Shield Therapeutics plc

Annual report and accounts 2015

Improving lives together

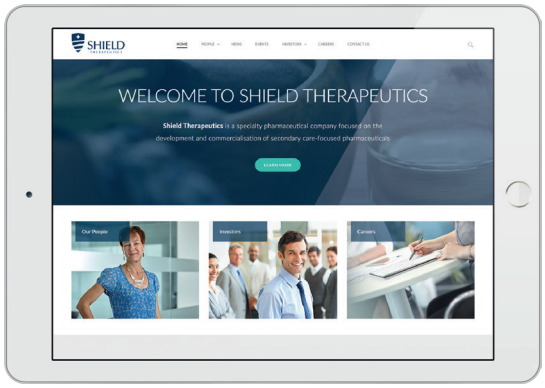
As a unified team we are constantly driven by and committed to our goals, seeking to deliver them with transparency and respect. Being consistent to this vision, while enjoying the journey, has brought us to where we are today and underpins our unwavering confidence in our ability to create a truly outstanding organisation that we are all proud to be part of and that will deliver value to all of our key stakeholders.

Carl Sterritt
Chief Executive Officer and co-founder

Read more in the Chief Executive Officer's statement from page 7

Providing solutions to unmet medical needs.
Delivering value to our shareholders.

Shield Therapeutics is a specialty pharmaceutical company focused on the development and commercialisation of late-stage, hospital-focused pharmaceuticals which address areas of high unmet medical need.



Stay up to date at our investor relations website:

www.shieldtherapeutics.com

Strategic report

02 At a glance
03 What sets us apart
04 Feraccru® and the market opportunity
06 Chairman's statement
07 Chief Executive Officer's statement
10 Our strategy and values
11 Principal risks and risk management
13 Financial review

Corporate governance

16 Board of Directors and Advisors
18 Meet the senior team
20 Corporate governance report
22 Directors' report
24 Statement of Directors' responsibilities
25 Independent auditor's report

Financial statements

26 Consolidated statement of profit and loss and other comprehensive income
27 Balance sheets
28 Consolidated statement of changes in equity
29 Company statement of changes in equity
30 Consolidated statements of cash flows
31 Notes (forming part of the financial statements)
48 Definitions and Glossary

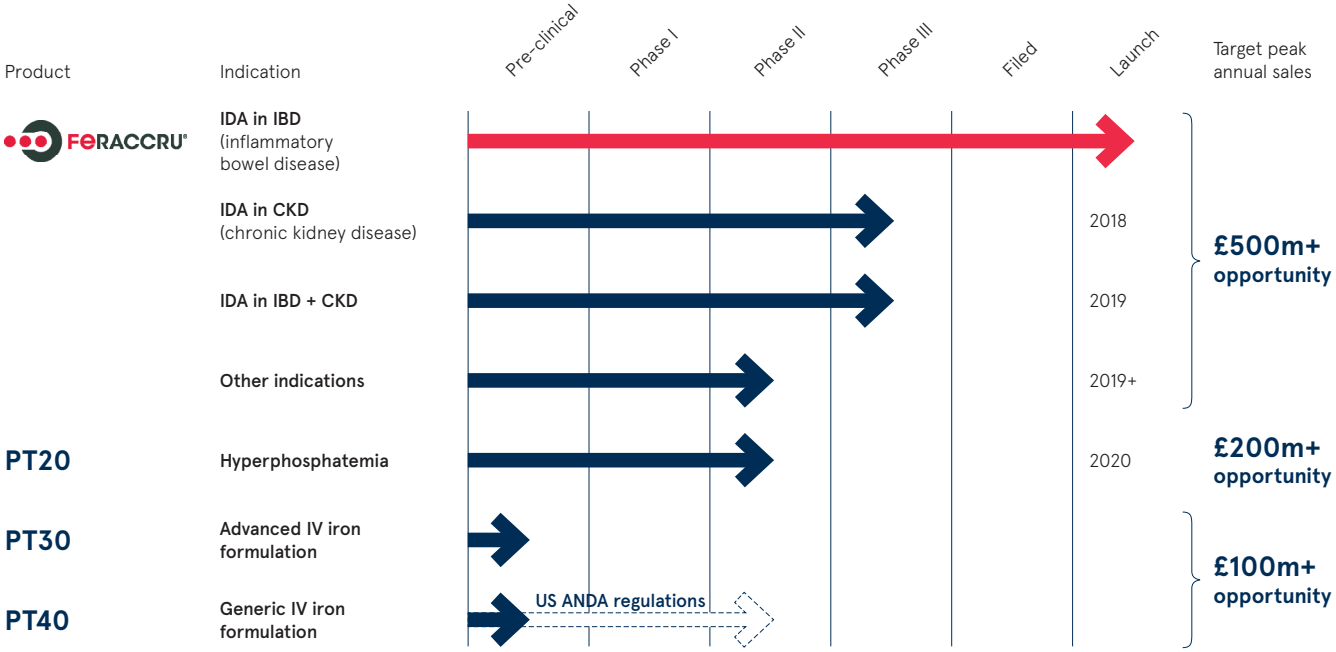
At a glance

Shield Therapeutics is a well-funded, high potential, commercial stage specialty-pharma company.

Our lead product, Feraccru®, a novel oral treatment for iron deficiency anaemia in patients for whom intravenous iron or blood transfusions have been the only option to date, is now commercially available following receipt of marketing authorisation in early 2016. Our second asset, PT20, is a treatment for hyperphosphatemia that has successfully completed a first pivotal trial. In addition, the Group has earlier stage assets that it intends to develop or out-license over time.

Pipeline

Shield has a rare opportunity to build an integrated, highly profitable specialty pharma business, with an additional pipeline of three prescription pharmaceutical assets (PT20, PT30, PT40) with commercial synergies. Our most advanced pipeline asset, PT20, has completed its first pivotal study with one further pivotal Phase 3 study planned in order to seek regulatory approval in major markets.



Our history

1980s–1990s Fundamental research

Pre-clinical data provides rationale

Clinical potential established

Extensive pre-clinical and clinical scientific studies:
- ADME and toxicology
- Clinical pharmacology
- Phase 2 studies of IDA in IBD

2000–2009 Commercial opportunity created

Increasing focus on costs to healthcare providers

Increasing focus on patient experience

Development of aqueous synthesis

Facilitates high purity, high yield and low cost manufacturing

What sets us apart

Near term revenue potential
The Group received MA approval in Europe for its lead product, Feraccru®, in February 2016. The Group commenced the launch of Feraccru® initially in the UK with its own commercial team in May 2016, with direct launches in other key markets in Europe planned for later in 2016 and 2017 thus expected to deliver revenues in the near term.

Late-stage assets that have either been approved or have delivered proof of concept
In addition to Feraccru®'s MA approval, the Phase 2b pivotal study with respect to PT20 has been successfully completed. In addition, further Phase 3 trials have commenced with Feraccru® in a second indication, CKD. Consequently, the Group has multiple complimentary late-stage assets.

Large market opportunities with unmet needs
Feraccru® addresses a large and structurally growing market with significant potential in the near term. GfK estimates there are approximately 1.4 to 1.5 million patients in Europe and the US with IBD who have the potential to be treated for IDA of which a significant proportion are currently ineffectively treated. GfK also estimates that there are over 3.4 million patients in the EU and US with IDA and CKD.

Experienced management team with extensive expertise
The Company has an experienced Board with extensive expertise in the pharmaceutical and biotechnology industry. Two of the Directors are members of the executive management team and have been heavily involved in the development of the Group and key to driving its success to date. Carl Sterritt has been CEO since he co-founded the Group in 2008 and Richard CM Jones has been CFO since 2011.

The Board is supported by an experienced, skilled management team which provides a strong platform for future growth and gives strategic direction to the development and commercialisation of the Group's products. The team grew significantly during 2015 in preparation for commercial launch of Feraccru®. Read more about the strength of our team on pages 18 to 19.

Opportunity to create operational leverage across the product portfolio
Initially Feraccru® and subsequently PT20, subject to any out-licensing, are being or are intended to be sold using the Company's own commercial teams with its own central and field-based commercial infrastructure in major markets in EU. The Company will target specialist prescribers based in hospitals and private clinics providing the potential for significant operational leverage which could be enhanced with selective small scale bolt-on acquisitions or in-licensing of allied products.

Strong intellectual property protection
The Group's assets are supported by a suite of strong intellectual property including key patents in major markets. Following MA approval, Shield has filed for the usual SPC extension to its key patent and it also benefits from data and marketing exclusivity in the EU (up to 10 years). The Group has been actively pursuing new patent applications and has filed five new patent applications for Feraccru® since its acquisition from Vitra Pharmaceuticals in 2010. The new patents, if granted, will provide significant additional patent protection up to 2035 in relation to Feraccru®.

Attractive financial profile
The proceeds of the recent IPO in February 2016, together with the future opportunity of receiving further funds as a result of the exercise of the Warrants (see financial review, page 15) provides a strong financial platform for the growth of the Group. The Directors expect the Company to generate near term revenues with inherently high gross margins following the recent launch of Feraccru®. Whilst development activity will continue for the foreseeable future, the Directors believe that the level of R&D spend should be relatively modest bearing in mind the potential revenues from Feraccru® and PT20.

2010–2013 Shield as product champion

2010 Shield group established and Feraccru® acquired

2011 Shield acquires exclusive licence to PT20 from the MRC

Feraccru® Phase I and III Clinical Trials conducted

2014–2015

January 2014 Positive results announced for Feraccru®'s pivotal Phase 3 trial

December 2014 MA filed

May 2015 Positive results from PT20's pivotal Phase 2B trial announced

2016

February 2016
- MA approval
- Phosphate Therapeutics Ltd acquired
- AIM IPO

May 2016 Feraccru® launched in first EU market (UK)

Feraccru® and the market opportunity

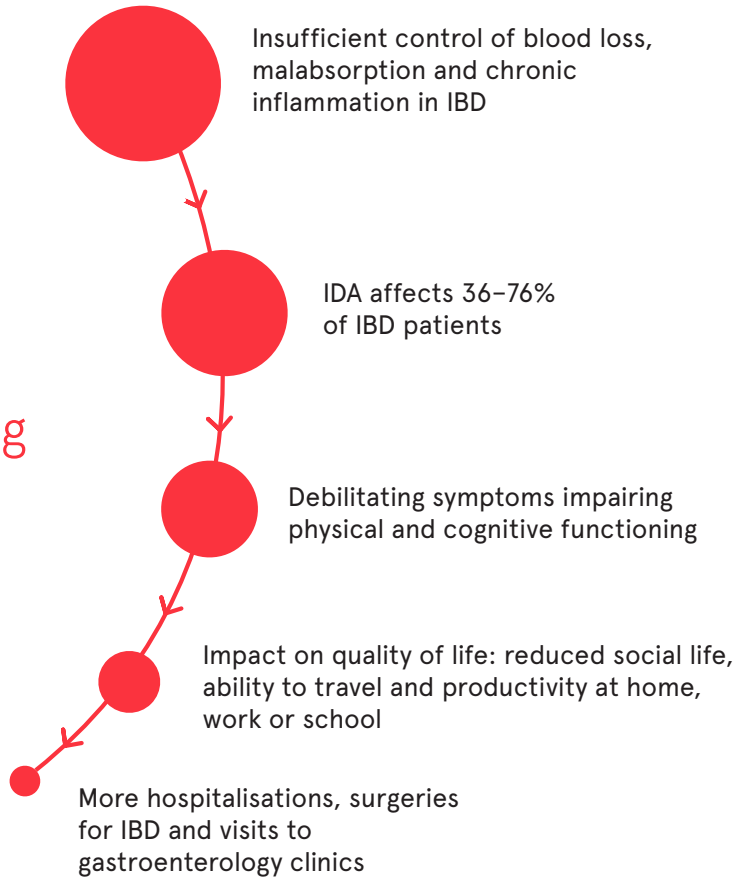
What is Feraccru®?

Feraccru® is Shield's high potential lead product.

- Feraccru® is an oral alternative to hospital administered, expensive and potentially dangerous intravenous ("IV") iron for treating iron deficiency anaemia ("IDA"). It is differentiated as the first oral therapy specifically indicated to treat IDA in inflammatory bowel disease ("IBD") patients.
- Feraccru® has demonstrated compelling efficacy and safety and has launched in the UK and plans to launch in Germany later in 2016.
- Feraccru® was approved in Europe in February 2016 and is now being commercialised in a clear and attractive market.

