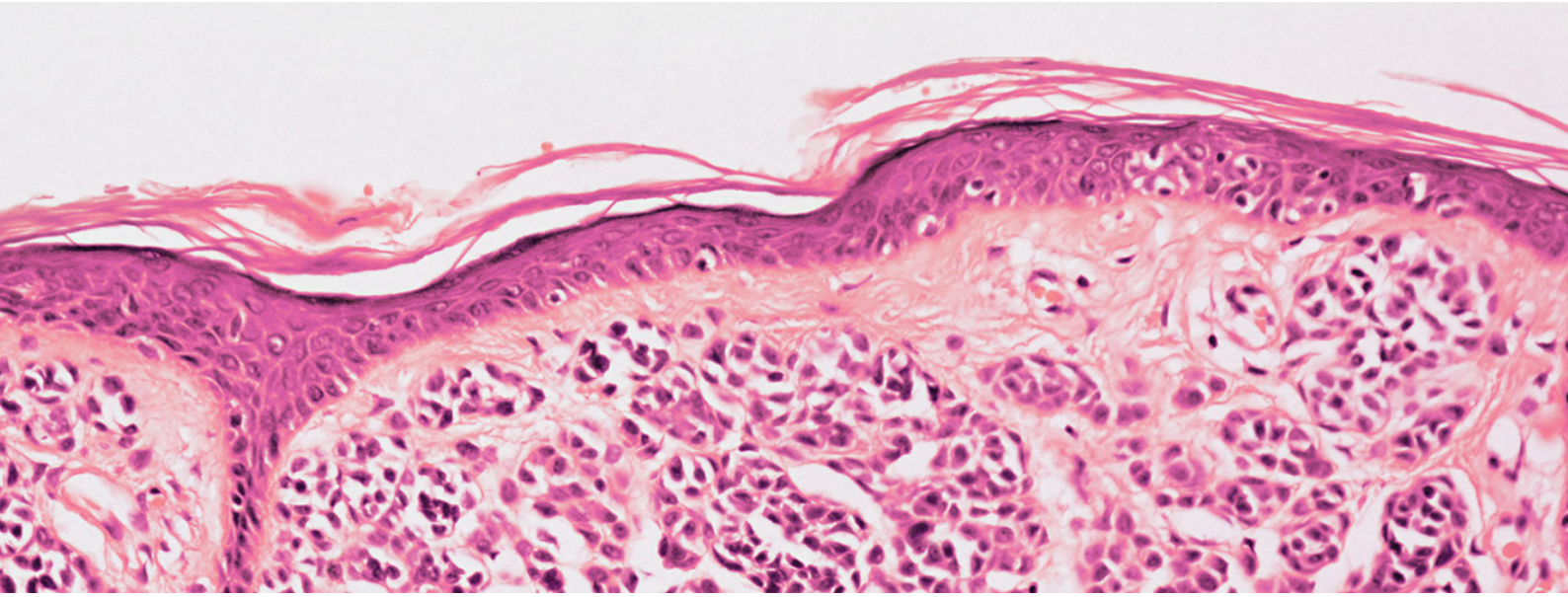
Futura Medical

Advanced Transdermal Technology



# EXPERTS IN TRANSDERMAL DELIVERY

Futura Medical plc

Annual Report and Accounts 2017

# 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.

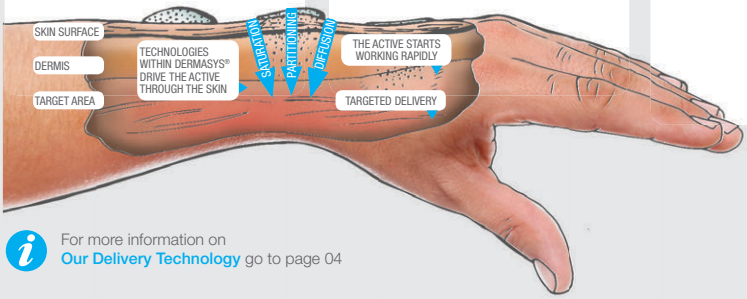
## 1 ADVANCED TRANSDERMAL TECHNOLOGY

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 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

## Development and Commercial:

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

- Key meetings held and positive feedback received from US & European regulators on the two phase III trials planned in our clinical development programme
- Interim pharmacokinetic data indicates that at least two higher strength doses of MED2002 are eligible for the planned Phase III clinical studies compared with the dose used in the successful Phase II study
- Commercial out-licensing discussions at an advanced stage

### *CSD500: Erectogenic condom*

- Successful product launch in Saudi Arabia with further order placed and in production
- Further launches in 2018 underway

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

- First out-licensing agreement signed for TPR100
- Commercial out-licensing discussions continuing for other countries

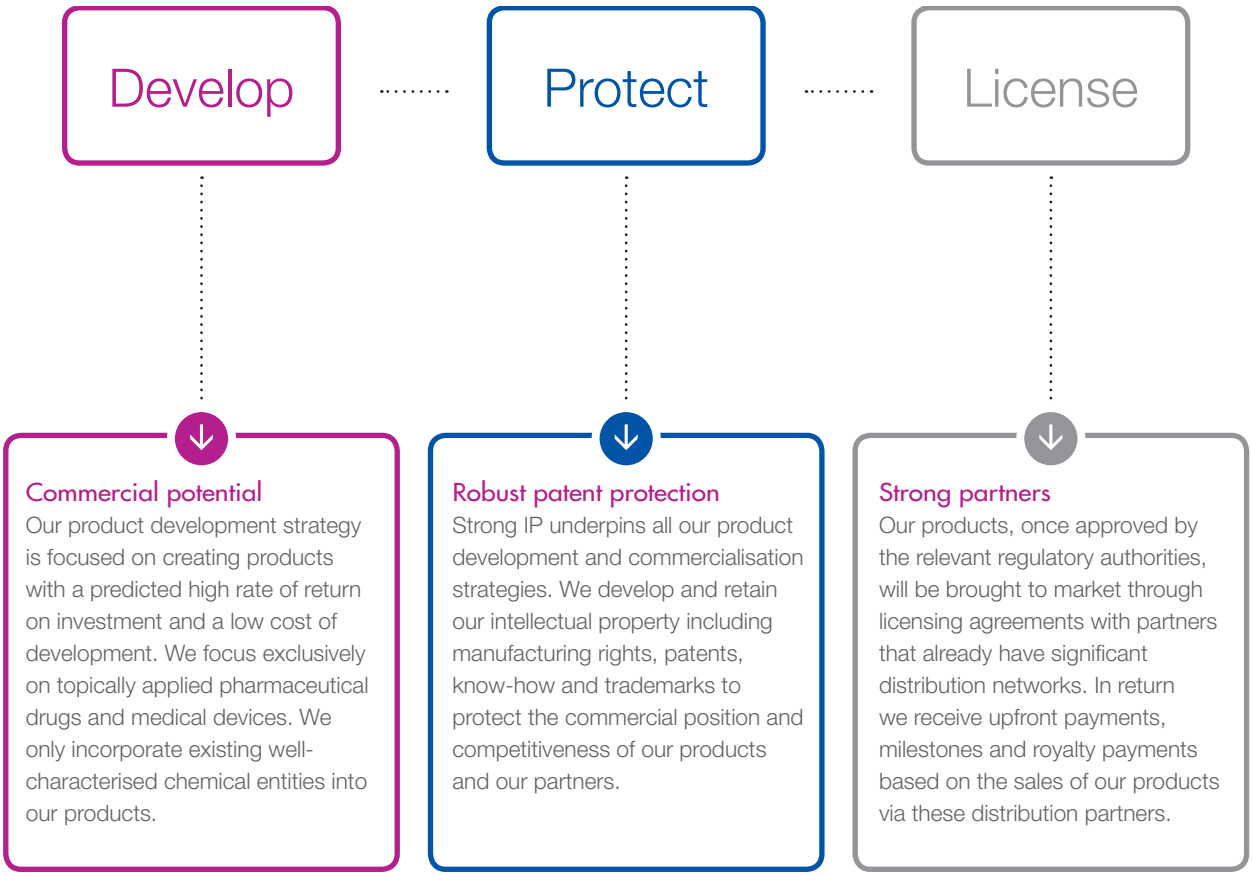
## Organisational:

