	188,963
Derek Martin	129,680	–	3,987	12,948	146,615	149,677
Bill Potter	–	–	–	–	–	2,625
Non-Executive Directors						
John Clarke	49,400	24,700	–	–	74,100	66,000
Jonathan Freeman	28,800	8,229	–	–	37,029	35,316
Lisa Arnold	28,800	8,229	–	–	37,029	35,316
Totals	601,641	41,158	12,640	64,830	720,269	701,246

Bill Potter resigned as a Director on 31 January 2012 but continues to provide consulting services to Futura Medical Developments Limited through the consulting company Stapleford Scientific Services Limited.

The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Group business.

There were no cash bonuses or settlements under the LTIP in 2013 (2012: £nil).

Directors' interests in shares

	31 December 2013		31 December 2012	
	Beneficial Interests	Non-beneficial Interests	Beneficial Interests	Non-beneficial Interests
John Clarke	53,537	–	20,405	–
James Barder	616,330	392,500	616,330	309,000
David Davies	751,306	–	751,306	–
Derek Martin	280,000	–	280,000	–
Jonathan Freeman	14,920	–	6,802	–
Lisa Arnold	17,500	–	6,658	–
Totals	1,733,593	392,500	1,681,501	309,000

Other than as shown in the table no Director had any interest in the shares of the Company or in the subsidiary company, Futura Medical Developments Limited, at 31 December 2013 or at 31 December 2012.

Directors' interests in share options

The Board uses share options to align Directors' and employees' interests with those of shareholders in order to provide incentives and reward them based on improvements in Group performance.

	31 December 2013		31 December 2012	
	Options Held	Share-based Payment Expense	Options Held	Share-based Payment Expense
James Barder	1,000,000	34,879	750,000	33,949
David Davies	780,000	27,902	600,000	27,161
Derek Martin	589,279	17,282	559,279	17,319
Totals	2,369,279	80,063	1,909,279	78,429

All share options were granted with an exercise price at or above market value on the date of grant. The main vesting condition of the share options is that the Director remains employed with the Group as at the date of exercise or continues to provide consultancy services as at the date of exercise.

The share options of the Directors under the Futura Medical plc Enterprise Management Incentive Scheme (included in totals on page 52) are set out below:

	Grant Date	Number Awarded	Exercise Price/Share	Earliest Exercise Date	Expiry Date
James Barder	6 July 2010	176,543	40.50 pence	1 August 2012	31 July 2017
James Barder	14 September 2012	250,000	61.50 pence	1 October 2014	30 September 2019
James Barder	23 September 2013	34,615	71.50 pence	1 October 2015	30 September 2020
David Davies	6 July 2010	156,543	40.50 pence	1 August 2012	31 July 2017
David Davies	14 September 2012	200,000	61.50 pence	1 October 2014	30 September 2019
David Davies	23 September 2013	77,622	71.50 pence	1 October 2015	30 September 2020
Derek Martin	28 September 2011	73,894	56.50 pence	1 October 2013	30 September 2018
Derek Martin	14 September 2012	100,000	61.50 pence	1 October 2014	30 September 2019
Derek Martin	23 September 2013	130,000	71.50 pence	1 October 2015	30 September 2020
Totals		1,199,217			

Remuneration Report (continued)

Directors' interests in long-term incentive plan

Assuming that each remaining Group performance milestone is met, at the target share price and before the next target date ends, and if the awards were to be equity-settled then the number of shares that could be awarded before tax to the participants are:

	2014	2015	2016	2017
James Barder	198,138	198,138	198,138	198,138
David Davies	198,138	198,138	198,138	198,138
Derek Martin	148,724	148,724	148,724	148,724
John Clarke	32,500	32,500	32,500	32,500
At discretion of Remuneration Committee	262,500	262,500	262,500	262,500
Totals	840,000	840,000	840,000	840,000

The Directors consider that until a milestone has been met it is not appropriate to recognise any share-based remuneration charge in the Group Statement of Comprehensive Income in respect of the LTIP.

Jonathan Freeman

Chairman of the Remuneration Committee

Corporate Governance

Board of Directors

The Board comprises a Non-Executive Chairman ("Chairman"), a Chief Executive, two independent Non-Executive Directors and two further Executive Directors. The Chairman and the Non-Executive Directors receive part of their remuneration in the form of shares but this does not constitute a material business relationship with the Group and is not considered to impair the independence of the Non-Executive Directors. The Board is satisfied that it has an appropriate mix of experience in its Non-Executive Directors. The roles of Chairman and Chief Executive are intended to remain separate.

The Board retains full control of the Group with day-to-day operational control delegated to the Executive Directors. The full Board meets bi-monthly and on any other occasions it considers necessary. During 2013, there were 16 meetings of the full Board, four of the Remuneration Committee, two of the Audit Committee and one meeting of the Nominations Committee. All meetings were fully attended by their constituent Directors.

Board responsibility

The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy, approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board.

The Board is committed to maintaining appropriate standards of corporate governance.

The Board has sought to comply with a number of provisions of the Code in so far as it considers them to be appropriate to the Group's size and nature. This is considered by the Board to be reasonable and does not compromise the overall principles of corporate governance which the Board strongly supports.

There have been no material changes to our corporate governance processes following our annual review.

The Board considers that the remuneration of Executive Directors should include a performance related element which is almost entirely based on the award of share options or other share-based incentives as recommended by the Remuneration Committee and set out in the Remuneration Report on pages 14 to 18.

Audit Committee

The Audit Committee comprises the Non-Executive Directors, Jonathan Freeman and Lisa Arnold, and is chaired by Jonathan Freeman as Senior Independent Non-Executive Director. It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were two Audit Committee meetings during 2013. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and audit partners are rotated every five years. The possibility of undertaking an audit tender process is considered on a regular basis. The Audit Committee (with no Executive Director present) meets at least once per calendar year with the auditors to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, appointment and fee levels and any other appropriate matters. As well as providing audit related services, the auditors also provide taxation advice. The fees in respect of audit and tax services are disclosed in Note 4 of the Notes to the Group Financial Statements. Fees for non-audit services paid to the auditors are not deemed to be of such significance to them as to impair their independence and therefore the Audit Committee considers that the objectivity and independence of the auditors is safeguarded.

The terms of reference of the Audit Committee are set out in the Investors/Governance section on the Group's website at www.futuramedical.com.

Corporate Governance (continued)

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure of the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was concluded, given the current size and transparency of the operations of the Group, that an internal audit function was not required.

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.
- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.
- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail on a monthly basis, with variances highlighted to the Board.
- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.
- Standard financial control procedures are operated throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.
- A risk review process is in operation whereby the Chief Executive and Finance Director present a report to the Board each year on the key business risks.

Going concern

As disclosed in the Strategic Report on page 28 the Group financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Nominations Committee

The Nominations Committee comprises the two independent Non-Executive Directors and the Chairman and is chaired by Lisa Arnold.

The Nominations Committee monitors the requirements of the Group in respect of Board composition as the Group evolves and with regard to succession planning. There was one meeting during 2013. The terms of reference of the Nominations Committee are set out in the Investors/Governance section on the Group's website at www.futuramedical.com.