What is IDA?

IDA is prevalent in IBD patients, impacting quality of life and leading to poor outcomes.



Why is Feraccru® different?

Feraccru® is different from other oral iron medicines; it contains ferric maltol – a different type of iron compared with other oral iron medicines.

The action of ferric maltol in the body allows it to be better absorbed in the intestines, minimising the possibility of side effects. In clinical studies, Feraccru® was found to be both well tolerated and effective in patients who had to stop taking another oral iron medicine due to side effects or who lacked a response to treatment.

Feraccru® is the next appropriate medicine for those who didn't tolerate other oral iron medicines. Feraccru® helps to correct IDA and improve patients' symptoms, enabling them to take back control of their lives.

Why is there an unmet need?

Poor absorption of oral ferrous products leads to GI side effects and patient dissatisfaction

- Only 10% of ingested ferrous iron is absorbed
- Majority of oral iron dose ends up in distal parts of the bowels to generate reactive oxygen species
- Exacerbation of inflammation
- GI side effects in >50% of IBD patients in clinical setting
- 21–31% discontinuation rates due to intolerance in trial and clinical settings
- >70% dissatisfaction with oral ferrous products due to poor tolerability or lack of effectiveness

IBD patients who have failed oral iron products have an unmet need for a well-tolerated oral alternative to IV iron. Among IBD patients who have failed oral iron products, due to intolerance or an insufficient response, there's an unmet need for an IDA treatment that:

- Is better tolerated than oral ferrous products
- Normalises Hb and maintains normalised levels long term
- Is convenient and easy to administer for the patient

How does Feraccru® address the unmet need?

1. Feraccru® provides a new oral ferric alternative for your adult IBD patients with IDA who have failed oral ferrous products.
2. Feraccru® contains ferric iron (Fe3+) leading to more efficient absorption compared with oral ferrous (Fe2+) products.
3. Feraccru® significantly improved Hb concentration at Week 12 compared with placebo.
4. Feraccru® demonstrated a safety profile comparable to placebo.

Chairman's statement

Dr Andrew Heath

Non-Executive Chairman

> The past twelve months have been very busy, hugely exciting and a period of remarkable achievement for Shield Therapeutics.

By any measure the past twelve months have been very busy, hugely exciting and a period of remarkable achievement for Shield Therapeutics. Less than six years after starting operations Shield achieved a marketing authorisation for Feraccru®, the first oral prescription pharmaceutical product approved across Europe for the treatment of iron deficiency anaemia in patients with inflammatory bowel disease. This approval has positioned the Company for transformational growth and the successful completion of the Group's IPO during February 2016 has provided Shield with the resources to deliver this transformation. The support of investors at IPO provided £32.5m (gross) of new growth capital. This money is already fuelling the rollout of Feraccru®'s commercialisation, in-turn rapidly advancing Shield towards becoming a successful, revenue-generating specialty pharmaceutical company. In addition to these two substantial achievements, during 2015 Shield also successfully completed the first of PT20's two pivotal trials that will be required for the Company to achieve a marketing authorisation. PT20 is being developed to treat the ever-increasing number of chronic kidney disease patients with hyperphosphatemia.

The pharmaceutical model which grew out of the US in the latter half of the twentieth century is changing rapidly. Evidence based medicine, along with a recognition of the true costs - and savings - of drug therapy has led to payors taking more control over the purchase of drugs. Feraccru® is well positioned for this changing model as it is being targeted at patients who have failed existing oral iron therapies and therefore previously would only have had the option of intravenous iron infusions, which are costly and carry a small but significant risk of life-threatening anaphylactic reactions.

Providing Feraccru® as an effective therapeutic option has the potential to prove a game-changer for both payors and prescribers as it will remove the large financial costs associated with the administration of intravenous irons, which are a significant burden to already fiscally over-stretched healthcare providers.

On behalf of the Company I would like to thank all of Shield Therapeutics' original investors, whose funding supported the Company to this point of transformation, as well as our previous Board members who served the Company and represented the shareholders so effectively from 2010 through 2015. I would also like to welcome our two new Board members, James Karis and Peter Llewellyn-Davies, who joined Shield Therapeutics as the Company listed. Of course none of these achievements would have been possible without the outstanding team that make up Shield Therapeutics' staff and management and I thank them for their dedication, innovation and professionalism over the history of the Company and in particular the past twelve months. Finally, I would like to both thank and welcome all of our new shareholders who have joined the Company's register through the IPO. We have exciting times ahead of us.

Dr Andrew Heath
Non-Executive Chairman

Chief Executive Officer's statement

Carl Sterritt

Chief Executive Officer
and co-founder

Highlights

- Pan-European Marketing Authorisation Approval of Feraccru® for the treatment of iron deficiency anaemia ("IDA") in inflammatory bowel disease ("IBD") received in February 2016
- Subsequent launch of Feraccru® utilising the Company's own in-house commercial team in the UK during May 2016
- Feraccru® to be priced in the UK at £47.60 per pack (£1.70 per day equivalent) as agreed with the department of health
- Two additional Phase 3 studies of Feraccru® have commenced to support future expansion of the market opportunity for Feraccru®
- Successful completion of Phase 2b pivotal trial for PT20 in dialysis-dependent chronic kidney disease ("CKD") patients and drug substance manufacturing for second pivotal study
- Significant investment in Shield's operational team with headcount now at 45, increased from 14 at the year end

Introduction

The period through 2015 into 2016 has been a transformational time for Shield Therapeutics. During this period, the Company has successfully achieved three key long term strategic objectives with its Initial Public Offering (IPO), the first approval and commencement of commercialisation of our lead product, Feraccru®, and the successful completion of the first pivotal trial of PT20.

IPO

Shield successfully completed an IPO in February 2016, raising £32.5 million (gross) of growth capital from a high quality group of new and existing investors and gained admission to the London Stock Exchange's Alternative Investment Market (AIM). The IPO was a transformational event for the Company, providing the capital to deliver an in-house strategy for the commercialisation of Feraccru® in the major European pharmaceutical markets. Shield's Board and management team believes that utilising its own commercial teams in these markets will enable the Company to build more effective relationships with prescribers, payors and patient associations, creating a key differentiator in the commercialisation of Feraccru®, which in turn should lead to greater value creation. In support of the Company's own commercialisation activities, Shield is also actively pursuing licensing opportunities for Feraccru® in smaller markets. With a pipeline of innovative and value-added specialty pharmaceuticals, the Company's talented, ambitious team has been energised by the resources the IPO has provided.

Meet the Board of Directors and senior management from pages 16 to 19

Chief Executive Officer's statement continued

Feraccru®[1]

Feraccru® is the Company's most advanced product and is a novel therapy for the treatment of iron deficiency anaemia that received marketing authorisation across Europe in February 2016. Feraccru® is the first oral iron therapy to be approved for the treatment of iron deficiency anaemia (IDA) in patients with inflammatory bowel disease (IBD). This novel secondary care product is estimated to have an achievable global peak annual sales opportunity in excess of £500 million. As outlined at the time of Shield's IPO, the Company plans to use the new funds to commercialise Feraccru® via a phased roll-out across Europe in 2016 and 2017, as well as fund the additional clinical trials required to expand the product's geographic and indication reach.

The initial market for Feraccru® is the approximately 1 million IBD patients in Europe who have IDA and require pharmaceutical therapy. Beyond that, as Shield gathers additional clinical evidence and broader regulatory approval to (i) treat patients with IDA related to CKD in Europe and (ii) patients with IDA related to IBD or CKD in the USA, this market opportunity will increase to more than 4 million IDA patients. This commercial activity is supported by a strong body of data that is already published or has been accepted for publication in recognised and peer-reviewed scientific journals. These data provide the compelling clinical evidence needed to successfully commercialise a specialty care focused medicine.

In the longer term, Shield will seek an even wider label for Feraccru® to enable iron deficiency anaemia to be targeted across a wide range of underlying causes, giving access to a treatable population of more than 33 million patients.

PT20

The Company's novel iron-based phosphate binder is initially being developed for the treatment of hyperphosphatemia related to chronic kidney disease (''CKD''). PT20 was invented in the UK by leading Cambridge-based scientists and the product is exclusively licensed from the Medical Research Council (MRC). Patients with late-stage renal disease suffer from hyperphosphatemia, which enhances the risk of vascular calcification, leading to increased morbidity and mortality. Low phosphate diets and regular dialysis sessions are unable to prevent gradual phosphate accumulation alone, therefore, oral phosphate binders are routinely used to reduce absorption of phosphate and thereby reduce blood phosphate levels.

PT20 is a phase 3 asset and recently met all primary and secondary endpoints of the first pivotal study (the PEACH study) it was taken through. It is expected that PT20 will undergo one further pivotal study before a marketing authorisation application can be filed in major pharmaceutical markets.

The Company believes there is a large and attractive market for PT20 as current treatments have limited therapeutic benefit due to issues such as low specificity, high pill loading, gastrointestinal side effects, calcium loading or significant toxicity concerns.

Team expansion and launch of commercial operations

Shield's highly capable and deeply experienced management team was in place prior to the IPO and the approval of Feraccru®. Since the IPO, to meet the demands of Feraccru®'s commercialisation and an opportunity-enhancing clinical development programme for Feraccru®, the Company has grown significantly, increasing headcount from 14 employees at the time of the IPO to 45 currently. As part of this growth, the UK and Eire General Manager has recruited and trained a group of highly experienced hospital-focused Key Account Managers (KAMs) to form the UK commercial team and these KAMs are now active with customers in the field. The Medical team has expanded with the appointment of additional field-based Medical Science Liaisons based in the UK. Shield is also moving forward with the recruitment of a General Manager in Germany and has significantly enhanced its central infrastructure to facilitate the effective operations of the various in-country commercial teams and to support the regulatory commitments that come with the approval of a prescription pharmaceutical.

Operational advances since IPO

Looking forward, the Company's attention is on making Shield Therapeutics a profitable and multi-product business. The core focus for the remainder of 2016 and into 2017 is the effective commercialisation of Feraccru® across Europe by both Shield's own commercial team and with the use of licensing partners in non-core markets, with respect to which progress continues to be made. As such, the Company's Manufacturing and Supply Chain experts are working hard to ensure Feraccru® is always readily available for doctors to prescribe and Shield's Commercial and Medical teams are ensuring Feraccru® is effectively reimbursed and is included in local, national and pan-European treatment guidelines at the earliest opportunity.

Shield has made great strides since the IPO having (i) agreed an attractive reimbursement level for Feraccru® of £47.60 per pack, equivalent to £1.70 per day, with the Department for Health in the UK and (ii) in Germany Shield has the agreement of the G-BA (Gemeinsamer Bundesausschuss) to set our own price for Feraccru®. Through 2016, Feraccru® will become commercially available in these critical markets as well as some other smaller European markets where the Company's commercial partners can also set a price point. Positive data from the ongoing AEGIS Head to Head study (AEGIS H2H) should further facilitate reimbursement discussions and the effective launch of Feraccru® in the additional large markets of Europe during 2017.

1 GfK report from 2015 as included in IPO Admission Document

Shield's clinical development activities also continue to move forward. As well as advancing the development of a paediatric indication for Feraccru®, as agreed with the European Medicines Agency as part of Feraccru®'s Marketing Authorisation, the Company has two Phase 3 clinical studies ongoing. These are designed to further increase the product's already highly significant commercial opportunity by achieving a broader label in Europe and giving access to the USA, the world's largest and most profitable pharmaceutical market:

- AEGIS-H2H is looking at the comparison of Feraccru® versus Ferinject, the leading IV iron product, in 240 subjects with IDA associated with IBD over both a twelve-week and 52-week treatment course. There are approximately 1 million IBD patients with treatment-requiring IDA in Europe and a successful study should better facilitate Feraccru®'s prescription in the 250,000 of these who are currently treated with IV iron therapies. It was initially envisaged that the study would recruit subjects across a total of approximately 40 expert gastro-intestinal centres in a handful of Western European countries. Approximately two-thirds of those centres are now in a position to recruit and this has taken a little longer than we hoped. Therefore we anticipate initial data will be available during the first half of 2017, slightly behind our previous timetable. However slower than planned start-up phase has created an opportunity for Shield, as following recent interactions with the FDA on an updated strategy for getting Feraccru® approved in the USA, we are now considering the addition of a number of US-based centres.
- AEGIS-CKD is looking at Feraccru®'s potential to correct and maintain haemoglobin levels versus placebo in 170 patients with IDA associated with pre-dialysis chronic kidney disease over 16-week and 52-week time points. This study is Feraccru®'s first in this patient population and also the first study we have conducted for Feraccru® in the USA. With Dr Geoff Block from Denver as the Principal Investigator, it is being conducted in approximately 40 expert nephrology centres. We anticipate that positive data from this study will facilitate a New Drug Application being made to the US FDA as well as a label expansion request in Europe, eventually enabling Feraccru®'s access to a pool of approximately 2.5 million pre-dialysis CKD patients with IDA in the US and Europe.

