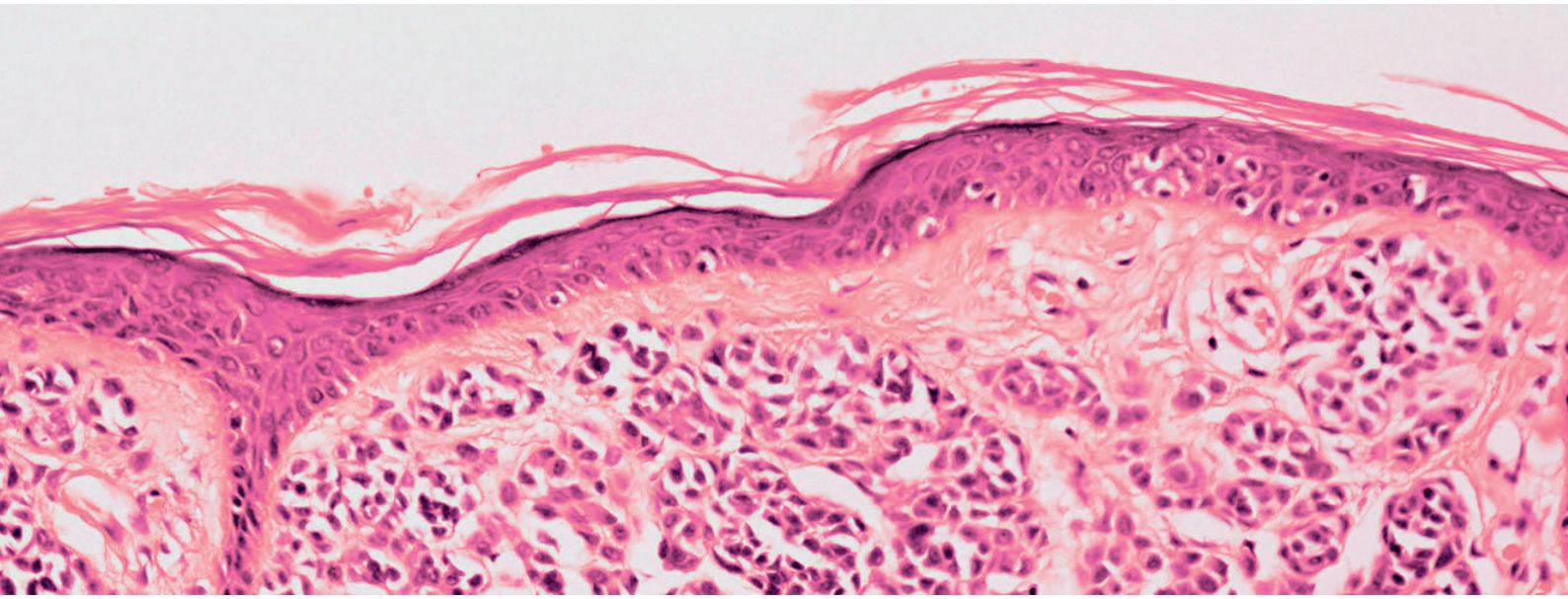
Futura Medical

Advanced Transdermal Technology



EXPERTS IN TRANSDERMAL DELIVERY

Futura Medical plc

Annual Report and Accounts 2016

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 costs and a 'virtual' organisational structure.

Contents

Our Strategy

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

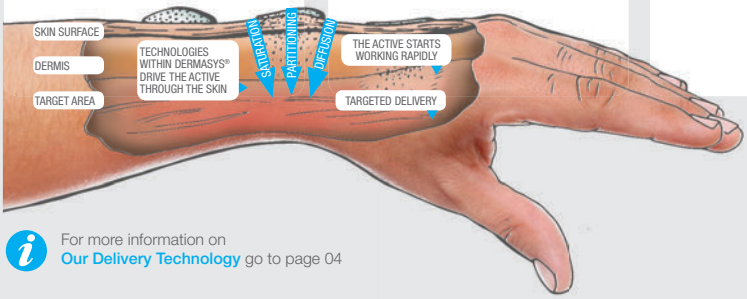
1 ADVANCED TRANSDERMAL TECHNOLOGY

Offering innovative delivery of proven compounds through the skin to improve their performance or to address new indications

INNOVATIVE DRUG DELIVERY PLATFORM

Highly efficient and proprietary transdermal delivery technology

1 Application of gel with active · 2 Seconds later* · 3 Minutes later*



For more information on **Our Delivery Technology** go to page 04

2 CONTROLLED DEVELOPMENT RISK

Using only approved compounds to control the risk profile

INCORPORATING EXISTING CHEMICAL ENTITIES

- ↓ Reduces investment and risk
- ↓ Reduces development costs
- ↑ Increases chances of regulatory approval

3 STRONG INTELLECTUAL PROPERTY

Developing products where the group can secure strong patent protection

SEXUAL HEALTH

MED2002
CSD500

PAIN RELIEF

TPR100
TIB200
SPR300

4 COMMERCIALISATION

Out-licensing products to leading healthcare companies which offer the optimum potential financial return

CSD500

Licensing partners include Church & Dwight, Ansell, Kabey Pharmaceuticals, RFSU and Kwang Dong Pharmaceutical. Launched in Holland and Belgium under the blue diamond® brand and in Saudi Arabia under the Manex® brand

TPR100

Licensing agreement with Thornton & Ross (STADA)

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

Highlights

MED2002: Eroxon® - Treatment for erectile dysfunction ("ED")

- Breakthrough results in clinical study showing efficacy, safety and speed of onset, with the potential to be the world's fastest-acting treatment for ED
- Advisers appointed to assist in securing out-licensing partners

CSD500: Erectogenic condom

- Achieved extended shelf life via modified manufacturing process
- Second manufacturer approved by regulator
- Two new licensing agreements signed for CSD500 with a further agreement announced in March 2017, bringing network of international partners to a total of eight
- First licensee launch and first non-EU regulatory approval granted

Pain relief products TPR100 (diclofenac) and TIB200 (ibuprofen)

- First out-licensing agreement signed in January 2017 for TPR100 in the UK
- US Food and Drug Administration regulatory feedback received for TPR100 which confirmed the Company's regulatory strategy for the US
- Ongoing potential licensing discussions with prospective partners for TIB200 and TPR100 (outside of the UK)

