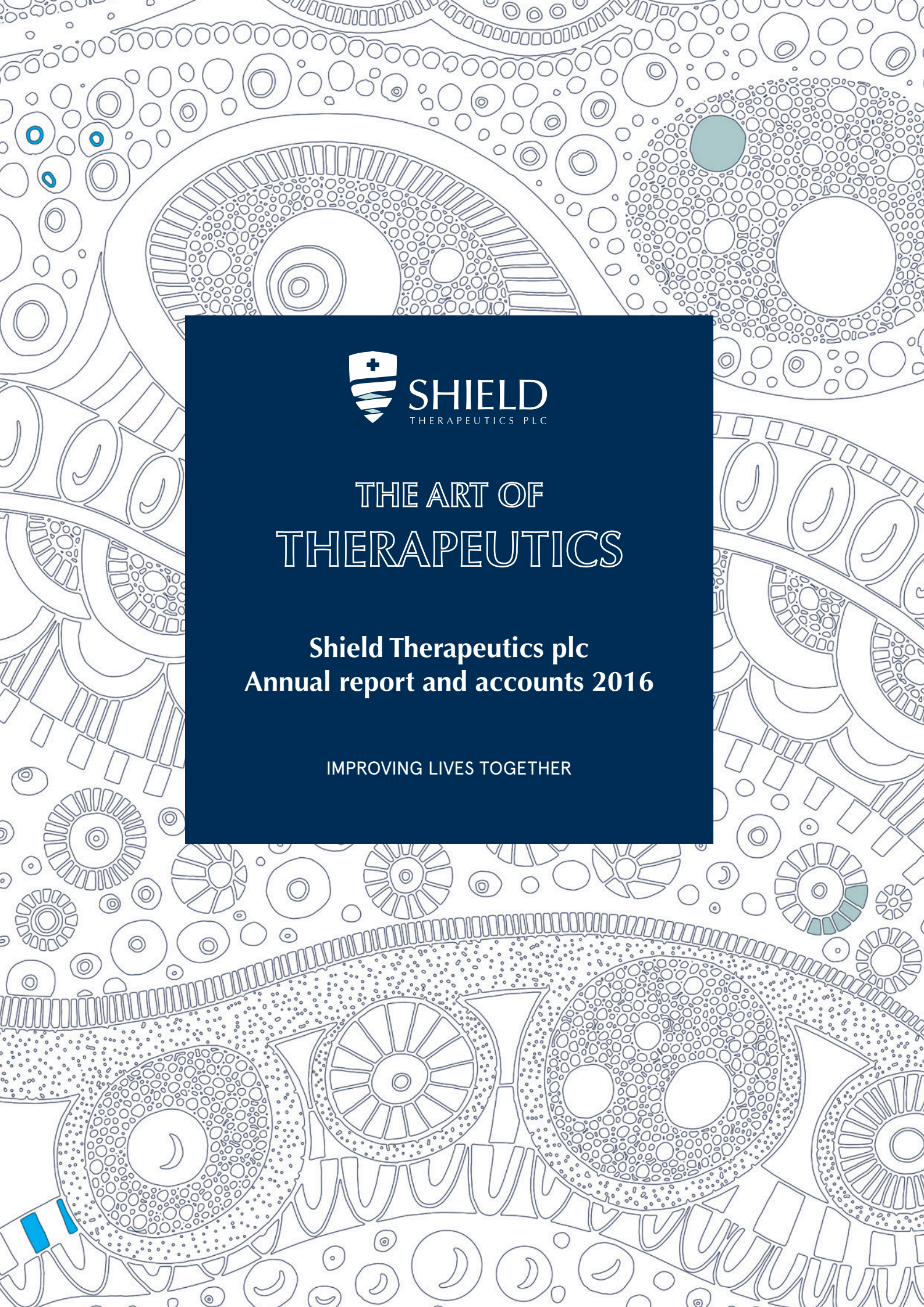

SHIELD
THERAPEUTICS PLC

THE ART OF THERAPEUTICS

Shield Therapeutics plc
Annual report and accounts 2016

IMPROVING LIVES TOGETHER

Improving lives together. **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.

HIGHLIGHTS

Revenue
£0.3m

Adjusted loss
£(9.4)m

Loss for the year
£(15.0)m

Adjusted basic loss per share
(9)p

Operational
- Marketing authorisation achieved across the EU for Feraccru® with first sales recorded in the UK and Germany
- Feraccru® achieved attractive price points in the UK and Germany
- Approximately 20 customer-facing members of the team now interacting daily with customers in the UK and Germany, with our sales teams expanding further through 2017
- First commercial product shipments completed to our Central & East European Commercialisation partner, AOP Orphan Pharmaceuticals
- New Composition of Matter patent granted for Feraccru®, extending the protection to mid 2030s
- AEGIS-H2H and AEGIS-CKD Phase 3 studies progressing well with data anticipated towards the end of 2017 and positive data expected to facilitate broader commercialisation in Europe and NDA filing in the USA
- Positive discussions with further licensing partners for Feraccru® in non-core markets
- PT20 and PT40 activities ongoing

Financial
- Successful completion of an initial public offering (IPO) on AIM of the London Stock Exchange in February 2016, raising £32.5 million (gross) and further potential gross proceeds of £17.5 million, subject to Warrants exercise
- First commercial revenues of £304,000 recorded, representing initial supplies of Feraccru® into the distribution channel
- Net loss for FY2016 of £15.0 million (2015: £24.5 million) on IFRS basis; EPS loss of £0.15 per share (2015: £0.57)
- Adjusted net loss for FY2016, excluding the impact of exceptional items, of £9.4 million (2015: £5.3 million); EPS loss of £0.09 (2015: £0.13)
- Year-end net cash of £21.0 million (2015: £0.7 million)

Corporate
- Joanne Estell will join the Group as Chief Financial Officer and Board member on 1 May 2017

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Keep up to date
For more information on our business and all our latest news and press releases, simply visit us at: www.shieldtherapeutics.com

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

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.

OUR LEAD PRODUCTS

The Company's key products are Feraccru®, commercially available for the treatment of Iron Deficiency Anaemia, and PT20, for the treatment of systemic phosphate accumulation (otherwise known as hyperphosphatemia).

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 and 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.

Feraccru®

Our lead product, Feraccru®, is a novel oral treatment for Iron Deficiency Anaemia (IDA). Following receipt of marketing authorisation in early 2016, Feraccru® is now commercially available for use, initially in adult patients with inflammatory bowel disease and associated IDA.

The UK was the initial market. Feraccru® has now launched in Germany and will become more broadly available across Europe through 2017/2018.

PT20

Our second asset, PT20, is a treatment for hyperphosphatemia that has successfully completed a first pivotal trial, with one further pivotal Phase 3 study planned in order to seek regulatory approval in major markets. In addition, the Group has earlier stage assets that it intends to develop or out-license over time.

WHAT SETS US APART

- Revenue generation from approved product
- Additional late-stage assets that have delivered proof of concept
- Opportunity to create operational leverage across the product portfolio
- Large market opportunities with unmet needs
- Strong intellectual property protection
- Experienced management team with extensive expertise

↘ Read more about our lead products at shieldtherapeutics.com/lead-products/

OUR HISTORY/WHAT HAPPENED IN 2016

February 2016
- EU marketing approval for Feraccru®
- AIM IPO

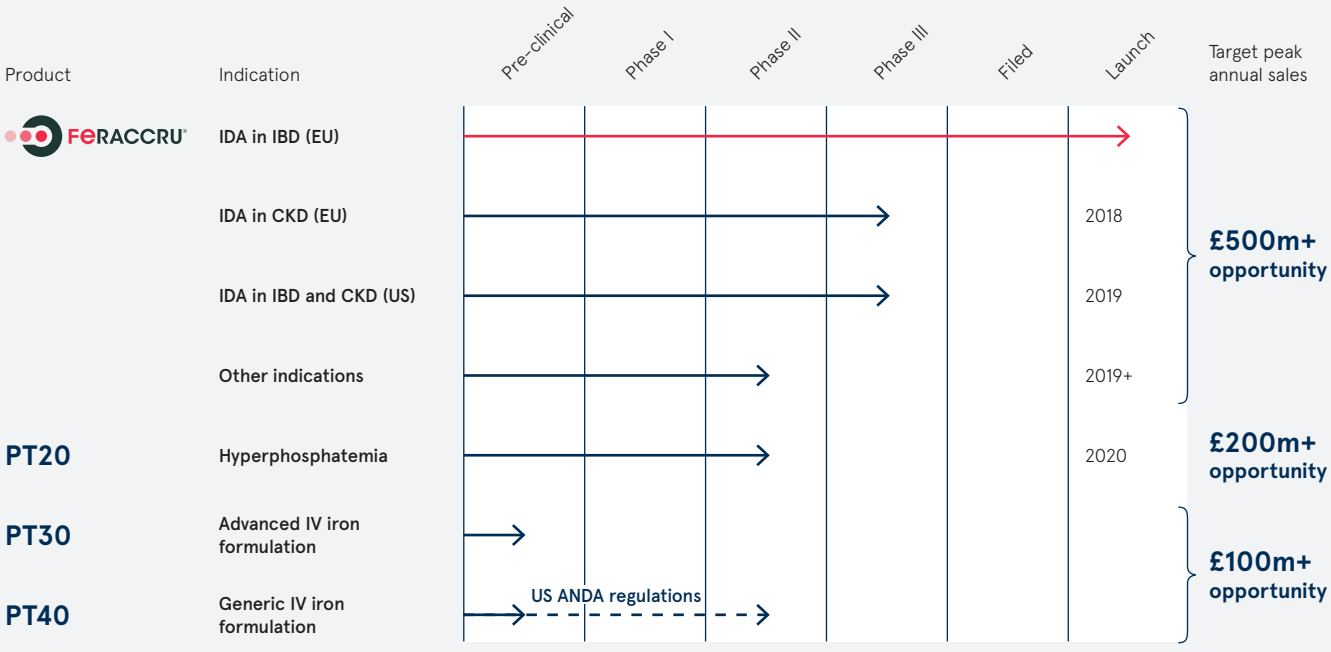
June 2016
- UK launch of Feraccru®

October 2016
- German launch of Feraccru®

November 2016
- Austrian launch of Feraccru®

2016 was a transformational year for Shield
- We completed the IPO on AIM in February 2016, raising £32.5 million gross proceeds and bringing on board a group of blue-chip UK institutional investors.
- We received centralised EU marketing approval for, and subsequently launched, our first drug, Feraccru®, into the UK and German markets.
- We built new commercial operations to launch Feraccru® in the UK and Germany and our partner in Central Eastern Europe has commenced its commercial operations.
- We continued to develop our central team to accelerate our progress from a development company to a fully fledged specialty pharma company.
- We significantly expanded the range and depth of our intellectual property, including the UK approval of our composition of matter patent for Feraccru®, which now runs to 2034.
- We commenced first US operations, starting 2 clinical trials involving approximately 50 expert centres in inflammatory bowel disease (IBD) and chronic kidney disease (CKD).

OUR PIPELINE



Dr Andrew Heath

I am pleased to present Shield Therapeutics' first annual report as a listed company following admission to AIM on the London Stock Exchange in February 2016. This has been a year of remarkable progress for Shield as we transitioned into a fully-fledged, commercially-focused, specialty pharmaceutical company.

This has been a year of remarkable progress for Shield as we transitioned into a fully fledged, commercially-focused, specialty pharmaceutical company. Utilising the proceeds raised at the time of the IPO in February 2016, the Company has continued to grow, quadrupling its total number of staff from less than fifteen at the start of the year to more than sixty dedicated professionals today.

Overview

This has been a year of remarkable progress for Shield as we transitioned into a fully-fledged, commercially-focused, specialty pharmaceutical company. Utilising the proceeds raised at the time of the IPO in February 2016, the Company has continued to grow, quadrupling its total number of staff from less than fifteen at the start of the year to more than sixty dedicated professionals today. There are now approximately twenty Shield Therapeutics representatives interacting on a daily basis with customers in the UK and Germany. With Feraccru® now commercially available, we are seeing revenues from the sales of Feraccru® only six years since the Company commenced its development.

Our initial focus remains on Feraccru®, the success of which is the yardstick by which we expect to be measured over time, but we are also very excited by the opportunities ahead. With access to the capital markets, along with the potential for an additional £17.5 million of equity-backed working capital through IPO-related Warrants, we have been able to build the core of our sales and marketing team. It is encouraging to see that our efforts are enabling more patients to benefit from Feraccru® day-by-day, such that we are planning to increase the number of customer-facing staff in both markets through 2017, together with market launch preparation activities in other major European markets including Spain, France and Italy.

The market environment

Looking more broadly at the current market environment, we continue to see political interest in both Europe and the US regarding drug pricing, resulting from patient, prescriber and payor pressure. Success in today's market requires an evidence-based proposition where value is key and several trends appear to be reshaping the marketplace[1]. These include:

- An ageing population, with an increase in chronic disease, placing even greater pressure on stretched healthcare budgets;
- Increasing demands from payors for real-life data from studies measuring the pharmaco-economic performance of a therapy through the use of electronic medical records, providing data to support outcomes-based pricing; and
- Mandatory treatment guidelines, which constrain an individual physician's choice of treatment.

Our assets

Our lead product, Feraccru®, is ideally positioned to benefit from these market dynamics and evolving treatment pathways. Feraccru® can remove cost from the healthcare system by preventing the requirement of intravenous iron therapies for patients who are intolerant of oral ferrous products. Fewer patients requiring intravenous therapy can in turn reduce the administrative, financial and patient inconvenience, in addition to the burdens that accompany such treatments. Together, these attributes make Feraccru® an attractive asset in today's ever changing and increasingly value-based market.

With our attention now resolutely placed on delivering success over the course of 2017 and beyond, our focus for Feraccru® is on increasing market penetration within the initial IBD-specific indication, as well as label and geographic expansion that will come via data from our two Phase 3 studies ongoing in Europe and the US.

The development of PT20, our novel Phase 3 ready pharmaceutical for hyperphosphatemia, remains a priority as we work to broaden our sales offering, so we can leverage our sales and marketing capacity to increase efficiencies in these activities. We continue to actively consider value-enhancing opportunities - including in-licensing and/or M&A - in order to extract maximum value from our increasing investment in sales and marketing.

Governance

Alongside the Chair, two independent Non-Executive Directors were appointed upon admission to AIM. Both James Karis and Peter Llewellyn-Davies have significant experience from executive and non-executive roles in the healthcare sector. As with all public companies, our commitment to the principles of good corporate governance has led to the implementation of a series of checks and balances to establish and maintain high standards through our transition from a privately-held to a publicly owned entity. Risk management remains a focus of attention and we recognise that our greatest single risk at this point on our journey is the execution of our commercial strategy.

People

I would like to thank our staff and welcome those new members, who I know will have a highly rewarding future at Shield. I am also delighted that we have appointed Joanne Estell to the Board and as Chief Financial Officer and I look forward to welcoming her joining the team. Joanne is a high calibre individual and we look forward to benefitting from her wealth of financial experience. I would also like to thank our former CFO, Richard Jones, who left Shield in January 2017, for his contribution to the Company.

Finally, I will take this opportunity to extend a warm welcome to all of Shield Therapeutics' shareholders who have joined the Company's register during and after the IPO and on behalf of the Company I would like to thank all of our investors for their confidence in the organisation - your support makes me very proud to represent your interests as Chair.