With respect to PT20, we have now manufactured the PT20 Drug Substance in preparation for development of a suitable formulation that we will use in the second and final pivotal study Shield is planning for PT20. In addition, the Company has commenced the search for co-development partners for PT20 as the preferred and de-risked way of funding this asset's advancement.

In respect of PT40, guidance has been received from the FDA indicating a clear route to regulatory approval.

Looking more broadly, with a focus on the key objectives of (i) the commercialisation of Feraccru® in Europe and (ii) broadening the geographic and indication opportunities for Feraccru® and (iii) the further development of PT20, the Company has set itself on a path of significant organic growth. Shield was created via acquisition of a valuable late-stage asset in Feraccru® and the in-licensing of PT20 behaving therefore, from inception, as a specialty pharmaceutical company overwhelmingly focused on maximising commercialisation opportunities, rather than a classic biotech company focused on R&D. The Company is ambitious and recognises the potential benefits of portfolio and infrastructure expansion, thus when appropriate Shield will likely consider additional opportunities that could add value by more rapidly building a presence and revenues in key geographies or providing a broader, de-risked product portfolio.

Summary and outlook

In summary, over the past year, Shield has been transforming itself from a wholly development-focused and private company into a listed and increasingly commercially-focused, customer-facing organisation set up to sell its innovative and value-added specialty pharmaceuticals, such as Feraccru®, that solve clear unmet medical needs. Shield is now well positioned to become a fast growing, independent, international specialty pharmaceutical company and, due to the strength of its products and team, and with great thanks to all of our supportive shareholders, I look forward to the future with great excitement.

Carl Sterritt
Chief Executive Officer and co-founder

Our strategy and values

The commercial strategy of the Group has a number of key elements:

1 To launch Feraccru® into key markets using our own highly experienced field-based sales teams;

2 To build a scalable supportive infrastructure to facilitate this and future commercialisation efforts including elements such as business development and marketing;

3 To ensure best use of clinical and pharmaco-economic data to develop the commercial arguments that will facilitate reimbursement of Feraccru® at a premium price in its chosen markets, yet ensure payers recognise the significant cost advantages over IV iron in the pricing achieved;

4 To develop plans and prepare for the launch of Feraccru® into the US market, informed by the launch in Europe, either using newly established field-based teams and utilising the established infrastructure, or via out-licensing with a suitable partner;

5 To evaluate opportunities to out-licence PT20 to a commercial partner to conduct Phase 3 trials and to launch PT20 in certain non-core markets with the Group potentially retaining the rights to core markets, where the Group will be able to leverage its then existing commercial infrastructure;

6 To consider, where appropriate, out-licensing opportunities for Feraccru® in peripheral markets;

7 To consider in-licensing or acquiring other products, whether already marketed or close to market that would enhance the Group's offering in its core markets, particularly focused on products that bolt onto the core iron deficiency offering with Feraccru® and enhance the indication specialisms;

8 To seek to change the treatment guidelines for the treatment of IDA in general and specifically in core indications such as IDA in IBD and CKD meaning Feraccru® is recognised as clear second line therapy ahead of IV iron; and

9 To consider further development or out-licence opportunities for other assets including PT40.

Our values:

- **Patient centric:** The patients our therapies treat are at the heart of why we do it
- **Ethical:** Always professional with the highest of standards
- **Product focused:** We have a great track record of identifying value and are always looking for more
- **Freedom to operate:** It is "our" Company and we avoid hierarchy, we challenge to succeed
- **Relationships:** Strong and human... everyone is valuable
- **Continuously develop:** We only want people who are committed, effective and determined to succeed

Principal risks and risk management

The management of risk is a key responsibility of the Board of Directors. The Board ensures that all of the key risks are understood and are appropriately managed in light of the Group's strategy and objectives and that an effective internal risk management process, including internal controls, is in place to identify, assess and manage important risks.

The risk management strategy has a number of aspects. The senior management team meet at least once a week and participate in monthly strategy meetings to identify areas of risk and to communicate with the Board as appropriate. A detailed financial reporting and procedures framework was put in place prior to the IPO and is managed by the CFO. A risk register is being implemented during 2016 in line with the Group's plans to continue to strengthen its internal controls, and this will be overseen by the audit and risk committee. The committee meets regularly to assess key risks. In addition, operational meetings chaired by the Finance team take place with the R&D team at least monthly to review progress on R&D projects. The Quality team meet monthly to review all aspects of quality across the business and specifically the Commercial and R&D departments which are themselves subject to significant external regulatory scrutiny.

Risk description	Mitigation
Commercial Risk: Shield has not yet generated revenues from selling products. Risks relating to commercial success remain key. Feraccru® launched in 2016. Whilst regulatory approval in Europe has been obtained, this provides no guarantee that the product will receive levels of reimbursement in certain markets in line with the company's expectations. There is also the risk that the adoption of Feraccru by prescribing physicians will be lower and take longer than the company expects. In addition, Shield has not yet established its full commercial operations across Europe and there is therefore the risk of delay in building the commercial infrastructure and obtaining the necessary approvals to launch Feraccru according to the Group's plans.	Shield have already confirmed, in both the UK and Germany, that health technology assessments through NICE and AMNOG respectively are not required. In addition, significant research has been undertaken in key markets that gives the Group confidence that its pricing and expectations of uptake will be met. In the UK the Department of Health has approved a price of £47.60 per 28 day pack (equivalent to £1.70 per day). The UK commercial team has been recruited and is now fully operational and plans are advanced for other core markets, in particular Germany, Feraccru®'s next launch country.
Clinical Development: As with all pharmaceutical companies conducting clinical research there is the risk that clinical development programmes either do not meet primary endpoints or experience significant delay. Shield is currently conducting two Phase 3 studies in Feraccru® and is planning to launch a PK study in paediatrics with Feraccru® later in 2016. The first Phase 3 study commenced in 2015 and is being conducted across four countries in Europe. This study is an open-label head to head comparing Feraccru® with ferric carboxymaltose, an IV Iron. Whilst this study has seen a slight delay, as noted in the Chief Executive Officer's statement, there is the risk of further delay to recruitment. The second Phase 3 study which commenced in 2016 is in pre-dialysis CKD patients with IDA and is being conducted in the US.	Both of the Phase 3 studies are being managed by Shield but conducted by specialist contract research organisations (CROs) with significant experience in managing trials of this nature in these indications. The trial designs for the two Phase 3 studies closely follow the previous Phase 3 trial with Feraccru® in inflammatory bowel disease (IBD) patients giving the Company confidence of their ability to meet both primary and secondary endpoints. In addition, recruitment enhancing strategies are now in place for the Head to Head Phase 3 study. Finally, as Feraccru® is already approved in Europe for treatment of iron deficiency anaemia in IBD, the commercial launch of Feraccru® is not dependent on the timing or results from these studies, which are aimed at expanding the potential markets that Feraccru® can address.

Principal risks and risk management continued

Risk description	Mitigation
Regulatory Risk: Shield operates in a highly regulated environment. This covers all aspects of pharmaceutical GxP including good manufacturing practice (GMP), good clinical practice (GCP) good distribution practice (GDP) and good pharmacovigilance practice (GvP). Regulatory marketing approval is only one of several regulatory approvals and in itself requires additional filing(s) and updates as the company develops further in order to remain valid. A number of regulatory requirements exist to be able to sell products in each territory involving interactions and approvals from national regulatory and reimbursement authorities. Any breach of applicable regulations could have material adverse consequences on the Group's ability to sell its product(s) or to conduct clinical trials.	Shield has a comprehensive approach to management of its regulatory responsibilities. The in-house regulatory team, which has been recently expanded, has significant experience in both the EU and US. Shield has established an in-house pharmacovigilance system, backed by an external vendor to assist with its commercial responsibilities for Feraccru® post launch. In addition, the quality team includes our nominated registered person responsible for supply. Shield has regular interactions with both European and national agencies and has recently been audited by the MHRA as part of the process for the recent granting of our UK Wholesaler Dealer Licence.
Supply chain: Shield relies on third parties for supply of key materials and services. Problems at these suppliers, such as technical issues, contamination or regulatory issues could cause an interruption of supply and impact the Group's ability to sell its marketed product or to continue its clinical development programme(s). Some materials may be only available from one source, as is the case in respect of Feraccru®'s commercial and clinical trial supplies currently.	Shield has worked with its existing supply chain for a number of years and its manufacturing and technical specifications have been agreed with the regulatory authorities as part of the MA process. Feraccru® is a stable product with long shelf life in its Drug Substance (API) form as well as finished product allowing the Group to create strategic stock of inventory as part of its risk management strategy. In addition, Shield is currently undertaking a programme of validating strategic second sourcing for both its Feraccru® Drug Substance and Drug Product. In line with GMP, Shield audits all of its key suppliers who are also subject to regular inspection from national regulatory agencies.

Financial review

Richard CM Jones ACA
Chief Financial Officer

Highlights

- **Successful completion of an initial public offering (IPO) on AIM of the London Stock Exchange in February 2016 raising £32.5m (gross) and further potential gross proceeds of £17.5m, subject to the full exercise of Warrants**
- **Net loss for FY2015 of £24.5m on IFRS basis; EPS loss of £0.57 per share**
- **Adjusted net loss for FY2015, excluding the impact of the pre-IPO capital and equity structure, of £5.3m, loss per share of £0.13**
- **Year end net cash of £0.7m; net cash as at 31 May 2016 of £28.8m**

The financial results for the Group to 31 December 2015 reflect a transitional stage of restructuring and development for Shield, which was completed with the IPO in February 2016. These results do not include the financial results for Phosphate Therapeutics Ltd, which was acquired by the Group at the time of the IPO itself, nor do they reflect the significant change to the capital structure that completed with the IPO including the £32.5m (gross) raised as part of the IPO onto the AIM market of the London Stock Exchange and the £3.6m raised via an institutional exercise of pre-existing options prior to IPO.

The 2015 (and 2014) results include a number of non-cash items charged to the P&L under IFRS reflecting a complex private debt and equity capital structure pre-IPO including P&L charges relating to changes in the fair value of embedded derivatives relating to investor options. Consequently, Proforma financial information for 2015 has been included to illustrate how the accounts may have been presented if the acquisition of Phosphate Therapeutics and the IPO were assumed to have occurred at the start of the year, which the Directors believe is more representative of the underlying operational financial results.

Financial performance

During 2015 the Group continued to operate primarily as a development company with the focus of expenditure being R&D associated with the development and regulatory approval of Feraccru®. However, 2015 also saw the commencement of commercial activity in preparation for the launch of Feraccru® in 2016. These costs were funded out of shareholder investments raised privately and drawn down in various tranches within the Group during 2015 and in prior periods.

Financial review continued

> The IPO in February was transformational for the Group. The funds raised give Shield a robust balance sheet and the working capital required to build the commercial infrastructure to launch Feraccru® across key markets in Europe.

Other operating income

Income in the year of £0.2m (2014: £0.2m) represents the recharge of management team costs to manage the strategic development of assets owned by Phosphate Therapeutics Ltd via an arms-length operating agreement. This agreement terminated in February 2016 at the time of the IPO.

Research and development costs

Research and development expenditure of £5.3m (2014: £2.7m) include the following:

- **Commercial spend**

Total commercial spend in 2015 was £0.5m (2014: £nil) and related to the investment in the central commercial and medical affairs teams and associated infrastructure in anticipation of the launch of Feraccru® in 2016.

- **Development spend**

Total Development spend was £2.4m (2014: £1.7m) and included the balance of spend on Feraccru®'s phase 3 programme, initial costs relating to the Feraccru® Phase 3b head to head study in the EU, costs associated with the regulatory filing for MA approval and scale up of manufacturing activity.