Employees

At 31 December 2013, the Group's employees comprised: three Executive Directors and three full-time and one part-time members of staff, all of whom are employed by the subsidiary.

The Executive Directors keep staff informed of the progress and development of the Group regularly through formal and informal meetings and employee feedback is encouraged. The Group has a policy of offering share options or other share-based incentives to all eligible employees with due consideration to the level of dilution to shareholders.

The Group does not discriminate between employees and prospective employees on the grounds of age, race, disability, religion or gender.

The Board recognises its obligation towards its employees to provide a safe and healthy working environment. The Group complies with health and safety legislation including conducting regular inspections and risk assessments.

Environmental, social and community matters

As a result of the size and nature of our operations, the impact of the Group's operations on the local community and the environment is not considered to be significant. Recycling of office supplies is undertaken where possible. The Group operates in a highly regulated industry and clinical trials are conducted in compliance with regulatory requirements.

The Group undertakes regular reviews of corporate social responsibility matters with policy updates and implements improvements to its operations where identified.

Relationship with shareholders

The Directors seek to build a mutual understanding of objectives between the Group and its shareholders. The Group reports formally to shareholders in its Interim Report and Annual Report setting out details of its activities. In addition, the Group keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM Rules for Companies ("AIM Rules") of the London Stock Exchange. The Chief Executive and Finance Director meet with institutional shareholders following interim and final results. The Group also maintains investor relations pages and other information regarding the business, its products and activities on its website at www.futuramedical.com.

The Annual Report is made available to shareholders at least 20 working days before the Annual General Meeting ("AGM") along with notice of the AGM. Directors are required to attend the AGM, unless unable to do so for personal reasons or due to pressing commercial commitments, and shareholders are given the opportunity to vote on each separate resolution proposed at the AGM. The Group counts all proxy votes and will indicate the level of proxies lodged for each resolution, after it has first been dealt with by a show of hands.

Derek Martin

Secretary

Directors' Report

Directors

The Directors during the year were:

John Clarke
James Barder
David Davies
Derek Martin
Jonathan Freeman
Lisa Arnold

Dividends

No dividends were paid and none are proposed (2012: £nil).

Group research and development costs

The main area of R&D continues to be in the field of innovative pharmaceutical drugs and medical devices for the consumer healthcare market with the focus being on sexual healthcare and pain relief management. The Group aims to achieve cost-effective research and development ("R&D") and to bring products to market through licensing partners as soon as is practicable.

Post balance sheet events

On 27 January 2014 share options over 120,000 new ordinary shares were exercised generating additional funds of £67,500 for the Group.

The Group raised £12.0 million (before expenses) following a placing of 21,052,632 shares at 57 pence per share on 7 March 2014 and approved by shareholders in a general meeting on 25 March 2014.

Directors' qualifying third party indemnity provisions

The Group has made qualifying third party indemnity provisions in favour of the Directors against liability in respect of proceedings brought by third parties and these remain in force at the date of this Directors' Report.

Adequacy of information supplied to auditors

Each Director has taken all reasonable steps to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have elected to prepare the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ("UK GAAP")). 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 Company and of the total comprehensive profit or loss for the Group for that period. The Directors are also required to prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare a Directors' Report and Strategic Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring that the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website, www.futuramedical.com, in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Derek Martin

Secretary
27 March 2014

Strategic Report

Our strategy is to develop innovative products with compelling commercial potential in the consumer healthcare market, leveraging our core skills in transdermal drug delivery.



The Strategic Report should be read in conjunction with the Chairman's and Chief Executive's Review on pages 6 to 11, the Group financial statements and the Notes to the Group Financial Statements set out on pages 31 to 54.

The Annual Report and Accounts ("Annual Report") for the Group is presented under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements of the Company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and are set out on pages 55 to 58.

Group strategy

The Group strategy is to focus on developing innovative products for the consumer healthcare market. This strategy is aligned with the well-publicised demographic change of an ageing population, increasing prosperity, Government initiatives to increase self-medication, the natural desire for improved quality of life and the Directors' expectations that consumer healthcare spending will increase as a result. The objective is to develop products such that each on its own has the potential to generate significant annual revenues.

The Group's innovation strategy applies advanced science to develop products with compelling commercial potential and is driven by the following four criteria:

- **Advanced transdermal technology:** offering innovative delivery of proven compounds through the skin to improve their performance or to address new indications.
- **Controlled development risk:** using only approved compounds to control the risk profile.
- **Strong intellectual property:** developing products where the Group can secure strong patent protection.
- **Commercialisation:** out-licensing products to leading healthcare companies which offer the optimum potential financial returns.

Our products CSD500 and MED2002 involve the application of the same active pharmaceutical ingredient, in each case in the sexual healthcare field. The development of our proprietary transdermal delivery technology, DermaSys[®], has enabled the expansion of our product pipeline to include other new active pharmaceutical ingredients. PET500, and our portfolio of pain relief products represent the next applications of our DermaSys[®] delivery technology.

Long lead times for product development characterise the pharmaceutical industry. However, the Board seeks to drive the business through to revenue generation as soon as is practicable with due regard to regulatory standards and an appropriate commercial approach. This is achieved through swift decision-making, highly capable staff and the involvement of external expertise.

At the same time, the Board remains committed to keeping regular and fixed costs restricted to an appropriate level through the continued and judicious use of external consultants and professional advisers. Clearly, the lower the Group's regular and fixed costs, the earlier that on-going revenue generation would lead to a key future financial milestone of monthly break-even and profitability.

The consumer healthcare market and competitive environment

The Group develops products that address the needs of the consumer healthcare market. The Group considers there to be two distinct categories in which it operates.

The first category is the global transdermal delivery market, valued at US\$21.5 billion in 2010.¹ Although the Group develops transdermal products for prescription and over the counter ("OTC") use, its focus is on developing non-prescription drugs. These comprise the sexual healthcare products PET500 and MED2002 and the pain relief products TPR100, TIB200 and SPR300. The global topical OTC analgesics market is valued at US\$4.1 billion in 2011² and the market leader for topical OTC analgesics has annual sales of US\$406 million³. As PET500 and MED2002 could form new categories within the OTC market, no published data is available on the OTC sexual healthcare market to substantiate market size estimates. The prescription market for erectile dysfunction treatments was estimated to be in excess of US\$4.4 billion⁴ in 2012.

The second category is the global consumer medical devices market. The Directors estimate that the market for consumer medical devices is worth between US\$23 billion and US\$26 billion. The consumer medical device being developed by the Group is the condom product CSD500, which addresses the global condom market estimated to be worth US\$3.5 billion⁵.

These consumer healthcare markets are dominated by global pharmaceutical and consumer healthcare groups with established distribution networks. Smaller R&D companies, such as Futura, seek to out-license their innovative products to these larger entities.

Futura offers its licensing partners its ability to identify commercially attractive consumer healthcare product opportunities coupled with a lower cost, expert and fast development model, backed by strong patent protection. In return for this, Futura seeks significant royalties from future sales of these products through its partners and their established distribution networks.

Financial Review

The Group ended the year with costs firmly under control and with a more advanced and diverse development portfolio.