Yours faithfully,

Andrew Heath
Chairman
3 April 2017

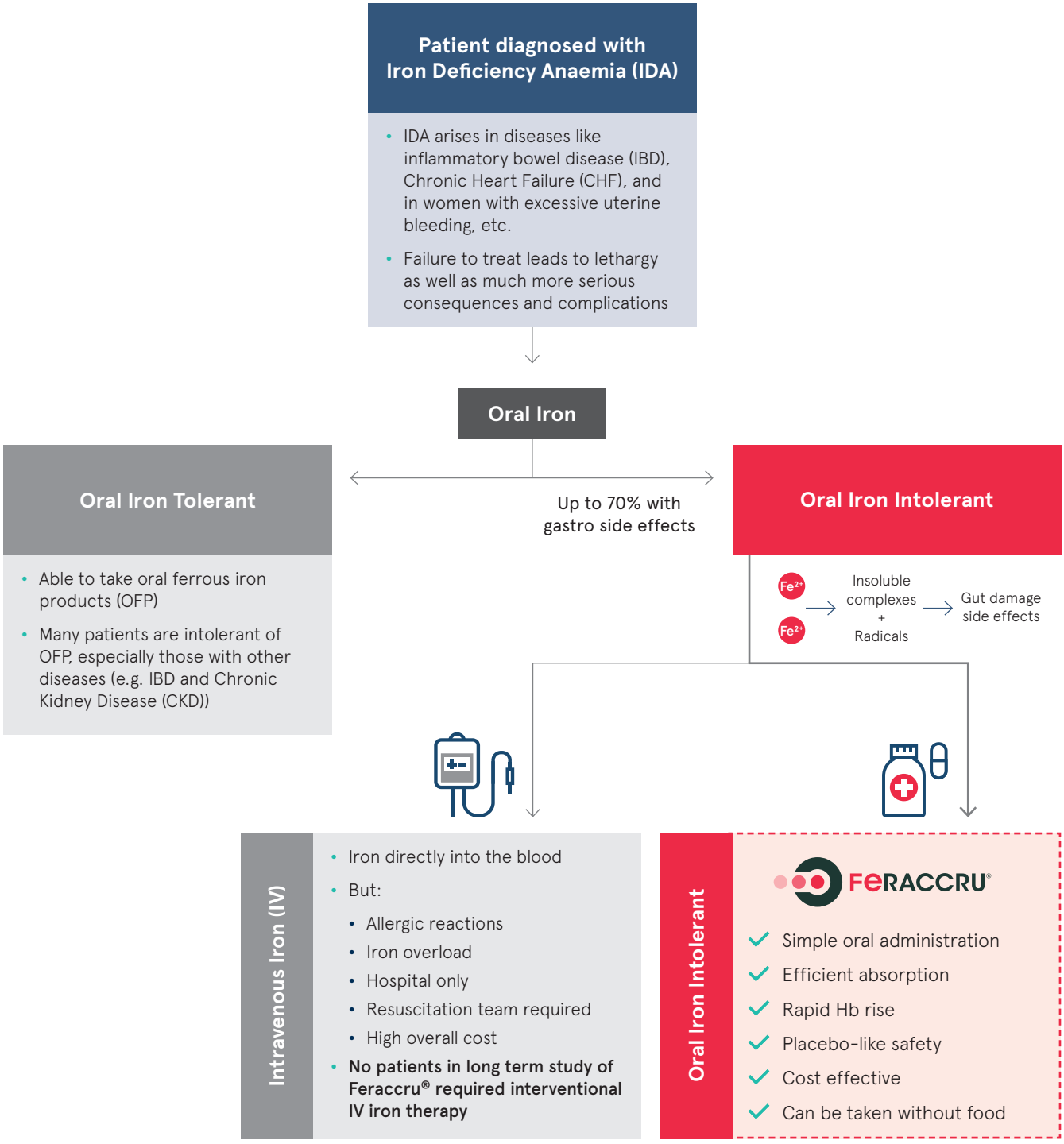
↘ Read more about our governance on pages 22–23

1. Source: PwC Pharma 2020 series.

Shield has a rare opportunity to build an integrated, highly profitable specialty pharma business

Feraccru® – A novel Oral Ferric Iron

A compelling alternative to IV iron that addresses the need from Oral Iron Intolerant patients.



Our strategy for growth

To become a diversified, internationally focused specialty pharma company.

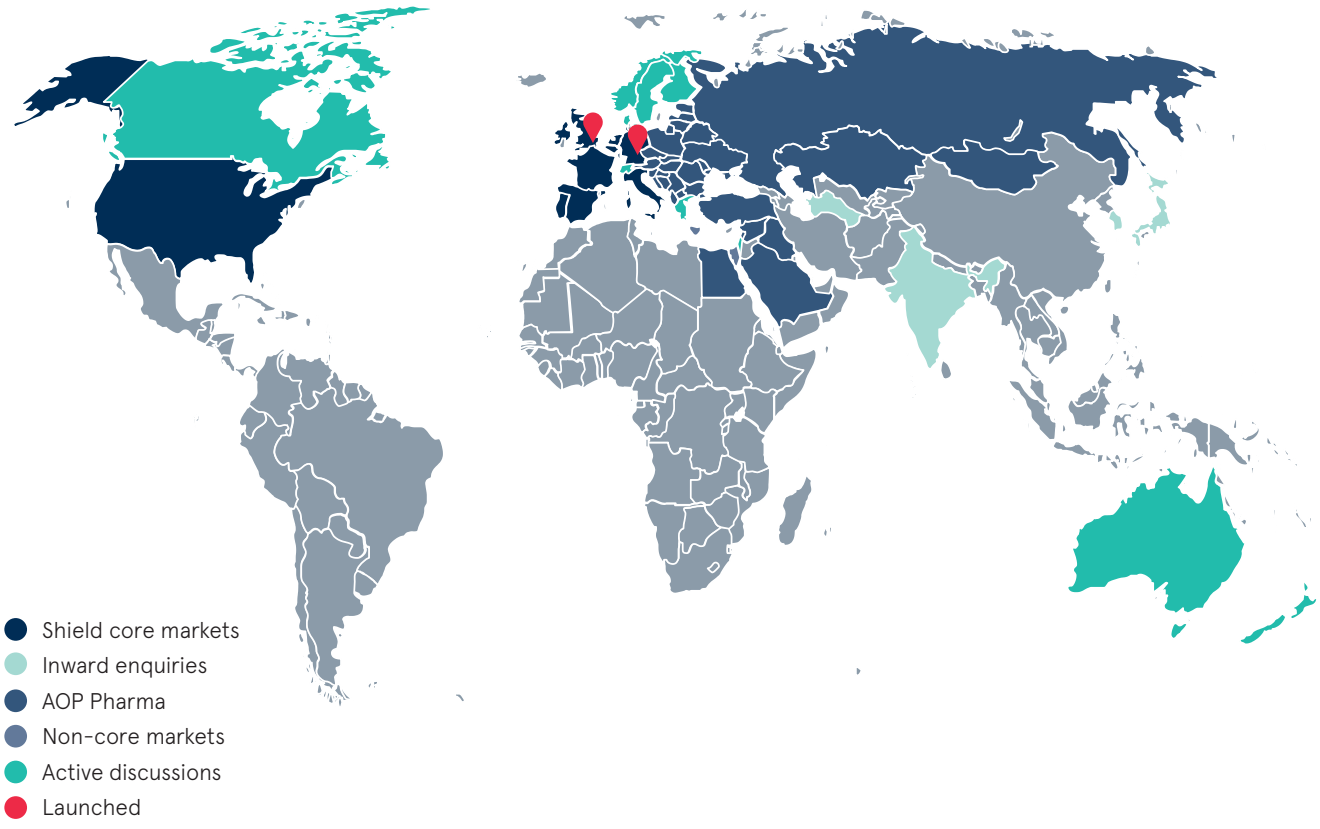
Shield Therapeutics' immediate growth is going to come from:

- The successful commercialisation of Feraccru®, initially in Europe in IBD, followed as quickly as possible with;
- Label expansion in Europe;
- Approval in the US of an initially broader label; and
- In due course we expect to gain marketing authorisation for PT20 and this will add a second, organically developed, key product to the portfolio our commercial and medical marketing personnel will be able to promote.

However, we recognise that organic growth takes time so in the meantime, with access to the capital markets, along with the potential for an additional £17.5 million of equity-backed working capital through an IPO-related Warrant, we are actively considering a select range of options for the inorganic addition of products through either M&A or licensing activities, whilst also pursuing a range of out-licensing discussions in non-core territories.

1. Drive Feraccru® adoption and sales
2. Expand EU footprint and label of Feraccru®
3. Commercialise Feraccru® in US
4. Further develop PT20 to commercialisation
5. Partner outside key territories/in-license additional complementary assets/seek M&A opportunities

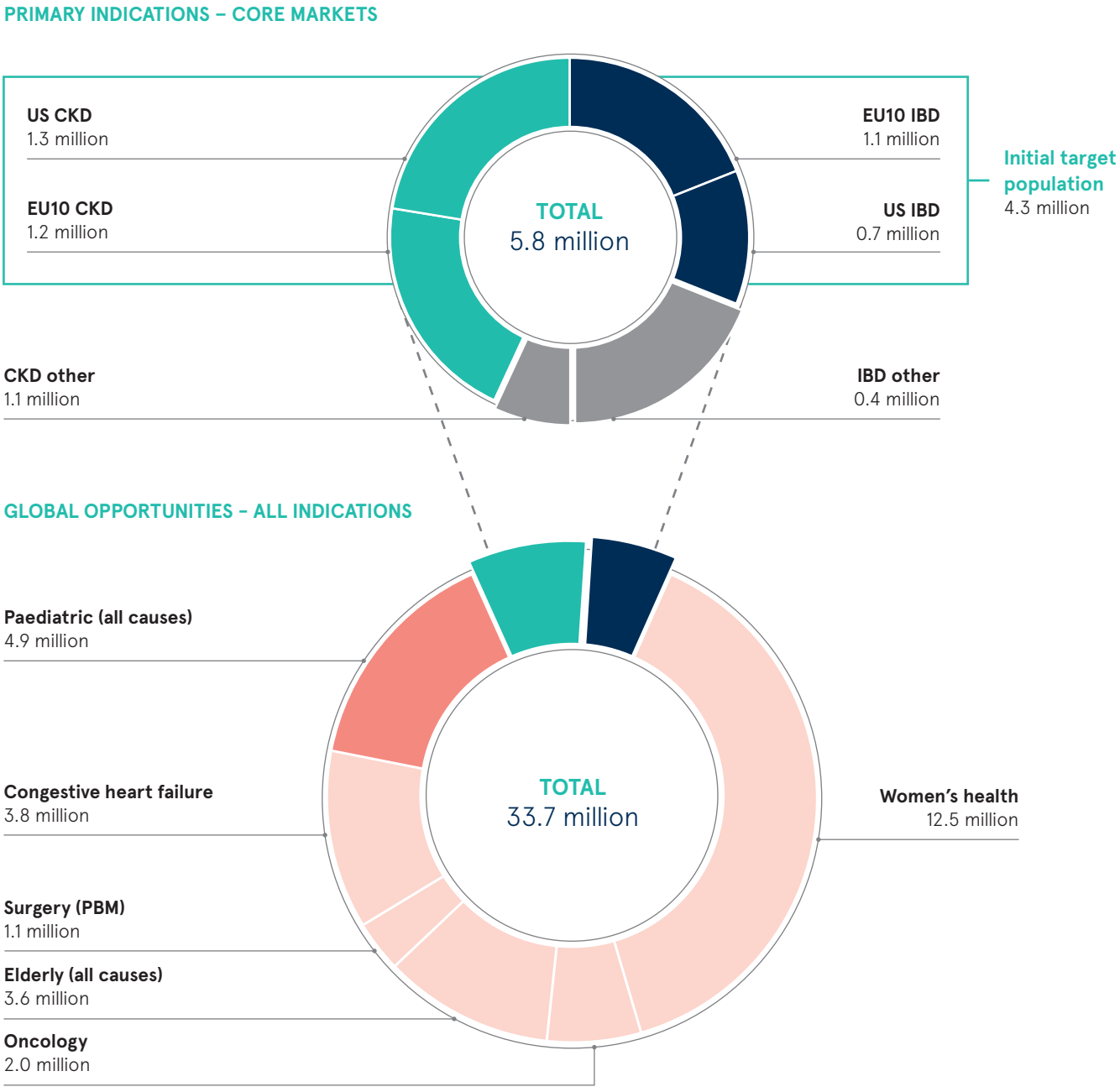
OUR GLOBAL STRATEGY



Iron Deficiency Anaemia: A significant market opportunity that remains underserved

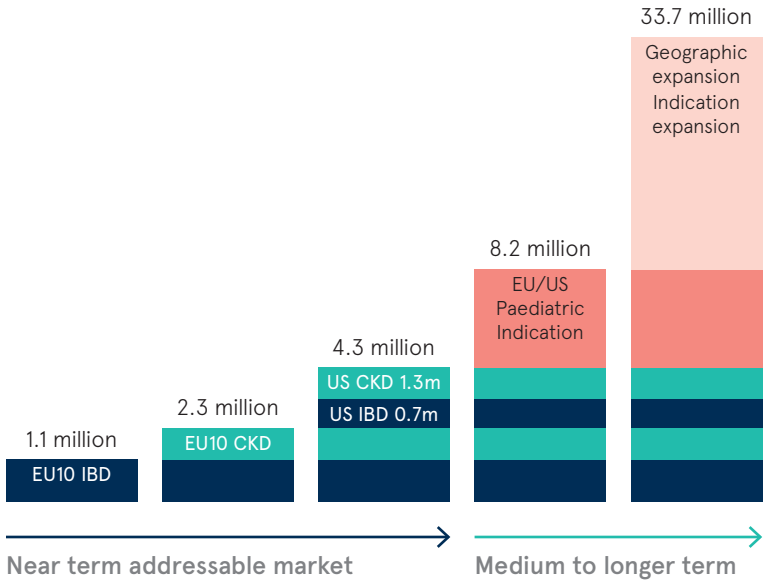
Feraccru®: Market opportunity

£500 million+ annual sales targeted in EU10 and the US in core indications.



Note: EU10 denotes Belgium, France, Germany, Greece, Italy, the Netherlands, Poland, Romania, Spain and the UK.
Source: Company estimates.

ADDRESSED WITH A PHASED APPROACH



Feraccru®: Access to full IDA patient pool

Feraccru® has a significant opportunity to take share in all market segments.