- **Central costs**

Central costs were £2.4m (2014: £1.0m) and included £0.9m (2014: £0.2m) of non-cash share-based charge in respect of historic options granted under a pre-existing EMI option scheme. All options were exercised and all then existing share option schemes closed prior to the IPO in February 2016. The balance of expenditure relate to non-R&D related personnel and associated support costs including expenses and bonus in respect of 2015.

Admin expenses

Admin expenses were £1.4m (2014: £1.0m) and included establishment and legal and professional fees and one-off costs relating to the restructuring and IPO enabling work charged to P&L.

Financial income

Financial Income of £1.9m (2014: £0.2m) relates primarily to unrealised foreign exchange gains on the embedded derivative related to the pre-IPO capital structure. The underlying foreign exchange gain was £0.3m (2014: loss of £0.3m).

Financial expense

Total net charge in 2015 was £20.0m (2014: £10.2m). This relates primarily to:

- A non-cash IFRS P&L charge in respect of mark to market movements in the embedded derivative associated with the Group's private capital structure. All such charges ended at the time of the IPO
- Interest charges in respect of Preference Shares, again in respect of the private company capital structure and, again, ending at IPO

Loss after tax

Total net loss for 2015 was £24.5m (2014: £13.4m), equating to a loss per share of £0.57 (2014: £0.40). During the year, as part of the corporate re-organisation, a minority shareholding in a key subsidiary of the Group was eliminated. The actual allocation of losses to the minority was £0.9m (2014: £0.5m) during the year.

Adjusting for the impact of IFRS charges in respect of the capital structure, underlying loss after tax attributable to the equity shareholders was £5.3 m (2014: £3.2m), equating to a loss per share of 13p (2014: 10p).

Statement of financial position

At 31st December 2015, total Group net cash was £0.7m (2014: £0.5m). This excluded significant post balance sheet events including:

- Exercise of pre-existing institutional options pre-IPO to raise c. £3.6m
- Subscription and placing to raise £32.5m (gross), or £30.1m (net)

As at 31st May 2016, following the IPO transaction, total net cash was £28.8m including currencies translated into GBP equivalent.

Net liabilities at 31st December 2015 were £19.8m. This negative position was extinguished post year end due to the positive impact of the change to the capital structure combined with the IPO.

Intangible assets

At 31st December 2015 intangible assets were £0.5m (2014: £0.4m). The Group did not capitalise any R&D expenditure during the year in respect of the development of Feraccru® as these costs were prior to the MA approval. The balance represents the cost of acquiring, maintaining and expanding the patent portfolio for Feraccru® net of amortisation during the year.

Cashflow

Net cash outflow from operating activities was £4.2m. This was funded by existing cash balances together with £4.6m raised through follow on financing from previously committed private venture capital and other funding into the Group during the year.

Post year-end events

Acquisition of Phosphate Therapeutics Limited

After the year end, effective on 26th February 2016, as part of the re-organisation of the Group, Shield acquired Phosphate Therapeutics Limited via the issue of 19,887,791 Shield shares representing £27m. This brought the assets PT20, PT30 and PT40 within the Group at IPO.

IPO

On 26th February 2016, Shield completed an IPO onto AIM raising £32.5m (gross) with the issuance of 21.67m shares at a price of £1.50.

The IPO also included the issuance of Warrants to participants in the placing. These Warrants are listed (under ticker STXW) and provide an opportunity for the Group to raise up to £17.5m by 30th June 2017 when the Warrants expire. Warrants have a subscription price of £1.50 per share. Any additional funding generated from warrant exercise will be utilised to support further development of the Group's assets into the medium term.

Proforma information

In order to provide a better view of the underlying position of the Group, total losses for 2015 on a proforma underlying basis have been calculated using the following assumptions:

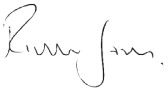
- PTL acquired on 1st January 2015
- Post IPO capital structure in place from 1 January 2015
- All IPO and restructuring related costs excluded as one-off items

On this basis, the total non-statutory proforma underlying loss after tax for the Group for 2015 would have been £7.8m (2014: £6.9m). On the same basis, basic loss per share would have been 6.9 pence per share (2014: 6.3p).

On an underlying non-statutory proforma combined basis, taking into account the assets of Phosphate Therapeutics Limited, the subscription and placing associated with the IPO and the changes to the capital structure, total net assets at 31 December 2015 would have been £32.1m.

Summary and outlook

The IPO in February was transformational for the Group which had previously relied on tranche funding from private financing rounds. The funds raised give Shield a robust balance sheet and the working capital required to build the commercial infrastructure to launch Feraccru® across key markets in Europe and to continue a focused R&D programme in support of the expansion of Feraccru®'s market opportunity.



Richard CM Jones ACA
Chief Financial Officer

Board of Directors and Advisors

Dr Andrew Heath
Non-Executive Chairman

Skills and experience

Dr Andrew Heath is a highly experienced healthcare and biopharmaceutical executive with in-depth knowledge of US and UK capital markets and international experience in marketing, sales, R&D and business development.

Other appointments

Dr Heath is currently Deputy Chairman and Senior Independent Director of Oxford BioMedica plc and is a non-executive director of Novacyt SA and IHT. He was formerly a director of the BioIndustry Association and he was Chief Executive Officer of Protherics plc from 1999 to 2008, taking the company from 30 to 350 staff and managing its eventual acquisition by BTG plc for £220 million. Prior to this Andrew served as Vice President of Marketing and Sales, for Astra Inc. in the US and held senior positions at Glaxo, Sweden.

Carl Sterritt
Chief Executive Officer and co-founder

Skills and experience

With around 20 years' of management and executive level experience in pharmaceutical development and commercialisation in both large and small company settings, Carl has led the Group as its CEO since he co-founded SHG in 2008 and PTL in 2011.

Previously, Carl held senior management roles at United Therapeutics and Encysive Pharmaceuticals, working on innovative therapies for the treatment of pulmonary arterial hypertension. Carl joined United Therapeutics to establish the company's European operations in preparation for the marketing approval of Remodulin, running the subsidiary for six years. In collaboration with physicians in Germany, he was responsible for and holds patents related United Therapeutics' decision to develop and commercialise treprostinil; now successfully commercialised in the US and Tyvaso.

Carl was instrumental in the successful commercial launch of Thelin and the rapid growth of Encysive's European operations. Carl founded SHG Therapeutics after Encysive was acquired by Pfizer Inc. for more than $300m.

Richard CM Jones ACA
Chief Financial Officer and Company Secretary

Skills and experience

Richard has a strong track record in advising clients on a wide range of transactions and fundraisings including IPOs, M&A and fundraisings. With more than ten years' advisory experience in the investment banking industry, his particular focus was in the healthcare sector where he developed extensive experience with a broad range of clients including private companies, private equity and UK and European quoted companies.

Other appointments

Richard was appointed a Non-Executive Director of SHG in early 2010 and Chief Financial Officer in April 2011. Richard has advised the Group since its inception in his previous role as an investment banker with both Brewin Dolphin Securities and Investec.

Richard qualified as a Chartered Accountant with Coopers & Lybrand in 1991.

James Karis
Non-Executive Director

Skills and experience

James is a life sciences and healthcare industry executive with over 35 years of experience in the pharmaceutical, healthcare services, technology and medical device industries.

James has previously held senior management and executive roles at CollabRx, Entelos, Inc., PAREXEL International, Pharmaco International and Baxter International. He has a B.S. in Management and Economics from Purdue University and a M.A. in Applied Economics from The American University.

Other appointments

James is currently Chief Executive Officer of privately held MAPI Group, a company focused on conducting late phase studies as well as providing regulatory and reimbursement support to the pharmaceutical and device industries.

A proven entrepreneur he is also an experienced Board member for public and private companies with extensive experience in corporate strategy, M&A and all aspects of company financing.

Peter Llewellyn-Davies
Non-Executive Director

Skills and experience

Peter is a strategic CFO with an over 25 year track record in international M&A deals, company turnarounds, licensing transactions and financing activities with particular experience in chemical and healthcare industries.

Peter is a founder of Accellerate Partners, focused on executing change and supporting private and listed companies and advising venture capital and private equity firms. Peter read business management, banking, marketing and controlling in London, St. Gallen and Munich, and has a certificate in business studies from the University of London.

Other appointments

Peter has been CFO of Medigene AG since 2012 and has supported the turnaround process by outlicensing marketed and legacy products and enhancing shareholder value with a large international investor base. Prior to that he was CFO of Wilex AG, having orchestrated their IPO in 2006 to fund a later stage pipeline and conclude subsequent partnering deals and acquisitions.

Peter was nominated for appointment to the Board pursuant to the Relationship Agreement.

Advisors

Nominated Advisor and Broker

Liberum

Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY

Auditors

KPMG LLP

Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Legal Advisors

Stephenson Harwood LLP

1 Finsbury Circus
London
EC2M 7SH

Tax Advisors

Ernst & Young LLP

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Registrar

Capita Registrars Ltd

The Registry
34 Beckenham Road
Beckenham
Kent

Financial PR

Consilium Strategic Communications
41 Lothbury
London
EC2R 7HG

Meet the senior team

Paul Steckler
VP Commercial Operations

Paul Steckler is a commercial leader with more than 17 years of pharmaceutical experience across a broad range of therapeutic areas. Paul gained a BSc in Microbiology and Virology from Warwick University before joining the pharmaceutical industry in 1997. Paul spent the majority of his career at Pfizer working across multiple therapy areas including Genotropin®, Somavert®, Zyvox®, Vfend, Ecalta, Rapamune® and Tygacil. Since leaving Pfizer in 2012 Paul has worked with a number of smaller pharmaceutical companies with a focus on specialty medications including launching Jinarc (in polycystic kidney disease) for Otsuka Pharmaceuticals.

Dr Mark Sampson
Chief Medical Officer

Mark has more than 25 years of medical practice and pharmaceutical development and commercialisation experience. He has outstanding pedigree in the development and leadership of Medical and Clinical Development activities at companies such as GSK, Amgen and Gilead, having been a key element of a number of successful commercialisation projects. Mark is a highly experienced pharmaceutical physician who combines broad medical knowledge and business acumen, with an outstanding record of achievement in Medical and Clinical Strategies at affiliate, regional and global levels across pharmaceutical, biotech and consumer products. In addition Mark was a member of the UK Prescription Medicines Code of Practice Appeals Board for 13 years.

Emma Chaffin
General Manager,
UK and Ireland

Emma has more than 20 years' experience in the healthcare industry. Qualifying as a pharmacist from Aston University, she spent 5 years in the NHS in a variety of clinical roles whilst completing a Masters in Clinical Pharmacy (University of London). She then moved into pharmaceutical industry consulting with a broad range of top-tier clients across the EU, Middle East and Africa, specialising in Commercial organisation design/ effectiveness and Market Access. More recently she has been the commercial lead for both LEO and Otsuka, successfully launching products in various therapy areas. Emma also has an MBA from Ashridge Business School.

David Childs
Manufacturing Director

David joined the SHG Group in August 2011 as Director of Manufacturing. During his tenure at Wellcome, GlaxoWellcome and GlaxoSmithKline (GSK), David gained over 18 years' experience in chemical and pharmaceutical development. He has led several successful projects including Promacta and Relovair and has successfully led teams of scientists in the development of synthetic processes and analytical methodologies. During his tenure at GSK, David worked closely with several outsourcing partners as well as across GSK's international network of manufacturing sites to ensure timely product delivery and successful methodology transfer between internal and external sites.

Angela Hildreth
UK Finance Director

Angela has been with Shield since 2011. She set up all aspects of the Group's financial processes and reporting procedures and managed the financial reporting aspects of the IPO. She manages day-to-day financial aspects of the Group's operations and is directly involved in commercial contractual negotiations as well as influencing the Group's strategy as part of the senior leadership team. She has developed a strong financial team that has been expanded since the IPO to reflect the increased levels of activity and reporting as a PLC.

Dr Jackie Mitchell
VP Regulatory Affairs and Quality

Jackie has over 20 years' experience in regulatory affairs. She holds an MA in biochemistry from Lady Margaret Hall at Oxford University, where she also obtained a doctorate in immunology and molecular biology. Following completion of her academic studies, Jackie spent a number of years working as a research scientist, including a period at Johns Hopkins School of Medicine in Baltimore, USA. Since moving into the pharmaceutical industry, Jackie has worked in regulatory affairs for large, medium and small pharmaceutical companies, including Boehringer Ingelheim, Abbott and Archimedes. She has been involved in a broad range of global, EU and national applications across many therapeutic areas and has led several major regulatory projects, including successful MAA and NDA submissions, including MAAs for NCEs such as Kaletra and Humira. Jackie has run SHGs regulatory activities since 2012.