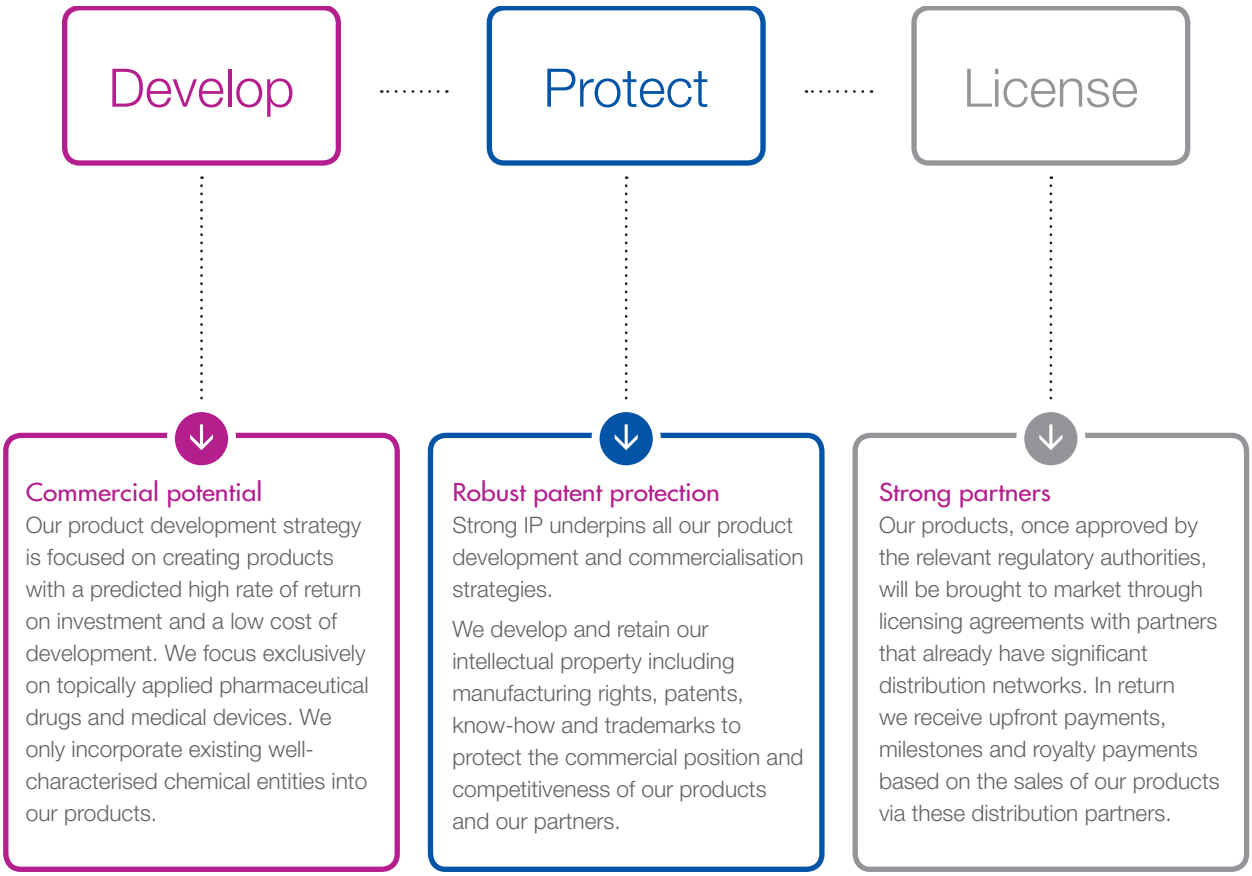
Organisational

- Strengthened operations with appointment of Ken James to Executive Director and Head of R&D

Financial

- Net loss of £3.70 million (2015: net loss of £5.08 million), reflecting lower R&D spend on clinical trials during the year
- Fundraising in November 2016 via placing of shares raised £12.00 million (before expenses), with proceeds being applied to clinical development of MED2002 and the pain relief portfolio and to working capital
- Cash resources of £12.35 million at 31 December 2016 (31 December 2015: £4.19 million)

Our Business Model



Licensing partnerships

CSD500 - Futura has eight distribution licensing agreements with two signed in 2016 and the most recent signed in March 2017.

Licensee	*Licensing Rights*
Church & Dwight	North America and certain European countries
Kabey Pharmaceuticals	Key countries in the Middle East and North Africa
RFSU	The Nordic region
Ansell	China
Kwang Dong Pharmaceutical	South Korea
Milsing	Key countries in Southeast Europe
TTK Protective Devices Limited	India
F Lima SA	Portugal

TPR100 - Licensing agreement signed in January 2017 with Thornton & Ross Ltd, the UK subsidiary of international healthcare company STADA Arzneimittel AG, for commercialisation in the UK.

Our Expertise

DermaSys® is Futura's advanced transdermal technology platform.

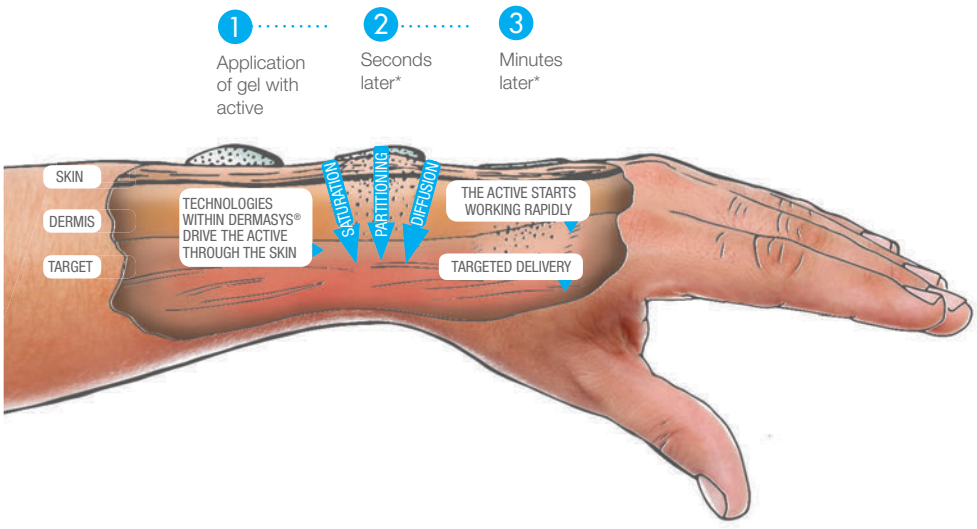
Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. DermaSys® is a versatile technology that can be tailored to suit the specific active compound being used and the therapeutic indication. Such targeted 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.

MED2002
Topical gel for the treatment of erectile dysfunction

TPR100
Topical diclofenac pain relief gel

TIB200
Topical ibuprofen pain relief gel

SPR300
Topical methyl salicylate pain relief gel



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

Our Pipeline

Sexual Healthcare

Concept | Development | Commercialisation

CSD500

Description: Condom containing an erectogenic gel
Status: Launched in Saudia Arabia. Further launches due in 2017

MED2002

Description: Topical gel for erectile dysfunction
Status: Final Phase III programme and out-licensing discussions under way

dermasys

Pain Relief

Concept | Development | Commercialisation

TPR100

Description: Topical diclofenac pain relief gel
Status: First licensing agreement signed. Further discussions under way

dermasys

TIB200

Description: Topical ibuprofen pain relief gel
Status: Out-licensing discussions under way

dermasys

SPR300

Description: Topical methyl salicylate pain relief gel
Status: Potential follow on product to TIB200/TPR100

dermasys

Chairman's and Chief Executive's Review

2016 was a year of great progress for Futura with the major highlight being the announcement on 7 September of breakthrough results for our product MED2002 in a clinical study.

MED2002 is our topical gel for erectile dysfunction ("ED"). We are well advanced in our plans for the further development of the product and we have been very encouraged by the high level of commercial interest from potential licensing partners. MED2002 has the potential to be a highly disruptive product with significant prescription sales, a possible patent life extension to 2038 and the prospect of an over-the-counter ("OTC") switch in the future.

During the year we signed a further two distribution agreements for CSD500, our novel erectogenic condom product. These agreements were with Milsing, for seven countries in Southeast Europe, and with TTK Protective Devices Limited ("TTK"), the Indian company with whom we also signed a manufacturing agreement in June 2016. In addition earlier this week, we signed a further distribution agreement for CSD500 with F Lima SA for Portugal. With these new distribution agreements in place we have succeeded in out-licensing CSD500 to distribution partners in the majority of key countries worldwide as part of our strategy for delivering global sales.

We made substantial progress during 2016 with CSD500 particularly in modifying the manufacturing process to extend the product's shelf life to meet the requirements of our licensing partners. TTK has received regulatory approval from the relevant EU Notified Body to manufacture the extended shelf life product.

The first international licensee launch has already taken place, as announced in early January 2017, in Saudi Arabia by Kabey Pharmaceuticals ("Kabey"), our distribution partner for key countries in the Middle East and North Africa ("MENA"). Church & Dwight, our CSD500 distribution partner for North America and key countries in Europe, is currently working to enable launch in selected markets.

Our key focus during 2016 with our two pain relief products was on the out-licensing of the products, which both showed statistically significant pain relief in an earlier clinical study. Our out-licensing negotiations resulted in the announcement in January 2017 of our first commercialisation agreement for our pain relief portfolio. This agreement is with Thornton & Ross,

a UK subsidiary of STADA Arzneimittel AG ("STADA"), for the UK commercialisation of TPR100, our diclofenac gel for topical pain relief. Futura continues in discussions in connection with the licensing of TPR100 in other countries and also with the licensing of TIB200, our ibuprofen gel.

The fundraising in November 2016 raised £12.0 million (before expenses), strengthening the Company's balance sheet and providing the financial capability to drive forward Futura's clinical and commercial development activities. These activities include a placebo-controlled Phase III clinical study of MED2002, to commence later this year, in 700 or more patients.

We were delighted that Ken James, the former head of consumer healthcare R&D at GlaxoSmithKline, agreed to become Head of R&D in November 2016 to lead our development programmes. Ken joined Futura in April 2016, initially as a Non-Executive Director.

Our balance sheet is strong, with cash resources of £12.4 million as at 31 December 2016 (31 December 2015: £4.2 million). We will continue to use these cash resources prudently.

Portfolio updates - Sexual healthcare

MED2002: Eroxon® Treatment for erectile dysfunction

MED2002, which uses our DermaSys® drug delivery system, is the development name for our topical gel for the treatment of men with ED. We hold worldwide patents to the product in a market worth US$4.8 billion[1] for currently available treatments and have registered the brand name Eroxon®.

Major clinical progress was made with MED2002 during 2016, led by the breakthrough clinical results announced in September 2016. The clinical study, which began in June 2015, met its primary endpoint and showed efficacy, safety and speed of onset. MED2002's rapid onset of action means that it has the potential to be the world's fastest-acting treatment for ED.