- Appointment of Angela Hildreth as Finance Director and Chief Operating Officer

## Financial:

- Net loss of £3.90 million (2016: Net loss of £3.70 million), reflecting planned increase in R&D expenditure in ongoing MED2002 clinical programme
- Cash resources of £8.36 million at 31 December 2017 (31 December 2016: £12.35 million)

# Our Business Model




## Licensing partnerships

CSD500 - Futura has seven distribution licensing agreements.

| *Licensee* | *Licensing Rights* |
|---|---|
| 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 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.

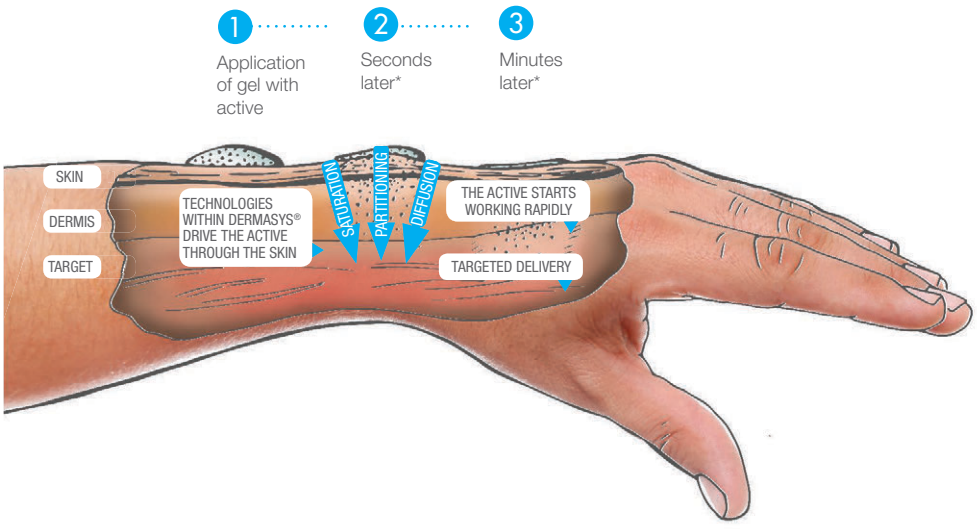
Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. DermaSys® is a versatile technology that can be tailored to suit the specific active compound being used and the therapeutic indication. Such targeted 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 Saudi Arabia. Further launches due in 2018

### 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

## Following our breakthrough Phase II clinical results announced in September 2016, our key objective for 2017 was to progress MED2002 both clinically and commercially.

Substantial progress was made in 2017 with MED2002, our topical gel for erectile dysfunction ("ED"), particularly in advancing the product into its Phase III clinical programme. MED2002 offers major and disruptive potential in terms of prescription sales and a subsequent over-the-counter switch. The rapid onset of action of MED2002 differentiates it from existing treatments and gives it the potential to be the world's fastest-acting treatment for ED. Also during the year, we continued to advance the commercialisation of CSD500, our novel erectogenic condom, and to progress our pain relief franchise.

Following our breakthrough Phase II clinical results announced in September 2016, our key objective for 2017 was to progress MED2002 both clinically and commercially. Discussions towards the out-licensing of MED2002 advanced materially during the year and, as previously stated, we believe that a commercial out-licensing agreement will be announced in the first half of this year though, of course, the timing will also be determined by the detail of negotiations.

The quality of the Phase II results was underlined in January 2018 when the leading, peer-reviewed scientific publication for sexual health, the *Journal of Sexual Medicine*, published its analysis of the data from the study, which had met its primary endpoint in showing a statistically significant improvement in erectile function in men compared with placebo. During the year we finalised the design of our Phase III programme, comprising a pharmacokinetic ("PK") study and two Phase III studies. We were very pleased to report earlier this week preliminary safety data from the PK study, which commenced in November last year, show that all doses were well-tolerated. The PK study included doses up to four times higher than the dose used in the Phase II study, which creates the potential for increased efficacy in the Phase III studies with the objective of being able to treat patients experiencing more severe ED.

CSD500 is now actively marketed in the Middle East, where more than 500,000 condoms have been supplied to date under the Manex brand; in the test market of Benelux countries more than 100,000 CSD500 condoms have been sold under the Blue Diamond brand. Whilst these sales are encouraging, our commercialisation plans in North America and certain European countries were impacted by Church & Dwight's decision to return licensing rights to the product to Futura owing to a strategic change at their business. We continue in commercial discussions for those countries without a distribution partner for CSD500, including those that formed part of the Church & Dwight agreement.

As previously announced the commercialisation of our pain relief products continues, with the UK regulatory dossier submission of TPR100, our diclofenac gel for topical pain relief, close to completion with filing expected in Q2 of this year by Thornton & Ross, a UK subsidiary of STADA Arzneimittel AG ("STADA"). We are at an advanced stage of discussions in connection with a further regional licensing deal for TPR100 with an additional prospective partner.

Our balance sheet remains strong with cash resources of £8.36 million at 31 December 2017 (31 December 2016: £12.35 million). We will continue to use these cash resources prudently through careful consideration of the timing and design of our clinical trial programmes.

## 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 patents to the product in a market worth US$5.6 billion[1] for currently available treatments and have registered the brand name Eroxon®, though potential distributors may choose to use other brand names. MED2002's rapid onset of action, with speed of onset within 10 minutes in 70 percent of intercourse attempts in our Phase II clinical trial, means that it has the potential to be the world's fastest-acting treatment for ED.

The breakthrough clinical results announced in September 2016 were discussed with regulators in the UK, Europe and US during 2017 with a view to confirming the optimal clinical study pathway to achieve marketing approval throughout Europe and in the US. As a result of these interactions, we decided to begin the Phase III programme with an enlarged pharmacokinetic ("PK") study, which was designed to assess the tolerance of 40 healthy subjects to a range of doses of MED2002, including higher doses than the dose used in the breakthrough results study.

The PK study, which commenced in November 2017, is evaluating the dose of 0.2% w/w glyceryl trinitrate ("GTN") used in the previously reported successful Phase II clinical study, and higher doses of 0.4%, 0.6% and 0.8% to assess their suitability for maximising efficacy in the two planned Phase III studies.

One of the key goals of the PK study was to demonstrate that the blood plasma concentrations of GTN of at least some of the higher doses fall within the plasma concentrations of a US reference product, Nitrostat®, which is used to treat angina. Demonstrating this equivalence enables the Company to use the FDA 505(b)(2) route to regulatory approval where at least some of the safety information required for approval comes from studies not conducted by or for Futura saving both time and money.

We were pleased to report earlier this week that in this phase of the study in 30 subjects, the 0.2%, 0.4% and 0.6% doses met this requirement. The 0.8% dose had similar but slightly higher levels of GTN in the blood plasma than Nitrostat®. Additionally, as the dose of MED2002 was increased, the plasma concentrations increased demonstrating that absorption occurs in a predictable and reliable manner thereby providing further safety reassurance and underlining the potency and versatility of Futura's DermaSys® transdermal technology.

