SHIELD
THERAPEUTICS PLC

IMPROVING LIVES TOGETHER

THE ART OF THERAPEUTICS

Shield Therapeutics plc
Annual report and accounts 2017

Improving lives together. Delivering value to our shareholders.

BRINGING THE COLOUR BACK TO PEOPLE'S LIVES

↘ Read more on page 11

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www.shieldtherapeutics.com

Highlights (including post period)

Operational

- Feraccru® was out-licensed across additional markets via agreements with AOP for Scandinavia and Ewopharma AG for Switzerland
  - Pre-approval notification for Feraccru® received from the Swiss regulatory authority in June 2017
- Progress across clinical trials:
  - Feraccru® AEGIS-H2H Phase IIIb study progressing, with results expected in the second half of 2018
  - Recruitment of paediatric pharmaco-kinetic study completed with data available during 2018
  - Completion of recruitment into AEGIS-CKD pivotal Phase III study of Feraccru® in the treatment of Iron Deficiency Anaemia (IDA) in patients with Chronic Kidney Disease (CKD), results issued post year end
- Grants received for Feraccru®'s composition of matter patent in significant additional territories including the US, Europe, Australia and Canada providing broad protection through to 2035
- Application submitted to the European Medicines Agency (EMA) to extend the label for Feraccru® to adult patients with Iron Deficiency (ID)

Financial

- Revenue of £637,000 (2016: £304,000) was recorded during the year
- Net loss of £19.6 million (2016: £15.0 million)
- Adjusted net loss* of £17.0 million (2016: £9.4million)
- Net cash of £13.3 million (2016: £21.0 million), which includes net proceeds raised during the year via the Warrant exercise, subscription and placing of £11.9 million

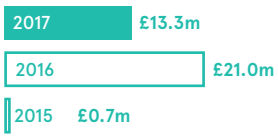
* Adjusted net loss is defined as net loss adjusted for exceptional items (see Note 15)

Reported revenue

£0.6m

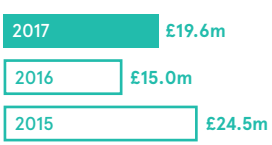
Net cash

£13.3m



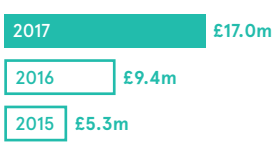
Loss for the year

£19.6m



Adjusted loss

£17.0m



Post period

- The number of patients being treated with Feraccru® in the initial target markets of Germany and the UK have continued to increase month on month through the first few months of 2018
- In March 2018, the European Commission (EC) adopted the EMA's decision to extend the approved indication for Feraccru® (ferric maltol) to include treatment of all adults with ID with or without anaemia, thereby increasing Feraccru®'s commercial opportunity increasing the eligible patient population
  - Previously Feraccru® had only been approved and marketed in Europe for the treatment of IDA in adult patients with Inflammatory Bowel Disease (IBD), a market opportunity of c.330,000 patients. The label expansion in Europe represents a market opportunity of c.40 million patients with ID
- AEGIS-CKD pivotal Phase III study of Feraccru®:
  - In February 2018, an initial top-line analysis indicated that Feraccru® had failed to meet the study's primary endpoint
  - In March 2018, Shield conducted its detailed analyses of the data from the double-blind period of the AEGIS-CKD study, which identified that the initial reporting of top-line data had been confounded by a number of patient-specific events that the Company believed directly and adversely impacted the primary endpoint analysis. It also highlighted that, with these data points removed, the primary and secondary endpoint of the study would have been met
  - The Company presented these analyses to the FDA in a previously scheduled pre-NDA submission meeting in March 2018 and subsequent final minutes of this meeting were received in early April
  - These minutes form the official record of this meeting with the FDA and provided Shield with the necessary guidance to progress submission without the need to conduct additional pivotal clinical trials in CKD patients
  - The NDA will be submitted as soon as possible in 2018 and the work will be funded within the Company's current cash resources
- Further routine analyses of the dataset will continue to deepen the Company's understanding of the positive impact of Feraccru® on IDA in CKD patients

Following the initial top-line results from the AEGIS-CKD pivotal Phase III study of Feraccru®, the Group announced a Business and Trading update and confirmed that a cost rationalisation programme was being implemented to significantly conserve the Company's available financial resources. It also confirmed that the Board would be leading a full review of Shield's strategic options. The outcome of the FDA's deliberations on its submissions has helped inform the Group's ongoing strategic review.

COMMERCIAL-STAGE PHARMACEUTICAL COMPANY

Delivering innovative specialty pharmaceuticals to address patients' unmet medical needs with an initial focus on addressing ID with its approved product, Feraccru®.

FERACCRU®, THE COMPANY'S LEAD ASSET

A NOVEL ORAL FERRIC IRON THERAPY

- Currently approved and marketed in Europe for the treatment of IDA initially in patients with IBD
- Broader patient population target opportunity in Europe with extended commercial label to include all adult patients with ID with or without anaemia*
- Protected by a composition of matter patent through to 2035
- Feraccru® clinical pipeline progressing

PROGRESS WITH FERACCRU®

Europe:*
September 2017 – application to the EMA, to extend the existing commercial label for Feraccru® to include the treatment of all patients with ID, with or without anaemia. Post period, in March 2018, the European Commission adopted the EMA's Decision to extend the approved indication.

US:
Following detailed analysis of the data from the double-blind period of the AEGIS-CKD study and subsequent receipt of final minutes from the FDA of a Pre-New Drug Application (NDA) submission meeting post period in April 2018, the Company confirmed an NDA for Feraccru® will be submitted as soon as possible in 2018.

↘ See more on page 11

OUR VISION

We aim to transform patients' lives by helping them become people again and by enabling them to enjoy the things that make the difference to them in their everyday lives, whilst delivering value to all of our stakeholders.

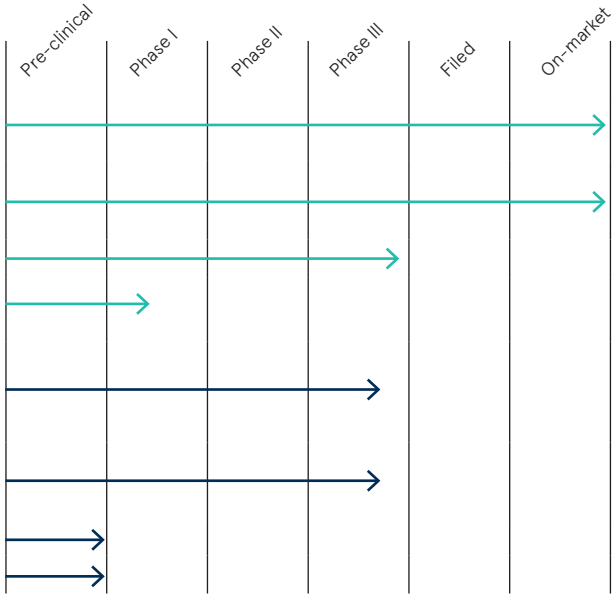
INVESTMENT HIGHLIGHTS

- Revenue generation from lead asset Feraccru®
- Large market opportunities to target major unmet need for new iron therapies
- Additional late-stage Feraccru® pipeline assets that have delivered proof of concept with potential for significant value inflection
- Broad patent estate and exclusively through to 2035
- Multiple out-licensing opportunities
- Experienced management team with proven track record

OUR PIPELINE

In addition to Feraccru®'s clinical pipeline, earlier stage pipeline products may be developed by the Company or licensed to partners.

Product	Indication	Recent or upcoming milestones
FERACCRU®	IDA in IBD (EU)	Approved for marketing in EU, No, Is and Ch
	ID (adults) (EU)	European Commission approved extended treatment indication
	IDA in IBD and CKD (US)	File in 2018
	IDA in children (EU and US)	Expected to initiate Phase III trial in 2018/19
	IDA in IBD non-inferiority head-to-head of Feraccru® versus IV Iron (EU)	Ongoing PK study
PT20 Iron-based phosphate binder	Hyperphosphatemia (EU, US)	Completed Phase IIb pivotal clinical trial – ready for partnering
PT30 Novel IV Iron	IDA	
PT40 Generic IV Iron	IDA	



ANOTHER YEAR OF SOLID PROGRESS

2017 was another year of solid progress for Shield, the results of which, however, have been significantly affected by post period events. The Company's focus in 2017 continued to be to raise awareness of Feraccru®, grow sales in the UK and Germany and recruit into the ongoing clinical trials of Feraccru® as rapidly as possible. Progress on those fronts had been positive, with more than twenty specialist staff driving product recognition and sales in Germany and the UK by the end of 2017.

Financing the growing business has been one of the Company's key objectives. In June the Group completed a successful Warrant exercise, subscription and placing raising net proceeds of £11.9 million, which augmented the balance sheet and further enabled the Company to execute on its strategic plans ahead of the AEGIS-CKD data read out. Extending the cash runway post the AEGIS-CKD data has required a significant emphasis on cost containment and as a consequence, Shield has rationalised its commercial structure and other functions. All of these actions have extended the Group's cash runway at least through to the end of Q4 2018, which critically is expected to enable the Company to deliver a number of key value-enhancing events including filing of the NDA and results of the head-to-head studies.

The market environment

Our assets

Market environment

Our lead asset Feraccru®, and pipeline, are well positioned to benefit from the current market dynamics where we see continued political interest in both Europe and the US regarding drug pricing, due to 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] that include an aging population, with an increase in chronic disease placing even greater pressure on stretched healthcare budgets. This increases demands from payors for real-world evidence from studies measuring the pharmaco-economic performance of a therapy through the use of electronic medical records, providing data to support outcomes-based pricing along with mandatory treatment guidelines that can constrain physicians' choice of treatment.

Feraccru® lead product

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

Strategy

Through 2017 the Company has been building the foundations to achieve its vision and ambitions to become an international pharmaceutical company focused on identifying, developing and commercialising innovative specialty pharmaceuticals that address patients' unmet medical needs. Key elements of this strategy were:

- Seek a broad label for Feraccru® in Europe;
- Maximise the commercial potential of Feraccru® in key European markets;

1 Source: PwC Pharma 2020 series

- Prepare Feraccru® for a New Drug Application (NDA) in the US;
- Evaluate potential ways of commercialising Feraccru® in the US, either through a strategic partner or self-commercialisation; and
- Acquire or in-license additional clinical or commercial-stage product candidates that have the potential to address patients' unmet medical needs.

Following the disappointing initial top-line AEGIS-CKD results, the strategic focus for the coming year has had to be significantly revised. We as a Board, are seeking to achieve the best possible outcome for stakeholders. We believe that the best approach is to continue to focus on Feraccru® and increasing market penetration via the broad EU label and geographic expansion and we will evaluate partnering options to help us achieve Feraccru®'s full potential. We have made clear progress with the recent EC approval for the broad label in Europe for Feraccru®. It can now be used in the treatment of ID in adults, and with clarity on the outcome of the AEGIS-CKD study, we have been able to have constructive discussions with and received guidance from the FDA that has given the Company the confidence to now move forward with the submission of an NDA for Feraccru® as soon as possible. We also await the outcome of the AEGIS-H2H IIIb study, due in H2 2018. All of these events contribute to our strategic review around the future direction of the business.

Governance

As a Board, we are committed to the principles of good corporate governance. During the period, we have undertaken an annual update to our governance and risk management processes and the Group's risk management plan to ensure that they remain appropriately aligned to the size of the Company. The availability of sufficient financial resources continues to be the greatest risk. Further details are provided in the Audit, Risk and Corporate Governance Reports of the Annual Report.

As a growing company, the quality and integrity of our people remains fundamental to the way we do business and to our future success. The Board recognises the importance the Company places on its values and delivering on its purpose by aligning efforts with and committing to a set of clearly identified core values.

The Company's Corporate Governance Report can be found on pages 25 to 26 of the Annual Report. Ever since the Company's listing as an AIM-quoted company, the Board has maintained a regular review of its effectiveness and of the wider governance structure of the Group. As an AIM-quoted company, Shield Therapeutics is not currently required to comply with the UK Corporate Governance Code but following a recent update to the AIM Rules for Companies the Company has decided to apply the UK Corporate Governance Code and will assess any departures from the Code and the reasons for doing so by the implementation date of 28 September 2018. As set out in the Corporate Governance Report, as the Group continues to grow, we will maintain this evaluation and take the governance steps necessary to support the Group's development.

> "As a Board we are seeking to achieve the best possible outcome for stakeholders."

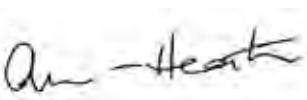
Board Changes

In September, Joanne Estell resigned her Board position as Chief Financial Officer and Company Secretary to pursue other business interests outside the healthcare sector. I would like to thank Joanne for her contribution to the Company. We were fortunate and pleased to be able to make an internal appointment for this role and Dr Karl Keegan was appointed interim Chief Financial Officer. Karl had been with Shield as Director of Corporate Development and previously worked closely with the CEO and the rest of the Board on all aspects of the Group's operations and strategy development as one of the members of Shield's Leadership Team.

At the beginning of April 2018 (post period), the Board was delighted to announce Rolf Hoffmann has joined the Board of Shield Therapeutics. His extensive experience and knowledge of the pharmaceutical industry and its key stakeholders in major markets will be helpful in defining the Company's future strategy and we look forward to Rolf playing a full and active role in these discussions and beyond.