Prevalent population with IBD – 2.5 million

Iron deficiency anaemia (IDA) 40% (1 million)

45% receiving no iron therapy (450,000)

Market expansion

- Dissatisfied patients have access to well tolerated oral therapy
- Increasing capacity in hospital clinics increases access to untreated patients

31% receiving oral iron therapy (310,000)

Second line treatment

- Feraccru® is first option for ferrous-intolerant patients in treatment guidelines
- Reduces the requirement for IV therapy

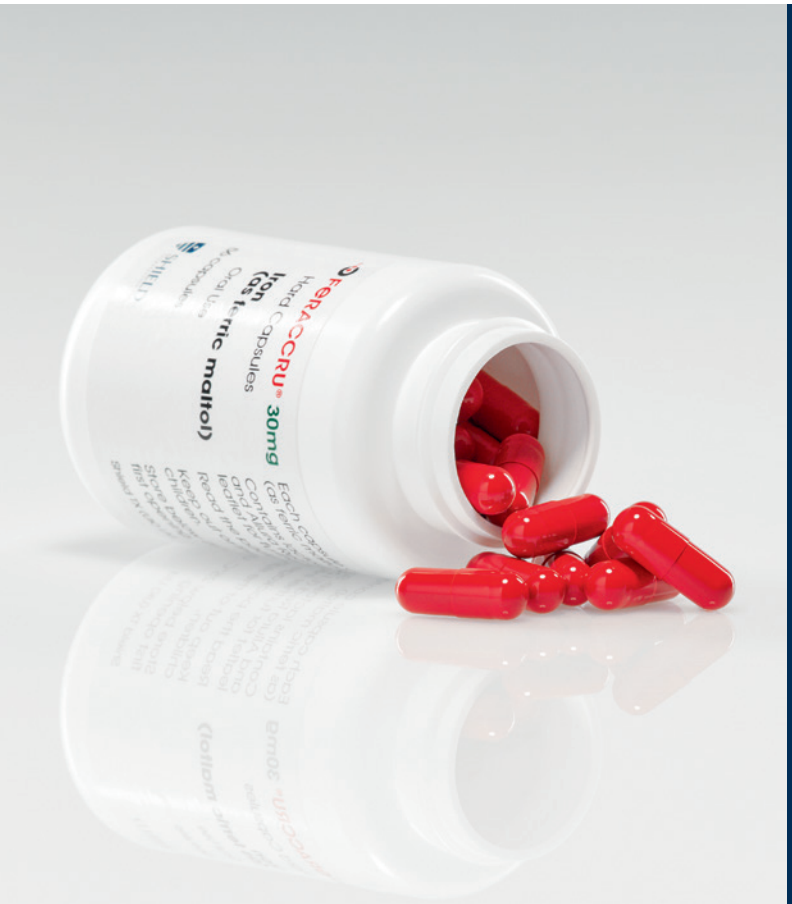
24% receiving IV iron therapy (240,000)

Switch and step down

- Capacity limits help switch from IV to Feraccru®
- Patients can be sent home with Feraccru® to continue to treat anaemia

KEY PERFORMANCE INDICATORS

	Performance indicator	Measurement
1	To launch Feraccru® into key markets using highly experienced field-based sales teams.	• Launched in the UK in June 2016. • Launched in Germany in October 2016. • Launched via our partner AOP Pharma in Austria in November 2016.
2	To build a scalable, supportive infrastructure to facilitate current and future commercialisation efforts, including elements such as business development and marketing; we have significantly strengthened capacity and capability across all key functions of the business.	• In 2016 we went from a headcount of 15 in total at the start of the year to approximately 60 by the end of the year. • We recruited and trained a field-based sales team to support the launch of Feraccru® in the UK and Germany. • We have built a stronger central business in both commercial and support functions to support the growth of the business into 2017 and beyond.
3	Facilitate reimbursement of Feraccru® at a premium price, yet ensure payers recognise the significant cost advantages over IV iron in the pricing achieved.	• In 2016 we successfully launched Feraccru® in both the UK and Germany at advantageous pricing levels. • We have built and continue to enhance a comprehensive reimbursement dossier for future markets.
4	Prepare for launch of Feraccru® into the US market.	• This will be a focus for 2017 and beyond.
5	To evaluate opportunities to co-develop and co-promote across global markets.	• During 2016 the focus for PT20 was to seek clarity around the regulatory pathway to approval and, to that end, we held an effective End of Phase 2 meeting with the FDA in Q4 2016. • In conjunction with the FDA we also finalised the outline protocol design for the required Phase 3 study. • In addition we commenced discussions with external parties interested in PT20 as an in-license opportunity. • Our focus in 2017 will be to pursue discussions with interested parties whilst completing some additional formulation development activity.
6	To consider, where appropriate, out-licensing opportunities for Feraccru® in peripheral markets.	• Significant progress made in identifying and engaging with potential partners in various 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.	• Initial discussions have taken place and are expected to be a focus for 2017.
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 the clear second line therapy ahead of IV iron.	• We continue to recruit for a Phase 3B study to generate head-to-head data versus an intravenous comparator. • Our medical teams have been active ahead of and subsequent to the launch of Feraccru® both at country and European level. • Continued focus in 2017 towards this medium term objective.



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

Carl Sterritt

> We have significantly added resources and competencies through 2016 into 2017. This has resulted in Shield Therapeutics transforming over the course of 2016 from a small, wholly development-focused and privately owned company into a listed, significantly larger and increasingly commercially-focused, customer-facing organisation set up to sell our innovative and value-added specialty pharmaceuticals, such as Feraccru®, that effectively treat otherwise unmet medical needs.

Shield Therapeutics is a fast-growing, revenue-generating, specialty pharmaceutical company focused on the development and commercialisation of late-stage prescription pharmaceuticals that address unmet medical needs.

Our purpose is clear, "to help our patients become people again, by enabling them to enjoy the things that make the difference to them in their everyday lives", and we deliver on this by aligning our efforts with and committing to a set of clearly identified core values that together create the 'Shield Therapeutics way'.

↘ Read more about our strategy on pages 6–7

THE SHIELD THERAPEUTICS WAY...

Our purpose is clear, "to help our patients become people again, by enabling them to enjoy the everyday things that make the difference to them in their everyday lives", and we deliver on this purpose by aligning our efforts with and committing to a set of clearly identified core values that together create the 'Shield Therapeutics way'.

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 always look for more

FREEDOM TO OPERATE
It is our Company and we avoid hierarchy; we challenge to succeed

RELATIONSHIPS
Strong and human... everyone is valuable

CONTINUOUS DEVELOPMENT
We are all people who are committed, effective and determined to succeed and constantly take the necessary steps to do so

Introduction

Set in motion in February by two key, simultaneous events of (1) a successful IPO, which generated gross proceeds of £32.5 million of additional working capital and (2) receipt of a European Marketing Authorisation for our lead prescription product, Feraccru®, Shield Therapeutics' transition from being a "virtual" company to an integrated, commercially focused, ethical prescription pharmaceuticals business is ongoing with significant growth across our central and in-country commercial operations throughout 2016.

Feraccru®: Early commercial progress in the UK and Germany

Having achieved attractive pricing in the UK and Germany in H2 2016, Shield Therapeutics' direct commercialisation plans for Feraccru® are progressing well and, through the second half of 2016, after some initial challenges in gaining formulary access, in the UK we saw increasing prescription demand for Feraccru® in England and Germany, which has continued into the first quarter of 2017. The Board remains positive about the broader commercial opportunity for Feraccru® and the sound basis this will provide for the long-term success of the Group.

UK

In the UK, Feraccru® became available to the National Health Service in England during Q2 2016. Our initial focus has been on achieving the required formulary access with hospitals and clinical commissioning groups (CCGs) that enables prescriber demand. As previously announced, we experienced process-related inertia from hospital formularies and budget-holding CCGs through the summer months and into autumn which led to an initial delay in physicians being able to prescribe Feraccru® whilst they waited for reimbursement to be confirmed. We focused our first wave of pricing and reimbursement (P&R) activities on achieving successful access at key prescriber locations within the approximately 190 NHS trusts in England.

Reimbursement submissions have now been made to formularies that account for approximately 35% of the patient opportunity with more than 95% of decisions being positive. Given progress made in the latter part of 2016 and into 2017, we remain on target to make Feraccru® available to approximately 60% of the prescriber and patient communities in England by the end of 2017. We expect these activities will receive an additional boost - enhancing our commercialisation progress - once we have further supportive efficacy and pharmaco-economic data from the AEGIS-H2H and AEGIS-CKD Phase 3 studies towards the end of 2017.

Increasing UK formulary access

Encouragingly, our experience in a number of formulary areas where we achieved early approvals has been positive as in these hospitals we have seen good initial uptake, followed by increasing volume of Feraccru® usage, suggesting repeat prescribing and increasing penetration. Furthermore, we have improved the status of Feraccru®'s formulary access in some key areas from "red" (hospital only prescribing and use) to "amber" (hospital initiation, GP continuation) through to "green" (GP prescribing) which, in combination with new formulary access in England, has seen the number of ordering centres growing month on month to almost 50 currently.

1. Source: GfK attitude and usage tracking research Oct-16.
2. Based on IDA in IBD & CKD in the EU5.

Sales growth in Germany

In Germany, where the reimbursement environment and processes are fundamentally different to the UK, our sales team is able to be more focused on conversion of physician interest into prescription sales. Here, Feraccru® also benefits from significantly more pre-launch awareness as we had more hospitals in Germany actively involved in our key pre-approval clinical trials. Together these elements, combined with the benefits Feraccru® provides to patients, prescribers and payors, have led to continued good progress in terms of uptake in Q1 2017, following the previously reported positive start we experienced in Q4 2016. This progress, as well as the positive German prescriber advocacy we are witnessing, further endorses Feraccru®'s strong clinical profile and highlights the importance of focusing on market access in the UK as, when prescribers are able to prescribe, we have found that they do.

Positive new market research

Recently commissioned independent market research indicates that gastroenterologists' future intention to prescribe Feraccru® is high, with 86% in Germany and 71% in the UK[1] likely to prescribe. As our customer-facing teams in the UK and Germany continue to see new customers and gain new formularies, these intentions will continue to lead to positive and increasing clinical demand, which we will in turn support through the planned expansion of the sales teams in these markets.

Sales outlook

With Feraccru®'s IP suite now providing protection out to the mid-thirties following the grant of a composition of matter patent during 2016, Feraccru®'s sales performance is showing a promising start both in areas of the UK where Feraccru® has achieved market access as well as across Germany. In the early launch phase we have encountered two challenges:

(i) delays in the formulary reviews during the early launch phase in the UK and (ii) previously reported slower initial recruitment in the AEGIS-H2H trial (data anticipated by year end). Subsequently the launches in the three other EU-5 countries have been delayed, as head to head data further supports premium pricing of Feraccru®.

The impact of these is that the roll out of Feraccru® has been running behind our initial expectations, our near to medium-term revenue expectations have been affected from a timing perspective and we now expect 2020 sales will be £20-25 million[2], reflecting a slower early build compared to analyst consensus sales estimates.

In the nearer term, at the start of 2017, our internal estimates were that approximately 9% of our 2017 Feraccru® revenues would be achieved in Q1 2017. Whilst acknowledging that sales in the early stages of commercialisation with any newly launched drug will inevitably be irregular, the Board can confirm that in-market sales for Feraccru® in Q1 2017 of approximately £100,000 have met its expectations.

Out-licensing strategy set to yield revenues in 2017

Having made our first commercial sales to AOP in Q4 2016, we continue to make progress in pursuing further out-licensing opportunities with well-regarded licensing partners in several relevant, although non-core, territories. We are confident that these negotiations will translate into meaningful validations of the technology, and is anticipated to yield additional revenue in due course. Having recently recruited a Senior Director of Business Development and Licensing from Amgen, we are confident we will see an expansion of the licensing opportunities for Feraccru® in additional non-core markets.

Strategy for growth
Shield Therapeutics' growth strategy is based on Feraccru®, first marketed in Europe, and then followed by a US launch and label expansion. The Group aims to progress PT20, its second organically developed key product, onto the market and is evaluating the optimum strategy. As outlined at the time of the IPO, the Group is also carefully considering M&A or licensing activities to source additional products and maximise the investment in our infrastructure.

Feraccru® development progress to support broader commercialisation
Together with existing data on Feraccru®, the two Phase 3 studies we are running are designed to further increase the product's commercial opportunity by achieving a broader label in Europe and giving access to the US market via an NDA from the US FDA. These data will also facilitate marketing approvals and licensing agreements in additional non-core geographies.

Feraccru® in the treatment of CKD-IDA (AEGIS-CKD Phase 3 study)
The absorption method of Feraccru® appears to give it an ability to be well absorbed even by patients with chronically elevated levels of inflammation, for example pre-dialysis chronic kidney disease (PD-CKD) patients, such that the Board believes it also can be an effective oral therapy in the treatment of their IDA. To test this hypothesis, we are conducting a pivotal study in approximately 170 PD-CKD patients with IDA in approximately 30 US-based expert nephrology centres.

Despite setting aggressive timelines, the AEGIS-CKD study is recruiting ahead of plan. The first subjects were randomised at the end of December 2016 and by the end of Q1 2017, with top line data expected to be available towards the end of 2017, facilitating NDA submission to the FDA shortly thereafter. This lends further evidence to the Board's hypothesis that there is a large and readily identifiable pool of pre-dialysis CKD patients with chronic IDA requiring treatment, for whom an effectively absorbed and well tolerated oral iron therapy such as Feraccru® could provide significant ongoing benefit.

Feraccru® compared to IV iron (AEGIS-H2H non-inferiority Phase 3b study)
Due to the complex nature of this head to head study, we have previously reported that recruitment has been slower than desired. To expedite the process, centres have now been opened in the US and the anticipated progress has started to be seen, with US subjects being randomised to treatment and improved screening levels being maintained across the study. We anticipate data from this study will be available in the second half of 2017.

Feraccru® regulatory progress
Looking beyond 2017 we have begun to execute the regulatory strategies that will enable (i) access to increased geographies as well as (ii) a broader label claim for Feraccru®. We have already filed for marketing authorisation in Switzerland and in the USA we expect to file a new drug application (NDA) with the US Food and Drug Administration (US FDA) in 2018, leading to commercialisation in the USA in 2019. In Europe, we are targeting commercialisation activities in line with a broad label from 2018.

Achieving a broad label for Feraccru® in these markets will increase the potential number of patients for whom Feraccru® will be an option from the initial target market of approximately 4.3 million patients with IDA related to IBD and CKD, to more than 33 million by being able to target patients with IDA due to any primary morbidity.

PT20
PT20 is our second asset and is a novel therapy being developed for the treatment of hyperphosphatemia in patients with CKD. Previously, we have successfully completed a pivotal Phase 2 study of PT20 in 153 CKD patients across 20 expert US institutions. A meeting with the FDA took place in Q4 2016 to agree additional clinical and non-clinical work required ahead of an NDA submission following the completion of a second pivotal study. Work on the development of a suitable commercial formulation of the drug product is ongoing and a strategic commercial/co-development partner for the asset is being sought.

PT40
PT40, potentially the first generic version of iron sucrose, represents a unique opportunity to gain access to an attractive market within the dialysis-dependent CKD population in the USA. We have previously received guidance from the FDA on how to most efficiently develop PT40 to submit an Abbreviated New Drug Application (ANDA). Activities to identify and choose a suitable scale-up contract manufacturer and commercial partners which would license, co-develop and co-commercialise this technology from Shield have begun.

Financial overview
The financial results for the Group to December 2016 reflect a transformational year for Shield, which was enabled by the successful completion of an initial public offering (IPO) on AIM of the London Stock Exchange in February 2016 raising £32.5 million (gross). Immediately prior to the IPO, £3.9 million was raised via an institutional exercise of pre-existing options. Also, as part of the listing process, Warrants were issued providing an opportunity for the Company to raise further gross proceeds of £17.5 million, subject to the full exercise of the Warrants.

Shield also acquired Phosphate Therapeutics Limited in 2016, in exchange for the issue of 19,887,791 Shield shares with a fair value of £27 million. The acquisition was accounted for as an acquisition of the Company's assets and intellectual property. The comparative results shown for 2015 do not include the asset and intellectual property acquisition or the results of Phosphate Therapeutics Limited for that period.

Revenue
Shield Therapeutics recorded first revenues of £304,000 in 2016 from sales of Feraccru®, our first prescription medicine, which was approved in Europe in February 2016.