*Note [1] 15 Key markets, IMS Health Data (2016) Manufacturers' Selling Price*

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

Adverse events were also monitored during this phase of the study and all four doses were well tolerated. In particular, the level of headache (the main side effect normally seen) between each different MED2002 dose and Nitrostat® was broadly similar, mostly being mild and self-limiting.

The remaining part of the PK study is analysing the residual amounts of MED2002 left on the penis five minutes after application to evaluate the risk of transference of the active ingredient from the male to the female sexual partner. The results from this part of the study, along with the full results of the safety data, are expected within the next month.

We have also recently received written endorsement from the US Food and Drug Administration of the adaptive design of our two Phase III trials for MED2002; the design has already been reviewed by the UK's Medicines and Healthcare products Regulatory Agency and the Medicines Evaluation Board in the Netherlands.

Our current plan is for the first patient in the first Phase III trial to be dosed early in Q3 this year, though the timing could be influenced by the signing of a commercial out-licensing agreement. As previously mentioned, we believe that a commercial out-licensing agreement will be announced in the first half of this year.

Awareness of MED2002, and interest in its potential, has grown considerably in the medical community. Market research carried out by the leading healthcare strategy firm Cello Health Consulting, indicated that more than 60 per cent of physicians in the US consider that MED2002 is an improvement over current ED therapies. The research also revealed that at least 10 per cent of ED patients were contra-indicated to PDE5 inhibitors (such as Viagra® or Cialis®) because of their existing nitrate medication, a larger percentage than the 7.5 per cent historically stated by the Company based on previously conducted research. The online survey was based on interviews with a total of 200 doctors in the US, Germany and France.

As previously mentioned, the publication of our Phase II clinical data in the *Journal of Sexual Medicine* underlines the scientific and medical interest in MED2002; the article can be viewed at this link: http://www.jsm.jsexmed.org/article/S1743-6095(17)31852-0/fulltext. The publication of this data forms part of our strategy to increase the awareness of MED2002 in the medical and pharmaceutical community and attracted significant interest with widespread coverage in the mainstream press and features in the medical and pharmaceutical media, highlighting the level of potential media interest in a future launch of MED2002.

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].

MED2002's patent protection runs until August 2028 in the USA and August 2025 in Europe. An additional patent filing announced in 2017 could extend patent protection through to 2038. As an innovator product filed under Article 8(3) of 2001/83/EC, MED2002 will also benefit from 10 years European regulatory data and market exclusivity.

*Note [2] US patient information 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 is protected in the world's most important markets by the filing and granting of key core patents.

CSD500 benefits from a total of seven licensing agreements, covering more than 27 countries worldwide. The most recent agreement was signed in March last year, when F Lima SA gained exclusive rights to market CSD500 in Portugal.

The planned commercialisation of the product in North America and certain European countries was impacted by the decision by Church & Dwight to return licensing rights to those countries as announced in August 2017. Whilst immensely frustrating, it was reassuring that Church & Dwight had confirmed they had no concerns around clinical and safety risks and the decision was the result of a change in strategic direction at its business. We continue in commercial discussions on out-licensing CSD500 in a number of countries including those that formed part of the Church & Dwight agreement. As we have discounted making an online launch by ourselves, we are exploring a number of potential commercial approaches, including jointly licensing MED2002 and CSD500 in some countries.

CSD500 was launched in Saudi Arabia in the first half of 2017 by our distributor Kabey and further launches in the MENA region are planned as soon as the necessary regulatory approvals on a country by country basis are granted. Kabey is using the Manex brand name and its promotion is based on direct retail marketing.

We have been pleased with the continued safety data and positive feedback and are encouraged by the low level of customer complaints from more than 600,000 CSD500 condoms which have been supplied to date to the MENA region and Benelux test market. A further order has been placed and is currently in production.

Our two 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. Last year TTK received regulatory approval from the relevant EU Notified Body to manufacture an extended shelf life product and we continue to work closely with regulators to gain approval for an extended shelf life product for our European manufacturer. We remain hopeful of approval by the end of H1 2018 from the same EU Notified Body for an extended shelf life product for our European based manufacturer, which will be based on two years', real time data.

As highlighted in our previous Interim Report, the regulatory process in Europe has been slowed by the changing structure of EU regulatory bodies, and we continue to work closely with regulators to overcome these challenges and to prioritise certain of our submissions and to enable the launch of CSD500 in a number of countries during 2018 and beyond.

# 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 and increased skin permeation offers potential benefits in pain management including: improved onset of action, duration and degree of pain relief.

Futura has previously demonstrated statistically significant results over placebo from its two non-steroidal anti-inflammatory drug ("NSAID") programmes, TPR100 (2% diclofenac gel) and TIB200 (10% ibuprofen gel), in a clinical study.

The UK regulatory submission of TPR100, our diclofenac gel for topical pain relief, is close to completion with filing expected in Q2 of this year by Thornton & Ross, a UK subsidiary of STADA. Under the terms of its licensing agreement, Thornton & Ross holds rights to manufacture, market and distribute TPR100 in the UK for the lifetime of the product's patents, which run to 2028 in the UK.

We are also in discussions with several potential distribution partners for further licensing deals for TPR100 in countries outside of the UK. As previously stated, we do not intend to conduct any further clinical work, required primarily for the US market, without a clear indication of interest and commitment from potential commercial partners.

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].

## People

At the year end, Futura had 14 employees, (excluding Non-Executive Directors), (2016: 12), with the increase reflecting the strengthening of our in-house regulatory function.

Post the period-end, we were delighted to welcome Angela Hildreth to the Company as Finance Director, Chief Operating Officer and Company Secretary as announced on 20 February 2018. Her appointment followed the decision by Derek Martin, who had served as Finance Director for almost 10 years, to resign from the Company. We would again like to thank Derek for his contribution to the development of the Company and wish him well.

## Outlook

2018 has started well particularly given the progress of the Phase III clinical programme of our breakthrough erectile dysfunction gel, MED2002. The positive interim data announced on 13 March from the pharmacokinetic study indicates that we will be able to include at least two higher strength doses of MED2002 in our Phase III clinical studies along with the dose used in our earlier Phase II study, thereby bringing the potential for improved efficacy. Commercial discussions, especially with MED2002, are advancing well, further CSD500 launches in 2018 are planned and we therefore look forward to the year ahead with confidence.

**John Clarke**
Chairman

**James Barder**
Chief Executive

*Note [3] 2015 IMS Health estimate*

# Strategic Report

## Our strategy is to develop innovative products with compelling commercial potential in the pharmaceutical and 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 10, the consolidated financial statements and the Notes to the Consolidated Financial Statements set out on pages 33 to 56.

### Group strategy

The Group strategy is to focus on developing innovative products primarily for the pharmaceutical and 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 generic 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.

The Board is committed to driving product development allowing greater control of their assets to provide greater certainty around efficacy and safety to minimise risk for commercial partners and maximise value and certainty in our product portfolio.

# Strategic Report (continued)

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 pharmaceutical and 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 (Rx) and over-the-counter (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$5.6 billion[3] in 2016. External market assessment based on market research conducted by Cello Health Consulting in 2017 and on the modelling work carried out by Decision Resources Group, forecast peak Rx sales in excess of $550m in key countries worldwide with no price premium. With an OTC switch later in its product life cycle, MED2002 would form part of 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 definitive clinical and regulatory pathway to commercialisation of our products.