People

Shield Therapeutics has always strived to be a company that people want to work with and for. The Board and I would like to thank all of Shield's employees and its partners who have continued to show tremendous commitment and worked hard to deliver our corporate objectives and goals through a transformational period for the Group. The decisions the Board and Management had to take immediately after receipt of the initial top-line results of the Phase III AEGIS-CKD study to reduce the operational activity and headcount of the business were particularly difficult, but completely necessary to protect our financial resources. The Board and I offer our sincere gratitude to all those who have been affected and who have shown continued commitment in difficult times.



Andrew Heath
Chairman
10 April 2018

A UNIQUE OPPORTUNITY TO PROVIDE AN ALTERNATIVE TO IV IRON THERAPY THAT ADDRESSES THE NEED FROM ORAL IRON INTOLERANT PATIENTS

FERACCRU® – A NOVEL ORAL FERRIC IRON

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

Patient diagnosed with ID

- ID causes significant morbidity and failure to treat it adequately with current therapies can cause the disease to progress to IDA
- IDA arises in diseases like IBD, CKD, Chronic Heart Failure (CHF) and in women with excessive uterine bleeding, etc.

Oral Iron

Up to 70% with gastro side effects

Oral Iron Tolerant

- Able to take oral ferrous iron products (OFP)
- Many patients are intolerant of OFP, especially those with other diseases (e.g. IBD and CKD)

Oral Iron Intolerant

Fe^{2+} Fe^{2+} → Insoluble complexes + Radicals → Gut damage side effects

Intravenous (IV) Iron

- Iron directly into the blood, but:
  - Allergic reactions
  - Iron overload
  - Hospital only
  - Resuscitation team required
  - High overall cost
- **No patients in long term study of Feraccru® required interventional IV Iron therapy**

Oral Iron Intolerant

FERACCRU®

- ✓ Simple oral administration
- ✓ Efficient absorption
- ✓ Rapid Hb rise
- ✓ Placebo-like safety
- ✓ Cost effective
- ✓ Can be taken without food

BUILDING ON SUCCESS WITH FERACCRU®

OUR STRATEGY

The Company has been building the foundations to achieve its vision and ambitions to become an international pharmaceutical company focused on identifying, developing and commercialising innovative specialty pharmaceuticals that address patients' unmet needs.

Key elements of this strategy:

1. Seek a broad label for Feraccru® in Europe
2. Maximise the commercial potential of Feraccru® in key European markets
3. Prepare for Feraccru® to be filed for an NDA in the US
4. Evaluate potential ways of commercialising Feraccru® in the US, either through a strategic partner or self-commercialisation
5. Acquire or in-license additional clinical or commercial-stage product candidates that have the potential to address patients' unmet medical needs

↘ See how we measure our strategy on page 10

A SIGNIFICANT MARKET OPPORTUNITY THAT REMAINS UNDERSERVED

About Non-Dialysis Dependent Chronic Kidney Disease and Iron Deficiency Anaemia

The National Institute of Diabetes and Digestive and Kidney Diseases suggests the overall prevalence of CKD in the United States is approximately 14%, and in Europe, the European Renal Association has reported that CKD has a prevalence of 10%.

There are five stages of CKD; in stages 1 and 2 people are typically under the care of a primary care physician and have a mild loss of kidney function. As people progress to stage 3 haemoglobin levels begin to fall, the patient experiences moderate to severe loss of kidney function and is generally referred to a nephrologist. Stage 4 is characterised as advanced disease with multiple complications and by stage 5 a patient is in kidney failure and dialysis would be initiated.

Standard of care currently only consists of measures to help control signs and symptoms and reduce the impact of the many complications, thereby making a patient more comfortable and slowing disease progression.

Anaemia is a major complication of CKD with an average of 15.4% of patients having anaemia, although this prevalence increases with the stage of CKD, rising from around 10% at stage 1 to approximately 55% at stage 5 and is associated with fatigue, lethargy, decreased quality of life and is also believed to be associated with cardiovascular complications, hospitalisations and increased mortality. As with IDA due to other diseases, currently available salt-based oral iron supplements are associated with limited efficacy and dose-limiting tolerability issues.

Feraccru®: 2017 access to full IDA patient pool
Feraccru® has a significant opportunity to take share in all market segments.

Prevalent population with IBD and CKD in EU5– 1.5 million

Iron Deficiency Anaemia (IDA) associated with IBD and CKD in EU5 c.300,000

Receiving no iron therapy

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

Receiving Oral Iron therapy

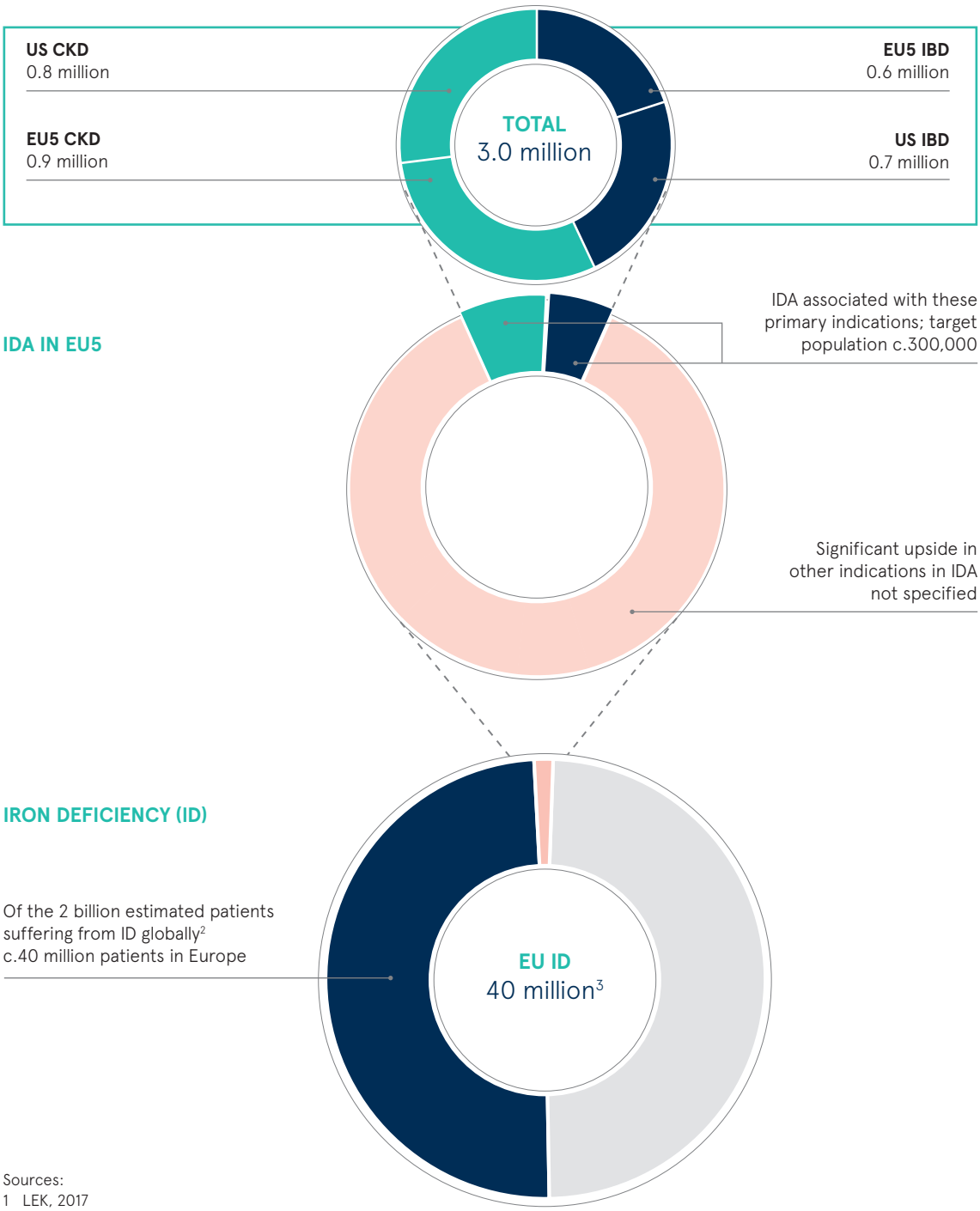
Second line treatment
- Feraccru® is first option for ferrous-intolerant patients in treatment guidelines
- Reduces the requirement for IV therapy

Receiving IV Iron therapy

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

FERACCRU®

INITIAL TARGET POPULATION PRIMARY INDICATIONS[1]



Sources:

1 LEK, 2017

2 WHO

3 Levi, M., Rosselli, M., Simonetti, M., Brignoli, O., Cancian, M., Masotti, A., Pegoraro, V., Cataldo, N., Heiman, F., Chelo, M., Cricelli, I., Cricelli, C. and Lapi, F. (2016), Epidemiology of iron deficiency anaemia in four European countries: a population-based study in primary care. Eur J Haematol, 97: 583–593. doi:10.1111/ejh.12776

Key performance indicators

FINANCIAL

Revenue

£0.6m

Description
The Group measures sales performance as a key financial metric.

Link to strategy
1 2 3 4 5

Loss

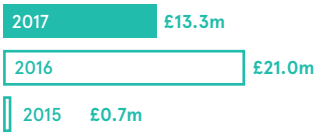
£19.6m

Description
The Group's loss for the financial year measures its overall financial performance during the period.

Link to strategy
1 2 3 4 5

Net cash

£13.3m



Description
Given the funding requirements of the business to ensure successful commercialisation the availability of cash is considered to be a key metric.

Link to strategy
1 2 3 4 5

NON-FINANCIAL

Headcount

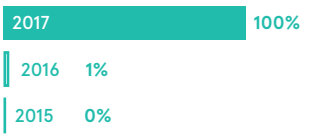
73

Description
As the Group progresses with the commercialisation of its primary product its rising headcount (including external contractors) is considered to be a key measure of performance.

Link to strategy
1 2 3 4 5

Recruitment – CKD study

100%

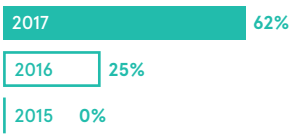


Description
Recruitment of patients for the Group's key clinical trials is expressed as a percentage of total required patient numbers.

Link to strategy
2 3 4

Recruitment – H2H study

62%



Description
Recruitment of patients for the Group's key clinical trials is expressed as a percentage of total required patient numbers.

Link to strategy
2 3 4

Case study

Feraccru® in Europe. EU approval for the broadening of the indication for Feraccru® to the treatment of Iron Deficiency in adults.

Feraccru® is a novel, stable, non-salt, oral formulation of ferric iron, which has a differentiated mechanism of action compared to salt-based Oral Iron therapies. When salt-based Oral Iron therapies are ingested, the iron must dissociate from the salt in the GI tract to allow the iron to be absorbed and treat the IDA. This free iron readily chelates to form insoluble clumps and produces damaging free radicals that together cause mild-to-severe GI adverse events, including nausea, bloating and constipation, leading to poor tolerability, reduced patient compliance and ultimately treatment failure. In addition, many patients with IDA are concurrently treated with medicines that raise the pH in the gut, which further reduces the effect of salt-based Oral Iron therapies as they require highly acidic-based conditions to be absorbed. Feraccru® is not an iron salt, and iron can be absorbed from the ferric maltol molecule; as a result, it does not routinely cause the same treatment-limiting intolerance issues. Feraccru® has been shown in clinical trials to be well tolerated by patients even when they had previously failed treatment with salt-based Oral Iron therapies, which should lead to increased patient compliance and better patient outcomes.

Currently, the only treatment option for IDA patients who cannot tolerate salt-based Oral Iron therapies is IV Iron therapy. IV Iron therapies quickly increase iron stores via direct administration of very large doses of iron, causing an increase in Hb levels that is physiologically controlled and occurs over a period of weeks as is the case with Feraccru®. IV Iron therapies, however, are invasive, costly, inconvenient and complex to administer, and come with potentially life-threatening, spontaneous hypersensitivity reactions.

In September 2017 an application to the EMA extended the existing commercial label for Feraccru® to include all patients with ID.

Bringing the colour back to people's lives

Post period

Continuation of a successful broad label extension in Europe in March confirmed a significantly broader patient population target opportunity for Feraccru® in Europe, with over 40 million* people in the EU estimated to be iron deficient.

* Levi, M., Rosselli, M., Simonetti, M., Brignoli, O., Cancian, M., Masotti, A., Pegoraro, V., Cataldo, N., Heiman, F., Chelo, M., Cricelli, I., Cricelli, C. and Lapi, F. (2016), Epidemiology of iron deficiency anaemia in four European countries: a population-based study in primary care. Eur J Haematol, 97: 583–593. doi:10.1111/ejh.12776

LAYING STRONGER BUSINESS FOUNDATIONS, CONSOLIDATION AND SOLID PROGRESS FOR FERACCRU®

Shield has continued to make progress in bringing the substantial benefits of Feraccru® to more patients.

Introduction

Notwithstanding the very significant negative impact and ongoing fallout of the early February announcement of the initial top-line data from the AEGIS-CKD study, the last 15 months have been a period of laying stronger business foundations, consolidation and solid progress for Shield Therapeutics and our lead asset, Feraccru®.

Along with good progress with Feraccru®'s clinical development, Shield had continued to make clear progress with the commercialisation activities of Feraccru® and having gained ground in Germany and the UK, the Company has continued to make progress in bringing the substantial benefits of Feraccru® to more patients in these territories. Product awareness has grown consistently, and more patients than ever are benefitting from Feraccru® therapy. Reassuringly this growth has continued post the announcement of the initial top-line result of the AEGIS-CKD study. In addition, we have continued to successfully out-license Feraccru® in additional markets, with additional discussions ongoing.