The clinical study comprised a total of 232 randomised males and measured, as its primary endpoint, improvement in the erectile function ("EF") domain score of the International Index of Erectile Function ("IIEF"), the scoring system used for the approval of PDE5 inhibitors, the class of products including Viagra® and Cialis®. The placebo-controlled study used one dosage, 0.2% w/w glyceryl trinitrate ("GTN") gel, and included mild, moderate and severe ED patients.

The study achieved its primary endpoint in demonstrating a statistically significant improvement in erectile function in the EF domain score, averaged across the entire patient set, when using MED2002 compared with placebo.

The speed of onset of action of MED2002 was rapid, partly reflecting the method of application with the gel being applied directly to the penis, with an average speed of onset of action of fewer than 5 minutes in the responder group.

No major safety concerns were identified. No serious adverse events or serious adverse reactions were recorded and there were no drop-outs from the study owing to side-effect issues. Patients reported fewer than 2% mild side-effects of a headache, in over 1,000 intercourse attempts, which is considered a very low percentage in pharmaceutical terms.

We have been refining our strategy for the further development of the product following these breakthrough trial results. It is our intention to begin a Phase III placebo-controlled parallel group multi-centre clinical study of 700 or more patients in Q4 2017 using two dosage forms, the 0.2% w/w GTN gel used in the earlier study and a higher strength dose form of 0.4% w/w GTN gel. We will also conduct a separate 30 patient pharmacokinetic safety study to compare GTN blood plasma levels of MED2002 with existing cardiovascular GTN drugs. Both studies are expected to complete in Q4 2018 with regulatory submissions expected in Q2 2019. We are currently consulting with the UK and US regulatory authorities to enable us to finalise the design and timing of these studies.

We have had substantial interest in MED2002 from potential licensing partners following the breakthrough results of the clinical study and we intend to commence the Phase III clinical trial whilst licensing negotiations are ongoing.

Note [1] Top 10 markets, IMS Health Data (2015) Manufacturers' Selling Prices

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

As part of earlier market research into the potential of MED2002 as a prescription product Decision Resources Group ("DRG") conducted a survey in the US involving 200 physicians and 400 ED patients. The survey found that the top three characteristics that patients and physicians desired in a new ED treatment were: fast onset, safety, and the ability to be used by all ED patients. As a topical treatment MED2002 has been developed to meet these requirements by offering a safe and effective treatment with a rapid speed of onset and no contraindications for ED sufferers.

Currently approximately 7.5% of ED sufferers are unable to be prescribed PDE5 inhibitors due to contraindications with nitrate medicines taken by them for cardiovascular conditions. These patients also represent an additional potential market for MED2002 as its active ingredient, GTN, is unlikely to be contraindicated.

Market research conducted by DRG into the potential of MED2002, following approval as a prescription medicine, forecast peak annual sales of up to US$560 million in key countries worldwide with no price premium, at DRG's forecast price of $5. Both the DRG research work and the recently announced Ipsos research indicated that consumers may be willing to pay a price premium for MED2002, compared with the existing available products, potentially enhancing the prescription market value of the product.

MED2002 has substantial potential, as the fastest-acting compound with a favourable safety profile, in the prescription market where it will be marketed first. These characteristics also give MED2002 the potential to become one of the largest OTC products in the global OTC market place later in its product life cycle. As announced on 6 March 2017, the market research firm Ipsos used its validated healthcare forecasting model to forecast peak OTC annual sales for MED2002 in key countries worldwide of more than US$650 million. Importantly, Ipsos forecasts that 73% of these potential OTC sales would be incremental to the prescription category.

The Ipsos valuation was based on the outcomes from primary market research carried out amongst 400 men, with ED or suspected ED, in the USA. The respondents were shown a concept about MED2002 as part of the market research but they did not use the product as it is currently in clinical development. The key findings of the market research showed that the respondents believed that the product, once approved, would be highly differentiated from existing products and that its claims would meet their needs. MED2002's rapid onset of action was the key feature that attracted respondents to the product.

MED2002's patent protection runs until August 2028 in the USA and August 2025 in Europe. An additional patent filing announced earlier this month could extend patent protection through to 2038.

MED2002, as a topically applied gel with a very rapid speed of onset, has the potential to be a significant product with combined peak sales of more than US$1 billion in a market currently dominated by Viagra® and Cialis®, which are taken orally and do not take effect for at least 30 minutes, and typically one hour or more[2].

Note [2] US patient information leaflets for Viagra® and Cialis®

CSD500: Condom containing the erectogenic Zanifil® gel

CSD500 benefits from three clinically proven claims: the maintenance of a firmer erection, maximised penile size and a longer lasting sexual experience for women. CSD500, which is CE Marked, represents real innovation in an industry where there has been limited new product development. Futura's unique intellectual property for CSD500 has been protected throughout the world through the filing and granting of a range of patents.

To date CSD500 has been out-licensed to a total of 41 countries including major commercial markets in North America and Europe. During 2016, we signed a licensing agreement with Milsing for the marketing and distribution of CSD500 in seven countries in Southeast Europe and we also signed a licensing agreement with TTK for marketing and distribution within India. TTK owns the fastest growing condom brand in India, SKORE®, and it is intended that CSD500 will be part of the SKORE® brand. In March 2017 we signed a licensing agreement with F Lima SA for the marketing and distribution of CSD500 in Portugal. We continue in discussions with potential licensing partners for countries where we have not yet licensed the product and are pleased to report that we have succeeded in out-licensing CSD500 to distribution partners in the majority of key countries worldwide as part of our strategy for delivering global sales.

During 2016 we made major progress in preparing for the international roll-out of the product by our distribution partners. We successfully modified the manufacturing process to achieve an extended shelf life to meet the requirements of our distribution partners. Both of our manufacturing partners - TTK in India and our European manufacturer - have the required approvals to ship CSD500 to any country in which the product is approved, for example in all 28 EU countries. TTK has received regulatory approval from the relevant EU Notified Body to manufacture the extended shelf life product. We are currently awaiting approval from the same EU Notified Body of the extended shelf life product for our European based manufacturer.

In January 2017, CSD500 was launched in Saudi Arabia by our distributor Kabey and further launches in MENA are expected during the course of 2017. Kabey is using the brand name Futura Max Manex Super and its promotion is based on direct retail marketing rather than an online campaign, which reflects local marketing practices. We have been advised by Kabey that the launch in Saudi Arabia has received positive feedback and in March 2017 Kabey placed a further order for the Saudi Arabia market.

In addition to the Kabey launch in Saudi Arabia, CSD500 continues to be test marketed in the Netherlands and Belgium by Bizzy Diamond BV under Futura's brand, Blue Diamond®. The sales achieved in the Netherlands continue to provide useful consumer feedback for our post-market clinical follow-up ("PMCF") study required for CE Marking and the PMCF study will also assist with other regulatory approvals.

As highlighted above, Church & Dwight, our CSD500 distribution partner for North America and key countries in Europe, is currently working to enable launch in selected markets.

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

Portfolio updates - Topical pain relief

The rapid skin permeation rates offered by Futura's transdermal delivery system, DermaSys®, have created a major opportunity in topical pain relief. Rapid skin permeation offers potential benefits in pain management including: improved onset of action, duration and degree of pain relief. DermaSys® also allows the potential to have a twice a day dosing regimen which provides a compelling commercial proposition for ibuprofen which is currently dosed three to four times per day. Futura has previously demonstrated statistically significant results from its two non-steroidal anti-inflammatory drug ("NSAID") programmes, TPR100 (2% diclofenac gel) and TIB200 (10% ibuprofen gel), in a clinical study.

During 2016 the Company was focused on the out-licensing of the pain relief portfolio and, on 10 January 2017, announced a licensing agreement with Thornton & Ross Ltd, the UK subsidiary of international healthcare company STADA Arzneimittel AG, for the commercialisation in the UK of TPR100, the Company's novel diclofenac gel for pain relief.

Under the terms of the agreement, Thornton & Ross Ltd will conduct the manufacturing scale-up of TPR100 and hold rights to manufacture, market and distribute the product in the UK for the lifetime of the product's patents, which run to at least 2028 in the UK. Futura received an upfront payment and will receive a further milestone payment upon the product receiving UK regulatory marketing authorisation along with royalties on product sales.

It is not expected that any further clinical work will be required ahead of a regulatory submission for UK marketing authorisation to be made by Thornton & Ross Ltd, which we anticipate in the second half of 2017.