## Revenue

Group revenue for the year ended 31 December 2017 was £363k (2016: £170k), comprising of milestone and royalty payments in relation to TPR100 and CSD500.

*Notes*

*[1] 2015 IMS Health estimate*
*[2] Get Report 2014 Global Sales*
*[3] 15 Key markets, IMS Health Data (2016) 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.*

## 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 2017 was £4.86 million (2016: £4.55 million), reflecting the increase in planned R&D expenses during the period. The Group's loss after taxation for the year ended 31 December 2017 was £3.90 million (2016: £3.70 million). Loss per share for the year ended 31 December 2017 was 3.23 pence (2016: 3.65 pence).

No dividends were paid and none are proposed by the Board (2016: £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 £4,100,453 (2016: £3,509,680) were higher in the year as we prepared for the commencement of the MED2002 clinical trial programme which began in Q4 2017.

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

| | **2017 £** | 2016 £ | 2015 £ | 2014 £ | 2013 £ |
|---|---|---|---|---|---|
| R&D costs | **4,100,453** | 3,509,680 | 4,778,039 | 2,365,678 | 1,976,322 |
| Other administrative costs | **1,118,218** | 1,214,755 | 1,368,240 | 1,205,078 | 926,123 |
| Total operating costs | **5,218,671** | 4,724,435 | 6,146,279 | 3,570,756 | 2,902,445 |
| R&D ratio | **79%** | 74% | 78% | 66% | 68% |

The R&D ratio is the percentage of R&D costs relative to total operating costs. The Board monitors this ratio closely. R&D spend since the formation of the business totalled £30.4 million (65% of total cumulative operating costs). A subsidiary, Futura Medical Developments Limited, continues 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 2017.

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 pharmaceutical drugs and medical devices 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.

# Strategic Report (continued)

## Other administrative costs

Other administrative costs for the year ended 31 December 2017 were £1,118,218 (2016: £1,214,755), reflecting continued vigilence in managing costs. 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 2017** | Year ended 31 December 2016 |
|---|---|---|
| Wages and salaries | **53%** | 54% |
| Legal and professional advisers | **18%** | 13% |
| Office costs and staff expenses | **11%** | 9% |
| Commercial and marketing support | **18%** | 24% |
| | **100%** | 100% |

## Taxation

A tax credit of £936,344 (2016: £842,246) in respect of R&D expenditure incurred has been recognised in the consolidated financial statements. The tax credit relating to R&D expenditure will be surrendered and cash is expected to be received in Q2 2018.

## 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 2017 totalled £46.06 million.

Cash held by the Group at 31 December 2017 totalled £8.36 million comprising cash and cash equivalents (31 December 2016 £12.35 million).

The Group had no bank borrowings as at 31 December 2017 (2016: £nil). Other significant sources of funding received for the Group since formation of the business until 31 December 2017 comprised: R&D tax credits £4.90 million, interest £1.05 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.

On 17 May 2017 the Group raised £15,525 following the issue of 30,000 shares at 51.75 pence per share pursuant to the exercise of share options by an employee.

On 31 December 2017 the Group raised £21,459 following the deferred issue of 37,320 shares at 57.50 pence per share in respect of the 2017 Non-Executive Directors' remuneration.

In January 2018 the Group raised £48,000 following the issue of 160,000 shares at 30.00 pence per share pursuant to the exercise of share options by employees.

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.

## 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 Board considers 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 has reduced this risk by developing products using safe, well-characterised active compounds, has sought and will continue to seek, where appropriate, advice from regulatory advisers, consultations with regulatory approval bodies and by working with experienced distribution partners.

In 2017, the Board created a Risk Oversight Committee to provide additional oversight of its operational compliance in respect of its assets. This committee uses as its framework the Medical Device Quality Management System (QMS) as defined in the Medical Device Quality Manual and the equivalent for Pharmaceutical products. They meet every six months and agenda items are driven by a management review which assesses compliance against the QMS on an ongoing basis.

### 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 launched by the Group's licensing partners, be successfully promoted 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.

# Strategic Report (continued)

### 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 and European regulatory data and market exclusivity protection where applicable pertaining to data accumulated through the development process, 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 13 March 2018.

**Angela Hildreth**
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 and Chief Operating Officer, 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 and 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, which was subsequently acquired by Clinigen 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.

# Board of Directors (continued)

## Angela Hildreth

Finance Director, Chief Operating Officer and Company Secretary

**Current roles:**
Angela joined the company in February 2018. She leads the Group's finance, HR and IT functions, inputs into commercial and financial strategy, ensures 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 the past 7 years as UK Finance Director at Shield Therapeutics Plc (quoted on AIM).

**Brings to the Board:**
Strategic and operational financial experience of developing and commercialising pharmaceutical products.

## 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 Group's existing pipeline and the evaluation of early stage pipeline opportunities. He is a member of 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' experience in the research, development and commercialisation of consumer healthcare products.

Directors who served in the year

## Derek Martin, BSc (Hons), ACA

Finance Director and Company Secretary
Derek Martin resigned from his position on 19 February 2018.

# 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 two Remuneration Committee meetings during 2017.

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 2.69% of the issued share capital.

# Remuneration Report (continued)

## 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 in line with the Group Expenses Policy. 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 2017 was settled on 2 January 2018 by the issue of 37,320 shares at 57.50 pence per share. The 2018 award has been determined at 25.10 pence per share and the Non-Executive Directors will accrue these shares over 2018 and receive them, or such lower number as have accrued if they leave the Group earlier, in January 2019.

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.

## Directors' emoluments

The emoluments of the Directors, who represent the key management personnel, in 2017 were as follows:

| | Year ended 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Salary & Directors' Fees £** | **Bonus £** | **Share Awards £** | **Benefits In Kind £** | **Pension £** | **Total £** | Year ended 31 December 2016 £ |
| Executive Directors | | | | | | | |
| James Barder* | **229,748** | **–** | **–** | **5,254** | **–** | **235,002** | 306,566 |
| Derek Martin | **127,400** | **17,231** | **–** | **2,758** | **21,875** | **169,264** | 183,774 |
| Ken James | **166,500** | **19,687** | **–** | **–** | **–** | **186,187** | 51,184 |
| Non-Executive Directors | | | | | | | |
| John Clarke | **61,600** | **–** | **25,195** | **–** | **–** | **86,795** | 83,085 |
| Jonathan Freeman | **35,070** | **–** | **8,394** | **–** | **–** | **43,464** | 41,524 |
| Lisa Arnold | **–** | **–** | **–** | **–** | **–** | **–** | 15,741 |
| Totals | **620,318** | **36,918** | **33,589** | **8,012** | **21,875** | **720,712** | 681,874 |

** James Barder waived his right to a cash bonus of £23,495 in 2017 and the Board agreed that the bonus could be earned in 2018 subject to revised performance criteria being met and in addition to the 2018 scheme in place.*

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 2017 (2016: £nil).

## Directors' interests in shares

| | **31 December 2017** | | 31 December 2016 | |
|---|---|---|---|---|
| | **Beneficial Interests** | **Non-beneficial Interests** | Beneficial Interests | Non-beneficial Interests |
| John Clarke | **198,976** | **–** | 119,551 | – |
| James Barder | **611,330** | **867,500** | 621,330 | 867,500 |
| Derek Martin | **280,000** | **–** | 280,000 | – |
| Jonathan Freeman | **63,565** | **–** | 35,803 | – |
| Ken James | **13,787** | **–** | – | – |
| Totals | **1,167,658** | **867,500** | 1,056,684 | 867,500 |

Other than as shown in the table no Director had any interest in the shares of the Company at 31 December 2017 or at 31 December 2016.