Corporate governance report

During the year, Shield was wholly a private Group. Its corporate governance was dictated by the requirements of its key institutional investors.

Board composition

The Board composition during the year consisted of the following representatives on the Board of Shield Holdings AG, the ultimate holding company up until the establishment of Shield Therapeutics PLC in September 2016.

Chairman and CEO: Carl Sterritt

Non-Executive Director and shareholder representative: Ashok Dhanrajgir

Non-Executive Director: Dr Lynn Drummond

Iron Therapeutics Holdings AG had the following member in addition to the Board of Shield Holdings AG:

Non-Executive Director and shareholder representative: Günther Krumpl

During the period September 2016 to 12 February 2016, Shield Therapeutics PLC had the following Board members:

Executive Director: Carl Sterritt

Executive Director: Richard CM Jones

In preparation for the IPO in February 2016, a new Board was constituted and formally appointed in full on 12 February 2016, just prior to the IPO. As set out in the Company's admission document, following the IPO, Shield Therapeutics is required to comply with the AIM Rules for Companies.

The Board recognises the importance of sound corporate governance and with that aim, the Group has adopted policies and procedures which reflect to principles of the QCA's Corporate Governance Guidelines for Smaller Quoted Companies (''QCA Code'') as are appropriate to a Group whose shares are admitted to trading on AIM. The Group has chosen to comply with the Corporate Governance Code in so far as it is appropriate for a company whose shares are admitted to trading on AIM.

Board composition and independence

The Board is committed to the highest standards of corporate governance and maintaining a sound framework for the control and management of the Group's business. The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Group's business and the Group's strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

From February 2016, the Board comprises of five members, being the Chairman, two Executive Directors and two Non-Executive Directors. Details of the Board are set out on pages 16 and 17.

Audit, Remuneration and Nomination Committees

The Board has established Audit, Remuneration and Nomination Committees with effect from admission.

Audit Committee

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process, reviewing the effectiveness of the Group's internal control systems and risk management systems and overseeing the process for managing risks across the Group, including reviewing the Group's corporate risk profile. It focuses in particular on compliance with legal requirements, accounting standards and ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board. The Audit Committee will normally meet at least two times a year at the appropriate times in the reporting and audit cycle.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, together with quorum requirements and the right to attend meetings.

The responsibilities of the Audit Committee covered in the terms of reference are: external audit, internal audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The members of the Audit Committee are Peter Llewellyn-Davies and James Karis. Peter Llewellyn-Davies is regarded as having recent and relevant financial experience. The committee chair is Peter Llewellyn-Davies.

Remuneration Committee

The Remuneration Committee has responsibility for determination of specific remuneration packages for each of the Executive Directors and any applicable senior executive management of the Company, including pension rights and any compensation payments and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option, or other performance-related schemes. The Remuneration Committee will meet at least once a year.

The terms of reference of the Remuneration Committee cover such issues as membership and the frequency of meetings, together with the quorum requirements and the right to attend meetings. The responsibilities of the Remuneration Committee covered in the terms of reference are: determining and monitoring policy on and setting levels of remuneration, contracts of employment, early termination, performance-related pay, pension arrangements, reporting and disclosure, share-schemes and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

The members of the Remuneration Committee are James Karis and Andrew Heath.

The committee is chaired by James Karis.

Nomination Committee

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Nomination Committee will meet at least once a year.

The Nomination Committee's terms of reference deal with such things as membership, quorum and reporting responsibilities. It also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The members of the Nomination Committee are Dr Andrew Heath, Peter Llewellyn-Davies and James Karis. The committee is chaired by Dr Andrew Heath.

Board meetings

The Board aims to meet at least five times a year. In addition, each year the Board plans to attend a strategy day at least once a year with the wider executive team to review performance against the Group's strategic objectives and to review targets. The first of these strategic Board meetings took place on 23rd March 2016, shortly following admission to AIM.

Internal Controls

The Audit Committee is responsible for reviewing the Group's financial controls. The Audit Committee has met twice following admission, on 23 March 2016 and 25th May 2016 to agree its terms of reference and review the Group's financial controls and policies following admission to AIM.

External Audit

The group's external auditor, KPMG LLP, is engaged to provide its independent opinion on the Group's financial statements. The terms of reference and audit findings of the auditors have been reviewed by the Audit Committee as part of the approval process for the 2015 annual report and accounts. During the year, as part of the Group's review of its external audit, the Group appointed Ernst & Young LLP to be its ongoing group tax advisor to ensure a separation of audit from other key advisory work.

Going concern

The Board of Directors has confidence that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly it continues to adopt the going concern basis in preparing the annual report and financial statements.

At 31 December 2015 the Group had £0.7m of cash and no debt other than shareholder investments classed as debt under IFRS. Following completion of the restructuring and IPO, the Group had no debt and significant cash resources available. As at 31 May 2016 total cash, including foreign currency translated at the appropriate rate, amounted to £28.8m. The Group prepares detailed forecasts which show that it has sufficient resources to settle all of its liabilities as they fall due.

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Principal activities

Shield Therapeutics PLC is a specialty pharmaceutical company specialising in the development and commercialisation of late-stage, hospital-focused pharmaceuticals which address areas of high unmet medical need.

Future development

Our strategy is set out on page 10.

Capital Structure

The capital structure throughout 2015 reflected the private company status, together with the nature of the historic funding of the Group. During the year the Company completed the first stage of its restructuring. This consisted of the following key steps; The shareholder convertible debt in the subsidiary, Iron Therapeutics Holdings AG, was converted into equity; the minority interest in Iron Therapeutics Holdings AG was extinguished through a share-for-share hive-up into Shield Holdings AG, the ultimate parent at the time; share options held in Shield Holdings AG were exercised and the schemes closed; Shield Therapeutics PLC was established; and shareholders in Shield Holdings AG became shareholders in Shield Therapeutics PLC through a share-for-share exchange.

These re-organisation steps were in anticipation of an IPO. Post year-end in February 2016, the restructuring was completed and this extinguished shareholder debt and the two tier capital structure of preference and ordinary share capital.

At 31 December 2015 Group cash balances were £0.7m. After the year end the Company competed two additional fundraisings. Firstly share options were exercised raising c. £3.6m and secondly the placing and subscription associated with the IPO raised an additional £32.5m (gross). Taking into account operational expenditure since the year end, group cash balances were £28.8m at 31 May 2016.

Results and dividend

The consolidated statement of profit and loss and other comprehensive income is set out on page 26. The Group's loss after taxation for the year was £24.5m. After taking into account non-cash adjustments under IFRS relating to the capital structure in place pre-IPO, adjusted net loss for the year was £5.3m (see Note 10 on page 36). On a proforma unaudited basis, assuming Phosphate Therapeutics Limited had been acquired on 1 January 2015, adjusted net loss would have been £7.8m.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015.

During the year ended 31 December 2015 the Group made political donations of £nil (2014: £nil) and charitable donations of £nil (2014: £nil).

Directors

The current Directors of the Group are shown on pages 16 and 17. Page 20 sets out details of the Directors who were in place for the year ended 31 December 2015. These Directors were in place for the whole of the year, except in the case of Shield Therapeutics PLC which was a newly formed company in September 2015, in respect of which the Directors were in place from formation until the end of the year.

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and subsequently to reflect the changes to the Board structure and which remain in force at the date of this report.

Directors' remuneration report

As the group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group. Due to the significant change to the composition of the Board post-year end the Directors do not believe a remuneration report is relevant but intend to prepare a remuneration report in future years as a voluntary disclosure.

Significant post balance sheet events

There were two significant post balance sheet events:

Acquisition of Phosphate Therapeutics Limited

In February 2016, as part of the IPO restructuring, and as disclosed in Note 29 on page 47 the Group acquired Phosphate Therapeutics Limited for an all share consideration of 19,887,791. The acquisition will be accounted for under IFRS at a fair value of £27,047,396.

IPO and associated placing and open offer

As set out in Note 29 on page 47, Shield Therapeutics PLC was admitted to trading on AIM on 26 February 2016 having completed a placing and open offer to raise £32.5m (gross) through the issue of 21.7m shares at £1.50 per share. The shares trade under the ticker symbol STX. In addition, and as part of the offer, placees received 7 Warrants for every 13 shares acquired, with a total of 11.7m Warrants issued. These Warrants have a par value of £1.50 and are exercisable at any point up to their expiry on 30 June 2017. If all Warrants are exercised this would provide an additional £17.5m of working capital for the Group. The Warrants are listed and trade under ticker symbol STXW.

Major interests

As at the date of this report, the following shareholders had major interests in the shares of Shield Therapeutics PLC:

W Health LP	49.996%
Irorph GmbH	11.6%
Carl Sterritt	9.3%
Christian Schweiger	5.2%
JPMorgan Asset management	3.8%
AVIVA	3.7%

Auditors

Each person who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all reasonable steps as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

KPMG LLP have expressed their wish to continue as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at Stephenson Harwood, 1 Finsbury Circus, London EC2M 7SH, at 10.00am on Thursday 4 August 2016.

By order of the Board

Carl Sterritt
Chief Executive Officer
13 June 2016

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

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

By order of the Board

Carl Sterritt
Chief Executive Officer
13 June 2016

Independent auditor's report

to the members of Shield Therapeutics plc

We have audited the financial statements of Shield Therapeutics plc for the year ended 31 December 2015 set out on pages 26 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
13 June 2016

Consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December

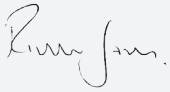
	Notes	2015 £000	2014 £000
Other operating income		**221**	244
Research and development expenditure	6	**(5,284)**	(2,668)
Administrative expenses		**(1,371)**	(967)
Operating loss		**(6,434)**	(3,391)
Financial income	9	**1,941**	206
Net loss on financial instruments designated as fair value through profit or loss		**(18,123)**	(8,585)
Financial expense	9	**(1,872)**	(1,660)
Loss before tax		**(24,488)**	(13,430)
Taxation	11	**–**	–
Loss for the period		**(24,488)**	(13,430)
Attributable to:			
Equity holders of the parent		**(23,627)**	(12,905)
Non-controlling interests		**(861)**	(525)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**(257)**	248
Total comprehensive income for the year		**(24,745)**	(13,182)
Attributable to:			
Equity holders of the parent		**(23,884)**	(12,657)
Non-controlling interests		**(861)**	(525)
Total comprehensive income for the year		**(24,745)**	(13,182)
Earnings per share			
Basic and diluted loss per share	10	**£0.57**	£0.40
Non-GAAP measure			
Adjusted loss per share	10	**£0.13**	£0.10

Balance sheets

at 31 December

	Notes	Group 2015 £000	Group 2014 £000	Company 2015 £000
Non-current assets				
Intangible assets	13	**513**	436	**–**
Property, plant and equipment	12	**17**	12	**–**
Investments	14	**–**	–	**75,600**
		530	448	**75,600**
Current assets				
Other receivables	15	**1,605**	79	**–**
Cash and cash equivalents	16	**725**	477	**–**
		2,330	556	**–**
Total assets		**2,860**	1,004	**75,600**
Current liabilities				
Trade and other payables	17	**(3,502)**	(694)	**–**
Interest-bearing loans and borrowings	18	**–**	(8,258)	**–**
Other liabilities		**(73)**	(50)	**–**
		(3,575)	(9,002)	**–**
Non-current liabilities				
Interest-bearing loans and borrowings	18	**–**	(197)	**–**
Other financial liabilities	19	**(17,928)**	(10,089)	**(17,928)**
		(17,928)	(10,286)	**(17,928)**
Total liabilities		**(21,503)**	(19,288)	**(17,928)**
Net liabilities		**(18,643)**	(18,284)	**57,672**
Equity				
Share capital	23	**690**	365	**690**
Share premium		**-**	2,393	**–**
Merger reserve		**28,358**	–	**117,323**
Currency translation reserve		**(39)**	218	**–**
Retained earnings		**(47,652)**	(23,006)	**(60,341)**
Equity attributable to owners of the parent		**(18,643)**	(20,030)	**57,672**
Non-controlling interest		**–**	1,746	**–**
Total equity		**(18,643)**	(18,284)	**57,672**

These financial statements were approved by the board of Directors on 13 June 2016 and were signed on its behalf by:



Richard CM Jones ACA
Director
Company registered number: 9761509

Consolidated statement of changes in equity

for the year ended 31 December

	Issued capital £000	Share premium £000	Merger reserve £000	Currency translation reserve £000	Retained earnings £000	Non-controlling interest £000	Total £000
Balance at 1 January 2014	365	2,393	–	(30)	(10,792)	747	(7,317)
Loss for the year	–	–	–	–	(12,905)	(525)	(13,430)
Other comprehensive income	–	–	–	248	–	–	248
Additional investment of non-controlling interest shareholder	–	–	–	–	–	1,968	1,968
Increase in non-controlling interest*	–	–	–	–	444	(444)	–
Equity-settled share-based payment transactions	–	–	–	–	247	–	247
Balance at 31 December 2014	365	2,393	–	218	(23,006)	1,746	(18,284)
Balances at 1 January 2014	365	2,393	–	218	(23,006)	1,746	(18,284)
Loss for the period	–	–	–	–	(23,627)	(861)	(24,488)
Other comprehensive income	–	–	–	(257)	–	–	(257)
Group reorganisation**	325	(2,393)	28,358	–	(1,901)	(885)	23,504
Equity-settled share-based payment transactions	–	–	–	–	882	–	882
Balance at 31 December 2015	**690**	**–**	**28,358**	**(39)**	**(47,652)**	**–**	**(18,643)**

* Increase in non-controlling interest relates to the additional investment of £1,968,000 of non-controlling interest shareholder, resulting in the non-controlling interest ownership increasing from 8.60% to 16.47% in 2014.