Research and development costs
Following the successful European Marketing Approval, the Group commenced the capitalisation of R&D programmes which had moved out of research and into the development phase. Total research and development expenditure charged to the statement of profit and loss in 2016 was £2.0 million (2015: £5.3 million) and included initial costs relating to the Phase 3 CKD study in the US, the paediatric PK study in the UK and additional costs

associated with the MA approval and its maintenance and scale up of manufacturing activity. Further development expenditure incurred during the year of £2.6 million (2015: £Nil) has been capitalised within intangible assets, including the costs of the continuing Feraccru® Phase 3b head to head study in the EU and US.

Administrative expenses
Administrative expenses were £4.6 million (2015: £1.0 million) due to the impact of increased headcount, establishment, legal and professional fees, together with one-off costs relating to the restructuring and IPO enabling work, which was charged to the statement of profit and loss.

Statement of financial position
At 31 December 2016, total Group cash was £21.0 million (2015: £0.7 million), resulting from net fundraising proceeds from the IPO subscription and placing, plus options exercised, less cash burn (cash flows from operating and investing activities) of £13.3 million (2015: £4.3 million).

Net assets at 31 December 2016 were £48.4 million (2015: net liabilities of £18.6 million), relating to the positive impact of changes to the capital structure, the acquisition of the intellectual property of Phosphate Therapeutics Limited and the funds raised at IPO.

Going forward - as set out above with respect to the development of Feraccru®, PT20 and PT40 - the Company has a number of options available to deliver returns for shareholders. To best execute the Company's stated objectives, it expects to require additional capital in due course. Consequently, the Board continues to evaluate the multiple potential sources of funding available to it including, but not limited to, the potential exercise of the Company's Warrants, which are due to expire on 30 June 2017, as well as opportunities to out-license any of our assets.

Intangible assets
At 31 December 2016, intangible assets were £29.0 million (2015: £0.5 million). The Group capitalised £2.6 million of R&D expenditure in the year in respect of the development of Feraccru®. In addition, the intellectual property of Phosphate Therapeutics was £25.3 million net of amortisation (2015: £Nil), with the balance representing the cost of acquiring, maintaining and expanding the patent portfolio for Feraccru®, net of amortisation during the year.

Cash flow
Cash outflow from operating and investing activities was £13.3 million (2015: £4.3 million), funded largely by proceeds from the IPO in February.

Foreign exchange management
The Group takes a conservative position with regard to foreign exchange activities and does not take out forward contracts against uncertain or forecast expenditure, as the timings and extent of future cash flow requirements denominated in foreign currencies are difficult to predict. Part of our IPO-related funds inflow was in Euros and this had the benefit of providing us with a significant level of natural hedging against the Brexit-related weakening of Sterling. Future currency needs are continually monitored and we will purchase when the extent and timings of such needs are known. Further content on the Group's foreign exchange management is provided in the Principal Risks and Risk Management section and Note 27.

Loss per share
Net loss for 2016 was £15.0 million (2015: £24.5 million) on an IFRS basis, EPS loss was £0.15 per share (2015: £0.57) and the adjusted net shareholder loss for 2016, excluding the impact of exceptional items (see Note 14), was £9.4 million (2015: £5.3 million) with EPS loss of £0.09 (2015: £0.13).

Tax
Corporation tax reclaims on R&D relating to claims for 2014 and 2015 equated to £0.6 million.

Post balance sheet events
There are no notable post balance sheet events.

Summary
In summary, thanks largely to the funds deployed following the IPO, we have significantly added resources and competencies through 2016 into 2017. This has resulted in Shield Therapeutics transforming over the course of 2016 from a small, wholly development-focused and privately owned company into a listed, significantly larger and increasingly commercially-focused, customer-facing organisation set up to sell our innovative and value-added specialty pharmaceuticals, such as Feraccru®, that effectively treat otherwise unmet medical needs.

A number of key elements distinguish Shield Therapeutics, including:

- Revenue generation from approved product;
- Additional late-stage assets that have delivered proof of concept;
- Large market opportunities with unmet needs;
- Experienced management team with extensive expertise;
- Opportunity to create operational leverage across the product portfolio;
- Strong intellectual property protection.

Due to the strength of our products and team, and with thanks to all our supportive shareholders, I look forward to the future with much anticipation and confidence.

This strategic report was approved on 3 April 2017, by order of the Board.

Carl Sterritt
Chief Executive Officer
3 April 2017

The Board has continued to identify, evaluate and monitor risks facing the Group and, during 2016, a particular focus has been placed on assessing the likely impact that each identified risk could have on the business.

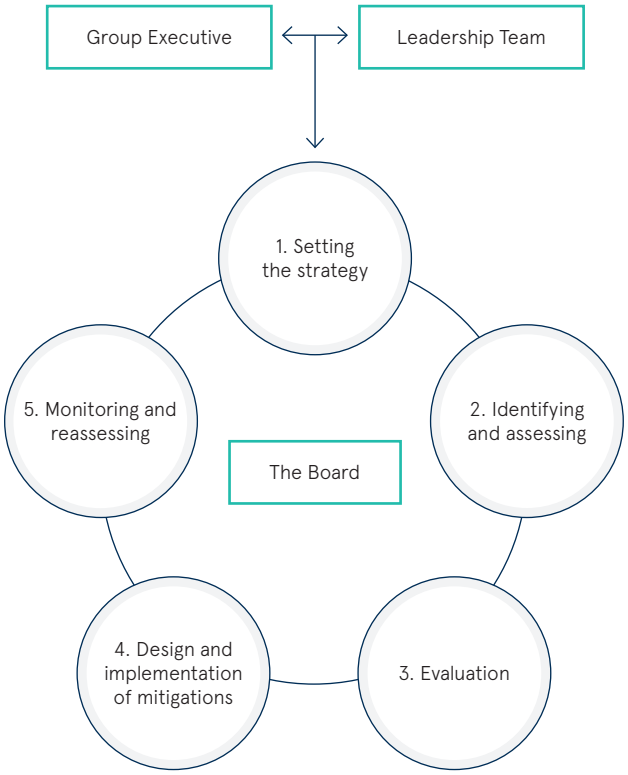
Risk management framework

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 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, minimise and manage important risks.

The Audit Committee oversees risk management on behalf of the Board. During the year the Committee has overseen the implementation of a new risk management framework post-IPO, which has a number of key objectives:

- To confirm and communicate the Group's policy on risk management;
- To establish and promote the importance of risk management across the business;
- To define what risk is and establish an understanding of when risk reaches an unacceptable level and how it may be mitigated;
- To establish a methodology for risk identification, mitigation, monitoring and reporting; and
- To assign responsibility as relevant for risk management and reporting.

As part of this implementation, a Risk Officer has been appointed and the risk register format reviewed and updated.



Operational risk management

- The Audit Committee meets regularly and, following the implementation of the new risk management framework, reviewed the risk register and mitigating action plans. These reviews will form part of the Audit Committee's scope going forward.
- The senior management team meets at least once a week and holds monthly strategy meetings to identify areas of risk and to communicate these to the Board as appropriate.
- Operational meetings chaired by the finance team take place with all major divisions of the Company to review progress of all key projects.
- The quality team meets monthly to review all aspects of quality management across the business.

Risk description	Change		Key mitigation
Significant exchange rate movements	↗	Increased exposure to USD and EUR from commercial and R&D activity.	The Group assesses its currency needs on a rolling basis to buy currencies sufficient for its short term needs. Pre-IPO the Group raised significant cash in Euros and remains commercially hedged against cash Euro costs in the short term. Over time, as its commercial business positions internationally, the Group should be able to naturally hedge its US Dollar positions and Euro positions.
Delays in local reimbursement	↘	UK and German pricing agreed.	UK and German national pricing has been agreed and Feraccru® has launched. It is recognised that the UK local formulary approval is complex and the Group has employed the services of specialist market access consultants to facilitate broader access approval as local formulary levels continue to increase. The Group is reviewing its market access strategy for additional European markets.
Delays in clinical study enrolment	↗	Increased clinical development activity.	Multiple CRO vendors utilised with multi-country strategy, detailed feasibility and close operational management by Shield as sponsor. Timely subject enrolment is a well known challenge. Shield seeks to proactively address this with detailed feasibility, careful CRO partner selection (well matched) and close operational oversight of projects.
Dependence on a single product	↔		Shield continues to consider opportunities to in-license or acquire additional assets. During the year further regulatory clarity was received in respect of the pathway to approval for Shield's second asset, PT20.
Disruption of product supply	↘		Shield has commissioned a programme to validate and approve second suppliers for its Drug Substance and Drug Product manufacture for Feraccru®. This programme is expected to be completed during 2017.
Failure to protect IP	↘		During the year the Group received UK approval for its new Composition of Matter patent (P012). Shield is now prosecuting this patent on a global basis and continued to develop its IP portfolio.
Cybersecurity	↔		Whilst the risk is low (as the Group does not trade using eCommerce), during the year its IT systems have been upgraded to provide better firewall protection. The Group continues to rely on expert third party cloud-hosted applications, which provide cost-effective services with significant redundancies and disaster prevention and recovery strategies.
Non-compliance with regulatory requirements such as GxP	↘		Post-IPO the Group has built a sustainable quality team which has overseen an updated and enhanced quality framework that is reviewed regularly by the management team.
Availability of finance	↗	The Group is partly dependent on the exercise of Warrants to secure medium term funding.	The Group continues to manage its existing resources carefully, exiting 2016 with £21 million. As part of the IPO process Warrants were issued to participants in the placing, providing an opportunity for the Company to raise up to £17.5 million by 30 June 2017 when the Warrants expire.
Ability to attract and retain key staff	↗	Significant increase in headcount.	A new HR advisor has been appointed to implement a comprehensive HR plan and provide a competitive salary and benefits package including equity. We also have our own in-house Head of Talent Acquisition.

Key ↔ No change ↗ Increased ↘ Decreased

BOARD OF DIRECTORS

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 to United Therapeutics' decision to develop and commercialise treprostinil, now successfully commercialised in the US as 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 $300 million.

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 BS in Management and Economics from Purdue University and a MA 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
Until recently Peter was CFO at Medigene AG and supported the turnaround process by out-licensing 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 its 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.

DIRECTORS WHO SERVED IN THE YEAR

Richard CM Jones ACA
(Resigned 27 January 2017)
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.

MEET THE SENIOR TEAM

Paul Steckler
Chief Commercial Officer

Paul 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 the University of Warwick 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 has been a member of the UK Prescription Medicines Code of Practice Authority's Appeals Board for 14 years.

David Childs
Director of Product Supply

David joined Shield in August 2011 as Director of Manufacturing. During his tenure at Wellcome, GlaxoWellcome and GlaxoSmithKline (GSK), David gained over 18 years of 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 of experience in regulatory affairs. She holds an MA in biochemistry from Lady Margaret Hall at the University of Oxford, 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 Shield's regulatory activities since 2012.

Under the rules of AIM, the Group is not required to comply with the UK Corporate Governance Code 2014 (the "Code"). Nevertheless, the Board has taken steps to comply with the Code where it can be applied practically and appropriately given the size of the Group and the nature of its operations. The Board recognises the importance of sound corporate governance and, with that aim, the Group has already adopted policies and procedures which reflect the principles of the QCA's Corporate Governance Guidelines for Smaller Quoted Companies (the``QCA Code''), as are appropriate to a group whose shares are admitted to trading on AIM.

The role of the Board

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, and is responsible for leading and controlling the Group, with overall authority for the management and conduct of the Group's business and its 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), 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.

Board composition

The Board was formally constituted on 26 February 2016 in preparation for the IPO. Prior to the IPO, the Executive Directors were the only members of the Board for the period from 1 January 2016 to 26 February 2016.

The Board composition complies with the Code as applicable to smaller companies in terms of the number of independent Non-Executive Directors. The Company intends to make further appointments to the Board in due course as the Group's activities develop.

Role	Name	Key responsibilities	Other role(s)
Chairman	Andrew Heath*	Responsible for leading and managing the Board, its effectiveness and governance.	Chair of Nomination Committee. Member of Remuneration Committee.
CEO	Carl Sterritt	Responsible for day-to-day management of the business, developing the Group's strategic direction and implementing the Board's agreed strategy.	
CFO	Richard Jones**	Supports the CEO in developing and implementing strategy. Responsible for financial and operational performance.	
Independent NED	James Karis*	Assists in the development of strategy and monitoring its delivery. Responsible for bringing sound judgment and objectivity to the Board's deliberations and decision making and constructively challenging and supporting the Executive Directors. Also responsible for leading the review of performance of the Executive Directors.	Chair of Remuneration Committee. Member of Nomination and Audit Committees.
Independent NED	Peter Llewellyn-Davies*	Assists in the development of strategy and monitoring its delivery. Responsible for bringing sound judgment and objectivity to the Board's deliberations and decision making and constructively challenging and supporting the Executive Directors. Also responsible for ensuring the integrity of financial reporting and risk management.	Chair of Audit Committee. Member of Nomination Committee.

* Appointed on 26 February 2016.

** Resigned on 27 January 2017.

Board meetings

The Board holds meetings at least five times a year, with additional ad hoc meetings as required. In addition the Board and full management team meet for a strategy day at least once a year to discuss the medium to long term aspirations of the Group. Prior to each Board meeting, a full operational briefing pack is circulated to the Board for review prior to the meeting.

The Board has the benefit of third party qualifying indemnity insurance and has access to advice from the Company Secretary, the Group's external legal counsel and retained remuneration consultants.

Details of attendance at Board and Committee meetings during the financial year are as follows:

2016 meetings	Number of meetings	
Main Board	5	All Board members attended
Audit Committee	4	All members of Committee attended
Remuneration Committee	1	All members of Committee attended
Nomination Committee	–	n/a
Board strategy day	1	All Board and executive management team members attended

Effectiveness

We have considered the balance between Executive and Non-Executive Directors and believe the structure is appropriate for the Group at this time, with a good balance between AIM, financial and business experience.

Independence

No equity-based compensation or incentives are granted to the Board. The Chairman, Andrew Heath, retains a small shareholding from investment in the pre-IPO group representing <0.1% of the currently issued share capital. Peter Llewellyn-Davies was put forward for election by the largest shareholder, W Health LP. However, whilst W Health LP does have the right under a shareholder agreement to appoint a representative to the Board, Peter was appointed independently and does not in any way represent W Health LP.

All Directors maintain conflicts of interest declarations. All Directors are paid via the Group's payroll. During the year no Director received payment for any other services and no company connected to any Director had a contractual relationship with the Group or received any payment, except as follows. Prior to the IPO, a company in which Andrew Heath is a Director received payments of £5,000 in respect of consultancy services to the Group.

Accountability

We have implemented a risk management system which has been reviewed and adopted by the Audit Committee on behalf of the Board. This includes:

- Risk identification: risks are highlighted and documented in a centrally held register and reviewed regularly by the Audit Committee on behalf of the Board;
- Risk assessment: risks are assessed in terms of likelihood and potential impact; and
- Risk mitigation: required actions are agreed and assigned with target deadlines.

The principal risks and uncertainties are identified and their management discussed on pages 16 and 17 of the annual report.

Peter Llewellyn-Davies
Audit Committee Chairman
3 April 2017

Peter Llewellyn-Davies
Audit Committee Chairman

> I am delighted to present the Group's first Audit and Risk report following the appointment of the Committee in February 2016. During the year, in the period post-IPO, we have devoted significant time to ensuring the Group's processes, policies and controls are fit for purpose, as it develops and continues its journey as a PLC.