We received a written response from the US Food and Drug Administration ("FDA") in December 2016 which confirms our US regulatory strategy for TPR100. The main requirement being to conduct a 700 patient placebo-controlled efficacy study of TPR100 in treating osteoarthritis of the knee, with an open label extension of 100 patients for six months and 50 of those patients for a year, to demonstrate patient tolerability and safety. We will not, however, progress this study without a clear indication of interest from a potential commercial partner for the US market. Futura continues in commercial discussions in connection with the licensing of TPR100 outside of the UK.

Our ibuprofen based product TIB200 has attracted significant interest, especially if we are able to deliver a twice-a-day dosing regimen (morning and evening). This product requires further clinical work which, again, we will not progress without a clear indication of interest from a potential commercial partner. We continue in commercial discussions in connection with the licensing of TIB200.

Our objective is for our pain relief products to be best-in-class. The rationale for this is that the National Institute for Health and Care Excellence (NICE) gives clear guidance to physicians to prescribe topical NSAIDs in the first instance for joint pain associated with osteoarthritis, in preference to oral NSAIDs, owing to concerns over the long term use of oral NSAIDs. This means that the best-in-class topical treatment should be the first choice for doctors in the initial treatment of pain and therefore represents a substantial opportunity in a market with global sales estimated at US$2.9 billion[3].

Note [3] 2015 IMS Health estimate MSP

People

At the year end, Futura had 12 employees, (excluding Non-Executive Directors), (2015: 12) however two additional staff have been recruited in the current year to support the regulatory function as we move forward from a UK-centric to a more internationally focused regulatory environment.

Board changes comprised the appointment of Ken James as a Non-Executive Director in April 2016 at which time Lisa Arnold, who had served as a Non-Executive Director since 2008, stepped down. We are immensely grateful to Lisa for her contribution to the Company during her tenure. In November 2016, we were pleased to appoint Ken James to an executive Board role, as Head of R&D, and it is our intention to appoint a further Non-Executive Director in due course to maintain the depth, balance and independence of the Board.

We are highly appreciative of our staff and of our external consultants and partners who continue to support our virtual business model.

Outlook

Futura continues to make good progress, both commercially and clinically, across its portfolio of product opportunities and we look forward to the year ahead with confidence. 2017 has started well with the launch in the Middle East of CSD500, our novel erectogenic condom, and the signing of a licensing deal for TPR100, our diclofenac pain relief gel. We have the balance sheet strength to drive forward our exciting clinical plans for MED2002, our breakthrough erectile dysfunction gel, with potential for significant prescription sales, once approved, and the prospect of an over-the-counter switch in the future to enable additional sales.

John Clarke
Chairman

James Barder
Chief Executive

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 consolidated financial statements and the Notes to the Consolidated Financial Statements set out on pages 31 to 52.

Group strategy

The Group strategy is to focus on developing innovative products primarily for the consumer healthcare market. This strategy is aligned with the well-publicised demographic changes of ageing populations, increasing prosperity, government initiatives to increase self-medication, pressures on payers and healthcare systems, the rapid growth of OTC opportunities in developing countries, the natural desire for an 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 for which the Group can secure strong patent protection.
- Commercialisation: out-licensing products to leading healthcare companies which offer the optimum potential financial returns.

Our focus is on sexual healthcare and pain relief. Our expertise is in transdermal delivery with our unique proprietary delivery technology DermaSys®.

Long lead times for product development characterise the pharmaceutical industry. However, the Board seeks to drive the business through to recurring 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, the involvement of external expertise and a focus on compounds with a known safety profile.

At the same time, the Board remains committed to keeping regular or 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. The Group develops transdermal products for prescription and OTC use. These comprise the sexual healthcare product MED2002 and the pain relief products: TPR100 and TIB200. The global topical OTC analgesics market was estimated at US$2.9 billion[1] in 2015 and the market leader for topical OTC analgesics has annual sales of US$632 million[2]. The prescription market for existing approved erectile dysfunction treatments was estimated at US$4.8 billion[3] in 2015. Market research conducted by DRG into the potential of MED2002, following approval as a prescription medicine, forecast peak annual sales of up to US$560 million in key countries worldwide with no price premium, at DRG's forecast price. With an OTC switch later in its product life cycle MED2002 would form a new category within the OTC market. Market research conducted by Ipsos into the potential of MED2002 as an OTC product, using their validated healthcare forecasting model, forecast peak OTC annual sales for MED2002 in key countries worldwide in excess of US$650 million[4].

The second category is the global consumer medical devices market. 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 billion[5].

These consumer healthcare markets are dominated by global pharmaceutical and consumer healthcare groups with established distribution networks. Smaller companies, such as Futura, engaging in research and product development, 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 a strong balance sheet and with a more advanced and diverse development portfolio.

Revenue

Group revenue for the year ended 31 December 2016 was £170k (2015: £29k).

Notes

[1] *2015 IMS Health estimate*
[2] *Get Report 2014 Global Sales*
[3] *Top 10 markets, IMS Health Data (2015) Manufacturers' Selling Price*
[4] *2017 Ipsos, Top 10 markets Retailers' Selling Price*
[5] *Source: "Condoms: A Global Strategic Business Report", Oct. 2012, Global Industry Analysts, Inc.*

Strategic Report (continued)

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 2016 was £4.55 million (2015: £6.12 million). The Group's loss after taxation for the year ended 31 December 2016 was £3.70 million (2015: £5.08 million). Loss per share for the year ended 31 December 2016 was 3.65 pence (2015: 5.13 pence).

No dividends were paid and none are proposed by the Board of Directors ("the Board") (2015: £nil).

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 £3,509,680 (2015: £4,778,039) were lower in the year as we completed the clinical trial begun in 2015 for MED2002 and continued the development of CSD500.

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

	2016 £	2015 £	2014 £	2013 £	2012 £
R&D costs	**3,509,680**	4,778,039	2,365,678	1,976,322	1,435,731
Other administrative costs	**1,214,755**	1,368,240	1,205,078	926,123	1,095,197
Total operating costs	**4,724,435**	6,146,279	3,570,756	2,902,445	2,530,928
R&D ratio	**74%**	78%	66%	68%	57%

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 totals £26.3 million (63% of total cumulative operating costs). A subsidiary, Futura Medical Developments Limited, continued to incur all of the Group's R&D expenditure which has been written off as incurred for all reporting periods prior to and including the year ended 31 December 2016.

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 programmes, 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 2016 were £1,214,755 (2015: £1,368,240). These comprised all other operating costs excluding those relating to product development and associated intellectual property.

The main constituents of other administrative costs and their relative proportions were:

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	**54%**	47%
Legal and professional advisers	**13%**	14%
Office costs and staff expenses	**9%**	6%
Commercial and marketing support	**24%**	33%
	100%	100%

Taxation

A tax credit of £842,246 (2015: £997,036) in respect of R&D expenditure incurred has been recognised in the consolidated 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 2016 totalled £45.84 million.

On 22 November 2016 the Group raised £12.00 million (before expenses) following the issue of 21,052,632 shares at 57.00 pence per share via a placing with new and existing investors.

Cash held by the Group at 31 December 2016 totalled £12.35 million comprising cash and cash equivalents (31 December 2015: £4.19 million).

The Group had no bank borrowings as at 31 December 2016 (2015: £nil). Other significant sources of funding received for the Group since formation of the business until 31 December 2016 comprised: R&D tax credits £4.05 million, interest £1.03 million and grants £0.28 million.

On 12 January 2017 the Group raised £155,100 following the issue of 382,962 shares at 40.50 pence per share pursuant to the exercise of share options by employees (including Directors).

On 13 January 2017 the Group raised £28,669 following the deferred issue of 100,770 shares at 28.45 pence per share in respect of the 2016 Non-Executive Directors' remuneration.

As a result of the above, the Directors have a reasonable expectation that the consolidated 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.

Strategic Report (continued)

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.

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 countries 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.

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.

Impact of Brexit

Following the outcome of the EU referendum, the Medicines and Healthcare products Regulatory Agency is working closely with the UK Government to analyse the best options and opportunities available for the safe and effective regulation of medicines and medical devices in the UK. The impact of the decision to leave the EU is not yet known and the future relationship with bodies such as the European Medicines Agency and the European Patent Office will be closely monitored.

The Strategic Report was approved by order of the Board on 22 March 2017.

Derek Martin
Secretary

Board of Directors

The Board of Directors has overall responsibility for the Group.

The Board of Directors ("the Board") currently comprises the Non-Executive Chairman, the Chief Executive, the Finance Director, the Head of R&D and one independent Non-Executive Director. 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 policy decisions taken by the Board with particular emphasis on the commercial direction of the Group.