** Included in the reserves account in 2015 is a merger reserve balance amounting to £28.4 million arising from the Group reorganisation activity. Please see Note 30 for details.

Company statement of changes in equity

for the year ended 31 December

	Issued capital £000	Merger reserve £000	Retained earnings £000	Total £000
Balances at 3 September 2015*	–	–	–	–
Issuance of share capital	690	–	–	690
Loss for the period	–	–	(60,341)	(60,341)
Group reorganisation	–	117,323	–	117,323
Balance at 31 December 2015	**690**	**117,323**	**(60,341)**	**57,672**

* Shield Therapeutics plc was incorporated on 3 September 2015, the profit/(loss) for the period represents the Company's profit/(loss) from 3 September 2015 to 31 December 2015.

Consolidated statements of cash flows

for the year ended 31 December

	2015 £000	2014 £000
Cash flows from operating activities		
Loss for the period	**(24,488)**	(13,430)
Adjustments for:		
Depreciation and amortisation	**50**	36
Loss on derivative financial instruments	**18,123**	8,585
Equity-settled share-based payment expenses	**882**	247
Financial expense	**1,872**	1,660
Unrealised foreign exchange (gains)/loss	**(1,927)**	(250)
	(5,488)	(3,152)
Decrease/(increase) in trade and other receivables	**(1,526)**	22
Increase/(decrease):		
Trade and other payables	**2,808**	(225)
Other liabilities	**23**	14
Net cash flow from operating activities	**(4,183)**	(3,341)
Cash flows from investing activities		
Acquisitions of intangible assets	**(123)**	(80)
Acquisition of property, plant and equipment	**(9)**	(12)
Net cash from investing activities	**(132)**	(92)
Cash flows from financing activities		
Investment of non-controlling interest shareholder	**–**	1,968
Issuance of convertible bonds	**1,062**	392
Issuance of preference shares	**3,501**	–
Net cash flow from financing activities	**4,563**	2,360
Net increase/(decrease) in cash	**248**	(1,073)
Cash and cash equivalents at 1 January	**477**	1,550
Cash and cash equivalents at period end	**725**	477

Shield Therapeutics plc was incorporated on 3 September 2015. The only cash transaction in the Company during the period from 3 September 2015 to 31 December 2015 was the £2 investment in Ordinary Shares of Shield Holdings, AG.

Notes (forming part of the financial statements)

for the year ended 31 December

1. General information

Shield Therapeutics plc (the "Company") was incorporated in England and Wales as a public limited company on 3 September 2015.

The Company is domiciled in England and the registered office of the Company is at Northern Design Centre, Baltic Business Quarter, Gateshead Quays NE8 3DF.

Shield Therapeutics plc is the parent entity that holds investments in a number of subsidiaries. Its trading subsidiaries are engaged in the development of clinical state pharmaceutics to treat unmet medical needs. The previous legal parent of the consolidated Group in the prior year was Shield Holdings AG. The incorporation of Shield Therapeutics plc during the financial year and the restructuring of the Group to make it the new legal parent of the Shield Group has been accounted for as a Group reorganisation. See Basis of consolidation below.

Subsidiaries and their countries of incorporation are presented in Note 24.

2. Accounting policies

The consolidated and parent company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements are prepared on the historical cost basis except for derivative financial instruments that are stated at their fair value. The functional currency of the Company is GBP. The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except otherwise indicated.

Company income statement

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The loss for the financial year per the accounts of the Company was £60.3 million. The total comprehensive income for the year comprises the net profit and is wholly attributable to the equity holders of Shield Therapeutics plc; therefore no statement of comprehensive income has been disclosed.

Going concern

The Company's working capital and product development funding requirements are met through cash reserves from funds raised to date. The Company remains in a product development stage and meets its working capital requirements through funds raised through the issuance of convertible loans and preference shares. In addition, the Company raised funds through an IPO on the 26 February 2016 (refer to Note 29). The Directors consider that this should enable the Company to continue in operational existence for the foreseeable future. Based on the Company's available financial resources, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Group reorganisations are accounted for as a continuation of the existing Shield Group. Accordingly, the consolidated financial statements of Shield Therapeutics plc have been prepared as a continuation of the existing group. Shield Holdings AG in effect remains the accounting parent entity. The consolidated financial statements reflect any difference in share capital between Shield Therapeutics plc and Shield Holdings, AG as an adjustment to equity.

Foreign currency

Transactions in foreign currencies are translated to the Group's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Notes (forming part of the financial statements) continued

for the year ended 31 December

2. Accounting policies continued

Foreign currency continued

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Non-derivative financial instruments

Non-derivative financial instruments comprise other receivables, cash at bank and in hand, restricted cash, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables 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 payables

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

Cash and cash equivalents

Cash and cash equivalents comprises cash balances in the bank and restricted cash.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Embedded derivatives

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through the profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Intangible assets

Research and development

The Group's activities are still considered to be in the research phase and therefore all related expenditure has been recognised as an expense in the income statement. As there has been no expenditure on development activities, there has been no capitalisation of research and development costs.

Expenditure in relation to patents registration and renewal of current patents are capitalised and recorded as intangible assets. Registration costs are continually incurred as the Group registers these patents in different countries. Intangible assets are stated at cost less accumulated amortisation and less accumulated impairment losses.

2. Accounting policies continued

Intangible assets continued

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the patents. Patent assets are amortised from the date they are available for use. The estimated useful life of the patent suite is until 2026.

Operating income

Other operating income is measured at the fair value of consideration received or receivable for management services supplied to related parties. Income is recognised when the service has been delivered.

Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income 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.

Share-based payments

Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for share options (equity-settled transactions).

The fair value of options granted is recognised as an employee expense with a corresponding increase in the share premium account. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share options have also been offered to contractors and suppliers of the Group. The fair values of the option provided have been determined with reference to the fair value of the services provided to the Group.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option and volatility and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

Notes (forming part of the financial statements) continued

for the year ended 31 December

3. Critical accounting judgments and key sources of estimation uncertainty continued

Fair value of derivative instruments

Where the fair value of derivative instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as entity value and volatility.

Deferred tax assets

Estimates of future profitability are required for the decision whether or not to create a deferred tax asset. To date no deferred tax assets have been recognised.

4. New standards and interpretations

The Group has adopted the following IFRSs in these financial statements for the first time. The adoption of these pronouncements has not had a material impact to the Group's accounting policies, financial position or performance:

- Amendment to IAS 19- Defined Benefit Plans: Employee Contributions.
- Annual Improvements to IFRSs – 2010-2012 Cycle. The definition of a "related party" is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a Group entity.
- Annual Improvements to IFRSs – 2011-2013 Cycle.

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective date 1 January 2016).
- Amendments to IAS 16 and IAS 41: Bearer Plants (effective date 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date 1 January 2016).
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective date 1 January 2016).
- Annual Improvements to IFRSs 2012–2014 Cycle (effective date 1 January 2016).
- Amendments to IAS 1: Disclosure Initiative (effective date 1 January 2016).
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective date 1 January 2016).

5. Segmental reporting

The Board regularly reviews the Group's performance and balance sheet position for its operations and receives financial information for the Group as a whole. As a consequence the Group has one reportable segment, which is Clinical Development. Segmental profit is measured at operating loss level, as shown on the face of the Income Statement. As there is only one reportable segment whose losses, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional numerical disclosures are necessary.

6. Expenses and auditor's remuneration

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Loss for the period has been arrived at after charging:		
Research and development expenditure	**(5,284)**	(2,668)
Audit of these financial statements	**32**	51

7. Staff numbers and costs

The average number of persons employed by Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2015 £000	2014 £000
Clinical operations	**5**	8
Manufacturing	**1**	1
Finance and administration	**9**	5
	15	14

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	**1,656**	1,067
Share-based payments (see Note 25)	**883**	179
Other employee benefits	**12**	13
	2,551	1,259

8. Directors' remuneration

	2015				2014		
	Salary/fees £000	**Bonus £000**	**Taxable benefits £000**	**Total £000**	Salary/fees £000	Taxable benefits £000	2014 Total £000
A Heath	**–**	**–**	**–**	**–**	–	–	–
C Sterritt	**209**	**209**	**14**	**432**	180	14	194
R Jones	**181**	**177**	**14**	**372**	160	18	178
J Karis	**–**	**–**	**–**	**–**	–	–	–
P Llewellyn-Davies	**–**	**–**	**–**	**–**	–	–	–
	390	**386**	**28**	**804**	340	32	372

Directors' remuneration includes remuneration due to the Directors of Shield Therapeutics plc. 2014 amounts represent remuneration paid to the Directors of the historic Group and are presented for comparative purposes.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £432,000 (2014: £194,000).

One Director exercised share options in the year (2014: nil). One Director received shares or share options under long term incentive schemes in the year (2014: one).

£45,000 was paid to third parties in respect of director services (2014: £18,000).

9. Finance income and expenses

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Financial income		
Net foreign exchange gain	**1,941**	206
Financial expense		
Total interest expense on financial liabilities measured at amortised cost	**(1,866)**	(1,655)
Bank charges	**(6)**	(5)
	(1,872)	(1,660)

Notes (forming part of the financial statements) continued

for the year ended 31 December

10. Loss per share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

The diluted loss per share is identical to the basic loss per share in both years, as potential dilutive shares are not treated as dilutive since they would reduce the loss per share.

The table below reflects the income used in the basic, diluted and adjusted (non-GAAP) EPS computations:

	2015 £000	2014 £000
Loss for the period as used for calculating basic EPS	**(23,627)**	(12,905)
Interest on preference shares	**1,761**	1,654
FX movement of preference shares	**(259)**	(489)
Fair value remeasurement of preference share embedded derivative	**15,610**	8,585
Interest on convertible bonds	**139**	–
FX movement on convertible bonds	**10**	–
Fair value remeasurement of convertible bond embedded derivative	**1,146**	–
Fair value remeasurement of Troy options	**(59)**	–
Loss attributable to ordinary equity holders of the parent adjusted for the effect of one off items as used for calculating Adjusted EPS	**(5,279)**	(3,155)
Weighted average number of Ordinary Shares for basic and Adjusted EPS	**41,507**	31,893

11. Taxation

Recognised in the income statement:

	2015 £000	2014 £000
Current income tax:		
Current income tax expense	**–**	–
Foreign income taxes	**–**	–
Tax expense/(credit) relating to prior year		
Deferred tax:		
Relating to origination and reversal of temporary differences	**–**	–
Effect of changes in the tax rate	**–**	–
Total tax expense	**–**	–

Reconciliation of total tax expense:

	2015 £000	2014 £000
Loss excluding taxation	**(24,488)**	(13,430)
Standard rate of corporation tax in the UK	**20.25%**	21.5%
Tax using the UK corporation tax rate	**(4,959)**	(2,888)
Expenses not deductible for tax purposes	**–**	37
Effect of tax rates in foreign jurisdictions	**3,153**	1,856
Unrelieved tax losses	**1,806**	1,093
Utilised tax losses	**–**	(98)
Total tax expense	**–**	–

Factors affecting the future tax charge

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2015 have been calculated based on these rates.