The Audit Committee

Whilst the Board has ultimate responsibility for reviewing and approving the annual report and the interim report, and for risk management, certain aspects are delegated to the Audit Committee, including:

- The oversight of the risk management framework and regular risk reviews;
- The monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditor in that process;
- The review of the effectiveness of the Group's internal controls and risk management systems and overseeing the process for managing risks across the Group, including reviewing the Group's corporate risk profile; and
- Oversight of the Group's compliance with legal requirements and accounting standards and ensuring that an effective system of internal financial control is maintained.

Membership

The Audit Committee was formed in February 2016 ahead of the IPO.

It is chaired by Peter Llewellyn-Davies, an independent Non-Executive Director who has significant financial experience, most recently as CFO of Medigene AG from 2012 to 2016. James Karis, an independent Non-Executive Director with significant business experience, is a member of the Committee.

Activities

The Committee met four times during 2016. Its key activities included:

Review and implementation of new risk management framework

As noted in the principal risks and risk management section on page 16 of this report, the Committee oversaw a full review and implementation of a new risk management framework that was approved and adopted during 2016.

Financial reporting

- Reviewed and approved updated accounting policies introduced at the 2016 interims.
- Reviewed the interim and annual accounts, and reviewed and challenged key judgments in their preparation.
- Reviewed the work of the external auditor and matters requiring discussion following the 2016 audit.
- Advised the Board that, taken as a whole, the annual report and accounts are fair, balanced and understandable.
- Reviewed the basis for the going concern statement.

External audit

- Approved the re-appointment of KPMG LLP as external auditor.
- Reviewed and approved the annual audit plan.
- Reviewed the independence, objectivity, performance and effectiveness of the auditor.
- Approved the Group audit fees.

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 findings of the auditor have been reviewed by the Audit Committee as part of the approval process for the 2016 annual report and accounts.

The Group maintains a separation between its auditor and other advisors, with Ernst & Young LLP appointed as the Group's ongoing tax advisor and Deloitte LLP appointed as remuneration consultant, to ensure a separation of the audit from other key advisory work.

Internal audit

The Committee considered the internal controls of the Group and the requirement for a formal internal audit function as part of its oversight of the new risk management framework. For now the Committee is of the opinion that an internal audit function is not appropriate for the Group in its current stage of development. This will be regularly reviewed on an ongoing basis.

Peter Llewellyn-Davies
Audit Committee Chairman
3 April 2017

James Karis
Remuneration Committee Chairman

On behalf of the Board I am pleased to present the inaugural Directors' Remuneration Report for the year ended 31 December 2016 (FY16). Although not subject to the reporting regulations of Main Market listed companies, the Remuneration Committee recognises the importance of shareholder engagement in relation to Executive remuneration. Accordingly, and as referred to in the 2015 annual report and accounts, the Committee has prepared this report as a matter of best practice and has taken account of those regulations in doing so.

Key principles

In early 2016, in anticipation of the IPO, the Company undertook a review of its remuneration policy to ensure that it was appropriate for a listed company. A summary of the policy was included in the Admission Document, and further detail is included on pages 26 and 27 of this report.

Our remuneration arrangements for our Executive Directors are based on the key principles set out below. We have articulated how those principles are addressed within the policy.

Key principle	How we reflect this in our policy
To promote the long term success of the Company.	The majority of the Executive Directors' remuneration opportunity is performance based, and earned only subject to the satisfaction of stretching performance conditions.
To provide appropriate alignment with investors' expectations in relation to the Company's strategy and outcomes.	Performance conditions for the annual bonus and LTIP, while stretching, do not encourage the taking of undue risk.
To provide a competitive package of base salary and benefits and short and long term incentives, with an appropriate proportion being subject to the achievement of stretching individual and corporate performance conditions.	Further alignment between Executive Directors and shareholders is achieved by our application of shareholding guidelines.

Executive remuneration in 2016

2016 was our first year following admission to AIM. The salaries for the Executive Directors and fees for the Non-Executive Directors were disclosed in the Admission Document and applied throughout the year.

In 2016 we granted our first awards under the LTIP to the Executive Directors and eight other senior executives. Three awards were subsequently forfeited during the year. These awards will vest, subject to the satisfaction of performance conditions measured over 2016, 2017 and 2018, in February 2019. Further information is included on pages 27 and 28.

Carl Sterritt's bonus for 2016 was based on a combination of corporate and personal objectives. Further information is included on page 27 but, reflecting the performance of the Group in 2016, Mr Sterritt has earned a bonus of £106,000 in respect of 2016. As noted below, Richard Jones will not earn a bonus for 2016.

Looking forward to 2017

No significant changes are currently proposed to the remuneration policy for 2017. The Executive Directors' bonus opportunity and LTIP awards for 2017 will be 100% of salary and 125% of salary respectively, with each award subject to the achievement of performance conditions.

We have made some minor amendments to the way in which we implement our policy, such that the deferred element of the annual bonus will be awarded on a pre-tax basis (to apply in respect of the grants in 2018 of the deferred element of the 2017 bonus).

LTIP awards may include a tax-qualifying option, enabling part of the LTIP opportunity to be awarded in a way which offers an advantageous tax treatment for the Group and the participant, but without increasing the pre-tax value of the award. More information is included in the policy table.

We are committed to expanding participation in our share plans and I am pleased to report that in 2017 we propose to grant options to employees under the Company Share Option Plan we adopted at admission.

Board changes

In October 2016, the Company announced the planned departure of Richard Jones as CFO. His contract terminated on 27 January 2017. No bonus was awarded to Mr Jones in respect of 2016 and his LTIP award granted in 2016 was forfeited on termination.

Joanne Estell will join the Company as CFO and Director on 1 May 2017.

The Committee will continue to monitor the remuneration policy to ensure it remains aligned to the business strategy and the delivery of shareholder value.

Executive Directors' remuneration policy

The table below sets out the elements of Executive Directors' compensation and how each element operates, as well as the maximum opportunity of each element and any applicable performance measures.

Element and purpose	Operation	Maximum opportunity
Fixed remuneration		
Basic salary		
To provide a competitive base salary for the market and size of company in order to attract and retain Executive Directors of a suitable calibre.	Usually reviewed annually, taking account of: • Salary increases awarded to the wider workforce; • Group performance; • Role and experience; • Individual performance; and • Competitive environment.	Salary increases will generally be in line with salary increases to other employees, but may be adjusted to take account of: • Promotion; • Change in scope of role; • Realignment with the market; and • Development and performance in role (for example, if a new director is appointed on a salary which is increased over time to a market-competitive level).
Benefits		
To provide a competitive range of benefits as part of total remuneration.	Executive Directors currently receive: • Car allowance; and • Private medical insurance.	No overall maximum has been set, but the level of benefits provided is determined taking into account the overall cost to the Company. Other benefits may be provided to reflect individual circumstances, such as relocation expenses.
Retirement benefits		
To provide an appropriate level of retirement benefit (or cash allowance equivalent).	Executive Directors are eligible to participate in the Group defined contribution pension scheme. In appropriate circumstances, Directors may be permitted to take benefits as a salary cash supplement (which will ordinarily be reduced to take account of the employer National Insurance contributions).	Contributions for 2017 have been set at 12% of salary.
Variable remuneration		
Annual bonus		
Rewards performance over the financial year, including in relation to performance which supports the Company's longer term objectives.	Awards are based on performance, measured over the year to which they relate, and split between financial, strategic and individual objectives. The measures and weightings are determined each year to reflect the Company's strategic priorities.	The maximum bonus opportunity is 100% of base salary.
Long Term Incentive Plan (LTIP)		
To create alignment between Executive Directors' and shareholders' interests through the delivery of performance-based share awards.	Awards are made in the form of nil (or nominal) cost options. Vesting is subject to the achievement of specific performance conditions over three years. Awards may be structured as Qualifying LTIP awards comprising an HMRC tax-qualifying option and an LTIP award*. LTIP awards may include the right to an additional payment (in cash or shares) in respect of dividends over the vesting period on vested shares. The LTIP is subject to malus and clawback provisions.	The maximum award in respect of any financial year is 125% of base salary*. Awards are made based on an assessment of the Executive Directors' performance and cover a three-year period from grant. The current performance condition is based on the compound annual growth rate (CAGR) in the Company's share price. One-third of the award will vest for each year in the performance period in respect of which the CAGR target is achieved. Ordinarily, no part of an award will vest until the end of the three-year performance period. The Committee will review and set performance conditions for future awards.

* Where a Qualifying LTIP award is granted, the tax-qualifying option (which has a market value exercise price) is subject to the same performance condition as applies to the ordinary LTIP award. The two elements of the award are exercised at the same time, with the extent to which the ordinary LTIP award can be exercised being scaled back to reflect any gain made on the exercise of the tax-qualifying option. Because of this scale back, the shares subject to the tax-qualifying option are not taken into account in assessing the maximum opportunity.

Non-Executive remuneration policy

The remuneration policy for the Chairman and Non-Executive Directors is to pay fees necessary to attract and retain individuals of the calibre required, taking into account the size and complexity of the business and the market in which it operates.

The fees of the Non-Executive Directors are agreed by the Chairman and the CEO and the fees of the Chairman are determined by the Board as a whole.

Fees are paid as a base fee as a member of the Board together with additional fees for chairmanship of a Board Committee. All Non-Executive Directors may be reimbursed for expenses reasonably incurred in the performance of their duties.

Neither the Chairman nor the Non-Executive Directors are eligible to participate in the Group's incentive arrangements.

Directors' service contracts

Details of the service contracts are set out below. All Directors are subject to annual reappointment at each Annual General Meeting.

Name	Position	Notice period	Notes
Carl Sterritt	CEO	12 months	Subject to annual reappointment at AGM
Andrew Heath	Chairman	None	Subject to annual reappointment at AGM
James Karis	NED (Chair of Remuneration Committee)	None	Subject to annual reappointment at AGM
Peter Llewellyn-Davies	NED (Chair of Audit Committee)	None	Subject to annual reappointment at AGM

Annual report on remuneration

The tables below detail total remuneration earned by each Director in respect of FY16. As the Company was admitted to AIM on 26 February 2016, there is no disclosure in respect of prior periods. The information below relates to the whole of 2016.

Name	Salary £000	Benefits £000	Total before bonus £000	Annual bonus £000	Total remuneration FY16 £000
Executive Directors					
Carl Sterritt	**294**	**40**	**334**	**134**	**468**
Richard Jones	**215**	**36**	**251**	**–**	**251**
Non-Executive Directors*					
James Karis	**38**	**–**	**38**	**–**	**38**
Andrew Heath	**92**	**–**	**92**	**–**	**92**
Peter Llewellyn-Davies	**40**	**–**	**40**	**–**	**40**
	679	**76**	**755**	**134**	**889**

* Non-Executive appointments were finalised on 12 February 2016 but were effective on admission on 26 February 2016.

No payments were made to Directors for loss of office, or to past Directors.

Carl Sterritt realised gains on share options exercised of £18,000 during the year. Richard Jones realised gains on share options exercised of £129,000 during the year.

£28,000 of Carl Sterritt's bonus relates to the 2015 financial year.

No Director waived any emoluments in respect of the year.

2016 annual bonus

Carl Sterritt received a bonus of £106,000 in respect of the 2016 financial year. This reflects the achievement of corporate and personal objectives during the year and the level of bonuses paid to other staff.

Richard Jones did not earn a bonus for 2016.

Long Term Incentive Plan options granted in the year

LTIP options were granted in the year to the Executive Directors as follows:

Name	Number of shares subject to LTIP option*	Vesting date**
Carl Sterritt	463,836	25 February 2019
Richard Jones***	338,050	25 February 2019

* The options were granted in part on 29 February 2016 and in part on 12 September 2016 as approved at the 2016 AGM.

** The vesting of the options is subject to the satisfaction of the performance condition described below.

*** Richard Jones' options were forfeited when he left the business on 27 January 2017.

Long Term Incentive Plan options granted in the year continued

All options are exercisable at 1.5 pence per share. No amounts were paid on grant. The mid-market price of the Ordinary Shares as at 31 December 2016 was £1.73. The highest mid-market price of the Ordinary Shares during the year was £1.88 and the lowest price was £1.495.

The vesting of the options is subject to the satisfaction of a performance condition based on the Company's share price. The CAGR in the Company's share price shall be assessed on each of 25 February 2017, 25 February 2018 and 25 February 2019. Provided the CAGR at the relevant date is at least 11.7%, one-third of the option will become capable of vesting. In the ordinary course, options will not vest and become exercisable until 25 February 2019. If the CAGR is less than 11.7% on the measurement date, the relevant portion of the option will lapse.

In total awards have been made over 2,106,725 LTIP options during the year. At the year end 583,332 had been forfeited and 1,523,393 remained in issue.

Following the year end, the performance condition measured on 25 February 2017 was not met and a further one-third of the options lapsed accordingly.

Executive Director remuneration in 2017

No changes are proposed to the structure of the Executive Directors' remuneration in 2017, although, as noted in the Remuneration Committee Chairman's statement, minor amendments are being made to the way in which we implement the policy.

Carl Sterritt's annual bonus opportunity for 2017 will remain at 100% of salary and be based on corporate and personal objectives. It is proposed that Mr Sterritt be granted an LTIP option opportunity at the level of 125% of salary.

During 2017, the Remuneration Committee will agree the remuneration terms of the new Chief Financial Officer, details of which will be disclosed in the 2017 Directors' remuneration report.

In 2017 we propose to operate our Company Share Option Plan for the first time, granting options to all employees.

Directors' shareholdings

With effect from admission, the Company has adopted share ownership guidelines under which Executive Directors must acquire shares with a value equal to twice their annual base salary. Until such time as the guideline is met, Executive Directors will be expected to retain 50% of shares acquired under the LTIP (net of sales to cover tax).

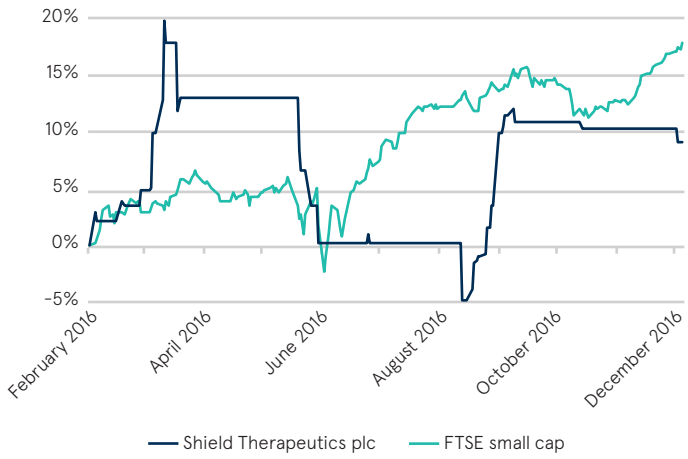
Name	Shares 31/12/16	% of share capital	Warrants as at 31/12/16**	% of warrants
Carl Sterritt	10,053,113*	9.30%	376,921	5.5%
Richard Jones	1,448,990	1.34%	–	–
Andrew Heath	85,719	0.08%	–	–

* As part of a sale and purchase agreement between Carl Sterritt and Irorph GmbH, dated 12 February 2016, Carl Sterritt has a call option over up to 345,000 shares depending on certain conditions in Shield Therapeutics plc. The option is exercisable between 1 July 2017 and 1 July 2018. The price of the call option is £1.

** Warrants are exercisable at any time up to 30 June 2017, after which they lapse. Each Warrant is convertible to one Ordinary Share for a consideration of £1.50 per Warrant. Warrants are listed on the LSE under the ticker symbol STXW.L.

Share performance graph

The graph below shows the performance of the Company's shares compared to the FTSE Small Cap, which forms the basis of the benchmark performance rate for LTIP vesting. The Company's shares listed on 26 February 2016 on AIM at a price of £1.50.