# Remuneration Report (continued)

## 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 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | **Options Held** | **Share-based Payment Expense** | Options Held | Share-based Payment Expense |
| James Barder | **1,750,000** | **40,608** | 1,500,000 | 11,864 |
| Derek Martin* | **1,060,000** | **30,963** | 760,000 | 6,969 |
| Ken James | **400,000** | **26,396** | – | – |
| Totals | **3,210,000** | **97,967** | 2,260,000 | 18,833 |

** Following Derek Martin's resignation on 19 February 2018, those options will lapse if not exercised prior to 14 May 2018.*

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 are set out below:

| | **Grant Date** | **Number Awarded** | **Exercise Price/Share** | **Earliest Exercise Date** | **Expiry Date** |
|---|---|---|---|---|---|
| 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 |
| James Barder | 13 January 2017 | 124,348 | 57.50 pence | 1 October 2018 | 30 September 2023 |
| 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 |
| Derek Martin** | 13 January 2017 | 200,000 | 57.50 pence | 1 October 2018 | 30 September 2023 |
| Ken James | 13 January 2017 | 200,000 | 57.50 pence | 1 October 2018 | 30 September 2023 |
| Ken James | 12 September 2017 | 200,000 | 30.50 pence | 1 October 2019 | 30 September 2024 |
| Totals | | 2,266,818 | | | |

** Following Derek Martin's resignation on 19 February 2018, his options will lapse if not exercised prior to 14 May 2018.*
*** Following Derek Martin's resignation on 19 February 2018 these options lapsed immediately.*

## 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:

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| James Barder | 85,708 | 85,708 | 85,708 | 85,708 |
| Derek Martin* | 85,708 | 85,708 | 85,708 | 85,708 |
| Ken James | 40,000 | 40,000 | 40,000 | 40,000 |
| John Clarke | 40,000 | 40,000 | 40,000 | 40,000 |
| Jonathan Freeman | 40,000 | 40,000 | 40,000 | 40,000 |
| Other employees | 356,124 | 356,124 | 356,124 | 356,124 |
| At discretion of Remuneration Committee | 163,664 | 163,664 | 163,664 | 163,664 |
| Totals | 811,204 | 811,204 | 811,204 | 811,204 |

** Following Derek's Martin's resignation on 19 February 2018, it is not anticipated that the shares above will be awarded.*

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 and Chief Operating officer, 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 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 2017, there were nine meetings of the full Board, two of the Remuneration Committee, two 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 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 two Audit Committee meetings during 2017. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and audit partners are rotated every five years. The 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.

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 2017. 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 2017, the Group's employees (excluding Non-Executive Directors) comprised: three Executive Directors and ten 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.

# Corporate Governance (continued)

## Employees (continued)

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 and Chief Operating Officer 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.

**Angela Hildreth**
Secretary

# Directors' Report

## Directors
The Directors during the year were:

John Clarke
James Barder
Derek Martin (resigned 19 February 2018)
Jonathan Freeman
Ken James

## Dividends
No dividends were paid and none are proposed (2016: £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 Account 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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (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. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable 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;

# Directors' Report (continued)

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

## 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

**Angela Hildreth**
Secretary
13 March 2018

# Independent Auditor's Report to the members of Futura Medical plc

## Our opinion is unmodified

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

# Independent Auditor's Report to the members of Futura Medical plc (continued)

| | The risk | Our response |
|---|---|---|
| Expenses recognition (Research and Development expenses and Administrative expense)<br><br>(£5,218,671; 2016: £4,724,435)<br><br>*Refer to page 46 (financial disclosures).* | Although we do not consider recognition of expenses to be an area with a high risk of significant misstatement, or requiring a significant level of judgement, it is considered to be the key drivers of results and as such had the greatest effect on our audit and allocation of resources in the planning and completing of our audit. | Our procedures included:<br><br>Tests of details: In order to challenge whether the expensed had been accurately recorded in the correct period, we:<br><br>• selected a sample of external expenses and inspected related invoices;<br><br>• for payroll related expenses, agreed the total net pay per the payroll reports to the bank statements.<br><br>• selected a sample of post year end invoices and post year end bank payments and agreed to supporting documentation. |
| Recoverability of parent company's investment and debt due from group entities<br><br>(Investment - £1,321,798; 2016: £1,120,537)<br><br>(Loan - £36,475,173; 2016: £32,332,884)<br><br>*Refer to page 61 (financial disclosures).* | Forecast-based valuation<br><br>The carrying amount of the parent company's investment in its subsidiary and group debtor balance are significant and at risk of irrecoverability due to uncertainties related to successful commercialisation of pipeline products. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting and discounting cash flows. | Our procedures included:<br><br>Benchmarking assumptions: Challenging the assumptions used in the discounted cash flow model based on our knowledge of the Group including products pipeline, results from latest clinical trials, the markets in which the subsidiaries operate and our sector experience.<br><br>Comparing valuations: Comparing the carrying amount of the investment and debtor balance to the market capitalisation of the Group as at and since year end, to assess the reasonableness of the cash flow forecasts and discount rates used.<br><br>Assessing transparency: Assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiaries and group debtor balance. |

## Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £217,000 (2016: £162,000), determined with reference to a benchmark of group loss before tax of £4,773,053 (2016: £4,730,058), of which it represents 4.5% (2016: 3.5%).

Materiality for the parent company financial statements as a whole was set at £95,000 (2016: £133,000), by reference to the component materiality. This is lower than the materiality we would have otherwise have determined by reference to company total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £10,850, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 3 reporting components (2016: 3); Futura Medical Developments Limited, Futura Consumer Health Limited and Futura Medical plc, we subjected 2, (2016: 2) to full scope audits.

The components within the scope of our work accounted for the percentages illustrated below:

**The components within the scope of our work accounted for the following percentages of the group's results:**

| | Number of components | | Group revenue | | Group loss before tax | | Group total assets | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Audits for group reporting purposes | 2 | 2 | 100% | 100% | 100% | 97% | 100% | 98% |

The Group team approved the following component materialities, having regard to the mix of size and risk profile of the Group across the components:

- Futura Medical Developments Limited £215,000 (2016: £162,000)
- Futura Medical plc, £95,000 (2016: £133,000)

All work on a component and group level was performed by the Group team at the company's head office in Guildford, United Kingdom.

## We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## We have nothing to report on the other information in the Annual Report

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

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

### Strategic report and directors' report

Based solely on our work on the other information:

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

# Independent Auditor's Report to the members of Futura Medical plc (continued)

## We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

## Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on pages 27-28, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

### The purpose of our audit work and to whom we owe our responsibilities

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

**Derek McAllan** (Senior Statutory Auditor)

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

Arlington Business Park
Theale
Berkshire
RG7 4SD
14 March 2018

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

| | Notes | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|---|
| Revenue | 1.5 | **362,727** | 170,362 |
| Research and development costs | | **(4,100,453)** | (3,509,680) |
| Administrative costs | | **(1,118,218)** | (1,214,755) |
| Operating loss | 4 | **(4,855,944)** | (4,554,073) |
| Finance income | 7 | **19,316** | 14,714 |
| Loss before tax | | **(4,836,628)** | (4,539,359) |
| Taxation | 8 | **936,344** | 842,246 |
| Loss for the year being total comprehensive loss attributable to owners of the parent company | | **(3,900,284)** | (3,697,113) |
| Basic and diluted loss per share (pence) | 9 | **(3.23 pence)** | (3.65 pence) |

All amounts relate to continuing activities.