John Clarke
Non-Executive Chairman

Chairman of
Nominations Committee

Current roles
John Clarke became Chairman of Futura Medical plc in 2012. He is a member of the Nominations Committee and the Remuneration Committee. He is also the Non–Executive Chairman of Science in Sport plc, Kind Consumer Holdings Limited and is a senior adviser to Helios Investment Partners LLP.

Past roles
President of GSK Consumer Healthcare. Non–Executive Chairman of Quantum Pharma Plc.

Brings to the Board
Extensive experience of the healthcare sector, having worked at a senior level at GSK for more than 35 years.

James Barder
Chief Executive

Current roles
James Barder joined the Group as Chief Executive in 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 and leads commercial negotiations. He first became involved with the Group in 1997.

Past roles
Managing Director of Aon Capital Markets Limited and Non-Executive Director of Lorega 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.

Derek Martin, BSc (Hons), ACA

Finance Director and Company Secretary

Current roles

Derek Martin joined the Board in 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 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 Braveheart Investment Group plc.

Past roles

Director of Beeson Gregory, Chief Executive Officer of Syndicate Asset Management plc and a Director of Hume Capital Securities plc.

Brings to the Board

Over 25 years of experience in the financial services sector, guidance on City regulatory matters, corporate finance and investor relations.

Ken James

Executive Director and Head of R&D

Current roles

Ken James joined the Board in April 2016. In November 2016 he was appointed Head of R&D. He oversees the development, regulatory and manufacturing strategies for the company's existing pipeline and the evaluation of early stage pipeline opportunities. He is a member of the Nominations Committee, the Remuneration Committee and the Audit Committee.

Past roles

Senior Vice President of Research and Development for GlaxoSmithKline Worldwide Consumer Healthcare, having worked in the UK and the United States.

Brings to the Board

Over 40 years of experience in the research, development and commercialisation of consumer healthcare products.

Remuneration Report

Remuneration Committee: composition and terms of reference

During the period under review the Remuneration Committee comprised the independent Non-Executive Directors and was 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 three Remuneration Committee meetings during 2016.

The Board retains responsibility for overall remuneration policy. The terms of reference of the Remuneration Committee are set out in the Investor Centre/Corporate Governance 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 plans.

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:

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.

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 also sometimes 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 Remuneration Committee considers that the best alignment of employee interests with those of its shareholders 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 and Directors 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 would be equivalent to approximately 3.71% of the issued share capital.

Bonus scheme

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

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 are reviewed in December to cover the following 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.

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 Non-Executive Directors and the Chairman are also included under the long-term incentive plan.

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 2016 was settled on 10 January 2017 by the issue of 100,770 shares at 28.45 pence per share. The 2017 award has been determined at 57.50 pence per share and the Non-Executive Directors will accrue these shares over 2017 and receive them, or such lower number as have accrued if they leave the Group earlier, in January 2018.

The Board considers ownership of Futura shares by Non-Executive Directors as a positive alignment of their interest with shareholders. The Board periodically reviews 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, in 2016 were as follows:

	Year ended 31 December 2016						Year ended 31 December 2015
	Salary & Directors' Fees £	Bonus £	Share Awards £	Benefits In Kind £	Pension £	Total £	Total £
Executive Directors							
James Barder	**225,244**	**75,892**	**–**	**5,430**	**–**	**306,566**	257,010
Derek Martin	**106,180**	**20,406**	**–**	**3,923**	**53,265**	**183,774**	164,451
Ken James[1]	**44,888**	**–**	**6,296**	**–**	**–**	**51,184**	–
Non-Executive Directors							
John Clarke	**57,890**	**–**	**25,195**	**–**	**–**	**83,085**	75,585
Jonathan Freeman	**33,130**	**–**	**8,394**	**–**	**–**	**41,524**	37,774
Lisa Arnold[2]	**7,345**	**–**	**8,396**	**–**	**–**	**15,741**	37,774
Totals	**474,677**	**96,298**	**48,281**	**9,353**	**53,265**	**681,874**	572,594

[1] *The share awards element was earned whilst serving as a Non-Executive Director*
[2] *Resigned 31 March 2016*

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 2016 (2015: £nil).

Directors' interests in shares

	31 December 2016		31 December 2015	
	Beneficial Interests	Non-beneficial Interests	Beneficial Interests	Non-beneficial Interests
John Clarke	**119,551**	**–**	119,551	–
James Barder	**621,330**	**867,500**	591,330	867,500
Derek Martin	**280,000**	**–**	280,000	–
Jonathan Freeman	**35,803**	**–**	35,803	–
Ken James	**–**	**–**	–	–
Totals	**1,056,684**	**867,500**	1,026,684	867,500

Other than as shown in the table no Director had any interest in the shares of the Company at 31 December 2016 or at 31 December 2015.

Directors' interests in share options

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

Options granted to the Executive Directors were as follows:

	31 December 2016		31 December 2015	
	Options Held	**Share-based Payment Expense**	Options Held	Share-based Payment Expense
James Barder	**1,500,000**	**11,864**	1,500,000	33,018
Derek Martin	**760,000**	**6,969**	869,279	17,516
Ken James	**–**	**–**	–	–
Totals	**2,260,000**	**18,833**	2,369,279	50,534

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 remain 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 50) 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
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
Derek Martin	11 September 2014	**103,961**	51.75 pence	1 October 2016	30 September 2021
Totals		**869,013**			

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:

	2017	2018	2019	2020
James Barder	116,542	116,542	116,542	116,542
Derek Martin	116,542	116,542	116,542	116,542
Ken James	50,000	50,000	50,000	50,000
John Clarke	50,000	50,000	50,000	50,000
Jonathan Freeman	50,000	50,000	50,000	50,000
Other employees	544,627	544,627	544,627	544,627
At discretion of Remuneration Committee	185,976	185,976	185,976	185,976
Totals	1,113,687	1,113,687	1,113,687	1,113,687

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

Jonathan Freeman
Chairman of the Remuneration Committee

Corporate Governance

Directors' statement on corporate governance

The Board of Directors is accountable to shareholders for the good corporate governance of the Group. Under the AIM rules compliance with the UK Corporate Governance Code ('the Code') is voluntary. Although the Board has not formally adopted the Code, the Board is aware of the best practice defined by the Code and will seek to adopt procedures to institute good governance insofar as is practical and appropriate for a group of its size while retaining its primary focus on the success of the business. This statement sets out how certain principles of the Code are met through the Group's application of best practice.

Board of Directors

The Board comprises a Non-Executive Chairman ("Chairman"), the Chief Executive, the Finance Director, the Head of R&D and an independent Non-Executive Director. The Chairman and the Non-Executive Director 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 roles of Chairman and Chief Executive are intended to remain separate.

The Board is currently recruiting an additional Non-Executive Director with experience of the sector following the appointment of Ken James in November 2016 to an executive role.

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 2016, there were seven meetings of the full Board, three of the Remuneration Committee, three of the Audit Committee and two 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.

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.

Audit Committee

During the period under review the Audit Committee comprised the Non-Executive Directors, Jonathan Freeman and Lisa Arnold (replaced by Ken James) and was chaired by Jonathan Freeman as Senior Independent Non-Executive Director. It met to review the Interim Report, the Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were three Audit Committee meetings during 2016. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The Audit Committee advised the Board on the appointment of KPMG replacing BDO as the external auditor in the year. The independence and effectiveness of the external auditor is reviewed annually and audit partners are rotated every five years. The Audit Committee 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, auditor appointment and fee levels and any other appropriate matters. The fees in respect of audit and tax services are disclosed in Note 4 of the Notes to the Consolidated 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.

Corporate Governance (continued)

Audit Committee (continued)

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

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 is 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.
- 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.

Going concern

As disclosed in the Strategic Report the consolidated 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 monitors the requirements of the Group in respect of Board composition as the Group evolves and with regard to succession planning. There were two meetings during 2016. The terms of reference of the Nominations Committee are set out in the Investor Centre/Corporate Governance section on the Group's website at www.futuramedical.com.

Employees

At 31 December 2016, the Group's employees (excluding Non-Executive Directors) comprised: three Executive Directors and eight full-time and one part-time member of staff, all of whom are employed by Futura Medical Developments Limited.

The Executive Directors regularly keep staff informed of the progress and development of the Group through formal and informal meetings and employee feedback is encouraged. The Group has a policy of offering share options and 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 consequence 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 periodic 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. 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 the 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 report at the AGM 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
Derek Martin
Jonathan Freeman
Ken James – appointed 1 April 2016
Lisa Arnold – resigned 31 March 2016

Dividends
No dividends were paid and none are proposed (2015: £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.