Remuneration Committee

The members of the Remuneration Committee are James Karis and Andrew Heath. James Karis is Committee Chairman. The Committee meets at least once a year and has responsibility for:

- Maintaining the remuneration policy;
- Reviewing and determining the remuneration packages of the Executive Directors;
- Monitoring the level and structure of remuneration of senior management, including LTIP, CSOP and bonus awards; and
- Production of the Directors' remuneration report.

During the year, Deloitte LLP was appointed as advisor to the Committee.

The CEO typically attends meetings and provides information and support as requested, but is not present when his own remuneration is discussed. The duties of the Committee are set out in the terms of reference, which are available on the Group's website, www.shieldtherapeutics.com, or on request from the Company Secretary.

This report was approved by the Board on 3 April 2017 and signed on its behalf by:

James Karis
Remuneration Committee Chairman

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 2016.

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
Disclosures relating to future developments are included in the Chief Executive Officer's statement and financial review.

Capital structure
In February 2016 the Group completed its restructuring, extinguishing shareholder debt and the two-tier capital structure of preference and ordinary share capital in anticipation of an IPO. Share options were exercised raising £3.9 million and additional gross proceeds of £32.5 million were raised through the placing and subscription associated with the IPO process.

Following the IPO, Group cash balances at 31 December 2016 were £21.0 million (2015: £0.7 million).

Results and dividend
The consolidated statement of profit and loss and other comprehensive income is set out on page 32. The Group's loss after taxation for the year was £15.0 million. 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 £9.4 million (see Note 14 on pages 45 and 46). On a proforma unaudited basis, assuming Phosphate Therapeutics Limited had been acquired on 1 January 2016, the adjusted net loss would have been £9.4 million.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016.

Directors
The Directors of the Company during the year and up to the date of approval of the annual report were as follows:

Carl Sterritt
Richard Jones (resigned 27 January 2017)
Andrew Heath (appointed 26 February 2016)
James Karis (appointed 26 February 2016)
Peter Llewellyn-Davies (appointed 26 February 2016)

Directors' indemnities
The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which remain in force at the date of this report.

Post balance sheet events
None noted.

Research and development
The Group undertakes significant research and development activities in the course of bringing its core pharmaceutical assets to market. Details of the expenditure charge to the consolidated statement of profit and loss, expenditure capitalised during the year and the accounting policy for capitalising development expenditure are provided in the financial statements.

Political and charitable donations
The Group made no political or charitable donations during the course of both the current and prior years.

Financial instruments
The Company's financial risk management objectives and policies and disclosures regarding its exposure to foreign currency risk, credit risk and liquidity risk are provided in Note 27 to the financial statements.

Corporate governance report
The Company's corporate governance report can be found on pages 22 and 23 of the annual report. The corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

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%
JP Morgan Asset Management	3.8%

Auditor
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 auditor is 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 auditor is 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 auditor 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 2.00pm on Tuesday 13 June 2017.

By order of the Board

Carl Sterritt
Chief Executive Officer
3 April 2017

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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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
3 April 2017

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 2016 set out on pages 32 to 56. 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 Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent company financial statements have been properly prepared in accordance with 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 matters prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and the Directors' report for the financial year is consistent with the financial statements.

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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
3 April 2017

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	Pre-exceptional items 2016 £000	Exceptional items (Note 10) 2016 £000	Total 2016 £000	Pre-exceptional items 2015 £000	Exceptional items (Note 10) 2015 £000	Total 2015 £000
Revenue	8	**304**	**–**	**304**	–	–	–
Cost of sales		**(100)**	**–**	**(100)**	–	–	–
Gross profit		**204**	**–**	**204**	–	–	–
Operating costs – selling, general and administrative expenses	9	**(8,284)**	**(455)**	**(8,739)**	(1,321)	–	(1,321)
Operating costs – depreciation and amortisation		**(234)**	**(1,702)**	**(1,936)**	(50)	–	(50)
Other operating income		**40**	**–**	**40**	221	–	221
Operating loss before research and development expenditure		**(8,274)**	**(2,157)**	**(10,431)**	(1,150)	–	(1,150)
Research and development expenditure	9	**(2,029)**	**–**	**(2,029)**	(5,284)	–	(5,284)
Operating loss		**(10,303)**	**(2,157)**	**(12,460)**	(6,434)	–	(6,434)
Net foreign exchange gains	13	**270**	**–**	**270**	266	–	266
Net foreign exchange (losses)/gains on financial instruments	2	**–**	**(1,059)**	**(1,059)**	–	1,675	1,675
Net loss on financial instruments designated as fair value through profit or loss	2	**–**	**(2,398)**	**(2,398)**	–	(18,123)	(18,123)
Financial income	13	**58**	**–**	**58**	–	–	–
Financial expense	13	**(14)**	**–**	**(14)**	28	(1,900)	(1,872)
Loss before tax		**(9,989)**	**(5,614)**	**(15,603)**	(6,140)	(18,348)	(24,488)
Taxation	15	**587**	**–**	**587**	–	–	–
Loss for the year		**(9,402)**	**(5,614)**	**(15,016)**	(6,140)	(18,348)	(24,488)
Attributable to:							
Equity holders of the parent		**(9,402)**	**(5,614)**	**(15,016)**	(5,279)	(18,348)	(23,627)
Non-controlling interests		**–**	**–**	**–**	(861)	–	(861)
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Foreign currency translation differences – foreign operations		**112**	**–**	**112**	(257)	–	(257)
Total comprehensive expenditure for the year		**(9,290)**	**(5,614)**	**(14,904)**	(6,397)	(18,348)	(24,745)
Attributable to:							
Equity holders of the parent		**(9,290)**	**(5,614)**	**(14,904)**	(5,729)	(18,155)	(23,884)
Non-controlling interests		**–**	**–**	**–**	(668)	(193)	(861)
Total comprehensive expenditure for the year		**(9,290)**	**(5,614)**	**(14,904)**	(6,397)	(18,348)	(24,745)
Earnings per share							
Basic and diluted loss per share	14			**£(0.15)**			£(0.57)
Non-GAAP measure							
Adjusted loss per share	14			**£(0.09)**			£(0.13)

GROUP BALANCE SHEET
at 31 December

	Notes	2016 £000	2015 £000
Non-current assets			
Intangible assets	17	**28,984**	513
Property, plant and equipment	16	**19**	17
		29,003	530
Current assets			
Inventories	19	**418**	–
Trade and other receivables	20	**1,985**	1,605
Cash and cash equivalents	21	**20,978**	725
		23,381	2,330
Total assets		**52,384**	2,860
Current liabilities			
Trade and other payables	22	**(3,827)**	(3,502)
Other liabilities	23	**(161)**	(73)
		(3,988)	(3,575)
Non-current liabilities			
Other financial liabilities	24	**–**	(17,928)
		–	(17,928)
Total liabilities		**(3,988)**	(21,503)
Net assets/(liabilities)		**48,396**	(18,643)
Equity			
Share capital	28	**1,622**	690
Share premium	29	**77,963**	–
Warrants reserve	29	**2,760**	–
Merger reserve	29	**28,358**	28,358
Currency translation reserve	29	**73**	(39)
Retained earnings	29	**(62,380)**	(47,652)
Total equity		**48,396**	(18,643)

These financial statements were approved by the Board of Directors on 3 April 2017 and were signed on its behalf by:

Carl Sterritt
Director
Company registered number: 09761509

COMPANY BALANCE SHEET
at 31 December

	Notes	2016 £000	2015 £000
Non-current assets			
Investments	18	**102,568**	75,600
		102,568	75,600
Current assets			
Trade and other receivables	20	**13,939**	–
Cash and cash equivalents	21	**20,269**	–
		34,208	–
Total assets		**136,776**	75,600
Current liabilities			
Trade and other payables	22	**(121)**	–
		(121)	–
Non-current liabilities			
Other financial liabilities	24	**–**	(17,928)
		–	(17,928)
Total liabilities		**(121)**	(17,928)
Net assets		**136,655**	57,672
Equity			
Share capital	28	**1,622**	690
Share premium	29	**77,963**	–
Warrants reserve	29	**2,760**	–
Merger reserve	29	**117,323**	117,323
Retained earnings	29	**(63,013)**	(60,341)
Total equity		**136,655**	57,672

These financial statements were approved by the Board of Directors on 3 April 2017 and were signed on its behalf by:

Carl Sterritt
Director
Company registered number: 09761509

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December

	Issued capital £000	Share premium £000	Warrants reserve £000	Merger reserve £000	Currency translation reserve £000	Retained earnings £000	Non-controlling interest £000	Total £000
Balance at 1 January 2015	365	2,393	–	–	218	(23,006)	1,746	(18,284)
Loss for the year	–	–	–	–	–	(23,627)	(861)	(24,488)
Other comprehensive income:								
Foreign currency translation differences	–	–	–	–	(257)	–	–	(257)
Total comprehensive expense for the year	–	–	–	–	(257)	(23,627)	(861)	(24,745)
Transactions with owners, recorded directly in equity								
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)
Loss for the year	–	–	–	–	–	(15,016)	–	(15,016)
Other comprehensive income:								
Foreign currency translation differences	–	–	–	–	112	–	–	112
Total comprehensive income/(expense) for the year	–	–	–	–	112	(15,016)	–	(14,904)
Transactions with owners, recorded directly in equity								
Share issue – IPO	325	26,487	2,760	–	–	–	–	29,572
Share options exercised	309	25,011	–	–	–	–	–	25,320
Phosphate Therapeutics Limited acquisition	298	26,465	–	–	–	–	–	26,763
Equity-settled share-based payment transactions	–	–	–	–	–	288	–	288
Balance at 31 December 2016	**1,622**	**77,963**	**2,760**	**28,358**	**73**	**(62,380)**	**–**	**48,396**

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December

	Issued capital £000	Share premium £000	Warrants reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Balance at 3 September 2015	–	–	–	–	–	–
Loss for the period	–	–	–	–	(60,341)	(60,341)
Total comprehensive expense for the year	–	–	–	–	(60,341)	(60,341)
Transactions with owners, recorded directly in equity						
Issuance of share capital	690	–	–	–	–	690
Group reorganisation	–	–	–	117,323	–	117,323
Balance at 31 December 2015	690	–	–	117,323	(60,341)	57,672
Loss for the year	–	–	–	–	(2,960)	(2,960)
Total comprehensive expense for the year	–	–	–	–	(2,960)	(2,960)
Transactions with owners, recorded directly in equity						
Share issue – IPO	325	26,487	2,760	–	–	29,572
Share options exercised	309	25,011	–	–	–	25,320
Phosphate Therapeutics Limited acquisition	298	26,465	–	–	–	26,763
Equity-settled share-based payment transactions	–	–	–	–	288	288
Balance at 31 December 2016	**1,622**	**77,963**	**2,760**	**117,323**	**(63,013)**	**136,655**

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 December

	2016 £000	2015 £000
Cash flows from operating activities		
Loss for the year	**(15,016)**	(24,488)
Adjustments for:		
Depreciation and amortisation	**1,936**	50
Loss on derivative financial instruments	**2,398**	18,123
Equity-settled share-based payment expenses	**288**	882
Financial expense	**–**	1,872
Unrealised foreign exchange losses/(gains)	**984**	(1,927)
	(9,410)	(5,488)
Increase in inventories	**(418)**	–
Increase in trade and other receivables	**(377)**	(1,526)
(Decrease)/increase in trade and other payables	**(154)**	2,808
Increase in other liabilities	**103**	23
Net cash flows from operating activities	**(10,256)**	(4,183)
Cash flows from investing activities		
Acquisitions of intangible assets	**(528)**	(123)
Capitalised development expenditure	**(2,639)**	–
Acquisition of property, plant and equipment	**(8)**	(9)
Cash acquired with Phosphate Therapeutics Limited	**177**	–
Net cash flows from investing activities	**(2,998)**	(132)
Cash flows from financing activities		
Proceeds of IPO	**32,500**	–
IPO costs	**(2,427)**	–
Other costs	**(501)**	–
Share options exercised	**3,935**	–
Issuance of convertible bonds	**–**	1,062
Issuance of preference shares	**–**	3,501
Net cash flows from financing activities	**33,507**	4,563
Net increase in cash	**20,253**	248
Cash and cash equivalents at 1 January	**725**	477
Cash and cash equivalents at 31 December	**20,978**	725

COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December

	2016 £000	2015 £000
Cash flows from operating activities		
Loss for the year	**(2,960)**	(60,341)
Adjustments for:		
Impairment	**–**	60,400
Loss on derivative financial instruments	**2,398**	(21)
Equity-settled share-based payment expenses	**85**	–
Unrealised foreign exchange losses/(gains)	**1,057**	(38)
	580	–
Increase in trade and other receivables	**(13,939)**	–
Increase in trade and other payables	**121**	–
Net cash flows from operating activities	**(13,238)**	–
Cash flows from financing activities		
Proceeds of IPO	**32,500**	–
IPO costs	**(2,427)**	–
Other costs	**(501)**	–
Share options exercised	**3,935**	–
Net cash flows from financing activities	**33,507**	–
Net increase in cash	**20,269**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**20,269**	–

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 at the beginning of the prior year was Shield Holdings AG. The incorporation of Shield Therapeutics plc during the prior financial year and the restructuring of the Group to make it the new legal parent of the Shield Group in the prior financial year was accounted for as a Group reorganisation. See "Basis of consolidation" in Note 5 below.

Subsidiaries and their countries of incorporation are presented in Note 18.

2. AIM listing

Shield Therapeutics plc was admitted 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. The Company's Shares and Warrants commenced trading on 26 February 2016. £32.5 million gross was raised through the listing process and £2.4 million of issue costs were incurred.

As part of the listing process Warrants with a subscription price of £1.50 were issued to participants in the placing, providing an opportunity for the Company to raise up to £17.5 million by 30 June 2017 when the Warrants expire. The Warrants trade under the ticker STXW.

On 26 February 2016 debt with a fair value of £21.4 million was converted to equity and this included certain options converted to equity at an exercise price of £3.9 million. As a consequence of this transaction, reserves have increased by £25.3 million and the Group is debt free. Fair value costs of £2.4 million and foreign exchange translation costs of £1.1 million were charged to the profit and loss account during the year as a consequence of the fair value remeasurement of the debt prior to its conversion.

3. Acquisition of Phosphate Therapeutics Limited

On 26 February 2016 Shield Therapeutics plc acquired 100% of the share capital of Phosphate Therapeutics Limited in consideration for 19,887,791 shares in the Company with a fair value of £27 million. This has been accounted for as the acquisition of Phosphate Therapeutics Limited's intellectual property.

4. Merger of Swiss entities

During the year the Group merged its Swiss legal entities, Shield Holdings AG, Iron Therapeutics Holdings AG and Iron Therapeutics (Switzerland) AG, with effect from 31 August 2016. Following completion of the merger process, Shield Holdings AG and Iron Therapeutics (Switzerland) AG have been dissolved. The surviving entity, Iron Therapeutics Holdings AG, changed its name to Shield TX (Switzerland) AG and now contains the assets formerly held by the dissolved Swiss entities.

5. 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 as 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 £3.0 million. The total comprehensive expenditure for the year comprises the net loss and is wholly attributable to the equity holders of Shield Therapeutics plc; therefore, no statement of comprehensive income has been disclosed.

Going concern

In its first year of commercial sales the Group remains at an early stage in its development and, as for all such companies, will be dependent on further fund raises to execute its business plan and establish a self-funding business model. As previously explained, the Group's revenues and cash are ahead of expectations at IPO, albeit the positive cash variance is largely due to the rephasing of costs of certain clinical studies.