Revenue

Group revenue for the year ended 31 December 2013 was £371k (2012: £75k).

Losses

The Group continues to maintain a focus on tight control of all expenditure. The Group's operating loss for the year ended 31 December 2013 was £2.53 million (2012: £2.46 million). The Group's loss after taxation for the year ended 31 December 2013 was £2.21 million (2012: £2.18 million). Loss per share for the year ended 31 December 2013 was 2.85 pence (2012: 2.91 pence).

No dividends were paid and none are proposed (2012: £nil).

Notes

¹ *Transdermal Medicine Review and Outlook 2011*, Pharmalive.

² 2011 calendar year. Source: *OTC Yearbook 2012 (MSP)*, Nicholas Hall & Company DB6 database.

³ 2011 calendar year. Source: (MSP), Nicholas Hall & Company.

⁴ Futura estimate based on erectile dysfunction product sales data from 2012 Annual Reports for Pfizer, Lilly and Bayer.

⁵ Source: "Condoms: A Global Strategic Business Report", Oct. 2012, Global Industry Analysts, Inc.

Strategic Report (continued)

Group research and development costs

Group R&D costs each year reflect the number of products being developed, the stage of development reached for each and the impact on their progress of external factors.

R&D costs of £1,976,322 were higher (2012: £1,435,731) due to the costs of transfer of technology associated with obtaining the CE mark authorisation for CSD500.

The table below shows the trend in R&D costs and other administrative costs over the past five years ended 31 December:

	2013 £	2012 £	2011 £	2010 £	2009 £
R&D costs	1,976,322	1,435,731	1,480,774	760,637	810,188
Other administrative costs	926,123	1,095,197	776,154	700,399	796,186
Total operating costs	2,902,445	2,530,928	2,256,928	1,461,036	1,606,374
R&D ratio	67%	57%	66%	52%	50%

The R&D ratio is the percentage of R&D costs relative to total operating costs. The Board monitors this ratio closely. Total R&D spend since the formation of the business in 1997 totals £15.6 million (57% of total cumulative operating costs). During the year, the sole subsidiary, Futura Medical Developments Limited continued to incur this R&D expenditure which has been accounted for as explained in accounting policy note 1.7 of the Notes to the Group Financial Statements and has been written off as incurred for all reporting periods prior to and including the year ended 31 December 2013.

The Board considers that this overall total R&D spend relative to its pipeline of later stage products and emerging new products distinguishes the Group's lower funding requirements and risk profile from more typical businesses in the wider pharmaceutical industry. The Group's strategy is to focus on medical devices and pharmaceutical drugs that offer the potential for a significant return on the costs of development. As well as progressing its existing R&D programme, the Group continues to seek new opportunities for potential products to add to its portfolio.

Other administrative costs

Other administrative costs for the year ended 31 December 2013 were £926,123 (2012: £1,095,197). These comprised all other operating costs excluding those relating to product development and associated intellectual property. The proportion of senior management time spent on administration, in particular licensing negotiations, was significantly higher in 2013 relative to management time spent on R&D. The main constituents of other administrative costs and their relative proportions were:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	58%	67%
Legal and professional advisers	13%	13%
Office costs and staff expenses	9%	9%
Licensing negotiations	20%	11%
	100%	100%

Taxation

A tax credit of £313,677 (2012: £260,791) in respect of R&D expenditure incurred has been recognised in the Group financial statements.

Capital structure and funding

The Group remains funded primarily by equity share capital. Equity funding (net of expenses) received since the formation of the business until 31 December 2013 totalled £22.82 million.

During the year additional funds were raised following the issue of shares under the employee share option scheme, as follows:

Date	Capital Raised £	Number of Shares Issued	Cost per Share
10 April	12,150	30,000	40.50 pence
10 April	8,438	15,000	56.25 pence
1 May	39,300	97,038	40.50 pence
16 September	64,688	115,000	56.25 pence
16 September	8,100	20,000	40.50 pence
17 October	18,362	32,500	56.50 pence
	£151,038	309,538	

On 31 December 2013 the Group raised £30,291 following the issue of 52,092 shares at 58.15 pence per share under the policy on Non-Executive Directors' remuneration.

Strategic Report (continued)

Cash held by the Group at 31 December 2013 totalled £0.99 million comprising cash and cash equivalents shown below at each year ended 31 December:

	2013 £	2012 £	2011 £	2010 £	2009 £
Cash and cash equivalents	0.99	2.82	2.58	0.82	1.79

The Group had no bank borrowings at 31 December 2013 (2012: £nil).

Other significant sources of funding received for the Group since formation of the business until 31 December 2013 comprised: R&D tax credits £2.25 million, interest £0.93 million and grants £0.28 million.

Equity funding of £12.0 million (before expenses) was obtained in March 2014 and as a result of this the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons the Directors continue to adopt the going concern basis in preparing the financial statements.

Key performance indicators

The Directors consider the successful achievement of development, licensing and commercialisation milestones and the number of products under development (beyond the evaluation stage) to be the major drivers of value creation for the Group. These are measures of the progress of the business towards its revenue generation goal and are considered by the Directors to be the key non-financial performance indicators used to determine achievement of Group strategy. The Group's performance with regard to such milestones is discussed in the Chairman's and Chief Executive's Review on pages 6 to 11.

The Directors consider Group cash and the absolute values of, and the ratio between, R&D costs and other administrative overhead costs as being the Group's key financial performance indicators. The cost related indicators assist in monitoring financial control to reduce the hurdle to achieving a key future financial milestone of monthly break-even and profitability. The monitoring of cash gives due consideration to anticipated future spend required to prioritise development opportunities and to plan the resources required to achieve the goals of the business.

Principal risks and uncertainties

The development of pharmaceutical drugs and medical devices requires the necessary safety, stability and efficacy to be demonstrated in clinical programmes in order to meet the requirements of the appropriate regulatory bodies. These clinical programmes may not achieve their endpoints. The Directors consider that the key risks of the Group are:

Clinical development and regulatory risk

There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made. Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Group or its distribution partners in order to be able to market its products effectively.

The Group seeks to reduce this risk by developing products using safe, well-characterised active compounds, by seeking advice from regulatory advisers, consultations with regulatory approval bodies and by working with experienced distribution partners.

Commercial risk

There can be no guarantee that the Group will succeed in establishing and maintaining the necessary contractual relationships with licensing partners for the Group's products under development.

Even if the Group's products are successfully developed and approved by the appropriate regulatory bodies, they may not be successfully launched by the Group's licensing partners or enjoy commercial acceptance. The Group is reliant on commercial partners to carry out their contractual obligations and the degree to which these can be enforced by the Group is limited. The Group seeks to reduce this risk by selecting experienced licensing partners, maintaining and developing these relationships and seeking to develop new products of commercial interest to these and other partners.

Funding risk

The Group continues to incur substantial operating expenses. Until the Group generates positive net cash inflows from the commercialisation of its products it remains dependent upon additional funding through the injection of equity capital from share issues. The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long-term supplier contracts (other than clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and keeping shareholders informed of progress.