This year the Company received significant new patent grants for Feraccru®'s Composition of Matter Patent in Europe and the US, which now provides broad commercial protection through to 2035. Receipt of this is a valuable step forward for the Company as it considers its strategic options.

Post period in March 2018, we were pleased that the European Commission approved the extended indication for Feraccru® to include treatment of all adults with ID with or without anaemia. This is an important step for Shield by providing Feraccru® with a much greater commercial opportunity through a significantly larger patient population who could potentially benefit from Feraccru® therapy, as previously it was only approved and marketed in Europe for the treatment of IDA in adult patients with IBD.

After the unexpected and disappointing initial top-line results from the AEGIS-CKD pivotal Phase III study of Feraccru® in February, the Company announced a Business and Trading update and confirmed the implementation of a cost rationalisation programme and the Board implemented a full review of Shield's strategic options. I am reassured that we have rapidly been able to understand what occurred in the study to produce the initial and confusing top-line result. This has enabled us to take appropriate and well-controlled steps to prepare a data package that underpinned a constructive pre-NDA meeting with the FDA and led to the recent receipt of the final minutes of this meeting. These provided Shield with the necessary guidance to decide to progress with the submission of an NDA for Feraccru® as soon as possible and without the need to conduct additional pivotal clinical trials.

The outcome of the FDA's deliberations has certainly helped inform the Group's ongoing strategic review, not least allowing us to confirm that the Company will submit an NDA as soon as possible in 2018. Further updates on our announced activities around partnering Feraccru® in Europe will be shared in a timely manner.

Feraccru® – initial focus on targeting IDA patients with IBD in UK and Germany

The Company's lead product, Feraccru®, is a novel non-salt, oral formulation of ferric iron, which was first approved in Europe in 2016 and Shield is now able to market the product for the treatment of ID, in all adult patients. It is estimated that more than 40 million individuals in Europe alone suffer from ID. The strategic review has recognised the importance of accelerating the positive sales momentum in Europe and as announced, we have engaged a third party to facilitate progressing potential partnering arrangements.

Germany

Following the appointment of Andreas Off, a General Manager with more than 20 years of in-market experience with specialty pharmaceuticals, to lead Shield's German operations, the management team became fully active in 2017 and the field-based sales force expanded later in the year following some hiring challenges through the summer months and was well on its way to reaching a headcount of 20 sales representatives during the first half of 2018 before we took the resource conserving decisions to reduce operational capabilities in February 2018. However, Feraccru® uptake has continued to increase in the immediate aftermath, but it is clear that with a larger share of voice and people on the ground we would expect further increases in uptake in this important and well-funded market.

The in-country sales teams had been focused on conversion of physician interest into prescription sales. Feraccru® benefited from more pre-launch awareness (Shield had more hospitals in Germany actively involved in key pre-approval clinical trials of Feraccru®) as well as somewhat stronger pricing in this territory. These elements, combined with the benefits Feraccru® provides to patients, prescribers and payors, have led to continued progress in uptake during 2017 with pack sales per month increasing by over 400% from January 2017 to December 2017, with this trend continuing in the post period timeframe.

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 strong track record of identifying value and are always looking for more

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

RELATIONSHIPS
Strong and human... everyone is valuable

CONTINUOUS DEVELOPMENT
We only want people who are committed, effective and determined to succeed

"The expansion of Feraccru®'s marketing authorisation approval, provides Feraccru® with a much broader commercial opportunity."

Feraccru® – initial focus on targeting IDA patients with IBD in UK and Germany continued

UK

As previously reported the commercial dynamics of the UK market remain significantly different to those in Germany. Initial focus in the UK has been on achieving the required formulary access with hospitals and clinical commissioning groups (CCGs) that enables prescriber usage demand to be fulfilled. Reimbursement activities continue and by the end of 2017 we had made submissions to formularies that accounted for approximately 65% of the patient opportunity (increased from 31% at 31 December 2016), exceeding our stated target of 60%. Encouragingly we continue to improve Feraccru®'s prescribing status in those areas where formulary has been granted and by the end of 2017, we had over 100 centres in the UK ordering per month, compared to 48 at the end of 2016. Finally, in the UK during 2017 pack sales per month increased by over 400%.

Tangible progress is being made with the NHS and UK prescriber interest in Feraccru® is increasing. The label expansion, AEGIS-CKD data and AEGIS-H2H data are all expected to have further positive impact in 2018 and we remain confident that appropriate investment in manpower and activities would create an attractive market for Feraccru® in the UK. We will evaluate partnering options to help us achieve Feraccru®'s full potential.

Delivering on Shield's out-licensing strategy

Geographic expansion of Feraccru® outside the Group's stated core markets is an important element of Shield's broader commercialisation strategy and good progress was made in this respect in 2017.

The Group concluded an update to and expansion of the existing agreement with AOP Pharmaceuticals which provided for improved commercial terms in existing territories and the addition of commercial rights to Feraccru® in Scandinavia. This expanded agreement accelerated access to near-term revenues in this market region and allowed Shield to focus its resources on the core European markets.

In July, Shield entered into an exclusive agreement for Feraccru® in Switzerland with Ewopharma AG. Under the terms of the agreement, Shield continues to manage all regulatory aspects of Feraccru®'s initial marketing authorisation, supply product to Ewopharma, provide product training and marketing support for the brand. Ewopharma has responsibility for maintaining Feraccru®'s marketing authorisation and managing commercialisation of the planned future label expansion, with support from Shield, as well as all aspects of pricing, reimbursement, marketing and distribution. Switzerland is a well-developed market for the treatment of IDA, currently contributing almost 15% of total European IV iron sales from a little more than 2% of the population.

Regulatory approval of Feraccru® is expected imminently in Switzerland, having received a pre-approval notification from the Swiss regulatory authority in June 2017 and the Board believes Feraccru® will be an important product for Ewopharma. With its existing expertise in the IDA market, together with a focus on gastroenterology, Ewopharma is well positioned to rapidly and effectively launch Feraccru® into the Swiss market.

As recently announced, Shield is also working with Torreya Partners to explore ways of accelerating the realisation of Feraccru®'s potential in Europe and more distant geographies. Interest is clear and as progress is made we will provide timely updates on these activities. We have been encouraged by the level of interest shown in the initial stages of our European partnering activities for Feraccru®. To date this includes receipt of a non-binding proposal from a potential partner, which includes an upfront payment as part of the proposal (as is typical in deals in this sector) that the Company would use to provide a cash runway into 2019. Although there can be no certainty that such an agreement will be concluded, this indicates there is clear progress and, as progress is made, updates on these activities will be provided.

Clinical progress to support broader commercialisation of Feraccru®

AEGIS-CKD pivotal Phase III study of Feraccru®

The Feraccru® AEGIS-CKD study is a pivotal Phase III trial with a primary endpoint evaluating haemoglobin response to Feraccru® (ferric maltol, 30mg twice daily) compared to placebo in the treatment of IDA in patients with chronic kidney disease (CKD). Top-line data was based on the 16-week primary endpoint, with 167 subjects enrolled in 30 renal centres across the US.

Post period in February, initial top-line results showed that Feraccru® had seemingly failed to meet the study's primary endpoint of demonstrating a statistical difference in change of haemoglobin from baseline compared to placebo at 16 weeks (0.45 v 0.15 g/dL, p=0.1686).

The response at 8 weeks demonstrated separation of the treatment arms (0.53 v 0.0 g/dL, p = 0.0009), which was not sustained to week 16. Patient drop-out rate was low over the 16 weeks and similar in both arms - 10 (9%) in the Feraccru® arm versus 7 (12.5%) placebo, reconfirming the strong tolerability profile of Feraccru®.

Subsequently, following a blinded review of all enrolled subjects who completed the initial 16-week placebo-controlled portion of the study, a small number of patients in both treatment arms were identified as experiencing pre-specified events that could have led to withdrawal but, as permitted in the study protocol, with Investigator discretion they remained in the study. The Company believes the inclusion of data from these patients, post these confounding events, significantly impacted the haematology-focused primary endpoint of the pivotal study. Consequently, further analyses of the data from the full trial population have been conducted using a multiple imputation methodology in the pre-specified statistical analysis of the Intention to Treat (ITT) population, which correctly dealt with the confounding data.

As a result of these revised analyses, patients treated with Feraccru® demonstrated a statistically significant response (p=0.0149) in haemoglobin levels after 16 weeks of treatment compared to placebo (difference 0.52g/dl (CI 0.102, 0.930)) and statistically significant results were achieved across a range of secondary iron parameters (TSAT, Ferritin levels, serum iron levels). The response at 8 weeks also demonstrated separation of the treatment arms (0.49 v 0.03 g/dL, p = 0.0052). The Company believes there is a clear and robust rationale for the analyses of the dataset as outlined and following constructive discussions with FDA is now moving forward with the submission of an NDA for Feraccru® as soon as possible and without conducting any additional clinical trials.

Feraccru® AEGIS-H2H IIIb study – primary endpoint data anticipated in H2 2018

The AEGIS-H2H Phase 3b study is designed as a non-inferiority trial comparing the efficacy and safety of Feraccru® to the market-leading latest generation form of IV iron (Ferinject/ Injectafer, ferric carboxymaltose). The data from the study will primarily be used to support pricing and reimbursement negotiations in those markets that seek comparator data and the primary endpoint data from the study is expected to be available in the second half of 2018.

CHMP positive opinion for Feraccru® (Ferric Maltol) for the treatment of ID in adults

Post period, in March 2018, the European Commission authorised a significant extension of the approved label for Feraccru®. The Company's lead asset is now approved and can be marketed in Europe for the treatment of ID, in all adult patients.

This is an important step for Shield and for patients suffering with ID be that with or without anaemia. ID causes significant morbidity and failure to be able to treat it adequately with current therapies can cause the disease to progress to IDA. The WHO has identified that ID is a globally important health issue significantly impacting the lives of up to 2 billion people, albeit the majority of these are due to nutritional issues.

The new market opportunity for Feraccru® in Europe significantly expands from the current 330,000 patients with IDA in IBD we have previously reported, to a much broader patient population opportunity, with over 40 million* people in the EU estimated to be iron deficient. With Feraccru® being protected by a broad composition of matter patent through to 2035, this is a valuable step forward for the Company as it considers its strategic options.

Other trials and data collection efforts

In 2017, Shield initiated a number of data collection projects to support marketing activities and pricing and reimbursement applications for Feraccru®. This includes a patient registry in Germany which could be expanded across Europe and a real-world evidence study across a number of UK prescribing centres involving patients receiving commercial Feraccru®. As well as generating supportive data for the use of Feraccru®, involvement in such programmes more directly increases the prescriber's knowledge of the product being assessed and of Shield Therapeutics.

The Group's first paediatric pharmaco-kinetic study of Feraccru® has now completed recruitment with Shield observing a high degree of interest and involvement from the participating centres. Data from this study is also expected in 2018 and will help the Group design the small paediatric Phase 3 study that the EMA requires to enable Feraccru® to be marketed for the treatment of IDA in children.

* Levi, M., Rosselli, M., Simonetti, M., Brignoli, O., Cancian, M., Masotti, A., Pegoraro, V., Cataldo, N., Heiman, F., Chelo, M., Cricelli, I., Cricelli, C. and Lapi, F. (2016), Epidemiology of iron deficiency anaemia in four European countries: a population-based study in primary care. Eur J Haematol, 97: 583–593. doi:10.1111/ejh.12776

Further strengthening of the intellectual property protection of Feraccru®

Shield continued to strengthen its IP position regarding Feraccru®. Following the UK grant notification in October 2016 for the composition of matter patent for Feraccru®, Australian and Canadian patent grants were received in March and April 2017, respectively. In May 2017, the European Patent Office also notified Shield that it intended to grant the patent across its jurisdiction, followed most recently with notification of allowance of grant from the US Patent Office in September. The results of these positive opinions is that the active substance of Feraccru® is now broadly protected through to late 2035 in the USA, Europe, Australia, and Canada thereby adding a significant number of years to the peak sales opportunity for Feraccru® in these commercially important markets. Applications and prosecutions continue in other commercially relevant markets.

Financial Review

During the year to December 2017 the Group maintained its focus on the commercialisation of Feraccru®. Spend on research and development activities, together with commercial teams, continued to grow. June 2017 also saw gross funds raised of £12.4 million through the combination of an exercise of Warrants, institutional placing and subscription for shares.

Revenue

Revenue of £637,000 (2016: £304,000) was recorded during the year, as the Group continued its progress with commercialisation. Of this amount £70,000 (2016: £240,000) relates to sales in the UK and £567,000 (2016: £64,000) to sales in Europe.

Selling, general and administrative expenses

Selling costs increased to £9.1 million (2016: £4.2 million) during the year, as the Group developed its commercial activities in Europe. General administrative expenses of £5.2 million (2016: £4.6 million) reflected the increase in headcount in this area. Depreciation and amortisation of £2.4 million (2016: £1.9 million) is principally in relation to the intellectual property acquired with Phosphate Therapeutics Limited during 2016.

Research and development expenditure

The statement of profit and loss includes research and development expenditure of £4.7 million, incurred in relation to the Group's phase III AEGIS-CKD study, together with additional costs associated with the Marketing Authorisation Approval.

Costs of £3.2 million were also capitalised in relation to the Group's H2H phase 3b and paediatric studies and CMC costs relating to the scale-up of manufacturing activity.