The Directors have prepared forecasts for the next 12 months from the date of approval of these accounts. Those forecasts assume that the warrants, which are due to expire on 30 June 2017, will be exercised raising net proceeds of £17 million. On this basis the Group would have headroom in the forecast period, which remains the case after sensitising for reasonably possible downside scenarios.

Whilst the directors consider it probable that the warrants will be exercised, they have also considered the scenario where the warrants are not exercised, or are not exercised in full. On the basis of these enquiries, and on the professional advice obtained, the directors are confident that the Group would be successful in raising sufficient additional or alternative funds.

5. Accounting policies continued

Going concern continued

Finally the Directors have also considered the scenario where there is a delay in raising those funds such that no additional funds were raised throughout the forecast period. In these unlikely circumstances the Group would be required to reduce significantly the level of discretionary spend, including delays to clinical and/or commercial development, and the Directors have further sensitised the forecasts on this basis. Whilst such delays could, if prolonged, ultimately have an impact on the level of future revenues and profits that the Group may achieve, those sensitised forecasts do demonstrate that the Group would have sufficient cash to meet its commitments for the 12 month period from the date of approval of these accounts.

After consideration of the above the Directors believe that the Group is well placed to manage its key risks, including the funding of its further development. They have, therefore, a reasonable expectation that the Group has adequate resources to continue to meet its liabilities as they fall due for at least the next 12 months from the date of approval of these accounts. Accordingly they continue to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016.

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 and 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 in the prior year were 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, recorded in the merger reserve.

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 balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss. 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.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentation 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 currency translation reserve or within non-controlling interests, 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.

5. Accounting policies continued

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and 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 payables, other payables and other liabilities

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 comprise 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

Expenditure on research activities is recognised as an expense in the statement of profit and loss.

During the year the Group met the criteria to capitalise development expenditure for the first time due to the progression of certain projects beyond the research phase. Consequently the policy on research and development costs has been expanded to include the capitalisation criteria for and composition of development costs. No previously reported balances have been restated as a consequence of this change.

Expenditure on development activities directly attributable to an intangible asset is capitalised when the following conditions are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

The Group considers that Marketing Authorisation Approval (MAA) regulatory approval in the relevant jurisdiction confirms these criteria.

Internally developed intangible assets are recorded at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Capitalised directly attributable development costs include clinical trial costs, Chemistry, Manufacturing and Controls (CMC) costs and contractor costs. Internal salary costs have not been capitalised as they are not considered to directly relate to bringing the asset to its working condition and employee costs are not allocated by project.

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

Amortisation is charged to the statement of profit and loss on the straight-line basis. Amortisation commences when patents are issued, or in the case of other capitalised development expenditure when substantive revenue is being generated from products. Amortisation is charged as follows:

Patents, trademarks and development costs	– over the term of the patents (currently until 2023–2029)
Chemistry, Manufacturing and Controls costs (development costs)	– over five years
Intellectual property purchase costs	– over the term of the patents

5. Accounting policies continued

Intangible assets continued

Impairment of assets

An impairment review is carried out annually for assets not yet in use. An impairment review is carried out for assets being amortised or depreciated when a change in-market conditions and other circumstances indicates that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. The cost of property, plant and equipment includes the purchase price and any costs directly attributable to bringing it into working order.

Depreciation on property, plant and equipment is calculated to allocate the cost to the residual values over the estimated useful lives, as follows:

Furniture, fittings and equipment	25% reducing balance basis
Computer equipment	33.33% straight-line basis

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Revenue

Revenue is net invoice value after the deduction of value-added tax and other sales taxes. Deductions are made for product returns based on historical experience.

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

Other 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 comprises interest receivable on funds invested, dividend income and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, 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 statement of profit and loss 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

The Group operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between the service commencement period and the grant date.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

6. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 5, 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.

Valuation of intellectual property acquired with Phosphate Therapeutics Limited

The valuation of intellectual property acquired with Phosphate Therapeutics Limited during the year is based on cash flow forecasts for the underlying business and an assumed appropriate cost of capital and other inputs in order to arrive at a fair value for the asset. The realisation of its value is ultimately dependent on regulatory approval and successful commercialisation of the asset. Work on the development of a suitable commercial formulation of the drug product is ongoing and a strategic commercial/co-development partner for the asset is being sought. In the event that commercial returns are lower than current expectations this may lead to an impairment.

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 31.

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.

Development expenditure

Development expenditure is capitalised when the conditions referred to in Note 5 are met.

7. New standards and interpretations

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

- Amendment to IFRS 10 Consolidated financial statements.
- Amendment to IFRS 11 Joint arrangements.
- Amendment to IFRS 12 Disclosure of interests in other entities.
- Amendment to IAS 1 Presentation of financial statements.
- Amendment to IAS 16 Property, plant and equipment.
- Amendment to IAS 27 Separate financial statements.
- Amendment to IAS 28 Investments in associates and joint ventures.
- Amendment to IAS 38 Intangible assets.
- Amendment to IAS 41 Agriculture.
- Annual improvements to IFRSs – 2012-2014 cycle.

At the balance sheet date the following standards, amendments and interpretations were in issue but not yet effective. The Group has not early adopted any of these standards, amendments and interpretations and is currently assessing their impact.

- IFRS 9 Financial instruments.
- IFRS 15 Revenue from contracts with customers.

8. Segmental reporting

The following analysis by segment is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Chief Operating Decision Maker (considered to be the Board of Directors) to assess performance and make strategic decisions about the allocation of resources. Segmental results are calculated on an IFRS basis.

A brief description of the segments of the business is as follows:

- Feraccru® – development and supply of the Group's lead Feraccru® product.
- PT20 – development of the Group's secondary asset.

Operating results which cannot be allocated to an individual segment are recorded as central and unallocated overheads.

8. Segmental reporting continued

	Feraccru® 2016 £000	PT20 2016 £000	Central and unallocated overheads 2016 £000	Total 2016 £000	Feraccru® 2015 £000	PT20 2015 £000	Central and unallocated overheads 2015 £000	Total 2015 £000
Revenue	**304**	**–**	**–**	**304**	–	–	–	–
Operating loss	**(9,179)**	**(14)**	**(3,267)**	**(12,460)**	(5,611)	–	(823)	(6,434)
Net foreign exchange gains				**270**				266
Foreign exchange (losses)/gains on financial instruments				**(1,059)**				1,675
Net loss on financial instruments designated as fair value through profit or loss				**(2,398)**				(18,123)
Financial income				**58**				–
Financial expense				**(14)**				(1,872)
Tax				**587**				–
Loss for the year				**(15,016)**				(24,488)

The revenue analysis in the table below is based on the country of registration of the fee paying party. All revenue is derived from the sale of goods.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
UK	**240**	–
Germany	**33**	–
Austria	**31**	–
	304	–

An analysis of revenue by customer is set out in the table below.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Customer A	**160**	–
Customer B	**113**	–
Customer C	**31**	–
	304	–

As at 31 December 2016	Feraccru® £000	PT20 £000	Central and unallocated overheads £000	Total £000
Segment assets	**6,450**	**25,394**	**20,540**	**52,384**
Segment liabilities	**(3,645)**	**(129)**	**(214)**	**(3,988)**
Total net assets	**2,805**	**25,265**	**20,326**	**48,396**
Depreciation, amortisation and impairment	**172**	**1,764**	**–**	**1,936**
Capital expenditure	**8**	**–**	**–**	**8**
Capitalised development costs	**2,639**	**–**	**–**	**2,639**

As at 31 December 2015	Feraccru® £000	PT20 £000	Central and unallocated overheads £000	Total £000
Segment assets	707	–	2,153	2,860
Segment liabilities	(2,107)	–	(19,396)	(21,503)
Total net liabilities	(1,400)	–	(17,243)	(18,643)
Depreciation, amortisation and impairment	50	–	–	50
Capital expenditure	9	–	–	9
Capitalised development costs	–	–	–	–

All material segmental non-current assets are located in the UK.

9. Expenses and auditor's remuneration

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Loss for the year has been arrived at after charging:		
Research and development expenditure	**2,029**	5,284
Fees payable to Company's auditor and its associates for the audit of parent company and consolidated financial statements	**27**	18
Fees payable to Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	**22**	14
Other non-audit services	**9**	–
Operating costs are comprised of:		
Selling costs	**4,174**	317
General and administrative expenses	**4,565**	1,004
	8,739	1,321

10. Exceptional items

Exceptional items are separately disclosed on the basis that the Directors believe this is necessary to enable a fuller understanding of the performance of the Group. The Directors define exceptional items as:

- Material items that are unusual by size or incidence – this includes costs related to the IPO, including those related to complex financial instruments that expired at IPO; or
- Non-cash charges which, whilst recurring in nature, at this stage in the Group's development, are of a disproportionate size relative to the Group's other expenditure – this includes the amortisation of the Phosphate Therapeutics licences and share-based payment charges.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Interest on preference shares	**–**	1,761
FX movement on preference shares	**–**	(259)
Fair value remeasurement of preference shares embedded derivative	**–**	15,610
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 share options (see Note 24)	**2,398**	(59)
Phosphate Therapeutics Limited intellectual property amortisation	**1,702**	–
FX movement on share options (see Note 24)	**1,059**	–
Non-recurring legal and professional fees	**167**	–
Share-based payments charge	**288**	–
	5,614	18,348

11. Staff numbers and costs

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

	Number of employees	
	2016 Number	2015 Number
R&D	**7**	6
Medical	**2**	–
Commercial	**8**	2
Finance and administration	**12**	7
	29	15

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**3,221**	1,656
Share-based payments (see Note 31)	**288**	883
Other employee benefits	**199**	12
Pensions	**108**	–
	3,816	2,551

12. Directors' remuneration

	2016				2015			
	Salary/fees £000	**Bonus £000**	**Taxable benefits £000**	**Total £000**	Salary/fees £000	Bonus £000	Taxable benefits £000	Total £000
A Heath	**92**	**–**	**–**	**92**	–	–	–	–
C Sterritt	**294**	**134**	**40**	**468**	209	209	14	432
R Jones	**215**	**–**	**36**	**251**	181	177	14	372
J Karis	**38**	**–**	**–**	**38**	–	–	–	–
P Llewellyn-Davies	**40**	**–**	**–**	**40**	–	–	–	–
	679	**134**	**76**	**889**	390	386	28	804

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £18,000 (2015: £432,000).

Two Directors exercised share options in the year (2015: one). Two Directors received shares or share options under long term incentive schemes in the year (2015: one).

£28,000 of C Sterritt's bonus relates to the 2015 financial year. £180,000 of C Sterritt's bonus in respect of 2015 was paid as a contribution into a personal pension plan.

£5,000 was paid to third parties in respect of director services (2015: £45,000).

13. Financial income and expenses

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Financial income		
Net foreign exchange gains	**270**	266
Total interest income on financial assets measured at amortised cost	**58**	–
Financial expense		
Total interest expense on financial liabilities measured at amortised cost	**–**	(1,866)
Bank charges	**(14)**	(6)
	(14)	(1,872)

14. Loss per share

	2016			2015		
	Loss £000	**Weighted shares 000**	**Loss per share £**	Loss £000	Weighted shares 000	Loss per share £
Basic and diluted	**(15,016)**	**101,160**	**(0.15)**	(23,627)	41,507	(0.57)
Adjusted – basic and diluted	**(9,402)**	**101,160**	**(0.09)**	(5,279)	41,507	(0.13)
Proforma adjusted – basic and diluted	**(9,402)**	**108,135**	**(0.09)**	n/a	n/a	n/a

Basic EPS is calculated by dividing the profit or loss 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 or loss 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. Warrants issued as part of the IPO process would potentially provide an additional 11,666,658 shares (approximately 10.8% of the current share capital) if exercised between the year end and 30 June 2017, which are considered to be non-dilutive as they would increase the loss per share. At the date of approval of the accounts 1,042,262 of LTIP share options were also in issue, which are considered non-dilutive and potentially provide 1,042,262 additional Ordinary Shares (approximately 1% of the current share capital).

The adjusted loss is calculated after adding back non-recurring and exceptional items as illustrated in the table below, in order to illustrate the underlying performance of the business.

The adjusted loss is calculated using the weighted average number of Ordinary Shares in issue during the year.

The adjusted proforma loss per share is calculated using the number of Ordinary Shares in issue following the IPO, and is presented to show how the loss per share would appear had the post-IPO level of Ordinary Shares been in place for the full year.

14. Loss per share continued

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

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Loss for the period as used for calculating basic EPS	**(15,016)**	(23,627)
Interest on preference shares	**–**	1,761
FX movement of preference shares	**–**	(259)
Fair value remeasurement of preference share embedded derivative	**–**	15,610
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 share options (see Note 24)	**2,398**	(59)
Phosphate Therapeutics Limited intellectual property amortisation	**1,702**	–
FX movement on share options (see Note 24)	**1,059**	–
Non-recurring legal and professional fees	**167**	–
Share-based payments charge	**288**	–
Loss attributable to ordinary equity holders of the parent adjusted for the effect of one-off items as used for calculating Adjusted EPS	**(9,402)**	(5,279)

15. Taxation

Recognised in the income statement:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Current income tax – adjustments in respect of prior years	**587**	–
Deferred tax	**–**	–
Total tax credit	**587**	–

Reconciliation of total tax credit:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Loss for the year	**(15,016)**	(24,488)
Taxation	**587**	–
Loss before tax	**(15,603)**	(24,488)
Standard rate of corporation tax in the UK	**20%**	20.25%
Tax using the UK corporation tax rate	**(3,121)**	(4,959)
Expenses not deductible for tax purposes	**9**	–
Adjustments in respect of prior years	**567**	–
Unrelieved tax losses carried forward and other temporary differences not recognised for deferred tax	**3,132**	4,959
Total tax credit	**587**	–

An R&D debit of £20,000 (2015: credit of £135,000) was also included as a credit within operating costs during the year.

Factors affecting the future tax charge

The standard rate of UK corporation tax for the period was 20.00% (2015: 20.25%). A reduction in the rate to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted prior to the balance sheet date and have been applied to the company's deferred tax balance at the balance sheet date. Deferred tax on losses has been calculated at a rate of 12.48% in respect of Switzerland and 29.72% in respect of Germany.

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.

	2016 £000	2015 £000
Unutilised Swiss tax losses to carry forward	**17,799**	13,610
Potential deferred tax asset thereon	**2,128**	1,100
Unutilised German tax losses to carry forward	**90**	–
Potential deferred tax asset thereon	**27**	–
Unutilised UK tax losses to carry forward	**21,910**	15,440
Potential deferred tax asset thereon	**3,725**	2,780
Total potential deferred tax asset	**5,880**	3,880

16. Property, plant and equipment

Group	2016 £000	2015 £000
Cost		
Beginning balance	**21**	12
Additions	**8**	9
Ending balance	**29**	21
Accumulated depreciation		
Beginning balance	**4**	–
Charge for the period	**6**	4
Ending balance	**10**	4
Net book value	**19**	17

The Company had no property, plant and equipment (2015: £Nil).