Treasury and financial risk

Treasury and financial risk management policy is concerned with financial instruments and management of interest rate risk and foreign exchange rate risk. Financial risks are quantified in note 2 of the Notes to the Group Financial Statements and were not considered significant at the Group Statement of Financial Position date.

The financial instruments held by the Group are disclosed in note 12 of the Notes to the Group Financial Statements. The Group policy on exposure to financial risk is disclosed in note 2 of the Notes to the Group Financial Statements.

Competition risk

The Group's current and future potential competitors include, amongst others, major multinational pharmaceutical and healthcare companies with substantially greater resources than those of the Group. There can be no assurance that competitors will not succeed in developing systems and products that are more effective or economic than any of those developed by the Group, with its distribution partners, or which would render the Group's products obsolete or otherwise non-competitive.

The Group seeks to reduce this risk by securing patent registration protection for its products, maintaining confidentiality agreements regarding Group know-how and technology, monitoring technological developments and by selecting leading businesses in their respective fields as licensing partners capable of addressing significant competition, should it arise.

Intellectual property risk

The commercial success of the Group and its ability to compete effectively with other companies depend, amongst other things, on its ability to obtain and maintain patents sufficiently broad in scope to provide protection for the Group's intellectual property rights against third parties and to exploit its pharmaceutical products. The absence of any such patents may have a material adverse effect on the Group's ability to develop its business. The Group seeks to reduce this risk by only developing products where legal advice indicates patent protection would be available, seeking patent protection for the Group's products, maintaining confidentiality agreements regarding Group know-how and technology and monitoring technological developments and the registration of patents by other parties.

The commercial success of the Group also depends upon not infringing patents granted, now or in the future, to third parties who may have filed applications or who have obtained, or may obtain, patents relating to business processes which might inhibit the Group's ability to develop and exploit its own products.

Derek Martin

Secretary

Independent Auditor's Report

Independent auditor's report to the members of Futura Medical plc

We have audited the financial statements of Futura Medical plc for the year ended 31 December 2013, which comprise: Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Statement of Financial Position, Group Statement of Cash Flows, Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2013 and of the Group's total comprehensive loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

Christopher Pooles (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Reading

United Kingdom

27 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Revenue	1.5	370,902	75,000
Research and development costs		(1,976,322)	(1,435,731)
Administrative costs		(926,123)	(1,095,197)
Operating loss	4	(2,531,543)	(2,455,928)
Finance income	7	9,534	18,488
Loss before tax		(2,522,009)	(2,437,440)
Taxation	8	313,677	260,791
Total comprehensive loss for the year attributable to owners of the parent company		(2,208,332)	(2,176,649)
Basic and diluted loss per share (pence)	9	(2.85 pence)	(2.91 pence)

All amounts relate to continuing activities.

The notes on pages 35 to 54 form part of these Group financial statements.

Group Statement of Changes in Equity

For the year ended 31 December 2013

	Notes	Share Capital £	Share Premium £	Merger Reserve £	Retained Losses £	Total Equity £
At 1 January 2012		146,447	19,180,860	1,152,165	(17,721,923)	2,757,549
Total comprehensive loss for the year		–	–	–	(2,176,649)	(2,176,649)
Share-based payment	17	–	–	–	129,109	129,109
Shares issued during the year	16	8,449	2,238,151	–	–	2,246,600
Cost of share issues		–	(83,333)	–	–	(83,333)
At 1 January 2013		154,896	21,335,678	1,152,165	(19,769,463)	2,873,276
Total comprehensive loss for the year		–	–	–	(2,208,332)	(2,208,332)
Share-based payment	17	–	–	–	141,499	141,499
Shares issued during the year	16	723	180,606	–	–	181,329
At 31 December 2013		155,619	21,516,284	1,152,165	(21,836,296)	987,772

Share premium represents amounts subscribed for share capital in excess of nominal value, less the related costs of share issues.

Merger reserve represents the reserve arising on the acquisition of Futura Medical Developments Limited in 2001 via a share for share exchange accounted for as a group reconstruction using merger accounting under UK GAAP.

Retained losses represent cumulative net losses recognised in the Group Statement of Comprehensive Income. The total comprehensive loss for the year represents the total recognised income and expense for the year.

The notes on pages 35 to 54 form part of these Group financial statements.

Group Statement of Financial Position

As at 31 December 2013

	Notes	As at 31 December 2013 £	As at 31 December 2012 £
Assets			
Non-current assets			
Plant and equipment	10	7,849	6,584
Total non-current assets		7,849	6,584
Current assets			
Inventories	11	35,007	7,224
Trade and other receivables	13	118,670	116,603
Taxation	8	313,677	260,791
Cash and cash equivalents	14	990,567	2,817,027
Total current assets		1,457,921	3,201,645
Liabilities			
Current liabilities			
Trade and other payables	15	(477,998)	(334,953)
Total liabilities		(477,998)	(334,953)
Total net assets		987,772	2,873,276
Capital and reserves attributable to owners of the parent company			
Share capital	16	155,619	154,896
Share premium		21,516,284	21,335,678
Merger reserve		1,152,165	1,152,165
Retained losses		(21,836,296)	(19,769,463)
Total equity		987,772	2,873,276

The Group financial statements were approved and authorised for issue by the Board on 27 March 2014.

The notes on pages 35 to 54 form part of these Group financial statements.

By order of the Board

James Barder

Chief Executive

Group Statement of Cash Flows

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Cash flows from operating activities			
Loss before tax		(2,522,009)	(2,437,440)
Adjustments for:			
Depreciation	10	3,783	2,182
Finance income	7	(9,534)	(18,488)
Share-based payment charge	17	141,499	129,109
Cash flows from operating activities before changes in working capital		(2,386,261)	(2,324,637)
(Increase)/decrease in inventories	11	(27,783)	1,176
Increase in trade and other receivables		(3,750)	(17,688)
Increase in trade and other payables	15	143,045	140,637
Cash used in operations		(2,274,749)	(2,200,512)
Income tax received		260,791	259,704
Net cash used in operating activities		(2,013,958)	(1,940,808)
Cash flows from investing activities			
Purchase of plant and equipment	10	(5,048)	(4,246)
Interest received		11,217	16,205
Cash generated by investing activities		6,169	11,959
Cash flows from financing activities			
Issue of ordinary shares	16	181,329	2,246,600
Expenses paid in connection with share issues		–	(83,333)
Cash generated by financing activities		181,329	2,163,267
(Decrease)/increase in cash and cash equivalents		(1,826,460)	234,418
Cash and cash equivalents at beginning of year		2,817,027	2,582,609
Cash and cash equivalents at end of year	14	990,567	2,817,027

The notes on pages 35 to 54 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2013

1. Accounting policies

1.1 Basis of preparation

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

The accounting policies set out below have been applied to all periods presented in these Group financial statements and are in accordance with IFRSs as adopted by the European Union, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 31 December 2013.

1.2 Going concern

The Group had cash balances of £0.99 million at 31 December 2013, with a net cash outflow of £1.83 million in the year.