Financial Instruments
Information about the Group's management of financial risk can be found in note 2 to the financial statements.

Future developments
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.

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

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
The Directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Website publication

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

By order of the Board

Derek Martin
Secretary
22 March 2017

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 2016 set out on pages 31 to 58. 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 EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, 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 Auditing Practices Board'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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Derek McAllan (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
Arlington Business Park
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22 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	**Year ended 31 December 2016 £**	Year ended 31 December 2015 £
Revenue	1.5	**170,362**	29,476
Research and development costs		**(3,509,680)**	(4,778,039)
Administrative costs		**(1,214,755)**	(1,368,240)
Operating loss	4	**(4,554,073)**	(6,116,803)
Finance income	7	**14,714**	38,325
Loss before tax		**(4,539,359)**	(6,078,478)
Taxation	8	**842,246**	997,036
Loss for the year being total comprehensive loss attributable to owners of the parent company		**(3,697,113)**	(5,081,442)
Basic and diluted loss per share (pence)	9	**(3.65 pence)**	(5.13 pence)

All amounts relate to continuing activities.

The notes on pages 35 to 52 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Share Capital £	Share Premium £	Merger Reserve £	Retained Losses £	Total Equity £
At 1 January 2015		**198,045**	**33,028,735**	**1,152,165**	**(24,657,134)**	**9,721,811**
Total comprehensive loss for the year		–	–	–	(5,081,442)	(5,081,442)
Share-based payment	17	–	–	–	121,112	121,112
Shares issued during the year	16	140	24,610	–	–	24,750
At 31 December 2015		**198,185**	**33,053,345**	**1,152,165**	**(29,617,464)**	**4,786,231**
Total comprehensive loss for the year		–	–	–	(3,697,113)	(3,697,113)
Share-based payment	17	–	–	–	54,405	54,405
Shares issued during the year	16	42,105	11,957,895	–	–	12,000,000
Cost of share issue		–	(559,495)	–	–	(559,495)
At 31 December 2016		**240,290**	**44,451,745**	**1,152,165**	**(33,260,172)**	**12,584,028**

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 all other net gains and losses not recognised elsewhere.

The notes on pages 35 to 52 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	As at 31 December 2016 £	As at 31 December 2015 £
Assets			
Non-current assets			
Plant and equipment	10	**21,351**	20,115
Total non-current assets		**21,351**	20,115
Current assets			
Inventories	11	**83,641**	163,767
Trade and other receivables	13	**138,989**	146,137
Taxation	8	**842,246**	997,036
Cash and cash equivalents	14	**12,352,978**	4,188,294
Total current assets		**13,417,854**	5,495,234
Liabilities			
Current liabilities			
Trade and other payables	15	**(855,177)**	(729,118)
Total liabilities		**(855,177)**	(729,118)
Total net assets		**12,584,028**	4,786,231
Capital and reserves attributable to owners of the parent company			
Share capital	16	**240,290**	198,185
Share premium		**44,451,745**	33,053,345
Merger reserve		**1,152,165**	1,152,165
Retained losses		**(33,260,172)**	(29,617,464)
Total equity		**12,584,028**	4,786,231

The consolidated financial statements were approved and authorised for issue by the Board on 22 March 2017.

The notes on pages 35 to 52 form part of these consolidated financial statements.

By order of the Board

James Barder
Chief Executive

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	**Year ended 31 December 2016 £**	Year ended 31 December 2015 £
Cash flows from operating activities			
Loss before tax		**(4,539,359)**	(6,078,478)
Adjustments for:			
Depreciation	10	**6,247**	6,958
Finance income	7	**(14,714)**	(38,325)
Share-based payment charge	17	**54,405**	121,112
Cash flows from operating activities before changes in working capital		**(4,493,421)**	(5,988,733)
Decrease / (increase) in inventories	11	**80,126**	(22,250)
Decrease in trade and other receivables		**16,981**	45,212
Increase in trade and other payables	15	**101,284**	121,232
Cash used in operations		**(4,295,030)**	(5,844,539)
Income tax received		**997,036**	480,689
Net cash used in operating activities		**(3,297,994)**	(5,363,850)
Cash flows from investing activities			
Purchase of plant and equipment	10	**(7,483)**	(15,958)
Interest received		**29,656**	51,576
Cash generated by investing activities		**22,173**	35,618
Cash flows from financing activities			
Issue of ordinary shares	16	**12,000,000**	24,750
Expenses paid in connection with share issue		**(559,495)**	–
Cash generated by financing activities		**11,440,505**	24,750
Increase / (decrease) in cash and cash equivalents		**8,164,684**	(5,303,482)
Cash and cash equivalents at beginning of year		**4,188,294**	9,491,776
Cash and cash equivalents at end of year	14	**12,352,978**	4,188,294

The notes on pages 35 to 52 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. Accounting policies

1.1 Basis of preparation

The consolidated 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 consolidated 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 2016.

1.2 Going concern

The Group had an operating loss of £4.55 million for the 2016 financial year (2015: £6.12 million), but had a positive net asset value of £12.58 million at 31 December 2016 (31 December 2015: £4.79 million).

The increase in the net asset value of the Group is mainly attributable to the £12 million funding received from the equity placing in November 2016. The Directors consider this to represent sufficient funds for the foreseeable future, taking into account the Group's current development plans.

In assessing the Group's going concern ability the Directors have considered all relevant available information about the future trading activities of the Group, including profit forecasts, cash forecasts and funding. Based on this assessment, the consolidated financial statements have been prepared on a going concern basis and the Directors have no reason to believe that the Group will not operate as a going concern for the foreseeable future.

1.3 Accounting developments

The following amendments have been adopted in the year and do not have a material effect on the Group financial statements:

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements

The following new standards, amendments and interpretations, which are not yet effective and have not been adopted early in these financial statements do not currently have a material impact, but the future impact will be considered on an ongoing basis:

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

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 consolidated financial statements present the results of the Company and its subsidiaries Futura Medical Developments Limited and Futura Consumer Healthcare Limited as if they formed a single entity (the "Group"). Intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

1.5 Revenue

Revenue comprises the fair value received or receivable for milestone income and royalties, net of value added tax.

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

(i) 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 Consolidated Statement of Comprehensive Income over the accounting periods in which the royalties would otherwise be receivable.

(ii) 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 Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The Group does not hold any assets under finance leases.

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.

1. Accounting policies (continued)

Capitalised development costs, including patents and trademarks, 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 Consolidated 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 yet met for CSD500 prior to the extended shelf life product being commercially launched in at least one major market and also that further testing and development is required before the capitalisation criteria are met.

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 Consolidated Statement of Comprehensive Income as incurred.

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 Consolidated 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 Consolidated 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 Consolidated Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

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 Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

1.10 Inventories

Inventories are consumable materials to be used in development 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 Consolidated Statement of Comprehensive Income in respect of obsolete 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 Consolidated Statement of Comprehensive Income in administrative costs.

Cash and cash equivalents are financial assets and comprise cash in hand and sterling short-term money market funds which are held by the Group so as to be available to meet short-term cash commitments.

The Group assesses at each Consolidated 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.

1.12 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 Consolidated 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.

1. Accounting policies (continued)

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the Consolidated 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 Consolidated 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.

1.13 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 Consolidated Statement of Comprehensive Income in the period in which they arise.

1.14 Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees 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 Consolidated Statement of Comprehensive Income in the period in which they become payable.

(ii) Accrued holiday pay

Provision is made at each Consolidated Statement of Financial Position date for holidays accrued but not taken, at applicable rates of salary. The expected cost of compensated short-term absence (holidays) is charged to the Consolidated Statement of Comprehensive Income on an accruals basis.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

(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 Consolidated 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 Consolidated 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 Consolidated 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 all staff and Directors. 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.

1.15 Finance income

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

1.16 Critical accounting estimates, assumptions 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.

Estimates and assumptions

Share-based payments

The Group operates an equity-settled share-based compensation plan as detailed in note 17 for employee (and consultant) services to be received and the corresponding increases in equity are measured by reference to the fair value of the equity instruments as at the date of grant. The fair value determination is based on the principles of the Black-Scholes Model, the inputs of which require the use of estimation.

Judgements

Deferred tax recognition

The determination of probable future profits, against which the Group's deferred tax profits can be offset, requires judgement.

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 market rates of interest on Group cash deposits using money market funds. Cash balances used to settle the liabilities from operating activities are maintained in current accounts.

(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 2016 the Group had no trade payables denominated in a foreign currency (31 December 2015: £27,014).

Cash flow interest rate risk and fair value interest rate risk

The Group's interest rate risk arises from short-term money market deposits.