Tax

The tax credit of £1.4 million in the statement of profit and loss relates to cash claimed in respect of R&D credits for the 2016 financial year.

Loss per share

The basic loss per share for 2017 was £0.17 (2016: £0.15). After adding back exceptional items (see Note 15) the adjusted loss per share was £0.15 (2016: £0.09). Details of the loss per share calculations are provided in Note 15.

Balance sheet

Net assets at 31 December 2017 were £41.2 million (2016: £48.4 million), including cash of £13.3 million (2016: £21.0 million) and intangible assets of £30.0 million (2016: £29.0 million). This followed the receipt of net fundraising proceeds during the year of £11.9 million.

£23.3 million (2016: £25.3 million) of the intangible assets balance relates to the acquisition of intellectual property with Phosphate Therapeutics Limited and £5.4 million (2016: £2.5 million) to the capitalisation of development costs in relation to the Group's clinical studies, with the remaining balance of £1.3 million (2016: £1.1 million) relating to patents and trademarks.

Cash flow

Cash burn (net cash flow from operating and investing activities) during the year was £19.6 million, primarily in relation to ongoing commercialisation and research and development activities. The Group also raised net funding proceeds of £11.9 million during the year, resulting in a net cash outflow of £7.7 million.

Foreign exchange management

The Group takes a conservative position with regard to foreign exchange and does not currently take out forward contracts, as the timing and extent of future cash flow requirements denominated in foreign currencies are difficult to predict. Part of the IPO funds receipt was in Euros and this had the benefit of providing a significant level of natural hedging against foreign exchange movements. Future currency needs are continually monitored, and currency purchases will be considered when the extent and timing of such needs are known.

Going concern

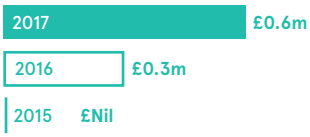
As described in Note 5 the Directors have prepared the financial statements on a going concern basis; however, uncertainty remains regarding the source and timing of funding to support the Group's commercialisation efforts and its going concern status. The auditors have issued an emphasis of matter in this respect.

This strategic report was approved on 10 April 2018, by order of the Board.

Carl Sterritt
Chief Executive Officer
10 April 2018

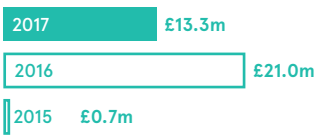
Reported revenue

£0.6m



Net cash

£13.3m

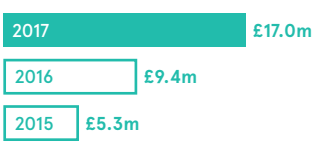


Loss for the year

£19.6m

Adjusted loss

£17.0m



The Board ensures that all of the key risks are understood and appropriately managed in light of the Group's strategy and objectives.

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 significant risks.

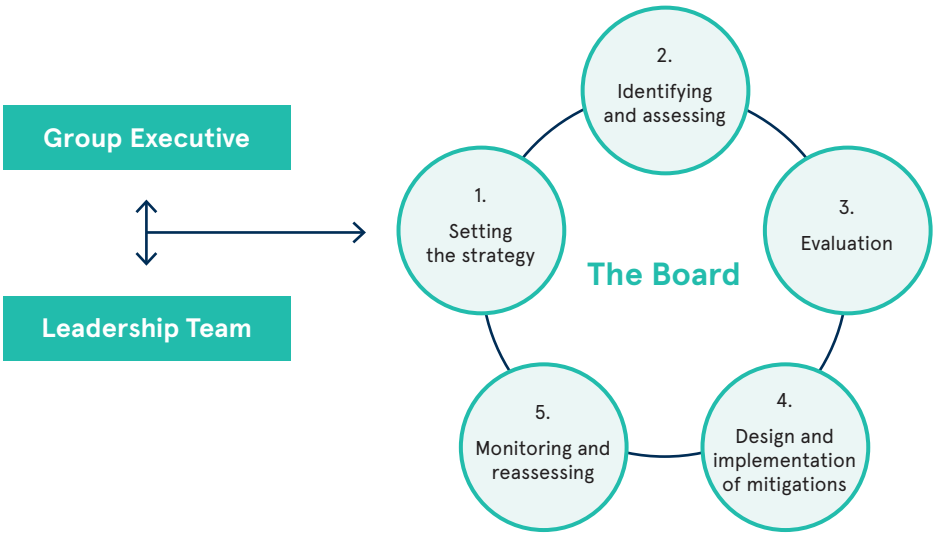
The Audit Committee oversees risk management on behalf of the Board. During the year the Committee has overseen an update to the risk management plan introduced in the prior year, which has a number of key objectives:

- To understand the business risks that the Group faces and to create and manage a register of these risks, documenting the decisions taken and judgments made;
- To ensure that the risk appetite of the Board is fully understood by those who are responsible for managing risk across the business;
- To ensure that mitigating actions and controls are aligned to the risk appetite of the Board;
- To ensure that risks are appropriately managed or mitigated and to ensure that, where appropriate, risk is mitigated through insurance;
- To control systematic risks within the organisation by maintaining and improving a system of internal controls to manage risks in decision making, legal contract management and the processing of financial transactions;
- 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 the Group risk strategy, the Audit Committee appointed a Group Risk Manager in the prior year to manage the level of risk within the Group.

Operational risk management

- The Audit Committee meets regularly during the year and the risk management plan, risk register and adequacy of actions taken to mitigate risk are considered at its meetings.
- 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 between the finance team and all major divisions of the Company take place to review the progress of all key projects.
- The quality team meets monthly to review all aspects of quality management across the business.



Key ⇔ No change ↗ Increased ↘ Decreased

Principal risks and uncertainties

Risk description	Change	Key mitigation	Link to strategy
Dependence on a single product	⇔	Shield is now actively seeking a partner to commercialise its second asset, PT20.	5
Availability of finance	↗	The Group successfully completed a fundraising exercise in June 2017 through the combination of a placing, subscription and exercise of Warrants. Financing requirements are anticipated during 2018 and the Group is actively pursuing further sources of finance.	1 2 3 4 5
Ability to attract and retain key staff and members of the management team	↗	The HR team continues to focus on remuneration arrangements designed to attract and retain key staff.	1 2 3 4 5
Delays in local reimbursement	⇔	UK and German pricing for Feraccru® was agreed in the prior year. Continued use of specialist market access consultants to improve local formulary access and access to other key markets.	1 2 3 4
Reliance on wholesalers	⇔	Management of supply changes to effectively monitor patient supply.	2 4
Non-compliance with regulatory requirements (e.g. GxP)	⇔	The Group has an established quality team in place to address this risk.	2 3
Failure to protect IP	↘	Extension of Feraccru®'s Composition of Matter patent suite in Europe, the US, Australia and Canada during the year to 2035.	2 3 4
Delays in clinical study enrolment	↘	The Group's pivotal CKD trial completed its enrolment during the course of the year and its PK study completed enrolment post period end. Clinical enrolment for its H2H study is being monitored closely, with additional centres being opened to meet requirements.	2 4
Disruption to product supply	↘	Shield has progressed its programme to validate a second supplier of Drug Substance and Drug Product for Feraccru®.	2 4

COMMITTED TO CORPORATE RESPONSIBILITY

People

Shield considers the quality and welfare of its employees to be key to the success of the business. The Group's employee handbook includes equal opportunities and harassment policies, focused on ensuring that employees are treated with equality, regardless of race, gender, disability and sexual orientation.

The Group is committed to health and safety in the workplace and having established and implemented a policy in this area monitors compliance with appropriate health and safety standards. The Group encourages its employees to be environmentally conscious and to consider the implications for the environment in their business undertakings, for example by considering energy efficiency in the workplace.

Charitable donations are made following Executive Director authorisation. In 2017, the Group supported Crohn's & Colitis UK.

The Group also supports selected community organisations. Organisations are chosen on the basis of regular employee involvement in their activities and a commitment to health and well-being. During the year the Group sponsored the Kobika Starlites Team UK to compete at the European Cheerleading Championships.

Sustainability

Sustainability and ethical behaviour are carefully considered in the selection of key supply chain partners. The process includes an assessment of the supplier's ability to deliver in accordance with technical requirements and adhere to relevant quality requirements and safety standards.

The manufacturing facilities of key supply chain partners are subject to inspection at regular intervals by the regulatory authorities.

Ethical and social policy

The Group's employee handbook includes policies on ethics, whistleblowing and anti-bribery. Directors and senior management set a clear culture in terms of conduct in each of these areas and ensure that the tone adopted at Board level is clearly communicated to all levels of the organisation. Sound business ethics are an underlying principal in all the Group's activities. Shield follows the Code of Practice of the Association of the British Pharmaceutical Industry (ABPI) in its promotion of medicines to the healthcare profession.

The Group has also implemented GxP procedures and SOPs (Standard Operating Procedures) which cover, amongst other matters, the conduct of its clinical trials.

EMPLOYEE COMMUNICATION

Regular "town hall" communication meetings were held with employees during the course of the year to engage with all levels of management and solicit feedback on the Group's strategy and performance. The meetings are planned and delivered by the Shield team, with guest speakers in attendance. Surveys were issued after the events to obtain employee views on their success and aid in planning for the future.

OUR EXCELLENT TEAM

Freedom to operate and a commitment to continuous development is what makes Shield different.

ROBERTA VASARI

Clinical Study Manager

Over the past five years, I have been in the privileged position to work on almost all of the Feraccru® clinical projects at Shield, which has given me an invaluable opportunity to understand the product. During this time we received Marketing Authorisation within the EU, enabling us to openly talk about our fantastic results and our mission.

During the clinical projects, I work together with the consultants who are going to be our future customers and I am thoroughly enjoying explaining the benefits of Feraccru® to them. The feedback is extremely positive.

At Shield, we all have a "voice" and work together as a big team to improve patients' lives and rise to the challenges we may face. People are dedicated, talented and extremely helpful. Shield has given me a chance to think outside the box and encouraged me to stretch myself and to improve my skills. It is exciting and motivating to be part of this patient-focused, strong and expanding Company.

"At Shield, we all have a "voice" and work together as a big team to improve patients' lives."

CAROL AKINOLA

Head of Pharmacovigilance and Medical Information

Before I applied for my job with Shield, I looked at the products Shield had in the pipeline. As soon as I read about Feraccru®, I knew this would make a huge difference to patients' lives.

Working in Medical Information and Pharmacovigilance (Drug Safety), I come into contact with all sorts of people, from healthcare professionals to patients, and I have been amazed by the interest in and success of Feraccru®. There have been testimonies from patients about how using Feraccru® has literally changed not only their lives for the better but those of their families as well.

Shield's purpose is helping our patients become people again, by enabling them to enjoy the everyday things that make the difference. When a patient tells you "thank you for giving me my life back", it gives me an extra reason to come to work!

"When a patient tells you "thank you for giving me my life back", it gives me an extra reason to come to work!"

DR ANDREW HEATH
Non-Executive Chairman

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. 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 founder

With approximately 20 years of management and executive level experience in pharmaceutical development and commercialisation in both large and small company settings, Carl has led the Company as its CEO since he co-founded the Group in 2008 together with Dr Christian Schweiger.

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 the Group after Encysive was acquired by Pfizer Inc. for more than $300 million.

JAMES KARIS
Non-Executive Director

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

PETER LLEWELLYN-DAVIES
Non-Executive Director

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 was CFO of Medigene AG between 2012 and 2016 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 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. Peter was nominated for appointment to the Board pursuant to the Relationship Agreement.

ROLF HOFFMANN
Non-Executive Director

Rolf is currently Chairman of Biotest AG, sits on the Board of Directors of the large European biotechnology company Genmab AG and is a Director of San Francisco-based Trigemina Inc. Rolf brings to Shield over 30 years of international pharmaceutical experience, having served in several senior roles in the industry, most recently twelve years with Amgen as Senior Vice President of Commercial Operations for the United States, and before that as SVP International and Europe. He started his pharmaceutical career at Eli Lilly as a sales representative, progressing to senior positions including President of Latin America operations and General Manager in Germany. Rolf holds an MBA from the University of North Carolina, a master's degree from the University of Cologne and is Adjunct Professor at UNC Kenan-Flagler Business School.

DR KARL KEEGAN
Interim Chief Financial Officer

Dr Karl Keegan joined the Group in April 2017. Karl brings over 20 years' experience in the finance sector as a highly ranked sell side analyst and Board Director.

Since leaving the financial sector in 2009, Karl has had extensive international financing and corporate development responsibilities with a variety of biotechnology and specialty pharma companies. His previous major role was as Corporate Development Director at Vectura Group plc where he had an integral role in the acquisition of Activaero and associated fundraise in 2014 and the merger with Skyepharma in 2016.

Karl has a PhD in Pharmacology from the University of Cambridge and an MSc in Finance from London Business School.

DR MARK SAMPSON
Chief Medical Officer

Dr Mark Sampson was appointed as VP, Medical Affairs at Shield in 2015 and transitioned into the role of CMO in 2016. Mark joined us with more than 25 years of medical practice, pharmaceutical development and commercialisation experience. Mark brings to our team an outstanding pedigree in medical development and leadership at companies such as SmithKline Beecham, Amgen and Gilead, having been a key member of a number of successful commercialisation projects. Mark is a highly experienced pharmaceutical physician who combines broad medical knowledge and business acumen, with an impressive record of achievement at affiliate, regional and global levels across pharmaceutical, biotech and consumer products. In addition Mark was a member of the UK Prescription Medicines Code of Practice Appeals Board for 13 years.