The Group raised £12.0 million (before expenses) following a placing of 21,052,632 shares at 57 pence per share with existing and new institutional investors, approved by shareholders in a general meeting held on 25 March 2014, demonstrating that the Group has access to finance. The Directors have considered the cash flow requirements for the Group for a period including 12 months from the date of approval of these financial statements which includes an assessment of research and development expenditure. Based on these projections, the Directors consider that both the Company and the Group will have sufficient cash resources during this period to pay all of its liabilities as they fall due and therefore consider it appropriate to continue to prepare the accounts on a going concern basis.

The Group financial statements have been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Group financial statements do not reflect any adjustments that would be required if they were to be prepared on a basis other than the going concern basis.

1.3 Accounting developments

The following new standards, amendments to standards or interpretations have been issued and are effective for the year ended 31 December 2013, however, the Directors do not expect them to have a material effect on the Group financial statements:

- IFRS 10 'Consolidated Financial Statements'
- IAS 1 (Amended) 'Presentation of Financial Statements'
- IAS 19 (Amended) 'Employee Benefits'
- IAS 24 'Related Party Disclosures' (revised)
- IAS 27 'Separate Financial Statements' (revised)
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'

Notes to the Group Financial Statements (continued)

1. Accounting policies (continued)

The following new standard, which is not yet effective and has not been adopted early in these financial statements, will or may have an effect on the Group's future financial statements:

- IFRS 9 'Financial Instruments'

1.4 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities, it is classified as a subsidiary. The Group financial statements present the results of the Company and its sole subsidiary Futura Medical Developments Limited as if they formed a single entity ("the Group"). Intra-group transactions and balances are eliminated in preparing the Group financial statements.

1.5 Revenue

Revenue comprises the fair value received or receivable for: exclusivity arrangements, consultancy fees, milestone income or royalties, net of value added tax.

The accounting policies for the principal revenue streams of the Group are as follows:

- Exclusivity arrangements and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction.
- Consultancy fees are recognised as revenue in the accounting period in which the revenue becomes receivable.
- Non-refundable milestone income is recognised as revenue in the accounting period in which the milestones are achieved. If any milestone income is creditable against royalty payments then it is deferred and released to the Group Statement of Comprehensive Income over the accounting periods in which the royalties would otherwise be receivable.
- Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

1.6 Leased assets

Leases, which contain terms whereby the Group does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases. Operating lease rentals are charged to the Group Statement of Comprehensive Income on a straight-line basis over the lease term. The Group does not hold any assets under finance leases.

1. Accounting policies (continued)

1.7 Intangible assets

Research and development ("R&D")

Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to out-license or sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods in which the Group expects to benefit from selling the products developed but not exceeding five years. The amortisation expense is included in R&D costs recognised in the Group Statement of Comprehensive Income. The useful life and the value of the capitalised development cost are assessed for impairment at least annually. The value is written down immediately if impairment has occurred and the unimpaired cost amortised over the reduced useful life. The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product being commercially launched in at least one country.

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects are included in R&D costs recognised in the Group Statement of Comprehensive Income as incurred.

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

1.8 Plant and equipment

Plant and equipment is initially recognised at cost, and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the Group Statement of Comprehensive Income at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each Group Statement of Financial Position date.

1.9 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment on a half-yearly basis and when events or circumstances suggest that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised immediately in the Group Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

Notes to the Group Financial Statements (continued)

1. Accounting policies (continued)

Recoverable amount is the higher of fair value, less disposal costs, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the Group Statement of Comprehensive Income.

1.10 Inventories

Inventories are materials and supplies to be consumed in the course of R&D and are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first in, first out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

A provision is recognised immediately in the Group Statement of Comprehensive Income in respect of obsolete, slow-moving or defective items, where appropriate.

1.11 Financial instruments

Financial assets

The Group classifies its financial assets in the category of loans and receivables, comprising 'trade and other receivables' and 'cash and cash equivalents'. They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an estimate made for impairment based on a review of all past due amounts at the year end. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. If an impairment loss is required the carrying amount of the trade or other receivable is reduced through the use of an allowance account and the amount of the loss recognised immediately in the Group Statement of Comprehensive Income in administrative costs.

Medium-term deposits, comprising sterling fixed rate deposits, with original maturities of more than three months are included in trade and other receivables.

Cash and cash equivalents are financial assets and comprise cash in hand and sterling fixed rate short-term deposits with original maturities of three months or less which are held by the Group so as to be available to meet short-term cash commitments.

The Group assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset is impaired.

Financial liabilities

The Group's financial liabilities comprise 'trade and other payables' recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

1. Accounting policies (continued)

1.12 Government grants

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs defrayed are accrued and recognised in the Group Statement of Comprehensive Income over the period required to match them with the costs which they reimburse.

1.13 Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the Group Statement of Financial Position date. R&D tax credits are recognised on an accruals basis and are included as an income tax credit under current assets.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the Group Statement of Financial Position date differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the Group Statement of Financial Position date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1.14 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Group Statement of Comprehensive Income in the period in which they arise.

Notes to the Group Financial Statements (continued)

1. Accounting policies (continued)

1.15 Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees and Executive Directors who wish to participate in defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the Group Statement of Comprehensive Income in the period in which they become payable.

(ii) Accrued holiday pay

Provision is made at each Group Statement of Financial Position date for holidays accrued but not taken at the salary of the relevant employee at that date. The expected cost of compensated short-term absence (i.e. holidays) is charged to the Group Statement of Comprehensive Income on an accruals basis.

(iii) Share-based payment transactions

The Group operates an equity-settled share-based compensation plan. For all share options awarded to employees, and others providing similar services, the fair value of the share options at the date of grant is charged to the Group Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Group Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of share options that eventually vest. There are no market vesting conditions. If the terms and conditions of share options are modified before they vest, the change in the fair value of the share options, measured immediately before and after the modification, is also charged to the Group Statement of Comprehensive Income over the remaining vesting period.

The proceeds received when share options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium. All employee share option holders enter into an HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no Group asset or liability arises.

(iv) Long-term incentive plan

The Group operates a long-term incentive plan for staff, the Executive Directors and the Chairman. The quantum of any awards receivable will depend on the Group achieving set milestones and the share price at the time relative to targets set in advance. The Group can exercise discretion in settling any award in equity or in cash.

1.16 Finance income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

1.17 Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by the Directors based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Judgements

(i) Revenue recognition

Fees invoiced in respect of non-refundable milestones have been recognised as revenue in the Group Statement of Comprehensive Income in the period as all criteria for revenue recognition have been met.

1. Accounting policies (continued)

(ii) Intangible asset recognition

The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product being commercially launched in at least one country.

(iii) Deferred tax recognition

The Directors consider that, given the current stage of development of the business, deferred tax assets should not be recognised before the Group is generating recurring royalty revenue.

Estimates and assumptions

(iv) Useful lives of plant and equipment

Plant and equipment is amortised or depreciated over its useful life. Useful lives are based on the Directors' estimates of the periods over which the assets will be used in developing revenue generating products and the estimates are reviewed annually for continued appropriateness. The estimated useful lives are between two and five years for computer equipment and between three and ten years for furniture and fittings. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Group Statement of Comprehensive Income in specific periods.