17. Intangible assets

Group	Patents and trademarks £000	Development costs £000	Phosphate Therapeutics licences £000	Total £000
Cost				
Balance at 1 January 2015	566	–	–	566
Additions – externally purchased	104	–	–	104
Effect of movements in foreign exchange	19	–	–	19
Balance at 31 December 2015	689	–	–	689
Additions – externally purchased	528	–	–	528
Additions – internally developed	–	2,639	–	2,639
Acquisition with Phosphate Therapeutics Limited	–	–	27,047	27,047
Effects of movements in foreign exchange	223	–	–	223
Balance at 31 December 2016	**1,440**	**2,639**	**27,047**	**31,126**
Accumulated amortisation				
Balance at 1 January 2015	130	–	–	130
Charge for the period	46	–	–	46
Balance at 31 December 2015	176	–	–	176
Charge for the period	113	115	1,702	1,930
Effects of movements in foreign exchange	36	–	–	36
Balance at 31 December 2016	**325**	**115**	**1,702**	**2,142**
Net book value				
31 December 2016	**1,115**	**2,524**	**25,345**	**28,984**
31 December 2015	513	–	–	513

At the year end management reviewed the carrying value of the Phosphate Therapeutics licences for impairment. The balance of these intangible assets are considered to relate to one cash-generating unit, being the Phosphate Therapeutics Limited business. The recoverable amount has been determined based on value-in-use calculations, using pre-tax cash flow projections for the period of the patents. The following key assumptions have been included in the value-in-use calculations.

- A discount factor of 20%, reflecting the inherent uncertainty attached to pharmaceutical projects.
- Cash inflows which expire in 2029, based on the current patent life of the asset.

The Company had no intangible assets (2015: £Nil).

18. Investments

Company	2016 £000	2015 £000
Cost		
Beginning balance	**136,000**	–
Additions	**26,968**	136,000
Ending balance	**162,968**	136,000
Accumulated impairment		
Beginning balance	**(60,400)**	–
Charge during the period	**–**	(60,400)
Ending balance	**(60,400)**	(60,400)
Net book value		
Ending balance	**102,568**	75,600
Beginning balance	**75,600**	–

On 26 February 2016 Shield Therapeutics plc acquired 100% of the share capital of Phosphate Therapeutics Limited in consideration for 19,887,791 shares in the Company with a fair value of £26.8 million. As this does not meet the definition of a business combination this has been accounted for as an asset acquisition of the intellectual property of Phosphate Therapeutics Limited.

The remaining £0.2 million of additions to investments during the year relate to share-based payments costs in respect of Group share-based payments arrangements.

In the prior year 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 was recognised in the parent company financial statements and eliminated at the Group level.

The Group's equity interests were as follows:

At 31 December 2016

Group company	Holding	Country of incorporation
Phosphate Therapeutics Limited	100%	United Kingdom
Shield TX (Switzerland) AG (formerly Iron Therapeutics Holdings AG)	100%	Switzerland
Shield TX (UK) Limited (formerly Iron Therapeutics (UK) Limited)*	100%	United Kingdom
Shield Therapeutics (DE) GmbH*.**	100%	Germany

* Investment held indirectly.

** Incorporated on 25 August 2016.

At 31 December 2015

Group company	Holding	Country of incorporation
Shield Holdings AG	100%	Switzerland
Iron Therapeutics Holdings AG	100%	Switzerland
Iron Therapeutics (Switzerland) AG*	100%	Switzerland
Shield TX (UK) Limited (formerly Iron Therapeutics (UK) Limited)*	100%	United Kingdom

* Investment held indirectly.

With effect from 31 August 2016 Shield Holdings AG and Iron Therapeutics (Switzerland) AG were merged with Iron Therapeutics Holdings AG. As part of this transaction Iron Therapeutics Holdings AG changed its name to Shield TX (Switzerland) AG.

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

The registered office address of Shield Therapeutics (DE) GmbH is Leopoldstrasse 23, 80802 München, Germany.

The registered office address of Shield TX (Switzerland) AG is Sihleggstrasse 23, 8832 Wollerau, Switzerland.

The registered office address of Shield TX (UK) Limited and Phosphate Therapeutics Limited is the same as the Shield Therapeutics plc address shown at Note 1.

19. Inventories

Group	2016 £000	2015 £000
Raw materials	**187**	–
Finished goods	**231**	–
	418	–

The cost of inventories recognised as an expense and included in cost of sales was £67,000 (2015: £Nil).

The Company had no inventories (2015: £Nil).

20. Trade and other receivables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade receivables	**24**	–	**–**	–
Other receivables	**1,034**	96	**26**	–
Prepayments	**927**	1,509	**24**	–
Amounts due from Group undertakings	**–**	–	**13,889**	–
	1,985	1,605	**13,939**	–

At the year end no trade receivables were past due or impaired (2015: £Nil).

21. Cash and cash equivalents

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash at bank and in hand	**20,978**	725	**20,269**	–

22. Trade and other payables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade payables	**1,490**	1,213	**47**	–
Accruals	**2,337**	2,289	**74**	–
	3,827	3,502	**121**	–

23. Other liabilities

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Taxation and social security	**135**	68	**–**	–
Other payables	**26**	5	**–**	–
	161	73	**–**	–

24. Other financial liabilities

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Troy option instrument	**–**	17,928	**–**	17,928

The Troy option instrument was 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 was treated as an embedded derivative and was 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 was calculated using a Black Scholes Merton model for a European option.

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

The instrument was exercised and was converted to equity as part of the IPO process in February 2016.

25. Fair value hierarchy

The Group uses the following hierarchy for determining and 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 recorded 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", "Trade and other receivables", "Trade and other payables", "Other liabilities" and "Interest bearing loans and borrowings" have fair values that approximate to their carrying values.

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

Group

Assets/liabilities measured at fair value	**31 December 2016 £000**	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**
Troy option instrument	**–**	**–**	**–**	**–**

Assets/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

Assets/liabilities measured at fair value	**31 December 2016 £000**	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**
Troy option instrument	**–**	**–**	**–**	**–**

Assets/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)

26. Significant unobservable inputs to valuations

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 Company value would result in increase/decrease in fair value by approximately £40,000 (parent company – £40,000)

The Troy option instrument was converted to equity as part of the IPO process in February 2016.

27. Risk management

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

- Loans and borrowings; and
- Trade 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.

27. Risk management continued

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 comprises three types of risk: interest rate risk, currency risk and credit risk.

The Group's exposure is currently primarily to the financial risk 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 and £/USD exchange rates of +/– 5%. If these changes were to occur the tables below reflect the impact on loss before tax. Only the impact of changes in Euro and USD denominated balances have been considered as these are the most significant non-GBP denominations used by the Group.

		Effect on loss before tax	
	Change in GBP vs. EUR rate	**Year ended 31 December 2016 £000**	Year ended 31 December 2015 £000
EUR	+5.00%	**(75)**	(45)
	-5.00%	**75**	45
USD	+5.00%	**(33)**	(3)
	-5.00%	**33**	3

		Effect on equity	
	Change in GBP vs. EUR rate	**Year ended 31 December 2016 £000**	Year ended 31 December 2015 £000
EUR	+5.00%	**(506)**	(1,217)
	-5.00%	**506**	1,217
USD	+5.00%	**(33)**	(3)
	-5.00%	**33**	3

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 2016 and 2015.

Liquidity risk – 31 December 2016	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	–	1,490	–	–	1,490

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

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 primarily exposed to credit risk from its financing activities in relation to its deposits with banks and financial institutions. There is considered to be no material credit risk associated with receivables, as all material receivables balances are with HMRC.

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 the risk of 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 of cash at bank and in hand.

28. Share capital

Allotted, called up and fully paid	2016 £000	2015 £000
69 million Ordinary Shares at £0.01 each	–	690
108 million Ordinary Shares at £0.015 each	1,622	–

During the course of the Company's IPO in February 2016 its 69 million Ordinary Shares with a nominal value of £0.01 each were increased by the issue of 62 million shares, in addition to a share consolidation that reduced the number of shares in issue by 23 million and gave rise to a total equity share capital of 108 million Ordinary Shares with a nominal value of £0.015 each.

The Warrants issued by the Company during the year are considered to meet the criteria of equity as the Company has no contractual obligation to deliver cash or another financial asset to the Warrant holders and the Warrant will be settled using the Company's own shares, on a fixed-for-fixed basis.

29. Reserves

The Group's balance sheet includes the following reserves:

- Share capital – the share capital reserve contains the nominal value of the issued Ordinary Shares of the Company.
- Share premium – the share premium reserve contains the proceeds of share capital issued, less the nominal cost and the issue cost of the Company's shares.
- Warrants reserve – this reserve contains the portion of the nominal cost of share capital allocated to the Warrants issued together with the Ordinary Shares.
- Merger reserve – this reserve records any difference in share capital between the former Shield Holdings AG group and the Shield Therapeutics plc Group which replaced it on reorganisation.
- Currency translation reserve – this reserve contains currency translation differences arising from the translation of foreign operations.
- Retained earnings – this reserve contains the accumulated losses and other comprehensive expenditure of the Group.

As part of its IPO in February 2016 the Company issued Warrants to its Ordinary Shareholders. 7 Warrants were issued for every additional 13 Ordinary Shares issued through the IPO process. The Warrants are exercisable at any time up until 30 June 2017 at an exercise price of £1.50. If exercised in full, the gross proceeds are expected to be £17.5 million.

30. Non-controlling interests

At the beginning of the prior year the Company held investments of 83.53% in the shares of the following companies:

- Iron Therapeutics Holdings AG;
- Iron Therapeutics (Switzerland) AG;
- Shield TX (UK) Limited (formerly Iron Therapeutics (UK) Limited); and
- Iron Therapeutics (US) Corp. (dissolved 30 September 2015).

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 2016 £000	31 December 2015 £000
Net assets	–	–
Revenue	–	–
Loss	–	(6,670)
Other comprehensive income	–	–
Total comprehensive expenditure	–	(6,670)
Cash flows from operating activities	–	(2,563)
Cash flows from investing activities	–	(123)
Cash flows from financing activities	–	2,288
Net decrease in cash and cash equivalents	–	(398)

31. 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.

Long Term Incentive Plan (LTIP)

The Group operates a share option scheme for the Executive Directors of the Company and the Group's senior management team. The scheme is intended to attract, retain and incentivise participants, whilst encouraging higher standards of performance and aligning the objectives of the senior management team with those of shareholders. The plan was established in February 2016 as part of the IPO process.

The total expense recognised for share-based payments, in relation to the LTIP, in the Group's financial statements during the year was £288,000 (2015: £Nil).

The terms and conditions of grants are as follows:

Grant date	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
March 2016	Equity	1,773,581	One-third on 25 February 2017, one-third on 25 February 2018 and one-third on 25 February 2019 in the event of a CAGR of 11.7% in the Company's share price.	February 2026
July 2016	Equity	80,000	One-third on 25 July 2017, one-third on 25 July 2018 and one-third on 25 July 2019 in the event of a CAGR of 11.7% in the Company's share price.	July 2026
September 2016	Equity	253,144	One-third on 25 February 2017, one-third on 25 February 2018 and one-third on 25 February 2019 in the event of a CAGR of 11.7% in the Company's share price.	February 2026

The number of share options are as follows:

	Number of options	
	Year ended 31 December 2016	Year ended 31 December 2015
Outstanding at the beginning of the year	**–**	–
Granted during the year	**2,106,725**	–
Forfeited during the year	**(583,332)**	–
Outstanding at the end of the year	**1,523,393**	–
Exercisable at the end of the year	**–**	–

The remaining contractual life of options is 2.2 years. 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 Monte Carlo valuation model. Measurement inputs and assumptions are as follows:

	March 2016	July 2016	September 2016
Weighted average share price	£0.79	£0.75	£0.60
Exercise price	£0.015	£0.015	£0.015
Expected volatility	44%	43%	44%
Expected option life	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on UK government bonds)	0.6%	0.17%	0.16%
Fair value at measurement date	£0.79	£0.75	£0.60

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

The exercise of share options is conditional on a CAGR in the Company's share price of 11.7% in each of the three years of the vesting period. One-third of the options value will be earned at the end of each year in the event of the required growth in the Company's share price.

31. Share-based payments continued

Company Share Option Plan (CSOP)

The Group operates a share option scheme which is able to issue both HMRC-approved and unapproved options to employees of the Group. No awards have been made to date under the scheme.

In future years the Black Scholes method will be used to account for these options with 2017 being the first year in which a charge will be made.

Group EMI Share Option Plan

The Group operated a share option scheme for certain employees of Shield TX (UK) Limited which was closed in the prior year. The scheme, which was an Enterprise Management Incentive (EMI) scheme, was intended to attract, retain and incentivise participants to higher standards of performance and encourage greater 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 term prosperity of the Group. All options were exercised or forfeited in the prior year.

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 £Nil (2015: £842,000).

The terms and conditions of historic grants, which are now all exercised or forfeited, are as follows:

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

The number of share options are as follows:

	Number of options	
	Year ended 31 December 2016	Year ended 31 December 2015
Outstanding at the beginning of the year	**–**	1,570,000
Granted during the year	**–**	1,860,342
Forfeited during the year	**–**	(83,333)
Exercised during the year	**–**	(3,347,009)
Outstanding at the end of the year	**–**	–
Exercisable at the end of the year	**–**	–

31. Share-based payments continued

Group EMI Share Option Plan continued

The fair value of services received in return for share options granted is 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 option grants.

Shield Group other share-based payments

In the prior year Shield Group had 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 vest immediately	January 2021
May 2011*	Equity	189,237	All vest immediately	May 2021
May 2011	Equity	10,000	All vest immediately	May 2021
November 2011	Equity	25,000	All vest immediately	November 2021
January 2012*	Equity	36,960	All vest immediately	January 2022
May 2013	Equity	600,000	One-half vests on 1 May 2013, one-quarter vests on 1 May 2014 and one-quarter vests on 1 May 2015	May 2023
September 2013	Equity	175,788	All vest immediately	September 2023
January 2014	Equity	17,000	All vest immediately	January 2024
February 2015	Equity	52,596	All vest immediately	February 2025

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

All options were exercised in the prior year.

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 £Nil (2015: £40,000).

The number of share options are as follows:

	Number of options	
	2016	2015
Outstanding at the beginning of the year	–	516,901
Granted during the year	–	82,040
Exercised during the year	–	(598,941)
Outstanding at the end of the year	–	–
Exercisable at the end of the year	–	–

The fair value of services received for May 2011 and January 2011 share option issuances has 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.

	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

31. Share-based payments continued

Shield Group other share-based payments continued

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 option grants.

32. Related party transactions

Prior to its acquisition on 26 February 2016 Phosphate Therapeutics Limited was considered to be a related party of the Group by virtue of its linked key management personnel.

Its trade with the Group comprised:

	2016 £000	2015 £000
Management services provided	**40**	221
Amounts due from related parties	**–**	–

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

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

Key management compensation information is as follows:

	2016 £000	2015 £000
Wages and salaries	**1,585**	898
Share-based payments	**280**	841
Other employee benefits	**137**	8
Pensions	**60**	–
	2,062	1,747

33. Capital and leasing commitments

The Group and parent company had no material capital commitments at either the current or prior period end.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Less than one year	**72**	50	**–**	–
One to five years	**–**	114	**–**	–
More than five years	**–**	–	**–**	–
	72	164	**–**	–

The lease expense in respect of the year was £333,000 (2015: £84,000).

34. 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 has required regular suitable levels of capital injections to fund development. As mentioned above the Board periodically monitors the capital structure of the Group. The table below details the net capital structure at the relevant balance sheet dates.

	2016 £000	2015 £000
Cash and cash equivalents	**20,978**	725
Total net funds	**20,978**	725

35. Post balance sheet events

None noted.

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2017 FINANCIAL CALENDAR

Preliminary results release	4 April 2017
Annual report release	April 2017
Annual General Meeting	13 June 2017
Interim report release	August 2017

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