The notes on pages 37 to 56 form part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

| | Notes | Share Capital £ | Share Premium £ | Merger Reserve £ | Retained Losses £ | Total Equity £ |
|---|---|---|---|---|---|---|
| At 1 January 2016 | | **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** |
| Total comprehensive loss for the year | | – | – | – | (3,900,284) | (3,900,284) |
| Share-based payment | 17 | – | – | – | 201,261 | 201,261 |
| Shares issued during the year | 16 | 1,102 | 219,651 | – | – | 220,753 |
| At 31 December 2017 | | **241,392** | **44,671,396** | **1,152,165** | **(36,959,195)** | **9,105,758** |

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 37 to 56 form part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2017

| | Notes | As at 31 December 2017 £ | As at 31 December 2016 £ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Plant and equipment | 10 | **63,517** | 21,351 |
| **Total non-current assets** | | **63,517** | 21,351 |
| | | | |
| **Current assets** | | | |
| Inventories | 11 | **70,413** | 83,641 |
| Trade and other receivables | 13 | **181,076** | 138,989 |
| Taxation | 8 | **927,247** | 842,246 |
| Cash and cash equivalents | 14 | **8,362,646** | 12,352,978 |
| **Total current assets** | | **9,541,382** | 13,417,854 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(499,141)** | (855,177) |
| **Total liabilities** | | **(499,141)** | (855,177) |
| **Total net assets** | | **9,105,758** | 12,584,028 |
| | | | |
| **Capital and reserves attributable to owners of the parent company** | | | |
| Share capital | 16 | **241,392** | 240,290 |
| Share premium | | **44,671,396** | 44,451,745 |
| Merger reserve | | **1,152,165** | 1,152,165 |
| Retained losses | | **(36,959,195)** | (33,260,172) |
| **Total equity** | | **9,105,758** | 12,584,028 |

The consolidated financial statements were approved and authorised for issue by the Board on 13 March 2018.

The notes on pages 37 to 56 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 2017

| | Notes | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | **(4,836,628)** | (4,539,359) |
| Adjustments for: | | | |
| Depreciation | 10 | **13,428** | 6,247 |
| Finance income | 7 | **(19,316)** | (14,714) |
| Share-based payment charge | 17 | **201,261** | 54,405 |
| **Cash flows from operating activities before changes in working capital** | | **(4,641,255)** | (4,493,421) |
| Decrease in inventories | 11 | **13,228** | 80,126 |
| (Increase) / decrease in trade and other receivables | | **(42,087)** | 16,981 |
| (Decrease) / increase in trade and other payables | 15 | **(356,036)** | 101,284 |
| **Cash used in operations** | | **(5,026,150)** | (4,295,030) |
| Income tax received | | **851,343** | 997,036 |
| **Net cash used in operating activities** | | **(4,174,807)** | (3,297,994) |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | 10 | **(55,594)** | (7,483) |
| Interest received | | **19,316** | 29,656 |
| **Cash (used in) / generated by investing activities** | | **(36,278)** | 22,173 |
| **Cash flows from financing activities** | | | |
| Issue of ordinary shares | 16 | **220,753** | 12,000,000 |
| Expenses paid in connection with share issue | | **–** | (559,495) |
| **Cash generated by financing activities** | | **220,753** | 11,440,505 |
| **(Decrease) / increase in cash and cash equivalents** | | **(3,990,332)** | 8,164,684 |
| **Cash and cash equivalents at beginning of year** | | **12,352,978** | 4,188,294 |
| **Cash and cash equivalents at end of year** | 14 | **8,362,646** | 12,352,978 |

The notes on pages 37 to 56 form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 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 2017.

### 1.2 Going concern

The Group had an operating loss of £4.86 million for the 2017 financial year (2016: £4.55 million), but had a positive net asset value of £9.11 million at 31 December 2017 (31 December 2016: £12.58 million). The cash component of this at 31 December 2017 was £8.36m (31 December 2016: £12.35 million) and 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 and commercial activities of the Group, including profit forecasts, cash forecasts, sensitivity analysis scenario planning and funding requirements. The Directors continue to manage the working capital of the Group to ensure it is well positioned to fund its future development programme and also to take advantage of appropriate commercial opportunities as and when they arise in the near and medium term.

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 standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*IFRS 15*

Revenue from Contracts with Customers IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 1. Accounting policies (continued)

*IFRS 16*

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

*Other standards*

The following standards and interpretations, applicable for annual periods beginning on or after 1 January 2017, are not expected to have any impact on the results of the Group or the presentation of the financial statements:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements – Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture and amendments regarding the application of the consolidation exception
- IFRS 11 Joint Arrangements – Amendments regarding the accounting for acquisitions of an interest in a joint operation
- IFRS 12 Disclosure of Interests in Other Entities – Amendments regarding the application of the consolidation exception
- IFRS 14 Regulatory Deferral Accounts
- IAS 1 Presentation of Financial Statements – Amendments resulting from the disclosure initiative
- IAS 7 Statement of Cash Flows – Amendments resulting from the disclosure initiative
- IAS 12 Income Taxes – Amendments to recognition of deferred tax assets for unrealised losses
- IAS 16 Property, Plant and Equipment – Amendments regarding the clarification of acceptable methods of depreciation and amortisation and amendments bringing bearer plants into the scope of IAS 16
- IAS 27 Separate Financial Statements (as amended in 2011) – Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements
- IAS 28 Investments in Associates and Joint Ventures – Amendments regarding the application of the consolidation exception

## 1. Accounting policies (continued)

- IAS 38 Intangible Assets – Amendments regarding the clarification of acceptable methods of depreciation and amortisation
- IAS 41 Agriculture – Amendments bringing bearer plants into the scope of IAS 16
- Amendments resulting from September 2014 Annual Improvements to IFRSs:
  - IFRS 2 Classification and Measurement of Share-based Payment Transactions
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures
  - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

### 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.

*(iii)* Revenue is recognised in the consolidated statement of profit and loss and other comprehensive income when the risks and rewards associated with the ownership of goods are transferred to the customer. This is deemed to occur when the customer collects and loads the product, resulting in the legal transfer of title.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 1. Accounting policies (continued)

### 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.

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 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. Accounting policies (continued)

### 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.

### 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 1. Accounting policies (continued)

### 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.

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.

## 1. Accounting policies (continued)

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 2017

## 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 2017 the Group had trade payables denominated in a foreign currency totalling £11,582 (31 December 2016: £nil).

*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 £499,141 (2016: £855,177) 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 2017

## 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 2017 £ | Year ended 31 December 2016 £ |
|---|---|---|
| Middle East / ROW | **12,727** | 118,192 |
| United States of America | **–** | 35,473 |
| Europe | **350,000** | 16,697 |
| | **362,727** | 170,362 |

## 4. Operating loss

| Operating loss is stated after charging: | Year ended 31 December 2017 £ | Year ended 31 December 2016 £ |
|---|---|---|
| Depreciation of plant and equipment (note 10) | **13,428** | 6,247 |
| Inventories consumed in R&D | **22,978** | 122,565 |
| Wages and salaries (note 5) | **2,154,137** | 1,662,299 |
| Operating lease costs: property | **116,076** | 76,394 |
| Loss on foreign exchange | **9,701** | 4,823 |

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

| Audit services | Year ended 31 December 2017 £ | Year ended 31 December 2016 £ |
|---|---|---|
| Parent company | **26,000** | 26,000 |
| Subsidiaries | **7,500** | 7,500 |
| **Tax services** | | |
| Parent company | **2,500** | 1,000 |
| Subsidiaries | **1,000** | 10,000 |
| Total fees | **37,000** | 44,500 |