(v) Fair value of financial instruments

The Group determines the fair value of financial instruments using valuation techniques which can be significantly affected by the assumptions used, including interest and discount rates and estimates of future cash flows.

(vi) Inventories

The Group reviews the net realisable value of its inventories on a half-yearly basis to provide assurance that recorded inventories are stated at the lower of cost or net realisable value. Factors that could impact realisable value include: the timing and success of future technological innovations in relation to product R&D, competitor and Government actions, supplier prices and economic trends.

(vii) Share-based payments

The Group operates an equity-settled share-based compensation plan as detailed in note 17. Employee (and similar) services received and the corresponding increase in equity are measured by reference to the fair value of the equity instruments as at the date of grant.

2. Financial risk management

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange rate risk, cash flow interest rate risk and fair value interest rate risk); credit risk and liquidity risk.

It is Group policy not to enter into speculative positions using complex financial instruments. The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing favourable market rates of interest on Group cash deposits using money market deposits with banks. Cash balances used to settle the liabilities from operating activities are also maintained in current accounts which earn interest at variable rates.

Notes to the Group Financial Statements (continued)

2. Financial risk management (continued)

(i) Market risk

Foreign exchange rate risk

The Group primarily enters into supplier contracts which are to be settled in sterling. However, some contracts involve other currencies including the US dollar and the euro. Where supplier contracts of more than £100,000 total value are to be settled in foreign currencies consideration is given to settling the sums to be paid through conversion of sterling deposits to the appropriate foreign currency holdings at the outset of the contract to minimise the risk of adverse currency fluctuations.

For contracts with smaller values the foreign exchange rate risk is not considered sufficient to require the establishment of foreign currency accounts unless specific circumstances are identified which warrant this.

At 31 December 2013 the Group had trade payables of £40,215 denominated in a foreign currency (31 December 2012: £36,294).

Cash flow interest rate risk and fair value interest rate risk

The Group's interest rate risk arises from short-term money market deposits. Deposits which earn variable rates of interest expose the Group to cash flow interest rate risk. Deposits at fixed rates expose the Group to fair value interest rate risk. The Group analyses its interest rate exposure on a dynamic basis.

The impact in the year ended 2013, of a defined interest rate shift of a 1% higher rate of interest earned per annum applied to the term deposits over the period of the deposit, on the post-tax loss for the year and net assets would have been £21,608 reduction/increase (2012: £19,898 reduction/increase).

The impact in the year ended 2013, of a defined interest rate shift of a 1% lower rate of interest earned per annum applied to the term deposits over the period of the deposit, on the post-tax loss for the year and net assets would have been £11,149 increase/reduction (2012: £14,813 increase/reduction).

(ii) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure in relation to outstanding receivables. The Group policy is to spread deposits over at least two institutions with investment grade A1 or better (Standard & Poor's credit rating) and deposits are made in sterling only. The Group does not expect any losses from non-performance by these institutions.

(iii) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Prudent liquidity risk management involves maintaining sufficient cash and cash equivalents and the monitoring of rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The Group had trade and other payables at the Group Statement of Financial Position date of £477,998 (2012: £334,953) as disclosed in note 15, which fall due within one year.

2. Financial risk management (continued)**2.2 Capital risk management**

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 equity holders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

2.3 Fair value estimation

The Group uses amortised cost, using the effective interest rate method, to determine subsequent fair value, after initial recognition, for its financial instruments.

3. Segment reporting

The Group is organised and operates as one business segment. The main area of R&D continues to be in the field of innovative products for consumer healthcare using the Group's advanced proprietary transdermal technology.

The Group manages any overseas R&D from the UK, the primary business segment. Segment revenue is based on the geographical location of the Group's customers. Since there is currently only one business segment and one geographical segment, no separate segment reporting has been prepared.

4. Operating loss

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Operating loss is stated after charging		
Depreciation of plant and equipment (note 10)	3,783	2,182
Inventories consumed in R&D	6,868	1,176
Wages and salaries (note 5)	1,229,672	1,135,843
Operating lease costs: Property	68,151	68,151
Loss on foreign exchange	5,398	–

Notes to the Group Financial Statements (continued)

4. Operating loss (continued)

The fees of the Group's auditor, BDO LLP, for services provided are analysed below:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Audit services		
Parent company	26,000	25,500
Subsidiary	4,000	3,700
Tax compliance services		
Parent company	900	900
Subsidiary	4,350	4,200
Total fees	35,250	34,300

5. Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year was 10 (by category: R&D 4, administration 6), (2012:10, by category: R&D 4, administration 6) and their aggregate emoluments were:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	867,551	787,825
Social security costs	109,035	99,596
Other pension and insurance benefits costs	107,100	125,041
Total cash-settled emoluments	1,083,686	1,012,462
Accrued holiday pay	4,487	(5,728)
Share-based payment remuneration charge (note 17)	141,499	129,109
Total emoluments	1,229,672	1,135,843

All employees of the Group are employed by Futura Medical Developments Limited.

6. Directors' emoluments

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Aggregate emoluments	655,439	620,428
Employer pension contributions	64,830	80,818
Sub-totals per remuneration report (page 16)	720,269	701,246
Share-based payment remuneration charge	80,063	78,429
Employer's national insurance charge	89,861	78,037
Total emoluments	890,193	857,712

Emoluments disclosed above include the following amounts in respect of the highest paid Director:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Aggregate emoluments	205,230	197,631
Employer pension contributions	26,318	25,718
Sub-totals per remuneration report (page 16)	231,548	223,349
Share-based payment remuneration charge	34,879	33,949
Employer's national insurance charge	28,044	25,612
Total emoluments	294,471	282,910

During the year, two Directors exercised share options under the Group share option scheme and realised a combined gain of £19,182 (2012: three Directors, realised gain £128,380). In respect of the highest paid Director the realised gain was £nil (2012: £52,475).

During the year, three Directors (2012: three Directors) participated in a private money purchase defined contribution pension scheme.

Emoluments for individual Directors are disclosed within the Remuneration Report on page 16.

Notes to the Group Financial Statements (continued)

7. Finance income

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Interest receivable on fixed rate short-term deposits	9,534	18,488

8. Taxation

Current tax

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
UK corporation tax credit reported in the Group Statement of Comprehensive Income	313,677	260,791

The tax assessed for the year is different from the standard rate of corporation tax in the UK.

The differences are explained below:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Loss on ordinary activities before tax	2,522,009	2,437,440
Loss on ordinary activities at an average standard rate of corporation tax in the UK of 20% (2012: 20%)	504,402	487,487
Expenses not deductible for tax purposes	(36)	(10)
Difference between depreciation and capital allowances	253	413
Other short-term timing differences	(28,925)	(24,799)
Unutilised tax losses	(236,813)	(319,220)
Tax relief on share options exercised	12,384	66,326
Additional relief attaching to R&D tax credit claims	62,412	50,594
UK corporation tax credit reported in the Group Statement of Comprehensive Income	313,677	260,791

The Group has tax losses of £15,500,889 (2012: £14,304,768) available for offset against future taxable profits.