SUZANNE WOOD
Group HR Director

Suzanne joined the Group in 2016 and is a member of the Management Team, leading the HR function. Suzanne brings to Shield over 20 years' experience of Human Resources with significant experience in international pharmaceuticals, healthcare and FMCG companies. During her career she has brought strategic HR skills to enable change management in both M&A situations and companies undergoing significant growth. Since joining Shield, Suzanne's focus has been to provide continued support for the transformation of the organisation and culture to achieve the strategic priority of commercial growth. Suzanne has also been a Non-Executive Director for the NHS.

Under the rules of AIM, the Group is not currently required to comply with the UK Corporate Governance Code 2016 (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 as is appropriate to a group whose shares are admitted to trading on AIM. Following a recent update to the AIM Rules for Companies the Company has decided to apply the UK Corporate Governance Code and will assess any departures from the Code and the reasons for doing so by the implementation date of 28 September 2018.

Leadership

The role of the Board

The Board is committed to the highest standards of corporate governance and to maintaining a sound framework for the control and management of the Group's business. It is responsible for leading and controlling the activities of the Group, with overall authority for the management and conduct of the Group's business, together with 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), reviewing the overall effectiveness of controls and systems in place, approval of the budget and the approval of any changes to the capital, corporate and/or management structure of the Group. The Board delegates authority as appropriate to its Committees and members of the Group's management.

The Board holds meetings at least five times a year, with additional ad hoc meetings as required (for example due to the fundraising exercise completed during the year). 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. A full operational briefing pack is circulated to the Board for review prior to each meeting.

Effectiveness

Composition of the Board

The Board was comprised of the following Directors during the course of the year, and up to the date of approval of this report.

Role	Name	Key responsibilities	Other role(s)
Chairman	Andrew Heath	Responsible for leading and managing the Board, its effectiveness and governance.	Chairman 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* Joanne Estell**	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, constructively challenging and supporting the Executive Directors. Also responsible for leading the review of performance of the Executive Directors.	Chairman 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, constructively challenging and supporting the Executive Directors. Also responsible for ensuring the integrity of financial reporting and risk management.	Chairman of Audit Committee. Member of Nomination Committee.
Independent NED	Rolf Hoffmann***	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, constructively challenging and supporting the Executive Directors.	

* Resigned 27 January 2017
** Appointed 1 May 2017, resigned 14 September 2017
*** Appointed 6 April 2018

Leadership continued

The role of the Board continued

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

2017 meetings	Number of meetings	Attendance
Main Board	8	All Directors attended
Audit Committee	3	All Committee members attended
Remuneration Committee	3	All Committee members attended
Nomination Committee	1	All Committee members attended
Board strategy day	1	All Directors and executive management team members attended

The Non-Executive Directors also meet without the Executive Directors present on an ad hoc basis during the course of the year.

Independence of Non-Executive Directors

A majority of the Company's Directors are independent Non-Executive Directors and are considered to be independent. 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, he was appointed independently and does not in any way represent W Health LP. The Chairman is also considered to be independent and has not previously served as an executive officer of the Company. The Non-Executive Directors each hold small shareholdings in the Company amounting to <0.1% of the Company's total share capital. The Board composition complies with the Code as applicable to smaller companies in terms of the number of independent Non-Executive Directors.

Appointments to the Board

During the year Joanne Estell and Rolf Hoffmann were appointed as Directors of the Company. Their appointment followed a recommendation to the Board made by the Company's Nomination Committee, comprised of the Company's Non-Executive Directors and chaired by its independent Chairman. The Nomination Committee gave consideration to their skills and experience in comparison to the requirements of the roles prior to their recommendation. Joanne resigned as a Director of the Company on 14 September 2017.

Re-election of Directors and term of service

Details of the proposed re-election of Directors and the term of their service contracts/letters of appointment are provided within the Directors' remuneration report on pages 28 to 32.

Directors' service contracts and letters of appointment, outlining their roles and responsibilities, are available for shareholders to inspect at the Company's registered office.

Information and support for Directors

Directors receive an induction on their appointment and ongoing briefings and training relevant to their roles.

In addition to the services of the Company's retained professional advisors they have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors.

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

Accountability

Financial and business reporting

Prior to approval of the Company's annual and interim reports the Board considers the going concern position of the Company and confirms the Company's ability to continue as a going concern for a period of at least twelve months from the date of their approval.

The annual report includes an explanation of the Company's business model and strategy, together with an assessment of its delivery against its objectives, with due regard to the going concern disclosures at Note 5 and the emphasis of matter regarding going concern included in the audit report.

Risk management and internal control

The Board has overall responsibility for the adequacy of the Group's internal control arrangements and consideration of its exposure to risk. It approves and adopts the annual update to the Group's risk management plan, following recommendations made by the Audit Committee. Further descriptions of the Audit Committee's activities in this area are provided in the audit and risk report on page 27.

Audit Committee and auditor

The activities of the Audit Committee, including those in relation to the Group's external auditor, are described in the audit and risk report on page 27.

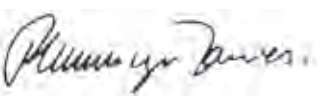
Remuneration

The role of the Board and its Remuneration Committee in establishing a policy on executive remuneration and an explanation of the level and components of remuneration are provided in the Directors' remuneration report on pages 28 to 32.

Relations with shareholders

The Executive and Non-Executive Directors proactively engage with key shareholders and analysts during the course of the year, including the provision of investor briefing calls and meeting opportunities following the release of annual and interim results and fundraises.

Details of the Annual General Meeting, which allows shareholders the opportunity to raise questions with the Company's Directors, are provided in the Directors' report on page 34.



Peter Llewellyn-Davies
Audit Committee Chairman
10 April 2018

Peter Llewellyn-Davies
Audit Committee Chairman

The Audit Committee

Whilst the Board has ultimate responsibility for the review and approval of the annual and interim reports, and for risk management, certain aspects are delegated to the Audit Committee, including:

- Oversight of the risk management framework and regular risk reviews;
- Monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditor in that process;
- 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 review of 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.

Activities of the Audit Committee

The Committee met three times during 2017. Its key activities included:

Risk management

- Review and approval of the 2017 updated Group risk management plan;
- Review of findings from internal controls testing performed as part of the external audit and consideration of any recommendations from the Group's external auditor;
- Consideration of whistleblowing arrangements and the Committee's role in this;

Financial reporting

- Review and approval of the Group's accounting policies;
- Review of the interim and annual financial statements, including review and challenge of the key judgments made in their preparation;
- Review of the work of the external auditor and matters requiring discussion following the 2017 audit;
- Advising the Board that, taken as a whole, the annual report and accounts are fair, balanced and understandable;
- Review of the basis for the going concern statement in the annual and interim reports;

External audit

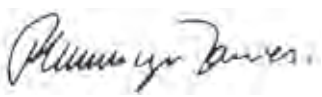
- Recommendation to the Board to approve the reappointment of KPMG LLP as external auditor;
- Review and approval of the annual audit plan;
- Review of the independence, objectivity, performance and effectiveness of the auditor; and
- Approval of the Group audit fees and any non-audit services provided by the external auditor.

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 2017 annual report and accounts. The Group maintains a segregation between its external auditor and other advisors, with Ernst & Young LLP appointed as the Group's tax advisor and Deloitte LLP appointed as remuneration consultant, to ensure a separation of the audit from other key advisory work.

Internal audit

The Audit Committee considers the requirement for an internal audit function on an annual basis, taking account of the scale and complexity of the Group's activities, number of employees, cost benefits, any issues identified in management's assessment of controls during the period and the adequacy of other management information provided. The Committee is of the opinion that an internal audit function is not currently appropriate for the Group given its stage of development. The Committee will continue to review the appropriateness of these arrangements.



Peter Llewellyn-Davies
Audit Committee Chairman
10 April 2018

James Karis
Remuneration Committee Chairman

On behalf of the Board I am pleased to present the Directors' remuneration report for the year ended 31 December 2017. Although the Company is 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, the Committee has prepared this report as a matter of best practice and has taken account of those regulations in doing so.

Remuneration Committee membership and activities

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 met three times during the course of 2017. It 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 share options and bonus awards; and
- Production of the Directors' remuneration report.

Deloitte LLP has acted as an external advisor to the Committee during the year.

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 request from the Company Secretary.

Key remuneration principles

Our remuneration arrangements for Executive Directors are based on the key principles set out below. We have articulated how those principles are addressed within the remuneration 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, 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 minimum shareholding guidelines.

Executive remuneration in 2017

Base salaries for the Executive Directors were based on the prior year plus an inflationary increase.

LTIP awards were granted to the Executive Directors and members of senior management. Awards granted during 2017 will vest, subject to the achievement of performance conditions, in July 2020. Awards made to Joanne Estell during 2017 were forfeited on her resignation. Further information is provided on page 31. One-third of the 2017 LTIP awards lapsed at the year end when their associated performance condition was not met.

The Remuneration Committee has recognised the progress the Company made during 2017, but due to the Company's current financial position, at its full discretion it has deferred any bonus recognition to the sole Executive Director and other senior managers until the Company's financial position is more appropriate. Any such bonus will be at the Remuneration Committee's sole discretion and may be paid in either cash, shares or a mixture of both before the end of 2018.

Looking forward to 2018

The Remuneration Committee is currently considering the final details of the remuneration policy for 2018. The Executive Directors' bonus opportunity and share options award opportunity for 2018 is expected to be up to 100% of salary and 125% of salary respectively, with each award subject to the achievement of performance conditions.

Current awards under the LTIP 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.

Board changes

On 27 January 2017 Richard Jones resigned as CFO. Joanne Estell was appointed as CFO on 1 May 2017 and resigned on 14 September 2017. No bonus was awarded to either Director in respect of 2017 and the LTIP awards granted to each Director were forfeited on termination. Neither Director received a termination payment in relation to their loss of office.

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 2018 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.

Executive Directors' remuneration policy continued

Element and purpose	Operation	Maximum opportunity
Variable remuneration continued		
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 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 of Directors in office at the date of approval of this report 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 (Chairman of Nomination Committee)	3 months	Subject to annual reappointment at AGM
James Karis	NED (Chairman of Remuneration Committee)	3 months	Subject to annual reappointment at AGM
Peter Llewellyn-Davies	NED (Chairman of Audit Committee)	3 months	Subject to annual reappointment at AGM
Rolf Hoffmann	NED	1 month	Subject to annual reappointment at AGM

Non-Executive Directors are engaged under letters of appointment dated 12 February 2016 (effective upon admission on 26 February 2016) with a term of three years. Rolf Hoffmann's letter of appointment is dated 6 April 2018.

Directors' remuneration

The tables below detail total remuneration earned by each Director in respect of the year.

Directors' remuneration – year ended 31 December 2017

Name	Salary/fees £000	Benefits £000	Bonus £000	Pensions £000	Total remuneration 2017 £000
Executive Directors					
Carl Sterritt	**300**	**43**	**–**	**–**	**343**
Joanne Estell	**103**	**6**	**–**	**12**	**121**
Richard Jones	**17**	**3**	**–**	**–**	**20**
Non-Executive Directors					
Andrew Heath	**100**	**–**	**–**	**–**	**100**
James Karis	**41**	**–**	**–**	**–**	**41**
Peter Llewellyn-Davies	**44**	**–**	**–**	**–**	**44**
	605	**52**	**–**	**12**	**669**

Directors' remuneration – year ended 31 December 2016

Name	Salary/fees £000	Benefits £000	Bonus £000	Total remuneration 2016 £000
Executive Directors				
Carl Sterritt	294	40	134	468
Joanne Estell	–	–	–	–
Richard Jones	215	36	–	251
Non-Executive Directors				
Andrew Heath	92	–	–	92
James Karis	38	–	–	38
Peter Llewellyn-Davies	40	–	–	40
	679	76	134	889

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

Carl Sterritt realised gains on share options exercised of £Nil (2016: £18,000) during the year. Richard Jones realised gains on share options exercised of £Nil (2016: £129,000) during the year. No awards made under the LTIP vested during the year and no other Directors realised gains on share options.

No Director waived any emoluments in respect of the year.

Long Term Incentive Plan options granted in 2017

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

Name	Number of options	Vesting date
Carl Sterritt	263,512	11 July 2020
Joanne Estell*	285,714	11 July 2020

* Joanne Estell's options were forfeited following her resignation on 14 September 2017. Her award included an initial award of 126,984 options on commencement of employment.

All options are exercisable at a nominal price of £0.015 per share. No amounts were paid on grant. The mid-market price of the Ordinary Shares as at 31 December 2017 was £1.125. The highest mid-market price of the Ordinary Shares during the year was £1.73 and the lowest price was £1.125.

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 31 December 2017, 31 December 2018 and 31 December 2019. A growth of 9.6% results in a minimum entitlement for each participant. The percentage growth triggering maximum entitlement (all share options) is 19.6%.

In total awards were made over 1,683,877 LTIP options during the year. 898,227 had been forfeited by the year end. In total 1,594,575 LTIP options remained in issue at the year end, after a tranche of the options in issue failed to meet the associated performance condition.

Company Share Option Plan options granted in 2017

During 2017 the Company granted its first options under the Company Share Option Plan (CSOP) established upon admission. The awards included the following awards to the Executive Directors which form a tax-qualifying part of their LTIP award. Directors can elect to exercise their CSOP award in place of an element of their LTIP award with an equivalent value. As a consequence their LTIP and CSOP awards cannot be exercised in full and any unexercised element will lapse.