11. Taxation continued

Unrecognised deferred tax assets

There is a potential deferred tax asset in respect of the unutilised tax losses, which has not been recognised due to the uncertainty of available future taxable profits.

	2015 £000	2014 £000
Unutilised Swiss tax losses to carry forward	**13,610**	11,628
Potential deferred tax asset thereon	**1,100**	957
Unutilised UK tax losses to carry forward	**15,440**	3,254
Potential deferred tax asset thereon	**2,780**	651

12. Property, plant and equipment

	2015 £000	2014 £000
Cost		
Beginning balance	**12**	5
Additions	**9**	12
Disposals	**–**	(5)
Ending balance	**21**	12
Accumulated depreciation		
Beginning balance	**–**	–
Charge for the period	**4**	5
On disposals	**–**	(5)
Ending balance	**4**	–
Net book values	**17**	12

13. Intangible assets

	2015 £000	2014 £000
Cost		
Beginning balance	**566**	486
Additions during the year	**123**	80
Ending balance	**689**	566
Accumulated amortisation:		
Beginning balance	**130**	99
Amortisation during the year	**46**	31
Ending balance	**176**	130
Net book values	**513**	436

14. Investments

The investment represents Shield Therapeutics plc's 100% ownership interest in Shield Holdings, AG. The initial recognition of the investment during the year was as at £136.0 million.

An impairment loss was recognised on the investment based on an assessment of the carrying value against the recoverable amount of the investment at 31 December 2015. The recoverable amount of £75.6 million was assessed based on the fair value less cost of disposal of the cash-generating unit (i.e. Shield Holdings, AG and its subsidiaries). The impairment loss is recognised in the parent Company financial statements and eliminated at the Group level.

Notes (forming part of the financial statements) continued

for the year ended 31 December

15. Other receivables

	2015 £000	2014 £000
Receivables	**96**	51
Prepayments	**1,509**	28
	1,605	79

16. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	**725**	477

17. Trade and other payables

	2015 £000	2014 £000
Trade payables	**1,213**	419
Accruals	**2,289**	275
	3,502	694

18. Interest-bearing loans and borrowings

	2015 £000	2014 £000
Non-current liabilities		
Convertible bonds	**–**	197
Current liabilities		
Shares classified as debt	**–**	8,258

Terms and debt repayment schedule

	Currency	Face value 2015 £000	Carrying amount 2015 £000	Face value 2014 £000	Carrying amount 2014 £000
Convertible bonds	Euro	**–**	**–**	500	197
Shares classified as debt	Euro	**–**	**–**	9,300	8,258

Preference shares

At 31 December 2014, there were 22,703,716 preference shares in issue. Each share was convertible at the option of the preference shareholder into one ordinary share of the Company at either a qualified IPO event or merger or on the request of the preference shareholder. The preference shares could be redeemed for cash for the preferred amount on either a deemed liquidity event or by the 31st December 2016 if a deemed liquidity event had not occurred by that date.

The preferred amount was made up of the liquidation preference amount (which was 1.5 times the amount of funding raised) plus the dividend amount. The preference shares carried a dividend of 10% per annum, compounded annually. The preference shares ranked ahead of the Ordinary Shares in the event of liquidation.

The preference share financial liability was extinguished as part of the reorganisation transaction on 1 October 2015. See Note 30.

Convertible loan

The Group issued a convertible loan for the face value of EUR 2,000,000 in 4 equal tranches on:

- 24 December 2014
- 16 February 2015
- 13 March 2015
- 15 April 2015

18. Interest-bearing loans and borrowings continued

Convertible loan continued

The convertible loan accrued interest at a rate of 10% per annum and was not compounding.

The outstanding loan amount plus accrued interest was payable on either a deemed liquidity event or at Maturity Date (24 December 2019). In addition, the Group had the ability to repay the convertible loan at any time.

The convertible loan could be converted into newly issued A Shares at either a deemed liquidity event or on maturity, at the request of the convertible loan note holder.

All €2 million convertible bonds were converted by the bond holder on 16 September 2015 for 1.4 million shares of Iron Therapeutics Holdings AG.

19. Other financial liabilities

	31 December 2015 £000	31 December 2014 £000
Troy option instrument	**(17,928)**	–
Preference Share derivatives	**–**	(9,895)
Convertible loan conversion option	**–**	(194)

The Troy option instrument is a derivative. As part of the Group reorganisation, on 1 October 2015 Shield Therapeutics plc issued this new option instrument to a shareholder in exchange for the cancellation of all the options held by that shareholder and the subscription rights attached to the preference shares held. The instrument has been treated as an embedded derivative and is carried at fair value through profit and loss. The fair value of the option instrument to subscribe for additional Ordinary Shares of Shield Therapeutics plc has been calculated using a Black Scholes Merton model for a European option.

The Preference Share derivatives were classified as embedded derivatives. They were separated from the host Preference Share financial instrument. The fair value of the conversion option of the outstanding Preference Shares and the option to subscribe for additional Preference Shares was calculated using a Black Scholes Merton model for a European option. This embedded derivative was extinguished as part of the Group reorganisation transaction (see Note 30).

The convertible loan conversion option was classified as an embedded derivative. It was separated from the host convertible loan financial instrument. The fair value of the conversion option on the outstanding convertible notes was calculated using Black Scholes Merton model for an American option. This embedded derivative was exercised in the year.

The valuation requires management to make certain assumptions about the model inputs, including forecasted cash flows and volatility. In particular, based on the Company valuation, strikes have been determined and observable inputs like market interest rates and volatility index for similar listed companies has been used. The ranges of estimates within the calculation can be reasonably assessed and are used in the management's estimate of fair value.

20. Fair value hierarchy

The Group uses the following hierarchy for determining the disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorder fair value that are not based on observable market data.

Other than the embedded derivatives included under 'Other Financial Liabilities', 'Cash at bank and in hand, Restricted cash, Other receivables, Trade and other payables, Other liabilities and Interest-bearing loans and borrowings have fair values that approximates its carrying values.

Notes (forming part of the financial statements) continued

for the year ended 31 December

20. Fair value hierarchy continued

The table below summarises the fair values of embedded derivatives according to the fair value hierarchy:

Group

Asset/liabilities measured at fair value	31 December 2014 £000	Level 1 £000	Level 2 £000	Level 3 £000
Convertible loan conversion option	(194)	–	–	(194)
Preference Share Option	(9,895)	–	–	(9,895)

Asset/liabilities measured at fair value	**31 December 2015 £000**	Level 1 £000	Level 2 £000	Level 3 £000
Troy option instrument	**(17,928)**	–	–	(17,928)

Company

Asset/liabilities measured at fair value	**31 December 2015 £000**	Level 1 £000	Level 2 £000	Level 3 £000
Troy option instrument	**(17,928)**	–	–	(17,928)

21. Significant unobservable inputs to valuations

31 December 2014	Valuation technique	Significant unobservable inputs	Range (Weighted average)	Sensitivity of the input to fair value
Convertible bonds	Black Scholes Merton Model	Volatility	6%	10% increase/(decrease) in the volatility rate would result in increase (decrease) in fair value by approximately €40,000
Preference Shares Option	Black Scholes Merton Model	Volatility Company value	41-42%	10% increase/(decrease) in the volatility rate would result in increase (decrease) in fair value by approximately €5,030,000

31 December 2015	**Valuation technique**	**Significant unobservable inputs**	**Range (Weighted average)**	**Sensitivity of the input to fair value**
Troy option instrument	Black Scholes Merton Model	Volatility	18%	10% increase/(decrease) in the volatility rate would result in no change in fair value (Parent company - €nil)
		Company value		5% increase/decrease in the firm value would result in increase/(decrease) in fair value by approximately £40,000 (Parent company - £40,000)

22. Risk management

The Group is exposed to a variety of risk such as market risk, credit risk and liquidity risk. The Group's principal financial instruments are:

- loans and borrowings; and
- other receivables, trade and other payables, and cash and short term deposits arising directly from operations.

This Note provides further detail on financial risk management and includes quantitative information on the specific risks.

Categories of financial instruments

Convertible loans and preference shares in Note 18 are recognised at amortised cost using the effective interest method. Both instruments have conversion and other options which are treated as embedded derivatives and measured at fair value (see Notes 18–20).

Fair values

The carrying values of financial assets and liabilities reasonably approximate their fair values.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other prices risk, such as equity price risk.

The Group's exposure is primarily to the financial risks of changes in foreign currency exchange.

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as foreign exchange rates) might affect the value of its loans and also the amounts recorded in its equity and its profit and loss for the period. Therefore the Group assessed the following risks:

Foreign currency risk

The following tables consider the impact of several changes to the spot £/Euro exchange rates of +/– 5%. If these changes were to occur the tables below reflect the impact on profit before tax. Only the impact of changes in Euro denominated balances have been considered as these are the most significant non-GBP denomination used by the Group.

		Effect on loss before tax	
	Change in GBP vs. EUR rate	**Year ended 31 December 2015 £000**	Year ended 31 December 2014 £000
EUR	+5.00%	**(896)**	(927)
	-5.00%	**896**	927

Liquidity risk

Cash flow is regularly monitored and the relevant subsidiaries are aware of their working capital commitments. The Group reviews its long term funding requirements in parallel with its long term strategy, with an objective of aligning both in a timely manner.

The table below summarises the maturity profile of the Group's undiscounted financial liabilities at 31 December 2014 and 2015.

Liquidity risk – 31 December 2015	On demand £000	Less than one year £000	Between two and five years £000	More than five years £000	Total £000
Financial liabilities					
Trade and other payables	–	1,213	–	–	1,213

Liquidity risk – 31 December 2015	On demand £000	Less than one year £000	Between two and five years £000	More than five years £000	Total £000
Financial liabilities	–	–	19,875	–	19,875
Interest-bearing loans and borrowings	–	419	–	–	419
Trade and other payables	–	419	19,875	–	20,294

Notes (forming part of the financial statements) continued

for the year ended 31 December

22. Risk management continued

Sensitivity analysis continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The Group is exposed to credit risk from its financing activities primarily in relation to its deposits with banks and financial institutions.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by depositing with reputable financial institutions, from which management believes loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts cash at bank and in hand.

23. Called up share capital

Allotted, called up and fully paid	**31 December 2015 £000**	31 December 2014 £000
51 million Ordinary Shares at CHF0.01 each	**–**	365
69 million Ordinary Shares at £0.01 each	**690**	–

The 51 million Ordinary Shares in 2014 represents the number of Ordinary Shares issued by Shield Holdings, AG. The 69 million Ordinary Shares in 2015 represents the number of Ordinary Shares issued by Shield Therapeutics plc. The Group went through a reorganisation in the period, resulting in a different legal parent. Please see Note 30 for details of the Group reorganisation transaction.

24. Group structure and acquisition details

The Group's equity interest was as follows:

During the year ended 31 December 2015:

Group company	Ownership	Country of incorporation
Shield Holdings, AG	100%	Switzerland
Iron Therapeutics Holdings AG	100%	Switzerland
Iron Therapeutics (Switzerland) AG*	100%	Switzerland
Shield TX (UK) Ltd.*, **	100%	United Kingdom
Iron Therapeutics (US) Corp.*	100%	United States of America

* Shield Therapeutics plc holds an indirect ownership through Iron Therapeutics Holdings, AG.

** Iron Therapeutics (UK) Limited company name was changed to Shield TX (UK) Limited on 17 March 2016.

During the year ended 31 December 2014:

Group company	Ownership	Country of incorporation
Iron Therapeutics Holdings AG	83.53%	Switzerland
Iron Therapeutics (Switzerland) AG*	83.53%	Switzerland
Shield TX (UK) Ltd.*, **	83.53%	United Kingdom
Iron Therapeutics (US) Corp.*	83.53%	United States of America

* Shield Therapeutics plc holds an indirect ownership through Iron Therapeutics Holdings, AG.