8. Taxation (continued)**Deferred tax**

Deferred tax assets amounting to £3,249,939 (2012: £2,926,896) have not been recognised on the basis that their future economic benefit is not certain. Assuming a prevailing tax rate of 20% (2012: 20%) when the timing differences reverse, the unrecognised deferred tax asset comprises:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Depreciation in excess of capital allowances	10,724	10,977
Tax relief on unexercised share options	136,567	53,120
Other short-term timing differences	2,470	1,845
Unutilised tax losses	3,100,178	2,860,954
	3,249,939	2,926,896

9. Loss per share (pence)

The calculation of the loss per share is based on a loss of £2,208,332 (2012: loss of £2,176,649) and on a weighted average number of shares in issue of 77,591,370 (2012: 74,746,320).

The loss attributable to equity holders of the Company for the purpose of calculating the fully diluted loss per share is identical to that used for calculating the basic loss per share. The exercise of share options, disclosed in note 17, or the issue of shares under the long-term incentive plan, would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per Share'.

Notes to the Group Financial Statements (continued)

10. Plant and equipment

Cost	Computer Equipment £	Furniture and Fittings £	Total £
At 1 January 2013	54,910	52,146	107,056
Additions	5,048	–	5,048
At 31 December 2013	59,958	52,146	112,104
Depreciation			
At 1 January 2013	48,821	51,651	100,472
Charge for year	3,679	104	3,783
At 31 December 2013	52,500	51,755	104,255
Net book value			
At 31 December 2013	7,458	391	7,849
At 31 December 2012	6,089	495	6,584

Cost	Computer Equipment £	Furniture and Fittings £	Total £
At 1 January 2012	50,664	52,146	102,810
Additions	4,246	–	4,246
At 31 December 2012	54,910	52,146	107,056
Depreciation			
At 1 January 2012	46,744	51,546	98,290
Charge for year	2,077	105	2,182
At 31 December 2012	48,821	51,651	100,472
Net book value			
At 31 December 2012	6,089	495	6,584
At 31 December 2011	3,920	600	4,520

All fixed assets of the Group are held in Futura Medical Developments Limited.

11. Inventories

	31 December 2013 £	31 December 2012 £
Raw materials and consumables	35,007	7,224

12. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per Group Statement of Financial Position	Notes	31 December 2013 £	31 December 2012 £
Loans and receivables			
Trade receivables	13	12,000	
Cash and cash equivalents	14	990,567	2,817,027
Total loans and receivables		1,002,567	2,817,027
Liabilities as per Group Statement of Financial Position			
Total trade and other payables		477,998	334,953

13. Trade and other receivables

	31 December 2013 £	31 December 2012 £
Amounts receivable within one year:		
Trade debtors	12,000	–
Other receivables	27,307	30,634
Prepayments and accrued income	79,363	85,969
	118,670	116,603

Trade and other receivables do not contain any impaired assets. The Group does not hold any collateral as security and the maximum exposure to credit risk at the Group Statement of Financial Position date is the fair value of each class of receivable.

Notes to the Group Financial Statements (continued)

14. Cash and cash equivalents

	31 December 2013 £	31 December 2012 £
Cash at bank and in hand	63,835	60,307
Sterling fixed rate short-term deposits of up to three months maturity	926,732	2,756,720
	990,567	2,817,027

15. Trade and other payables

	31 December 2013 £	31 December 2012 £
Trade payables	186,503	164,500
Social security and other taxes	48,973	29,844
Accrued expenses and deferred income	242,522	140,609
	477,998	334,953

16. Share capital

	31 December 2013 Number	31 December 2012 Number	31 December 2013 £	31 December 2012 £
Authorised				
Ordinary shares of 0.2 pence each	500,000,000	500,000,000	1,000,000	1,000,000
Allotted, called up and fully paid				
Ordinary shares of 0.2 pence each	77,809,576	77,447,946	155,619	154,896

The number of issued ordinary shares as at 1 January 2012 was 73,223,391.

16. Share capital (continued)

During the year ended 31 December 2012, the Company issued shares of 0.2 pence each as follows:

Month	Reason for issue	Gross Consideration £	Shares Issued Number
January 2012	Share option exercise at 24.25 pence per share	119,000	490,721
September 2012	Placing at 57.00 pence per share	2,083,332	3,654,969
October 2012	Share option exercise at 24.25 pence per share	3,638	15,000
October 2012	Share option exercise at 40.50 pence per share	12,150	30,000
December 2012	Non-Executive Director award at 84.10 pence per share	28,480	33,865
		2,246,600	4,224,555

The number of issued ordinary shares as at 1 January 2013 was 77,447,946.

During the year ended 31 December 2013, the Company issued shares of 0.2 pence each as follows:

Month	Reason for issue	Gross Consideration £	Shares Issued Number
April 2013	Share option exercise at 40.50 pence per share	12,150	30,000
April 2013	Share option exercise at 56.25 pence per share	8,438	15,000
May 2013	Share option exercise at 40.50 pence per share	39,300	97,038
September 2013	Share option exercise at 56.25 pence per share	64,688	115,000
September 2013	Share option exercise at 40.50 pence per share	8,100	20,000
October 2013	Share option exercise at 56.50 pence per share	18,362	32,500
December 2013	Non-Executive Director award at 58.15 pence per share	30,291	52,092
		181,329	361,630

Notes to the Group Financial Statements (continued)

17. Share options

At 31 December 2013, the number of ordinary shares of 0.2 pence each subject to share options granted under the Company's Approved and Unapproved Share Option Schemes were:

Exercise Period	Exercise Price per Share Pence	At 1 January 2013 Number	Grants During Year Number	Options Lapsed Number	Options Exercised Number	At 31 December 2013 Number
1 February 2008 – 31 January 2013	74.50	100,000	–	(100,000)	–	–
1 February 2009 – 31 January 2014	56.25	250,000	–	–	(130,000)	120,000
1 August 2011 – 31 July 2016	24.25	314,279	–	–	–	314,279
1 August 2012 – 31 July 2017	40.50	810,000	–	–	(147,038)	662,962
1 October 2013 – 30 September 2018	56.50	890,000	–	(30,000)	(32,500)	827,500
1 October 2014 – 30 September 2019	61.50	890,000	–	(30,000)	–	860,000
1 October 2015 – 30 September 2020	71.50	–	950,000	–	–	950,000
		3,254,279	950,000	(160,000)	(309,538)	3,734,741

On 23 September 2013 share options over 950,000 new ordinary shares were granted to employees and a consultant (including Directors).

Details of share options exercised by employees in 2013, given in note 16, generated additional funds of £151,038 for the Group.

The share options outstanding at 31 December 2013 represented 4.8% of the issued share capital as at that date (2012: 4.2%) and would generate additional funds of £2,087,900 (2012: £1,669,588) if fully exercised. The weighted average remaining life of the share options was 59 months (2012: 60 months), with a weighted average remaining exercise price of 55.90 pence (2012: 51.30 pence).

The share options exercisable at 31 December 2013 totalled 1,924,741 (2012: 2,364,279) with an average exercise price of 45.71 pence (2012: 47.47 pence) and would have generated additional funds of £879,750 (2012: £1,122,238) if fully exercised.