Name	Number of options	Vesting date
Carl Sterritt	19,048	11 July 2020
Joanne Estell*	19,048	11 July 2020

* Joanne Estell's options were forfeited following her resignation on 14 September 2017

All options are exercisable at a price of £1.575 per share. No amounts were paid on grant.

The vesting of the options is subject to the same performance conditions applicable to the Executive Directors' award under the LTIP.

In total awards were made over 288,610 CSOP options during the year, of which 228,576 formed a tax-qualifying element of the LTIP. If participants choose to exercise these options their award under the LTIP is scaled back to an equivalent value. 21,334 had been forfeited by the year end. In total 170,607 CSOP options remained in issue at the year end, of which 114,288 related to the tax-qualifying element of the LTIP.

2017 annual bonus

No Directors received bonuses in respect of 2017.

Directors' shareholdings

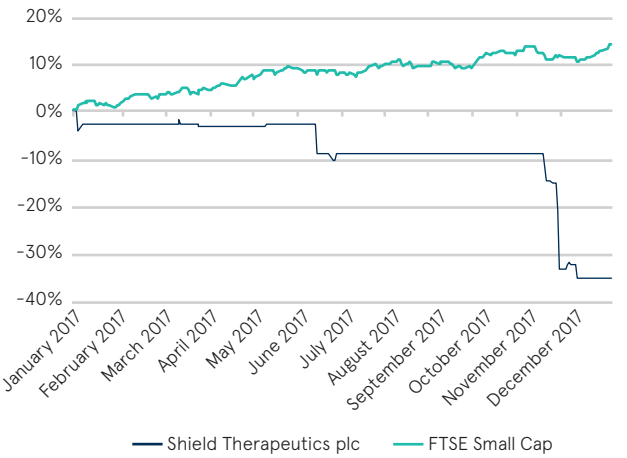
With effect from admission, the Company adopted share ownership guidelines under which Executive Directors must acquire shares with a value equal to twice their annual base salary. Until such time as the guideline is met, Executive Directors will be expected to retain 50% of shares acquired under the LTIP (net of sales to cover tax). The table below discloses the interests of any Directors serving during the year in the shares of the Company at 31 December 2017.

Name	**Shares at 31 December 2017**	% of share capital
Carl Sterritt	**10,066,447***	8.65%
Richard Jones	**1,448,990**	1.24%
Joanne Estell	**20,000**	0.02%
Andrew Heath	**89,053**	0.08%
James Karis	**36,667**	0.03%
Peter Llewellyn-Davies	**10,000**	0.01%

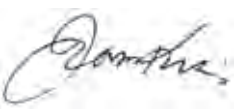
* As part of a sale and purchase agreement between Carl Sterritt and Irorph GmbH, dated 12 February 2016, Carl Sterritt has a call option over up to 345,000 shares depending on certain conditions in Shield Therapeutics plc. The option is exercisable between 1 July 2017 and 1 July 2018. The price of the call option is £1. During the year Carl Sterritt exercised 8,814 of the options, leaving a remaining unexercised balance of 336,186 at 31 December 2017.

Share performance graph

The graph below shows the performance of the Company's shares during the year compared to the FTSE Small Cap, which forms the basis of the benchmark performance rate for LTIP vesting.



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



James Karis
Remuneration Committee Chairman
10 April 2018

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 2017.

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
Details of the Company's share capital are provided in Note 26. Further details of additional share capital issued during the year are provided in Note 2. Following its IPO in 2016 the Company has one class of Ordinary Shares listed on the AIM market of the London Stock Exchange with a nominal value of £0.015. Each Ordinary Share carries the right to one vote at general meetings of the Company and carries no right to fixed income.

The Directors are not aware of any restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions which may from time to time be imposed by law and regulations.

Details of employee share schemes and share options in issue are provided in Note 28.

Results and dividend
The consolidated statement of profit and loss and other comprehensive income is set out on page 41. The Group's loss after taxation for the year was £19.6 million. After taking into account exceptional items, adjusted net loss for the year was £17.0 million (see Note 15 on page 57).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017.

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
Joanne Estell (appointed 1 May 2017, resigned 14 September 2017)
Richard Jones (resigned 27 January 2017)
Andrew Heath
James Karis
Peter Llewellyn-Davies
Rolf Hoffmann (appointed 6 April 2018)

The role of company secretary is undertaken by Lucy Bailey.

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 donations
The Group made no political 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 25 to the financial statements.

Corporate governance report
The Company's corporate governance report can be found on pages 25 and 26 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 Company had been notified of the following shareholders with major interests in the shares of Shield Therapeutics plc:

W Health LP	48.11%
Irorph GmbH	10.76%
Carl Sterritt	8.65%
JP Morgan Asset Management	5.36%
Christian Schweiger	4.85%
Universities Superannuation Scheme	4.38%

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 Wednesday 27 June 2018.

By order of the Board

Carl Sterritt
Chief Executive Officer
10 April 2018

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (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, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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
10 April 2018

1. Our opinion is unmodified

We have audited the financial statements of Shield Therapeutics plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated statement of profit and loss and other comprehensive income, Group and Company balance sheets, Group and Company statements of changes in equity, Group and Company statements of cash flows and the related notes, including the accounting policies in Note 5.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

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

Overview

Materiality: Group financial statements as a whole	£0.7 million (2016: £0.6 million) 3.3% (2016: 3.7%) of loss before tax
Coverage	100% (2016: 100%) of Group loss before tax

Risks of material misstatement		**vs 2016**
Recurring risks	Recoverable amounts of intangibles	▲
	Going concern	▲
	New: Capitalisation of development costs	▲
	Recoverability of investments in subsidiaries	▲

2. Material uncertainty related to going concern

Going concern	Accounting basis	Our procedures included
We draw your attention to Note 5 on page 49 which indicates that there is a material uncertainty relating to the Group and parent company's ability to continue as a going concern. The Board's going concern assessment and conclusion includes the assumption that additional sources of funding and/or commercial relationships for the business will be forthcoming before December 2019. As this is outside the control of the Company, it gives rise to a material uncertainty that may cast significant doubt about the Group's and parent's ability to continue as a going concern. We describe opposite how the scope of our audit has responded to this risk. Our opinion is not modified in respect of these matters.	The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern assumption as the basis of preparation for the Group and parent company. The assessment is based on future projections of both loss and cash. This assessment involves a consideration of future events and there is a risk that such judgments are inappropriate and do not include an appropriate allowance for the execution risk associated with such future plans. **Disclosure quality** Clear and full disclosure of the assessment undertaken by the Board and the rationale for using the going concern assumption, including the identification of any material uncertainties, represents a key financial statement disclosure requirement. There is a risk that insufficient details are disclosed to allow a full understanding of the assessment undertaken by the Board. Auditing standards require such matters to be reported as a key audit matter.	• We tested the integrity of the cash flow projections and challenged the appropriateness of key assumptions used in preparing those projections. We also assessed the projections and assumptions by reference to our knowledge of the business, general market conditions and post year end trading and cash flows, and assessed the potential risk of management bias. • We inquired with the Directors around the nature and status of discussions with third parties and professional advisors. • We obtained and inspected documentation including regulator correspondence and the non-binding term sheet from a potential partner and assessed these terms with reference to supporting sufficient resources to fund operations. • We challenged the level of sensitivities applied (including downside scenarios) for reasonableness based on our knowledge of the business and markets served, and we evaluated whether the Directors' plans to alleviate the downside risk evident from these scenarios were feasible in the circumstances. • We assessed the accuracy of the matters covered in the going concern disclosures by reference to the cash flow projections to December 2019 and the feedback from the FDA. • We also assessed the going concern disclosures for clarity, including that sufficient details were provided concerning the material uncertainties.

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 above. We summarise below the other key audit matters. All of these key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

3. Other key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Group: recoverable amount of intangibles – Phosphate Therapeutics licences (£23.3 million; 2016: £25.3 million) *Refer to Note 5 on page 51 (accounting policy) and Note 18 (financial disclosures).*	**Forecast-based valuation** These intangible assets are significant and at risk of irrecoverability due to the assets relating to drugs that are still undergoing clinical trials. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The cash flows include amounts in respect of the estimated costs of further clinical trials and commercialisation and the Group will be reliant on reaching agreement with a suitable third party partner to provide additional funding.	Our procedures included: • **Control re-performance:** We tested the controls over the forecasts prepared for the intangible assets, including annual approval and challenge of those forecasts by the Directors. • **Our sector experience:** We evaluated the assumptions used, in particular those relating to forecast revenue growth and profit margins. • **Tests of detail:** We enquired with the Directors around the nature and status of discussions with potential partners, obtained and inspected relevant correspondence and assessed these terms with reference to supporting sufficient resources to fund operations. • **Benchmarking assumptions:** Compared the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. • **Sensitivity analysis:** Performed breakeven analysis on the assumptions noted above. • **Comparing valuations:** Compared the sum of the discounted cash flows to the Group's market capitalisation to assess the overall reasonableness of those cash flows. • **Assessing transparency:** Assessed whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of intangibles.
Group: capitalisation of development costs (£3.2 million; 2016: £2.6 million) *Refer to Note 5 on page 51 (accounting policy) and Note 18 (financial disclosures).*	**Effects of irregularities:** The incentive to misstate research and development expenditure, either expensed or capitalised.	Our procedures included: • **Control design:** Evaluated the Group's process for capitalising and expensing research and development costs. • **Tests of detail:** For a sample of costs both capitalised and expensed during the year assessed them against their capitalisation criteria. • **Tests of detail:** We assessed whether, in the situation where the Group did not have sufficient funds to complete the development projects, it would be able to recover the value through sale or licensing agreement. This included a review of the valuations that have been prepared for Feraccru® and PTL.
Parent: recoverability of parent company's investment in subsidiaries (£103.0 million; 2016: £102.6 million) *Refer to Note 5 on page 49 (accounting policy) and Note 19 (financial disclosures).*	**Forecast-based valuation** The carrying amount of the parent company's investments in subsidiaries is significant and at risk of irrecoverability due to the deficiency of carrying value in respect of the market capitalisation.	Our procedures included: • **Benchmarking assumptions:** Compared the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. • **Sensitivity analysis:** Performed breakeven analysis on the assumptions noted above. • **Assessing transparency:** Assessed the adequacy of the parent company's disclosures in respect of the investment in subsidiaries.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £0.7 million (2016: £0.6 million), determined with reference to a benchmark of loss before tax of £21.0 million (2016: £15.6 million) (of which it represents 3.3% (2016: 3.7%)).

Materiality for the parent company financial statements as a whole was set at £35k (2016: £137k), determined with reference to a benchmark of loss before tax of £788k (2016: £3.0 million), of which it represents 4.5% (2016: 4.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £35k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 5 (2016: 5) reporting components, we subjected 3 (2016: 3) to full scope audits for Group purposes and 2 (2016: 2) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite. The Group reporting covered 100% (2016: 74%) of the total profits and losses that made up Group profit before tax.

The Group team carried out all of the work on the 5 reporting components. We used the component materialities, which ranged from £3k to £630k (2016: £3k to £405k), having regard to the mix of size and risk profile of the Group across the components.

Loss before tax
£21.0 million
(2016: £15.6 million)

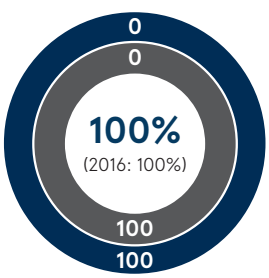
Group materiality
£0.7 million
(2016: £0.6 million)

£700k
Whole financial statements materiality (2016: £575k)

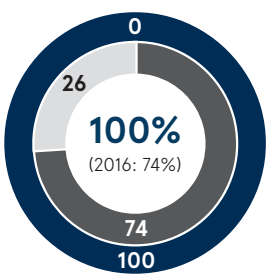
£636k
Range of materiality at 5 components £6k–£636k (2016: £3k to £431k)

£35k
Misstatements reported to the Audit Committee (2016: £28k)

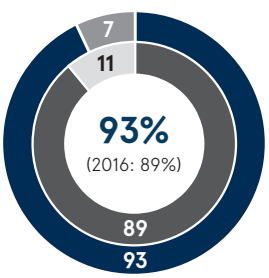
Group revenue



Group loss before tax



Group total assets



- Full scope for Group audit purposes 2017
- Specified risk-focused audit procedures 2017
- Full scope for Group audit purposes 2016
- Specified risk-focused audit procedures 2016
- Residual components

5. We have nothing to report on the other information in the annual report

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

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

Strategic report and Directors' report

Based solely on our work on the other information:

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 35, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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
10 April 2018

Consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December

	Notes	2017 £000	2016 £000
Revenue	8	**637**	304
Cost of sales		**(155)**	(100)
Gross profit		**482**	204
Operating costs – selling, general and administrative expenses	10	**(16,722)**	(10,675)
Other operating income		**–**	40
Operating loss before research and development expenditure		**(16,240)**	(10,431)
Research and development expenditure	9	**(4,711)**	(2,029)
Operating loss		**(20,951)**	(12,460)
Analysed as:			
Operating loss before exceptional items		**(18,380)**	(10,303)
Exceptional items	11	**(2,571)**	(2,157)
Operating loss		**(20,951)**	(12,460)
Net foreign exchange (losses)/gains	14	**(41)**	270
Net foreign exchange losses on financial instruments	2	**–**	(1,059)
Net loss on financial instruments designated as fair value through profit or loss	2	**–**	(2,398)
Financial income	14	**15**	58
Financial expense	14	**(17)**	(14)
Loss before tax		**(20,994)**	(15,603)
Taxation	16	**1,406**	587
Loss for the year		**(19,588)**	(15,016)
Attributable to:			
Equity holders of the parent		**(19,588)**	(15,016)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**(41)**	112
Total comprehensive expenditure for the year		**(19,629)**	(14,904)
Attributable to:			
Equity holders of the parent		**(19,629)**	(14,904)
Total comprehensive expenditure for the year		**(19,629)**	(14,904)
Earnings per share			
Basic and diluted loss per share	15	**£(0.17)**	£(0.15)
Non-GAAP measure			
Adjusted loss per share	15	**£(0.15)**	£(0.09)