## 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 9, administration 5), (2016:12, by category: R&D 6, administration 6) and their aggregate emoluments were:

| | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|
| Wages and salaries | **1,582,108** | 1,288,330 |
| Social security costs | **200,623** | 161,481 |
| Other pension and insurance benefits costs | **168,131** | 156,656 |
| Total cash-settled emoluments | **1,950,862** | 1,606,467 |
| Accrued holiday pay | **2,014** | 6,224 |
| Share-based payment remuneration charge | **201,261** | 49,608 |
| Total emoluments | **2,154,137** | 1,662,299 |

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

## 6. Directors' emoluments

| | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|
| Aggregate emoluments | **698,837** | 628,609 |
| Employer pension contributions | **21,875** | 53,265 |
| Subtotal per remuneration report | **720,712** | 681,874 |
| Share-based payment remuneration charge | **97,967** | 18,833 |
| Employer's national insurance charge | **96,038** | 86,284 |
| Total emoluments | **914,717** | 786,991 |

In 2017 two Directors exercised share options under the Group share option schemes and realised a combined gain of £28,768 (2016: nil). In respect of the highest paid Director the realised gain was £14,263 (2016: £nil).

In 2017 one Director (2016: 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 2017

## 6. Directors' emoluments (continued)

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

| | Year ended 31 December 2017 £ | Year ended 31 December 2016 £ |
|---|---|---|
| Aggregate emoluments | **235,002** | 306,566 |
| Employer pension contributions | **–** | – |
| Subtotal per remuneration report | **235,002** | 306,566 |
| Share-based payment remuneration charge | **40,608** | 11,864 |
| Employer's national insurance charge | **32,176** | 41,998 |
| Total emoluments | **307,786** | 360,428 |

## 7. Finance income

Interest receivable in 2017 on treasury funds was £19,316 (2016: £14,714).

## 8. Taxation

### Current tax

| | Year ended 31 December 2017 £ | Year ended 31 December 2016 £ |
|---|---|---|
| UK corporation tax credit reported in the Consolidated Statement of Comprehensive Income | **936,344** | 842,246 |

## 8. Taxation (continued)

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

| The differences are explained below: | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|
| Loss on ordinary activities before tax | **4,836,628** | 4,539,359 |
| Loss on ordinary activities at an average standard rate of corporation tax in the UK of 19.25% (2016: 20%) | **931,051** | 907,872 |
| Expenses not deductible for tax purposes | **(249)** | (125) |
| Unrecognised deferred tax | **(30,523)** | (12,154) |
| Unutilised tax losses | **(381,446)** | (396,701) |
| Share scheme deduction | **11,235** | – |
| Additional relief attaching to R&D tax credit claims | **381,880** | 343,354 |
| UK corporation tax credit | **911,948** | 842,246 |
| R&D expenditure credit re 2016 | **9,098** | – |
| R&D expenditure credit re 2017 | **15,298** | – |
| UK corporation tax credit reported in the Consolidated Statement of Comprehensive Income | **936,344** | 842,246 |

The Group has tax losses of £24,300,530 (2016: £22,332,102) available for offset against future taxable profits.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 8. Taxation (continued)

### Deferred tax

Deferred tax assets amounting to £4,133,675 (2016: £3,859,456) 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. Reductions in the UK corporation tax rate from 20% 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 2017 has been calculated assuming a prevailing tax rate when the timing differences reverse of 17% (2016: 17%) and comprises:

| | **Year ended 31 December 2017 £** | Year ended 31 December 2016 £ |
|---|---|---|
| Depreciation differential versus capital allowances | **(348)** | 6,820 |
| Tax relief on unexercised share options | **–** | 53,156 |
| Other short-term timing differences | **2,932** | 3,022 |
| Unutilised tax losses | **4,131,091** | 3,796,458 |
| | **4,133,675** | 3,859,456 |

## 9. Loss per share (pence)

The calculation of the loss per share is based on a loss of £3,900,284 (2016: loss of £3,697,113) and on a weighted average number of shares in issue of 120,631,242 (2016: 101,350,836).

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

| Cost | Computer Equipment £ | Furniture and Fittings £ | Total £ |
|---|---|---|---|
| At 1 January 2017 | 49,694 | 60,787 | 110,481 |
| Additions | 51,345 | 4,249 | 55,594 |
| Disposals | (9,796) | (1,751) | (11,547) |
| **At 31 December 2017** | **91,243** | **63,285** | **154,528** |
| Depreciation | | | |
| At 1 January 2017 | 35,970 | 53,160 | 89,130 |
| Eliminated on disposals | (9,796) | (1,751) | (11,547) |
| Charge for year | 11,741 | 1,687 | 13,428 |
| **At 31 December 2017** | **37,915** | **53,096** | **91,011** |
| Net book value | | | |
| **At 31 December 2017** | **53,328** | **10,189** | **63,517** |
| At 31 December 2016 | 13,724 | 7,627 | 21,351 |

| Cost | Computer Equipment £ | Furniture and Fittings £ | Total £ |
|---|---|---|---|
| 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 |

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 11. Inventories

| | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Consumable materials used for development | **70,413** | 83,641 |

## 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<br>Loans and receivables | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Trade and other receivables (note 13) | **39,520** | 34,986 |
| Cash and cash equivalents (note 14) | **8,362,646** | 12,352,978 |
| Total loans and receivables | **8,402,166** | 12,387,964 |

| Liabilities as per Consolidated Statement of Financial Position | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Trade and other payables (note 15) | **131,430** | 286,135 |
| Total financial liabilities | **131,430** | 286,135 |

## 13. Trade and other receivables

| Amounts receivable within one year: | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Trade receivables | **6,299** | 20,364 |
| Other receivables | **33,221** | 14,622 |
| Financial assets (note 12) | **39,520** | 34,986 |
| Prepayments and accrued income | **141,556** | 104,003 |
| | **181,076** | 138,989 |

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 2017 £ | 31 December 2016 £ |
|---|---|---|
| Cash at bank and in hand | **168,825** | 147,200 |
| Sterling short-term money market funds | **8,193,821** | 12,205,778 |
| | **8,362,646** | 12,352,978 |

## 15. Trade and other payables

| | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Trade payables | **131,430** | 286,135 |
| Financial liabilities (note 12) | **131,430** | 286,135 |
| Social security and other taxes | **131,771** | 42,923 |
| Accrued expenses and deferred income | **235,940** | 526,119 |
| | **499,141** | 855,177 |

## 16. Share capital

| Authorised | 31 December 2017 Number | 31 December 2016 Number | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|---|---|
| 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 2017 Number | 31 December 2016 Number | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|---|---|
| Ordinary shares of 0.2 pence each | **120,696,002** | 120,144,950 | **241,392** | 240,290 |

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 16. Share capital (continued)

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 |

The number of issued ordinary shares as at 1 January 2017 was 120,144,950. During the year ended 31 December 2017, the Company issued shares of 0.2 pence each as follows:

| Month | Reason for issue | Gross Consideration £ | Shares Issued Number |
|---|---|---|---|
| January 2017 | Non-Executive Director award at 28.45 pence per share | 28,669 | 100,770 |
| January 2017 | Option exercise at 40.50 pence per share | 155,100 | 382,962 |
| May 2017 | Option exercise at 51.75 pence per share | 15,525 | 30,000 |
| December 2017 | Non-Executive Director award at 57.50 pence per share | 21,459 | 37,320 |

## 17. Share options

At 31 December 2017, 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 2017 Number | Options Exercised Number | Options Lapsed Number | Options Granted Number | At 31 December 2017 Number |
|---|---|---|---|---|---|---|
| 1 August 2012 - 31 July 2017 | 40.50 | 482,962 | (382,962) | (100,000) | – | **–** |
| 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 | 740,000 | (30,000) | – | – | **710,000** |
| 1 October 2017 - 30 September 2022 | 30.00 | 1,060,000 | – | – | – | **1,060,000** |
| 1 October 2018 - 30 September 2023 | 57.50 | – | – | – | 1,260,000 | **1,260,000** |
| 1 October 2019 - 30 September 2024 | 30.50 | – | – | – | 1,440,000 | **1,440,000** |
| | | 4,320,462 | (412,962) | (100,000) | 2,700,000 | **6,507,500** |

## 17. Share options (continued)

On 13 January 2017 share options over 1,260,000 new ordinary shares were granted to employees in respect of 2016 (including Executive Directors) at a price of 57.50p. The exercise period for these options is 1 October 2018 to 30 September 2023.