(ii) Credit risk

Credit risk arises from cash and cash equivalents and money market deposits as well as credit exposure in relation to outstanding receivables.

(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 Consolidated Statement of Financial Position date of £855,177 (2015: £729,118) which fall due within one year.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

3. Segment reporting

The Group is organised and operates as one segment. The Group's revenue analysed by geographical location of the Group's customers is:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Middle East / ROW	**118,192**	–
United States of America	**35,473**	3,237
Europe	**16,697**	26,239
	170,362	29,476

4. Operating loss

Operating loss is stated after charging	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Depreciation of plant and equipment (note 10)	**6,247**	6,958
Inventories consumed in R&D	**122,565**	60,647
Wages and salaries (note 5)	**1,662,299**	1,653,345
Operating lease costs: property	**76,394**	70,992
Loss on foreign exchange	**4,823**	4,066

The fees of the Group's auditor, KPMG LLP (2015: BDO LLP), for services provided are analysed below:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Audit services		
Parent company	**26,000**	27,500
Subsidiaries	**7,500**	7,500
Tax services		
Parent company	**1,000**	1,000
Subsidiaries	**10,000**	5,000
Total fees	**44,500**	41,000

5. Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year was 14 (by category: R&D 8, administration 6), (2015:14, by category: R&D 8, administration 6) and their aggregate emoluments were:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Wages and salaries	**1,288,330**	1,273,543
Social security costs	**161,481**	159,715
Other pension and insurance benefits costs	**156,656**	108,784
Total cash-settled emoluments	**1,606,467**	1,542,042
Accrued holiday pay	**6,224**	650
Share-based payment remuneration charge	**49,608**	110,653
Total emoluments	**1,662,299**	1,653,345

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

6. Directors' emoluments

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Aggregate emoluments	**628,609**	559,495
Employer pension contributions	**53,265**	13,099
Subtotal per remuneration report	**681,874**	572,594
Share-based payment remuneration charge	**18,833**	50,534
Employer's national insurance charge	**86,284**	76,746
Total emoluments	**786,991**	699,874

There were no share options exercised by the Directors during the current or preceding year. In 2016 one Director (2015: one Director) participated in a private money purchase defined contribution pension scheme. Emoluments for individual Directors are disclosed within the Remuneration Report.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

6. Directors' emoluments (continued)

Emoluments on the previous page include the following amounts in respect of the highest paid Director:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Aggregate emoluments	**306,566**	257,010
Employer pension contributions	**–**	–
Subtotal per remuneration report	**306,566**	257,010
Share-based payment remuneration charge	**11,864**	33,018
Employer's national insurance charge	**41,998**	35,155
Total emoluments	**360,428**	325,183

7. Finance income

Interest receivable in 2016 on fixed rate short-term deposits was £14,714 (2015: £38,325).

8. Taxation

Current tax

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
UK corporation tax credit reported in the Consolidated Statement of Comprehensive Income	**842,246**	997,036

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

8. Taxation (continued)

The differences are explained below:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Loss on ordinary activities before tax	**4,539,359**	6,078,478
Loss on ordinary activities at an average standard rate of corporation tax in the UK of 20% (2015: 20%)	**907,872**	1,215,696
Expenses not deductible for tax purposes	**(125)**	(674)
Unrecognised deferred tax	**(12,154)**	(22,521)
Unutilised tax losses	**(396,701)**	(615,640)
Additional relief attaching to R&D tax credit claims	**343,354**	420,175
UK corporation tax credit reported in the Consolidated Statement of Comprehensive Income	**842,246**	997,036

The Group has tax losses of £22,332,102 (2015: £20,360,259) available for offset against future taxable profits.

Deferred tax

Deferred tax assets amounting to £3,859,456 (2015: £3,676,244) have not been recognised due to it not being probable that taxable profits will be available, against which these deductible temporary differences can be utilised. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The unrecognised deferred tax asset at 31 December 2016 has been calculated assuming a prevailing tax rate when the timing differences reverse of 17% (2015: 18%) and comprises:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Depreciation in excess of capital allowances	**6,820**	7,444
Tax relief on unexercised share options	**53,156**	2,121
Other short-term timing differences	**3,022**	1,832
Unutilised tax losses	**3,796,458**	3,664,847
	3,859,456	3,676,244

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

9. Loss per share (pence)

The calculation of the loss per share is based on a loss of £3,697,113 (2015: loss of £5,081,442) and on a weighted average number of shares in issue of 101,350,836 (2015: 99,022,600).

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'.

10. Plant and equipment

	Computer Equipment £	Furniture and Fittings £	Total £
Cost			
At 1 January 2016	44,754	58,244	102,998
Additions	4,940	2,543	7,483
At 31 December 2016	**49,694**	**60,787**	**110,481**
Depreciation			
At 1 January 2016	30,844	52,039	82,883
Charge for year	5,126	1,121	6,247
At 31 December 2016	**35,970**	**53,160**	**89,130**
Net book value			
At 31 December 2016	**13,724**	**7,627**	**21,351**
At 31 December 2015	13,910	6,205	20,115

10. Plant and equipment (continued)

	Computer Equipment £	Furniture and Fittings £	Total £
Cost			
At 1 January 2015	33,939	53,101	87,040
Additions	10,815	5,143	15,958
At 31 December 2015	**44,754**	**58,244**	**102,998**
Depreciation			
At 1 January 2015	24,995	50,930	75,925
Charge for year	5,849	1,109	6,958
At 31 December 2015	**30,844**	**52,039**	**82,883**
Net book value			
At 31 December 2015	**13,910**	**6,205**	**20,115**
At 31 December 2014	8,944	2,171	11,115

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

11. Inventories

	31 December 2016 £	31 December 2015 £
Consumable materials used for development	**83,641**	163,767

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

12. Financial instruments by category

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

Assets as per Consolidated Statement of Financial Position	Notes	31 December 2016 £	31 December 2015 £
Loans and receivables			
Trade and other receivables	13	**34,986**	49,578
Cash and cash equivalents	14	**12,352,978**	4,188,294
Total loans and receivables		**12,387,964**	4,237,872

Liabilities as per Consolidated Statement of Financial Position		31 December 2016 £	31 December 2015 £
Trade and other payables	15	**286,135**	461,451
Total financial liabilities		**286,135**	461,451

13. Trade and other receivables

	Note	31 December 2016 £	31 December 2015 £
Amounts receivable within one year:			
Trade receivables		**20,364**	–
Other receivables		**14,622**	49,578
Financial assets	12	**34,986**	49,578
Prepayments and accrued income		**104,003**	96,559
		138,989	146,137

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 Consolidated Statement of Financial Position date is the fair value of each class of receivable.

14. Cash and cash equivalents

	31 December 2016 £	31 December 2015 £
Cash at bank and in hand	**147,200**	44,110
Sterling short-term money market deposits	**12,205,778**	4,144,184
	12,352,978	4,188,294

15. Trade and other payables

	Note	31 December 2016 £	31 December 2015 £
Trade payables		**286,135**	461,451
Financial liabilities	12	**286,135**	461,451
Social security and other taxes		**42,923**	67,904
Accrued expenses and deferred income		**526,119**	199,763
		855,177	729,118

16. Share capital

Authorised	31 December 2016 Number	31 December 2015 Number	31 December 2016 £	31 December 2015 £
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 2016 Number	31 December 2015 Number	31 December 2016 £	31 December 2015 £
Ordinary shares of 0.2 pence each	**120,144,950**	99,092,318	**240,290**	198,185

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

16. Share capital (continued)

The number of issued ordinary shares as at 1 January 2015 was 99,022,600. During the year ended 31 December 2015, the Company issued shares of 0.2 pence each as follows:

Month	Reason for issue	Gross Consideration £	Shares Issued Number
December 2015	Non-Executive Director award at 35.50 pence per share	24,750	69,718

The number of issued ordinary shares as at 1 January 2016 was 99,092,318. During the year ended 31 December 2016, the Company issued shares of 0.2 pence each as follows:

Month	Reason for issue	Gross Consideration £	Shares Issued Number
November 2016	Share placing at 57.00 pence per share	12,000,000	21,052,632

17. Share options

At 31 December 2016, 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 2016 Number	Options Lapsed Number	At 31 December 2016 Number
1 August 2011 - 31 July 2016	24.25	314,279	(314,279)	**–**
1 August 2012 - 31 July 2017	40.50	482,962	–	**482,962**
1 October 2013 - 30 September 2018	56.50	627,500	–	**627,500**
1 October 2014 - 30 September 2019	61.50	660,000	–	**660,000**
1 October 2015 - 30 September 2020	71.50	750,000	–	**750,000**
1 October 2016 - 30 September 2021	51.75	1,040,000	(300,000)	**740,000**
1 October 2017 - 30 September 2022	30.00	1,110,000	(50,000)	**1,060,000**
		4,984,741	(664,279)	**4,320,462**

There were no share options awarded in 2016.