Group balance sheet

at 31 December

	Notes	2017 £000	2016 £000
Non-current assets			
Intangible assets	18	**29,961**	28,984
Property, plant and equipment	17	**13**	19
		29,974	29,003
Current assets			
Inventories	20	**125**	418
Trade and other receivables	21	**1,572**	1,985
Cash and cash equivalents	22	**13,299**	20,978
		14,996	23,381
Total assets		**44,970**	52,384
Current liabilities			
Trade and other payables	23	**(3,501)**	(3,827)
Other liabilities	24	**(262)**	(161)
		(3,763)	(3,988)
Total liabilities		**(3,763)**	(3,988)
Net assets		**41,207**	48,396
Equity			
Share capital	26	**1,746**	1,622
Share premium	27	**88,338**	77,963
Warrants reserve	27	**–**	2,760
Merger reserve	27	**28,358**	28,358
Currency translation reserve	27	**32**	73
Retained earnings	27	**(77,267)**	(62,380)
Total equity		**41,207**	48,396

These financial statements were approved by the Board of Directors on 10 April 2018 and were signed on its behalf by:

Carl Sterritt
Director
Company registered number: 09761509

Company balance sheet

at 31 December

	Notes	2017 £000	2016 £000
Non-current assets			
Investments	19	**102,980**	102,568
		102,980	102,568
Current assets			
Trade and other receivables	21	**33,826**	13,939
Cash and cash equivalents	22	**11,807**	20,269
		45,633	34,208
Total assets		**148,613**	136,776
Current liabilities			
Trade and other payables	23	**(301)**	(121)
Total liabilities		**(301)**	(121)
Net assets		**148,312**	136,655
Equity			
Share capital	26	**1,746**	1,622
Share premium	27	**88,338**	77,963
Warrants reserve	27	**–**	2,760
Merger reserve	27	**117,323**	117,323
Retained earnings	27	**(59,095)**	(63,013)
Total equity		**148,312**	136,655

These financial statements were approved by the Board of Directors on 10 April 2018 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	Total £000
Balance at 1 January 2016	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
Loss for the year	–	–	–	–	–	(19,588)	(19,588)
Other comprehensive income:							
Foreign currency translation differences	–	–	–	–	(41)	–	(41)
Total comprehensive expense for the year	–	–	–	–	(41)	(19,588)	(19,629)
Transactions with owners, recorded directly in equity							
Share issue – exercise of Warrants	108	10,235	(2,760)	–	–	2,760	10,343
Share issue – placing	15	–	–	–	–	1,381	1,396
Share issue – subscription	1	140	–	–	–	–	141
Equity-settled share-based payment transactions	–	–	–	–	–	560	560
Balance at 31 December 2017	**1,746**	**88,338**	**–**	**28,358**	**32**	**(77,267)**	**41,207**

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 1 January 2016	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
Loss for the year	–	–	–	–	(783)	(783)
Total comprehensive expense for the year	–	–	–	–	(783)	(783)
Transactions with owners, recorded directly in equity						
Share issue – exercise of Warrants	108	10,235	(2,760)	–	2,760	10,343
Share issue – placing	15	–	–	–	1,381	1,396
Share issue – subscription	1	140	–	–	–	141
Equity-settled share-based payment transactions	–	–	–	–	560	560
Balance at 31 December 2017	**1,746**	**88,338**	**–**	**117,323**	**(59,095)**	**148,312**

Group statement of cash flows

for the year ended 31 December

	2017 £000	2016 £000
Cash flows from operating activities		
Loss for the year	**(19,588)**	(15,016)
Adjustments for:		
Depreciation and amortisation	**2,437**	1,936
Loss on derivative financial instruments	**–**	2,398
Equity-settled share-based payment expenses	**560**	288
Financial income	**(15)**	–
Financial expense	**17**	–
Unrealised foreign exchange losses	**39**	984
Income tax	**(1,406)**	–
	(17,956)	(9,410)
Decrease/(increase) in inventories	**293**	(418)
Increase in trade and other receivables	**(171)**	(377)
Decrease in trade and other payables	**(409)**	(154)
Increase in other liabilities	**101**	103
Financial income	**15**	–
Financial expense	**(17)**	–
Income tax received	**1,993**	–
Net cash flows from operating activities	**(16,151)**	(10,256)
Cash flows from investing activities		
Acquisitions of intangible assets	**(235)**	(528)
Capitalised development expenditure	**(3,173)**	(2,639)
Acquisition of property, plant and equipment	**–**	(8)
Cash acquired with Phosphate Therapeutics Limited	**–**	177
Net cash flows from investing activities	**(3,408)**	(2,998)
Cash flows from financing activities		
Proceeds of Warrants exercise	**10,792**	–
Proceeds of placing	**1,500**	–
Proceeds of subscription	**144**	–
Share issue costs	**(556)**	–
Proceeds of IPO	**–**	32,500
IPO costs	**–**	(2,427)
Other costs	**–**	(501)
Share options exercised	**–**	3,935
Issuance of convertible bonds	**–**	–
Issuance of preference shares	**–**	–
Net cash flows from financing activities	**11,880**	33,507
Net (decrease)/increase in cash	**(7,679)**	20,253
Cash and cash equivalents at 1 January	**20,978**	725
Cash and cash equivalents at 31 December	**13,299**	20,978

Company statement of cash flows

for the year ended 31 December

	2017 £000	2016 £000
Cash flows from operating activities		
Loss for the year	**(783)**	(2,960)
Adjustments for:		
Loss on derivative financial instruments	**–**	2,398
Equity-settled share-based payment expenses	**148**	85
Financial income	**(15)**	–
Unrealised foreign exchange losses	**–**	1,057
	(650)	580
Increase in trade and other receivables	**(19,721)**	(13,939)
Increase in trade and other payables	**14**	121
Financial income	**15**	–
Net cash flows from operating activities	**(20,342)**	(13,238)
Cash flows from financing activities		
Proceeds of Warrants exercise	**10,792**	–
Proceeds of placing	**1,500**	–
Proceeds of subscription	**144**	–
Share issue costs	**(556)**	–
Proceeds of IPO	**–**	32,500
IPO costs	**–**	(2,427)
Other costs	**–**	(501)
Share options exercised	**–**	3,935
Net cash flows from financing activities	**11,880**	33,507
Net (decrease)/increase in cash	**(8,462)**	20,269
Cash and cash equivalents at 1 January	**20,269**	–
Cash and cash equivalents at 31 December	**11,807**	20,269

1. General information

Shield Therapeutics plc (the "Company") is incorporated in England and Wales as a public limited company. The Company trades on the London Stock Exchange's AIM market, having been admitted on 26 February 2016.

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 late-stage development and commercialisation of clinical state pharmaceuticals to treat unmet medical needs.

Subsidiaries and their countries of incorporation are presented in Note 19.

2. Fundraising

During the year the Company raised gross proceeds of £12.4 million through the combination of an exercise of Warrants, institutional placing and subscription for shares. In addition, £36.4 million was raised in the prior financial year through the Company's IPO and an exercise of shareholder options. Details of these transactions are provided below.

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 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 in the process.

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 increased by £25.3 million and the Group became debt free. Fair value costs of £2.4 million and foreign exchange translation costs of £1.1 million were charged to the statement of profit and loss during the prior year as a consequence of the fair value remeasurement of the debt prior to its conversion.

Exercise of Warrants

As part of the listing process 11,666,658 of Warrants were issued to participants in the placing, which traded under the ticker STXW. The Warrants were scheduled to expire at 30 June 2017.

During June 2017 7,193,766 Warrants were exercised at a strike price of £1.50, raising gross proceeds of £10.8 million. The remaining 4,472,892 Warrants lapsed at 30 June 2017.

Placing

On 28 June 2017 the Company issued an additional 1,000,000 Ordinary Shares to participants in a placing, raising gross proceeds of £1.5 million. The placing was undertaken by means of a cash box structure. Consequently relief was available under s612 of the Companies Act 2006 from recording share premium and the difference between net proceeds and the nominal value of shares issued was transferred to retained earnings.

Subscription

On 28 June 2017 the Company's Directors and senior management subscribed to an issue of 96,669 Ordinary Shares, raising gross proceeds of £145,000.

Expenses of £0.5 million were incurred in the course of the exercise of Warrants, placing and subscription. These were charged to the share premium account.

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. All of the goodwill associated with this transaction has been allocated to the intellectual property acquired with Phosphate Therapeutics Limited.

4. Merger of Swiss entities

During 2016 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 £0.8 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 June 2017 the Company succeeded in raising gross proceeds of £12.4 million through the combination of an exercise of Warrants, institutional placing and subscription for shares. At the year end the Group held £13.3 million of cash and net assets of £41.2 million.

The Directors have considered the funding requirements of the Group through the preparation of detailed cash flow forecasts for the period to December 2019. In doing so, the Directors have reviewed the operational forecasts, which were updated following a cost-saving programme undertaken in March 2018, which resulted in a lower cost base going forwards. Under current business plans the current cash resources ("cash runway") will exist to Q4 2018.

Based on this, additional funding is expected to be required by December 2018 in order to support the Group's and the Company's going concern status. The Directors are undertaking a strategic review of the business and, following the recent significant expansion of Feraccru®'s European Marketing Authorisation to include all adult patients with ID, the Directors are evaluating ways of more rapidly leveraging the value of Feraccru® in Europe and have engaged a third party to help to facilitate this process.

The Directors are also considering a variety of partnering structures that, if successfully concluded, would likely include an upfront payment which would further extend the Group's cash runway. In addition, such a partnering transaction would provide the Group with ongoing sales-based royalties throughout the life of the partnering agreement. In addition, in March 2018, the Group received a non-binding proposal from a potential partner which would, via an upfront payment as part of this arrangement (as is typical in deals in this sector), ensure sufficient resources to fund ongoing operations until at least Q2 2019.

Following feedback from the US FDA the Directors are now progressing with completing and submitting a new drug approval (NDA) for Feraccru® in 2018 and will now reassess the commercialisation options for Feraccru® in the US, and will continue to explore ways of commercialising Feraccru® in the US, for example through a joint venture or traditional partnering arrangement. These arrangements would also consist of an upfront payment.

However, there can be no guarantee that sufficient funding will be available from the potential options being considered, referred to above.

In the event that the Group does not successfully agree terms on at least one of the strategic options within the next 12 months, the Directors consider that the Group would be able to further reduce its development programmes to ensure its cash resources are sufficient for a period to at least Q4 2019, which is more than 12 months from the date of approval of this annual report and accounts.

Based on the above factors the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the above factors give rise to a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

5. Accounting policies continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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.

Classification of financial instruments issued by the Group

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

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

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

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

Non-derivative financial instruments

Non-derivative financial instruments comprise 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.

5. Accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using standard costing techniques. 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. In arriving at net realisable value provision is made for any obsolete or damaged inventories.

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 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.

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 2029–2035)
Chemistry, Manufacturing and Controls costs (development costs)	– over five years
Intellectual property purchase costs	– over the term of the patents

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.

5. Accounting policies continued

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.

Milestone payments under licensing agreements are recognised as revenue in the consolidated statement of profit and loss upon achievement of the milestone targets, as defined in the licensing agreement, unless the Group has substantial ongoing performance obligations associated with the milestone still to deliver and the payment is not fixed or non-refundable.

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

Financial income and expense

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.

5. Accounting policies continued

Share-based payments continued

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. The significant judgments and estimates which may lead to material adjustment in the next accounting period are:

Going concern

Judgment has been applied as to whether sufficient funding will be forthcoming in order to enable the continuation of the Company. As described in Note 5 the Directors have reviewed operational forecasts and followed a cash-saving programme, extending the cash runway to Q4 2018. Additional funding is expected to be required to support the Company's going concern status and the Directors are currently considering a variety of partnering structures which if successfully concluded would lead to an upfront payment, further extending the Company's cash runway. In the event that such an agreement is not reached the Group's intangible and other assets may be impaired.

Valuation of intellectual property acquired with Phosphate Therapeutics Limited – £23.3 million

The valuation of intellectual property acquired with Phosphate Therapeutics Limited during the prior 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 order to provide the funding required to successfully commercialise the asset. In the event that commercial returns are lower than current expectations or partner or alternative funding is not available this may lead to an impairment. No impairment has been recognised to date (see Note 18).

Valuation of intellectual property associated with Feraccru® – intangible assets £6.6 million; investments in company balance sheet £103.0 million

The valuation of intellectual property associated with Feraccru® (including intangible assets and the Company's investment in Shield TX (Switzerland) AG) 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 the successful commercialisation of the asset. A strategic commercial partner for the asset is currently being sought in Europe in order to provide the funding required to successfully commercialise the asset. In the event that commercial returns are lower than current expectations or partner or alternative funding is not available this may lead to an impairment. No impairment has been recognised to date (see Note 18).

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.

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:

- Currently none endorsed.