The Group's share option scheme rules apply to 3,029,741 of the share options outstanding at 31 December 2013 (31 December 2012: 2,679,279) and include a rule regarding forfeiture of unexercised share options by a Director or employee upon the cessation of their employment (except in specific circumstances).

There were no market vesting conditions within the terms of the grant of the share options.

17. Share options (continued)

The Black–Scholes formula is the option pricing model applied to the grants of all share options made in respect of calculating the fair value of the share options.

	31 December 2013	31 December 2012
Inputs to share option pricing model		
Grant date	23 September	17 September
Number of shares under option	950,000	890,000
Share price as at date of grant	71.50 pence	61.50 pence
Option exercise price	71.50 pence	61.50 pence
Expected life of options: based on previous exercise history	3 years	3 years
Expected volatility: based on 50 day median fluctuations over 3 years	42.72%	40.25%
Dividend yield: no dividends assumed	0%	0%
Risk-free rate: yield on 3 year treasury stock as at date of grant	0.95% p.a.	0.45% p.a.
Outputs generated from share option pricing model		
Fair value per share under option	21.37 pence	15.15 pence
Total expected charge over the vesting period	£203,015	£134,827
Recognised in the Group Statement of Comprehensive Income		
The share-based remuneration charge (note 5) comprises:		
Share-based payments	£141,499	£129,109

18. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2013 amounted to £86,746 (2012: £106,714). Pension contributions payable one month in arrears at 31 December 2013 included in accrued expenses at the relevant Group Statement of Financial Position date totalled £2,748 (2012: £4,109).

Notes to the Group Financial Statements (continued)

19. Commitments

At 31 December 2013 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £5,714 (2012: £5,714).

20. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', are the wholly owned subsidiary company, Futura Medical Developments Limited, and the Board. Transactions between the Company and the wholly owned subsidiary company have been eliminated on consolidation and are not disclosed.

Key management compensation

The Directors represent the key management personnel. Details of their compensation and share options are given in note 6 and within the Remuneration Report on pages 14 to 18.

21. Events after statement of financial position date

On 27 January 2014 share options over 120,000 new ordinary shares were exercised generating additional funds of £67,500 for the Group.

The Group raised £12.0 million (before expenses) following a placing of 21,052,632 shares at 57 pence per share on 7 March 2014 and approved by shareholders in a general meeting on 25 March 2014.

Parent Company Balance Sheet

For the year ended 31 December 2013

Company No. 04206001

	Notes	As at 31 December 2013 £	As at 31 December 2012 £
Fixed assets			
Investment	3	767,977	626,478
Current assets			
Debtors – due within one year	4	4,257	14,879
Debtors – due after more than one year	4	20,648,739	18,479,636
Total debtors		20,652,996	18,494,515
Cash at bank and in hand		926,732	2,781,098
Total current assets		21,579,728	21,275,613
Creditors: amounts falling due within one year	5	(41,043)	(45,368)
Net current assets		21,538,685	21,230,245
Total net assets		22,306,662	21,856,723
Capital and reserves			
Called up share capital	6	155,619	154,896
Share premium account	7	21,516,284	21,335,678
Profit and loss account	7	634,759	366,149
Equity shareholders' funds		22,306,662	21,856,723

These financial statements were approved and authorised for issue by the Board on 27 March 2014.

The notes on pages 56 to 58 form part of these parent company financial statements.

By order of the Board

James Barder

Chief Executive

Notes to the Parent Company Financial Statements

For the year ended 31 December 2013

1. Accounting policies

The parent company financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

Share-based employee remuneration

The Company has no employees but does issue shares to satisfy share option awards made by its subsidiary company. The Company has applied Financial Reporting Standard 20 'Share-based Payment' to all share options granted to employees of the subsidiary. The Company's investment in the subsidiary is increased by the capital contribution equivalent to the fair value of the share-based payment charge incurred by the subsidiary.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

There are no unutilised tax losses in 2013 (2012: £nil). A deferred tax asset in respect of unutilised tax losses has not been recognised on the basis that the future economic benefit was not certain.

2. Profit attributable to shareholders

As permitted by section 408 of the Companies Act 2006 no separate Company profit and loss account has been included in these financial statements. The Group loss for the year includes a profit after tax of £127,111 (2012: £101,992) which is dealt with in the financial statements of the Company. The total fees of the Company's and Group's auditor, BDO LLP, for services provided are analysed in note 4 to the Group financial statements.

3. Investment

The investment represents 100% of the issued ordinary shares in the subsidiary undertaking Futura Medical Developments Limited, a company incorporated in England and Wales, and is stated at cost plus capital contribution to the subsidiary in respect of share-based payment charge, less any provision for impairment. The principal activity of the subsidiary company is the research and development of pharmaceutical drugs and medical devices and their commercial exploitation. The results of the subsidiary company are included in the Group financial statements on pages 31 to 54.

	31 December 2013	31 December 2012
	£	£
Cost	767,977	626,478

The addition in the year represents the share-based payment charge.

4. Debtors

	31 December 2013 £	31 December 2012 £
Amounts receivable within one year: prepayments	4,257	14,879
Amounts receivable after more than one year:		
Amounts owed by subsidiary	20,648,739	18,479,636

5. Creditors: amounts falling due within one year

	31 December 2013 £	31 December 2012 £
Trade creditors	5,038	15,000
Accruals and deferred income	36,005	30,368
	41,043	45,368

6. Called up share capital

Authorised	31 December 2013 Number	31 December 2012 Number	31 December 2013 £	31 December 2012 £
Ordinary shares of 0.2 pence each	500,000,000	500,000,000	1,000,000	1,000,000

Allotted, called up and fully paid	31 December 2013 Number	31 December 2012 Number	31 December 2013 £	31 December 2012 £
Ordinary shares of 0.2 pence each	77,809,576	77,447,946	155,619	154,896

Details of shares issued by the Company in the year are given in note 16 to the Group financial statements and details of share options outstanding are given in note 17 to the Group financial statements.

Notes to the Parent Company Financial Statements (continued)

7. Reserves

	Share Premium Account £	Profit and Loss Account £
At 1 January 2012	19,180,860	135,048
Retained profit for the year	–	101,992
Share-based payment	–	129,109
Shares issued during the year	2,238,151	–
Costs of share issues	(83,333)	–
At 1 January 2013	21,335,678	366,149
Retained profit for the year	–	127,111
Share-based payment	–	141,499
Shares issued during the year	180,606	–
At 31 December 2013	21,516,284	634,759

8. Related party transactions

Details are given in note 20 to the Group financial statements.

9. Events after balance sheet date

Details are given in note 21 to the Group financial statements.

Company Information

Company number

04206001

Directors

John Clarke	Non-Executive Chairman
James Barder	Chief Executive
David Davies	Chief Development Officer
Derek Martin	Finance Director
Jonathan Freeman	Non-Executive Director
Lisa Arnold	Non-Executive Director

Audit committee

Jonathan Freeman
Lisa Arnold

Remuneration committee

Jonathan Freeman
Lisa Arnold
John Clarke

Nominations committee

Lisa Arnold
Jonathan Freeman
John Clarke

Secretary and registered office

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Futura Medical plc
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