** Iron Therapeutics (UK) Limited company name was changed to Shield TX (UK) Limited on 17 March 2016.

At 31 December 2014 Shield Therapeutics plc held investments in four entities which were classified as subsidiaries. Iron Therapeutics Holdings AG had a minority shareholder who owned less than 20% of the Group. The other subsidiary entities were then held 100% by ITH. Therefore Shield Therapeutics plc had control over ITH and the rest of the entities in the Group. At 31 December Shield Therapeutics plc owned 100% of all entities in the Group.

24. Group structure and acquisition details continued

Non-Controlling Interests

The following table summarises the information relating to Iron Therapeutics Holdings AG which was a subsidiary of the Group with a material Non-Controlling Interest, before intra-group eliminations.

	31 December 2015 £000	31 December 2014 £000
NCI percentage	**–**	16.47%
Non-current assets	**–**	501
Current assets	**–**	1,585
Non-current liabilities	**–**	(7,514)
Current liabilities	**–**	(137)
Net assets (100%)	**–**	(5,565)
Carrying amount of NCI	**–**	1,746
Revenue	**–**	–
Loss	**(6,670)**	(3,393)
OCI	**–**	256
Total comprehensive income	**(1,411)**	(3,137)
Cash flows from operating activities	**(2,563)**	(1,818)
Cash flows from investing activities	**(123)**	(87)
Cash flows from financing activities	**2,288**	2,165
Net increase in cash and cash equivalents	**(398)**	260

25. Share-based payments

The Group grants rights to the parent entity's equity instruments to certain employees and non-employees, which are accounted for as equity-settled in the consolidated financial statements.

Group EMI Share Option Plan

The Group operates a share option scheme for certain employees of Iron Therapeutics (UK) Ltd. The scheme, which is an Enterprise Management Incentives (EMI) Scheme, is intended to attract retain and incentivise participants to higher standards of performance and encourage greatest dedication and loyalty by enabling the Group to give recognition to past contributions and services, as well as motivating participants to contribute to the long terms prosperity of the Group.

The total expense recognised for share-based payments, in relation to the Shield Holdings AG EMI Share Option Plan, in the Company's financial statements during the year was £843,083.

Notes (forming part of the financial statements) continued

for the year ended 31 December

25. Share-based payments continued

Group EMI Share Option Plan continued

The terms and conditions of grants are as follows:

Grant date	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
November 2011	Equity	2,110,172	1/3 on grant date. 1/3 on 1st anniversary of employment 1/3 on 2nd anniversary of employment.	November 2021
February 2012	Equity	275,000	Subject to achievement of non-market based performance conditions, 1/3 on 31 December 2015, 1/3 on 31 December 2016 and 1/3 on 31 December 2017.	February 2022
May 2013	Equity	1,250,000	Subject to achievement of non-market based performance conditions, 1/3 on 31 December 2015, 1/3 on 31 December 2016 and 1/3 on 31 December 2017.	May 2023
May 2013	Equity	40,000	All vest immediately.	May 2023
October 2013	Equity	25,000	1/3 on 30 April 2014, 1/3 on 31 October 2014 and 1/3 on 31 October 2015.	October 2023
October 2013	Equity	25,000	1/3 on 30 April 2014, 1/3 on 30 April 2015 and 1/3 on 31 April 2016.	October 2023
February 2014	Equity	25,000	1/3 on 1 September 2014, 1/3 on 1 September 2015 and 1/3 on 1 September 2016.	February 2024
August 2014	Equity	75,000	1/3 on 1 January 2015, 2/3 on 31 December 2015	August 2024
March 2015	Equity	377,010	1/3 on 31 December 2015, 1/3 on 31 December 2016, 1/3 on 31 December 2017	March 2025
July 2015	Equity	1,298,000	1/3 on 31 December 2017, 1/3 on 31 December 2018, 1/3 on 31 December 2019	April 2023
September 2015	Equity	144,779	1/3 on 31 December 2017, 1/3 on 31 December 2018, 1/3 on 31 December 2019	April 2023

The number and weighed average exercise price of share options are as follows:

	Year ended 31 December 2015 Number of options	Year ended 31 December 2014 Number of options
Outstanding at the beginning of the year	**1,570,000**	1,475,000
Granted during the year	**1,860,342**	100,000
Forfeited during the year	**(83,333)**	(5,000)
Exercised during the year	**(3,347,009)**	–
Outstanding at the end of the year	**–**	1,570,000
Exercisable at the end of the year	**–**	205,000

The options outstanding at year end have an exercise price of £0.00 per share and weighted average contractual life of 9.34 years.

25. Share-based payments continued

Group EMI Share Option Plan continued

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of the services received is measured using a Black-Scholes valuation model measurement inputs and assumptions are as follows:

	September 2015	July 2015	March 2015	August 2014	February 2014	October 2013	May 2013	February 2012	November 2011
Weighted average share price	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Expected volatility	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Expected option life	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on UK government bonds)	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Fair value at measurement date	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40

The expected volatility is based on the historical volatility of quoted companies in a similar market environment.

There are no market conditions associated with the share options grants.

All unexercised share options have corresponding shares that are held in trust by a third party.

Shield Group Other Share-based Payments

Shield Group has other equity-settled share-based payment agreements for services received by non-employees which are summarised as follows:

Grant date	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
January 2011	Equity	75,656	All vests immediately	January 2021
May 2011*	Equity	189,237	All vests immediately	May 2021
May 2011	Equity	10,000	All vests immediately	May 2021
November 2011	Equity	25,000	All vests immediately	November 2021
January 2012*	Equity	36,960	All vests immediately	January 2022
May 2013	Equity	600,000	1/2 vests in 1 May 2013, 1/4 vests in 1 May 2014, 1/4 vests in 1 May 2015	May 2023
September 2013	Equity	175,788	All vests immediately	September 2023
January 2014	Equity	17,000	All vests immediately	January 2024
February 2015	Equity	52,596	All vests immediately	February 2025

* Pertains to equity-settled share-based payments to suppliers and contractors which have a fair value of £79,600.

The total expense recognised for share-based payments, in relation to the Shield Holdings AG Other share-based payments in the Company's financial statements during the year was £40,000.

The number and weighed average exercise process of share options are as follows:

	2015 Number of options	2014 Number of options
Outstanding at the beginning of the year	**516,901**	562,642
Granted during the year	**82,040**	27,000
Exercised during the year	**(598,941)**	–
Forfeited during the year	**–**	(72,741)
Outstanding at the end of the year	**–**	516,901
Exercisable at the end of the year	**–**	516,901

The fair value of services received for May 2011 and January 2012 share option issuances have been measured at the fair value of services received. The fair value of services received for all other share option issuances are measured by reference to the fair value of share options granted as the fair value of services could not be determined. The expense in relation to these share options is not material.

Notes (forming part of the financial statements) continued

for the year ended 31 December

25. Share-based payments continued

Shield Group Other Share-based Payments continued

	February 2015	January 2014	September 2013	May 2013	November 2011	May 2011	January 2011
Weighted average share price	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40	£0.40
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Expected volatility	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Expected option life	2.5 years	2.5 years	2.5 years	2.5 years	4.5 years	2.5 years	4.5 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on UK government bonds)	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Fair value at measurement date	£0.40	£0.40	£0.40	£0.41	£0.40	£0.41	£0.40

The expected volatility is based on the historical volatility of quoted companies in a similar market environment.

There are no market conditions associated with the share options grants.

All unexercised share options have corresponding shares that are held in trust by a third party.

26. Related party transactions

The Group trades with Phosphate Therapeutics Limited, a company related by virtue of its linked key management personnel.

During the following periods the Group's trading with Phosphate Therapeutics constituted:

	2015 £000	2014 £000
Management services provided	**221**	244
Amounts due from related parties	**—**	45

Income from related parties relates to management services provided. These services were made at arm's length and on normal commercial trading terms.

The amounts outstanding are unsecured and are settled in cash with a 30-day credit period.

Key management compensation information is as follows:

	2015 £000	2014 £000
Wages and salaries	**898**	866
Share-based payments	**841**	145
Other employee benefits	**8**	9
	1,747	1,020

27. Capital commitments

The Group and parent company had no material capital commitments at the end of any of the financial periods.

28. Capital management policy

The primary objective of the Group's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital, share premium account, and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long term debt to fund operations and working capital requirements. There have been changes to the capital requirements each year as the Group is a pre-revenue development company which has required regular suitable levels of capital injections to fund development. As mentioned above the Board periodically monitor the capital structure of the Group. The table below details the net capital structure at the relevant balance sheet dates.

	2015 £000	2014 £000
Cash and cash equivalents	**725**	477
Loans and borrowings	**—**	(8,455)
Total net debt	**725**	(7,978)

29. Subsequent events

Shield Therapeutics plc applied for admission to AIM on 26 February 2016 with a placing price of £1.50 per share for the additional 21.7 million new shares to be issued pursuant to the placing.

Immediately succeeding the listing, Shield Therapeutics plc acquired intellectual property assets from the shareholders of Phosphate Therapeutics Limited for a consideration of 19,887,791 shares with a value of £27,047,396.

30. Group reorganisation

Shield Therapeutics plc was incorporated on 3 September 2015 as part of the Group reorganisation activities. Following the Group reorganisation activities, Shield Holdings AG acquired the remaining non-controlling interests held by minority shareholders in Iron Therapeutics Holdings, AG through the issuance of its own share capital. Subsequent to the acquisition of the non-controlling interest, Shield Therapeutics plc acquired whole ownership interest in Shield Holdings, AG in consideration of Shield Therapeutics plc's Ordinary Shares. Following these reorganisation activities, the shareholders of Shield Holdings, AG, holds direct ownership in Shield Therapeutics plc.

Shares of Shield Therapeutics plc issued in relation to this Group re-organisation activities amounted to 69.0 million shares with a par value of £0.01 per share. The fair value of Shield Holdings, AG on the date of acquisition amounted to £136.0 million. The total merger reserve recognised in the parent company financial statements amounted to £117.3 million. The merger reserve recognised in the consolidated financial statements amounted to £28.4 million after consolidation adjustments.

Definitions and Glossary

The following words and expressions shall have the following meanings in this document unless the context otherwise requires:

505b(2)	an NDA which is based on existing public data which was not generated by the applicant
CHMP	Committee for Medicinal Products for Human Use, a committee of the European Medicines Agency
Chronic kidney disease (CKD)	kidney damage for greater than 3 months, as defined by structural or functional abnormalities of the kidney
CMC	Chemistry Manufacturing and Controls
Drug product (DP)	a finished form of therapeutic agent
Drug substance (DS)	the central active ingredient in a pharmaceutical (formerly known as API)
ECCO	European Crohn's and Colitis Organisation
EMA	the European Medicine Agency
FDA	U.S. Food and Drug Administration
Ferritin	ubiquitous intracellular protein that stores iron and releases it in a controlled fashion
G-BA	Gemeinsamer Bundesausschuss, the German national Health Technology Assessment regulatory body responsible for reimbursement
GfK	GfK UK limited of 25 Canada Square, Canary Wharf, London, E14 5LQ, who have been appointed as market report providers to the Company
Good clinical practice (GCP)	an international ethical and scientific standard for the design, conduct and record of research involving humans
Good manufacturing practice (GMP)	good manufacturing practice in conformity with the relevant regulatory guidelines for the manufacturing of pharmaceuticals
IND	Investigational New Drug
Inflammatory bowel disease (IBD)	a disease that involves chronic inflammation of all or part of the digestive tract
Intravenous (IV)	a solution administered directly into the venous circulation via a syringe or intravenous catheter
Inventages	Inventages Wealth Management Inc., as General Partner of W. Health L.P.
Iron deficiency (ID)	a condition resulting from too little iron in the body
Iron deficiency anaemia (IDA)	a condition where a lack of iron in the body leads to a reduction
MA	marketing authorisation
MAA	marketing authorisation application
MRC	the Medical Research Counsel in the UK
NDA	New Drug Application, by which a company proposes that the FDA approves a new pharmaceutical for sale and marketing in the US
Pharmacokinetics (PK)	the branch of pharmacology concerned with the movement of the drugs within the body

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

Gateshead
Northern Design Centre
Baltic Business Quarter
Gateshead Quays
NE8 3DF

t +44 (0)191 511 8500
e info@shieldtx.com

London
Bentinck House
3-8 Bolsover Street
London
W1W 6AB

t +44 (0)20 7186 8500
e info@shieldtx.com