On 12 September 2017 share options over 1,440,000 new ordinary shares were granted to employees (including Executive Directors) at a price of 30.50p. The exercise period for these options is 1 October 2019 to 30 September 2024.

The share options outstanding at 31 December 2017 represented 5.39% of the issued share capital as at that date (2016: 3.60%) and would generate additional funds of £3,145,813 (2016: £2,193,237) if fully exercised. The weighted average remaining life of the share options outstanding at 31 December 2017 was 52 months (2016: 56 months) with a weighted average remaining exercise price of 48.34 pence (2016: 50.76 pence).

The share options exercisable at 31 December 2017 totalled 3,707,500 (2016: 3,260,462) with an average exercise price of 51.53 pence (2016: 57.51 pence) and would have generated additional funds of £1,910,613 (2016: £1,875,237) if fully exercised.

The Group's share option scheme rules apply to 6,027,500 of the share options outstanding at 31 December 2017 (31 December 2016: 3,740,462) 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 2017** | **31 December 2017** | 31 December 2016 |
|---|---|---|---|
| Grant date | **12 September** | **13 January** | – |
| Number of shares under option | **1,440,000** | **1,260,000** | – |
| Share price as at date of grant | **30.50 pence** | **57.50 pence** | – |
| Option exercise price | **30.50 pence** | **57.50 pence** | – |
| Expected life of options: based on previous exercise history | **3 years** | **3 years** | – |
| Expected volatility: based on 50 day median fluctuations over 3 years | **67.82%** | **65.74%** | – |
| Dividend yield: no dividends assumed | **0%** | **0%** | – |
| Risk-free rate: yield on 3 year treasury stock as at date of grant | **0.31% p.a.** | **0.30% p.a.** | – |

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 17. Share options (continued)

| Outputs generated from share option pricing model | 31 December 2017 | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Fair value per share under option | **11.55 p** | **20.37p** | – |
| Total expected charge over the vesting period | **£166,320** | **£256,662** | – |

| Recognised in Consolidated Statement of Comprehensive Income | 31 December 2017 £ | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|---|
| The share-based remuneration charge comprises: | | | |
| Share-based payments - employees | **24,648** | **144,731** | 49,608 |
| Share-based payments - consultants | **–** | **–** | 4,797 |
| Share-based payments | **24,648** | **144,731** | 54,405 |

## 18. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2017 amounted to £141,992 (2016: £131,181). Pension contributions payable in arrears at 31 December 2017, included in accrued expenses at the relevant Consolidated Statement of Financial Position date, totalled £4,300 (2016: £6,846).

## 19. Commitments

At 31 December 2017 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £9,767 (2016: £9,575).

## 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 2017

Company No. 04206001

| | Notes | As at 31 December 2017 £ | As at 31 December 2016 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment | 2 | **1,321,798** | 1,120,537 |
| **Current assets** | | | |
| Debtors – due within one year | 3 | **3,103** | 3,107 |
| Debtors – due after more than one year | 3 | **36,475,173** | 32,332,884 |
| Total debtors | | **36,478,276** | 32,335,991 |
| Cash at bank and in hand | | **8,202,788** | 12,210,946 |
| | | **44,681,064** | 44,546,937 |
| Creditors: amounts falling due within one year | 4 | **(41,160)** | (64,211) |
| Net current assets | | **44,639,904** | 44,482,726 |
| Net assets | | **45,961,702** | 45,603,263 |
| **Capital and reserves** | | | |
| Called up share capital | 5 | **241,392** | 240,290 |
| Share premium account | | **44,671,396** | 44,451,745 |
| Profit and loss account | | **1,048,914** | 911,228 |
| Shareholders' funds | | **45,961,702** | 45,603,263 |

The parent company financial statements were approved and authorised for issue by the Board on 13 March 2018.

The notes on pages 59 to 61 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 2017

| | Note | Share Capital £ | Share Premium £ | Profit and Loss Account £ | Total Equity £ |
|---|---|---|---|---|---|
| At 1 January 2016 | | **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** |
| Total comprehensive loss for the year | | – | – | (63,575) | (63,575) |
| Share-based payment | | – | – | 201,261 | 201,261 |
| Issue of shares | 5 | 1,102 | 219,651 | – | 220,753 |
| At 31 December 2017 | | **241,392** | **44,671,396** | **1,048,914** | **45,961,702** |

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 59 to 61 form part of these parent company financial statements.

# Notes to the Parent Company Financial Statements

For the year ended 31 December 2017



## 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 £63,575 (2016: £50,041).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.

### 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.

# Notes to the Parent Company Financial Statements (continued)

For the year ended 31 December 2017

## 1. Accounting policies (continued)

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and treasury fund units.

### 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 2017 £** | 31 December 2016 £ |
|---|---|---|
| Cost | **1,321,798** | 1,120,537 |

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 2017 £ | 31 December 2016 £ |
|---|---|---|
| Amounts receivable within one year: prepayments | **3,103** | 3,107 |
| Amounts receivable after more than one year: | | |
| Amounts owed by subsidiary | **36,475,173** | 32,332,884 |

The intercompany balance between Futura Medical Developments Limited and Futura Medical plc, which at 31 December 2017 was £36,475,173 (including accumulated interest), will become repayable between 2 and 5 years.

## 4. Creditors: amounts falling due within one year

| | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|
| Trade creditors | **16,060** | 10,797 |
| Accruals and deferred income | **25,100** | 53,414 |
| | **41,160** | 64,211 |

## 5. Called up share capital

| Authorised | 31 December 2017 Number | 31 December 2016 Number | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|---|---|
| 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 2017 Number | 31 December 2016 Number | 31 December 2017 £ | 31 December 2016 £ |
|---|---|---|---|---|
| Ordinary shares of 0.2 pence each | **120,696,002** | 120,144,950 | **241,392** | 240,290 |

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 |
| Angela Hildreth | Finance Director and Chief Operating Officer |
| Ken James | Executive Director |
| Jonathan Freeman | Non-Executive Director |

### Audit committee
Jonathan Freeman

### Remuneration committee
Jonathan Freeman
John Clarke

### Nominations committee
John Clarke
Jonathan Freeman

### Secretary and registered office
Angela Hildreth
Futura Medical plc
Surrey Technology Centre
40 Occam Road
Guildford
Surrey
GU2 7YG

### Auditor
KPMG LLP
Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD

### Registrar
Link Asset Services
The Registry
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Beckenham
Kent
BR3 4TU

### Nominated adviser and broker
N+1 Singer
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### Patent attorney
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### Public relations adviser
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### Principal solicitor
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### Principal banker
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### Investment manager
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Futura Medical
Advanced Transdermal Technology

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