17. Share options (continued)

On 13 January 2017 share options over 1,260,000 new ordinary shares were granted to employees (including Executive Directors) at a price of 57.50p. The exercise period for these options is 1 October 2018 to 30 September 2023.

The share options outstanding at 31 December 2016 represented 3.60% of the issued share capital as at that date (2015: 5.03%) and would generate additional funds of £2,193,237 (2015: £2,439,700) if fully exercised. The weighted average remaining life of the share options outstanding at 31 December 2016 was 56 months (2015: 62 months) with a weighted average remaining exercise price of 50.76 pence (2015: 48.94 pence).

The share options exercisable at 31 December 2016 totalled 3,260,462 (2015: 2,834,741) with an average exercise price of 57.51 pence (2015: 55.33 pence) and would have generated additional funds of £1,875,237 (2015: £1,568,500) if fully exercised.

The Group's share option scheme rules apply to 3,740,462 of the share options outstanding at 31 December 2016 (31 December 2015: 4,229,741) and include a rule regarding forfeiture of unexercised share options upon the cessation of employment (except in specific circumstances).

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

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.

Inputs to share option pricing model	**31 December 2016**	31 December 2015
Grant date	–	9 September
Number of shares under option	–	1,110,000
Share price as at date of grant	–	30.00 pence
Option exercise price	–	30.00 pence
Expected life of options: based on previous exercise history	–	3 years
Expected volatility: based on 50 day median fluctuations over 3 years	–	42.68%
Dividend yield: no dividends assumed	–	0%
Risk-free rate: yield on 3 year treasury stock as at date of grant	–	0.82% p.a.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2016

17. Share options (continued)

Outputs generated from share option pricing model	31 December 2016	31 December 2015
Fair value per share under option	–	8.27 pence
Total expected charge over the vesting period	–	£91,750

Recognised in Consolidated Statement of Comprehensive Income	31 December 2016 £	31 December 2015 £
The share-based remuneration charge comprises:		
Share-based payments - employees	**49,608**	110,653
Share-based payments - consultants	**4,797**	10,459
Share-based payments	**54,405**	121,112

18. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2016 amounted to £131,181 (2015: £80,923). Pension contributions payable in arrears at 31 December 2016, included in accrued expenses at the relevant Consolidated Statement of Financial Position date, totalled £6,846 (2015: £5,470).

19. Commitments

At 31 December 2016 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £9,575 (2015: £5,945).

20. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', are the wholly owned subsidiary companies, Futura Medical Developments Limited, Futura Consumer Healthcare Limited and the Board. Transactions between the Company and the wholly owned subsidiary companies 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.

Parent Company Balance Sheet

For the year ended 31 December 2016

Company No. 04206001

	Notes	As at 31 December 2016 £	As at 31 December 2015 £
Fixed assets			
Investment	2	**1,120,537**	1,066,132
Current assets			
Debtors – due within one year	3	**3,107**	17,869
Debtors – due after more than one year	3	**32,332,884**	29,030,995
Total debtors		**32,335,991**	29,048,864
Cash at bank and in hand		**12,210,946**	4,080,777
Total current assets		**44,546,937**	33,129,641
Creditors: amounts falling due within one year	4	**(64,211)**	(37,379)
Net current assets		**44,482,726**	33,092,262
Net assets		**45,603,263**	34,158,394
Capital and reserves			
Called up share capital	5	**240,290**	198,185
Share premium account		**44,451,745**	33,053,345
Profit and loss account		**911,228**	906,864
Shareholders' funds		**45,603,263**	34,158,394

The parent company financial statements were approved and authorised for issue by the Board on 22 March 2017.

The notes on pages 55 to 58 form part of these parent company financial statements.

By order of the Board

James Barder
Chief Executive

Parent Company Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share Capital £	Share Premium £	Profit and Loss Account £	Total Equity £
At 1 January 2015		198,045	33,028,735	805,768	34,032,548
Total comprehensive loss for the year		–	–	(20,016)	(20,016)
Share-based payment		–	–	121,112	121,112
Issue of shares	5	140	24,610	–	24,750
At 31 December 2015		198,185	33,053,345	906,864	34,158,394
Total comprehensive loss for the year		–	–	(50,041)	(50,041)
Share-based payment		–	–	54,405	54,405
Issue of shares	5	42,105	11,957,895	–	12,000,000
Cost of share issue		–	(559,495)	–	(559,495)
At 31 December 2016		**240,290**	**44,451,745**	**911,228**	**45,603,263**

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

Profit and loss account represents the cumulative net profit recognised. The total comprehensive loss for the year represents the total recognised income and expense for the year.

The notes on pages 55 to 58 form part of these parent company financial statements.

Notes to the Parent Company Financial Statements

For the year ended 31 December 2016

1. Accounting policies

The parent company financial statements have been prepared in accordance with FRS 100 'Application of Financial Reporting Requirements' and FRS 101 'Reduced Disclosure Framework'.

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all the years presented. The financial statements have been prepared on a historical cost basis.

The accounts are prepared on a going concern basis. In assessing whether a going concern assumption is appropriate, the Directors have taken into account all relevant available information about the future trading including profit forecasts, cash forecasts and funding. It is therefore considered appropriate to adopt a going concern basis of accounting in the preparation of the annual financial statements.

As a consolidated statement of comprehensive income is published, no separate statement of comprehensive income for the parent company has been included in these financial statements, as permitted by section 408 of the Companies Act 2006. The loss in respect of the Company for the year was £50,041 (2015: £20,016).The remuneration of the Directors of the Company is disclosed in note 6 to the consolidated financial statements. Auditor's remuneration is disclosed in note 4 to the consolidated financial statements.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- financial instrument disclosures;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the Group.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash and cash equivalents and trade and other creditors.

Notes to the Parent Company Financial Statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Share-based employee remuneration

The Company has no employees but does issue shares to satisfy share option awards made by its subsidiary company Futura Medical Developments Limited.

The grant date fair value of share-based payments awards granted to employees is recognised as an increase in the investment, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the awards are granted.

Taxation

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2. Investment in subsidiary

The investment represents 100% of the issued ordinary £1 shares in the subsidiary undertaking Futura Medical Developments Limited whose registered address is: 40 Occam Road, Guildford, Surrey GU2 7YG. The principal activity of the company is the research and development of pharmaceutical drugs and medical devices and their commercial exploitation. The investment is stated at cost plus capital contribution by the subsidiary in respect of share-based payment charge. The results of the subsidiary are included in the consolidated financial statements.

	31 December 2016 £	31 December 2015 £
Cost	**1,120,537**	1,066,132

Futura Medical Developments Limited owns 100% of the issued ordinary £1 shares of Futura Consumer Healthcare Limited whose registered address is: 40 Occam Road, Guildford, Surrey GU2 7YG. The principal activity of Futura Consumer Healthcare Limited is the commercial exploitation and branding of pharmaceutical drugs and medical devices developed by Futura Medical Developments Limited. The results of Futura Consumer Healthcare Limited are included in the consolidated financial statements.

3. Debtors

	31 December 2016 £	31 December 2015 £
Amounts receivable within one year: prepayments	**3,107**	17,869
Amounts receivable after more than one year:		
Amounts owed by subsidiary	**32,332,884**	29,030,995

4. Creditors: amounts falling due within one year

	31 December 2016 £	31 December 2015 £
Trade creditors	**10,797**	2,779
Accruals and deferred income	**53,414**	34,600
	64,211	37,379

Notes to the Parent Company Financial Statements (continued)

For the year ended 31 December 2016

5. Called up share capital

Authorised	31 December 2016 Number	31 December 2015 Number	31 December 2016 £	31 December 2015 £
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 2016 Number	31 December 2015 Number	31 December 2016 £	31 December 2015 £
Ordinary shares of 0.2 pence each	**120,144,950**	99,092,318	**240,290**	198,185

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

6. Related party transactions

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

Company Information

Company number
04206001

Directors

John Clarke	Non-Executive Chairman
James Barder	Chief Executive
Derek Martin	Finance Director
Jonathan Freeman	Non-Executive Director
Ken James	Executive Director

Audit committee
Jonathan Freeman
Ken James

Remuneration committee
Jonathan Freeman
Ken James
John Clarke

Nominations committee
John Clarke
Jonathan Freeman
Ken James

Secretary and registered office
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