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.
- IFRS 16 Leases.

The Group is continuing to assess the impact of IFRS 9, IFRS 15 and IFRS 16 and does not expect their introduction to have a material impact.

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.

	Feraccru® 2017 £000	**PT20 2017 £000**	**Central and unallocated 2017 £000**	**Total 2017 £000**	Feraccru® 2016 £000	PT20 2016 £000	Central and unallocated 2016 £000	Total 2016 £000
Revenue	**637**	**–**	**–**	**637**	304	–	–	304
Operating loss	**(16,718)**	**(2,047)**	**(2,186)**	**(20,951)**	(9,179)	(14)	(3,267)	(12,460)
Net foreign exchange gains				**(41)**				270
Foreign exchange losses on financial instruments				**–**				(1,059)
Net loss on financial instruments designated as fair value through profit or loss				**–**				(2,398)
Financial income				**15**				58
Financial expense				**(17)**				(14)
Tax				**1,406**				587
Loss for the year				**(19,588)**				(15,016)

The revenue analysis in the table below is based on the country of registration of the fee-paying party.

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
UK	**70**	240
Europe	**567**	64
	637	304

8. Segmental reporting continued

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

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Customer A	**–**	160
Customer B	**497**	113
Customer C	**93**	31
Other customers	**47**	–
	637	304

As at 31 December 2017	Feraccru® £000	PT20 £000	Central and unallocated £000	Total £000
Segment assets	**9,623**	**23,451**	**11,896**	**44,970**
Segment liabilities	**(3,570)**	**(16)**	**(177)**	**(3,763)**
Total net assets	**6,053**	**23,435**	**11,719**	**41,207**
Depreciation, amortisation and impairment	**421**	**2,016**	**–**	**2,437**
Capital expenditure	**–**	**–**	**–**	**–**
Capitalised development costs	**3,173**	**–**	**–**	**3,173**

As at 31 December 2016	Feraccru® £000	PT20 £000	Central and unallocated £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

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

9. Expenses and auditor's remuneration

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss for the year has been arrived at after charging:		
Research and development expenditure	**4,711**	2,029
Fees payable to Company's auditor and its associates for the audit of parent company and consolidated financial statements	**29**	27
Fees payable to Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	**23**	22
Tax compliance services	**2**	2
Other services	**5**	7

10. Operating costs – selling, general and administrative expenses

Operating costs are comprised of:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Selling costs	**9,133**	4,174
General administrative expenses	**5,152**	4,565
Depreciation and amortisation	**2,437**	1,936
	16,722	10,675

11. 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.

	2017 £000	2016 £000
Phosphate Therapeutics Ltd. intellectual property amortisation	**2,011**	1,702
Share-based payments charge	**560**	288
Non-recurring legal and professional fees	**–**	167
Exceptional items charged within operating loss	**2,571**	2,157
FX movement on share options	**–**	1,059
Fair value remeasurement of share options	**–**	2,398
Total exceptional items	**2,571**	5,614

12. 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	
	2017 Number	2016 Number
R&D	**6**	7
Medical	**6**	2
Commercial	**17**	8
Finance and administration	**18**	12
	47	29

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**5,150**	3,221
Share-based payments (see Note 28)	**560**	288
Other employee benefits	**272**	199
Pensions	**206**	108
	6,188	3,816

13. Directors' remuneration

	2017					2016			
	Salary/fees £000	**Bonus £000**	**Taxable benefits £000**	**Pensions £000**	**Total £000**	Salary/fees £000	Bonus £000	Taxable benefits £000	Total £000
A Heath	**100**	**–**	**–**	**–**	**100**	92	–	–	92
C Sterritt	**300**	**–**	**43**	**–**	**343**	294	134	40	468
J Estell	**103**	**–**	**6**	**12**	**121**	–	–	–	–
R Jones	**17**	**–**	**3**	**–**	**20**	215	–	36	251
J Karis	**41**	**–**	**–**	**–**	**41**	38	–	–	38
P Llewellyn-Davies	**44**	**–**	**–**	**–**	**44**	40	–	–	40
	605	**–**	**52**	**12**	**669**	679	134	76	889

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £Nil (2016: £18,000).

No Directors exercised share options in the year (2016: two). Two Directors received shares or share options under long term incentive schemes in the year (2016: two).

£Nil was paid to third parties in respect of Director services (2016: £5,000).

14. Financial income and expenses

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Financial income		
Net foreign exchange (losses)/gains	**(41)**	270
Total interest income on financial assets measured at amortised cost	**15**	58
Financial expense		
Bank charges	**(17)**	(14)

15. Loss per share

	2017			2016		
	Loss £000	**Weighted shares 000**	**Loss per share £**	Loss £000	Weighted shares 000	Loss per share £
Basic and diluted	**(19,588)**	**112,358**	**(0.17)**	(15,016)	101,160	(0.15)
Adjusted – basic and diluted	**(17,017)**	**112,358**	**(0.15)**	(9,402)	101,160	(0.09)
Proforma adjusted – basic and diluted	**(17,017)**	**112,358**	**(0.15)**	(9,402)	108,135	(0.09)

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. At the date of approval of the report 1,499,614 of share options were in issue under the Company's LTIP, CSOP and Retention Share Plan (RSP), which are considered non-dilutive and potentially provide 1,499,614 additional Ordinary Shares (approximately 1.3% of the current share capital). The level of options exercisable under the LTIP is dependent on the achievement of targets against the Compound Annual Growth Rate in the Company's share price over the vesting period.

15. Loss per share continued

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.

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

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss for the period as used for calculating basic EPS	**(19,588)**	(15,016)
Fair value remeasurement of share options	**2,011**	2,398
Phosphate Therapeutics Limited intellectual property amortisation	**560**	1,702
FX movement on share options	**–**	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	**(17,017)**	(9,402)

16. Taxation

Recognised in the income statement:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Current income tax – adjustments in respect of prior years	**1,406**	587
Deferred tax	**–**	–
Total tax credit	**1,406**	587

Reconciliation of total tax credit:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss for the year	**(19,588)**	(15,016)
Taxation	**1,406**	587
Loss before tax	**(20,994)**	(15,603)
Standard rate of corporation tax in the UK	**19.25%**	20%
Tax using the UK corporation tax rate	**(4,041)**	(3,121)
Expenses not deductible for tax purposes	**111**	9
Adjustments in respect of prior years	**1,408**	567
Unrelieved tax losses carried forward and other temporary differences not recognised for deferred tax	**3,928**	3,132
Total tax credit	**1,406**	587

An R&D charge of £Nil (2016: £20,000) was also included within operating costs during the year.

Factors affecting the future tax charge

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2017 have been calculated based on these rates.

16. Taxation continued

Unrecognised deferred tax assets

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

	2017 £000	2016 £000
Unutilised Swiss tax losses to carry forward	**16,187**	17,799
Potential deferred tax asset thereon	**2,020**	2,128
Unutilised German tax losses to carry forward	**109**	90
Potential deferred tax asset thereon	**16**	27
Unutilised UK tax losses to carry forward	**34,320**	21,910
Potential deferred tax asset thereon	**5,637**	3,725
Total potential deferred tax asset	**7,673**	5,880

17. Property, plant and equipment

Group	2017 £000	2016 £000
Cost		
Beginning balance	**29**	21
Additions	**–**	8
Ending balance	**29**	29
Accumulated depreciation		
Beginning balance	**10**	4
Charge for the period	**6**	6
Ending balance	**16**	10
Net book value	**13**	19

The Company had no property, plant and equipment (2016: £Nil).

18. Intangible assets

Group	Patents and trademarks £000	Development costs £000	Phosphate Therapeutics licences £000	Total £000
Cost				
Balance at 1 January 2016	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
Additions – externally purchased	235	–	–	235
Additions – internally developed	–	3,173	–	3,173
Balance at 31 December 2017	**1,675**	**5,812**	**27,047**	**34,534**
Accumulated amortisation				
Balance at 1 January 2016	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
Charge for the period	92	327	2,012	2,431
Balance at 31 December 2017	**417**	**442**	**3,714**	**4,573**
Net book value				
31 December 2017	**1,258**	**5,370**	**23,333**	**29,961**
31 December 2016	1,115	2,524	25,345	28,984

18. Intangible assets continued

At the year end management reviewed the carrying value of the intangible assets for impairment. The intangible assets relate to two cash-generating units, being the Feraccru® business and 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:

Feraccru®

- The value in use has been calculated based on product sales which expire in 2035, being the current patent life of the asset.
- Anticipated sales are based on a third party assessment provided to the Company.
- A discount factor of 12%, reflecting the Marketing Authorisation already obtained for the drug and commercial progress to date.

Phosphate Therapeutics Limited

- The value in use has been calculated based on product sales which expire in 2029, being the current patent life of the asset.
- Anticipated sales are based on a third party assessment provided to the Company.
- A discount factor of 20%, reflecting the inherent uncertainty attached to obtaining Marketing Authorisation for the drug.

The carrying amount of intangible assets has been allocated to the cash-generating units (CGUs) as follows:

	2017 £000	2016 £000
Feraccru®	**6,628**	3,639
Phosphate Therapeutics Limited	**23,333**	25,345
	29,961	28,984

Management has identified one key assumption, which if increased to the following rate would result in the recoverable amount in respect of the assets reducing so as to equal their carrying amount.

	Feraccru®	Phosphate Therapeutics Limited
Discount rate	15%	26.8%

The Company has no intangible assets (2016: £Nil).

19. Investments

Company	**2017 £000**	2016 £000
Cost		
Beginning balance	**162,968**	136,000
Additions	**1,912**	26,968
Disposals	**(1,500)**	–
Ending balance	**163,380**	162,968
Accumulated impairment		
Beginning and ending balance	**(60,400)**	(60,400)
Net book value		
Ending balance	**102,980**	102,568
Beginning balance	**102,568**	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.

19. Investments continued

Additions and disposals of £1.5 million relate to the incorporation and dissolution of Snow Jersey Limited (see notes below).

Other additions of £0.4 million relate to investments during the year arising due to share-based payments costs in respect of Group share-based payments arrangements.

The Group's equity interests were as follows:

At 31 December 2017

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 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

Snow Jersey Limited, a company registered in Jersey and held 100% directly by the Company, was incorporated on 2 June 2017 and dissolved on 3 August 2017, as part of a cash box structure used to facilitate the placing undertaken during the year (see Note 2).

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 c/o Lambsdorff Rechtsanwälte PartGmbB, Oranienburger Straße 3, 10178 Berlin.

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.

At the year end management reviewed the carrying value of the investments for impairment. The investments relate to two companies, being Shield TX (Switzerland) AG (which holds indirectly the Group's Feraccru® asset) and Phosphate Therapeutics Limited. 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:

Shield TX (Switzerland) AG

- The value in use has been calculated based on product sales which expire in 2035, being the current patent life of the asset.
- Anticipated sales are based on a third party assessment provided to the Company.
- A discount factor of 12%, reflecting the Marketing Authorisation already obtained for the drug and commercial progress to date.

19. Investments continued

Phosphate Therapeutics Limited

- The value in use has been calculated based on product sales which expire in 2029, being the current patent life of the asset.
- Anticipated sales are based on a third party assessment provided to the Company.
- A discount factor of 20%, reflecting the inherent uncertainty attached to obtaining Marketing Authorisation for the drug.

The carrying amount of investments has been allocated to the above companies as follows:

	2017 £000	2016 £000
Shield TX (Switzerland) AG	**76,216**	75,804
Phosphate Therapeutics Limited	**26,764**	26,764
	102,980	102,568

Management has identified one key assumption, which if increased to the following rate would result in the recoverable amount in respect of the assets reducing so as to equal their carrying amount.

	Shield TX (Switzerland) AG	Phosphate Therapeutics Limited
Discount rate	15%	26.8%

20. Inventories

Group	2017 £000	2016 £000
Raw materials	**105**	187
Finished goods	**20**	231
	125	418

The cost of inventories recognised as an expense and included in cost of sales was £81,000 (2016: £67,000).

The Company had no inventories (2016: £Nil).

21. Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	**51**	24	**–**	–
Other receivables	**478**	1,034	**39**	26
Prepayments	**1,043**	927	**21**	24
Amounts due from Group undertakings	**–**	–	**33,766**	13,889
	1,572	1,985	**33,826**	13,939

At the year end no trade receivables were past due or impaired (2016: £Nil).

22. Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and in hand	**13,299**	20,978	**11,807**	20,269

23. Trade and other payables

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Trade payables	**1,802**	1,490	**87**	47
Accruals	**1,699**	2,337	**214**	74
	3,501	3,827	**301**	121

24. Other liabilities

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Taxation and social security	**227**	135	**–**	–
Other payables	**35**	26	**–**	–
	262	161	**–**	–

25. 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.

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 2017 £000**	Year ended 31 December 2016 £000
EUR	+5.00%	**(437)**	(75)
	-5.00%	**437**	75
USD	+5.00%	**(197)**	(33)
	-5.00%	**197**	33

25. Risk management continued

Foreign currency risk continued

	Change in GBP vs. EUR rate	Effect on equity: Year ended 31 December 2017 £000	Effect on equity: Year ended 31 December 2016 £000
EUR	+5.00%	**(442)**	(506)
	-5.00%	**442**	506
USD	+5.00%	**(197)**	(33)
	-5.00%	**197**	33

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 2017 and 2016.

Liquidity risk – 31 December 2017	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	**–**	**1,802**	**–**	**–**	**1,802**

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

The table below summarises the maturity profile of the Company's undiscounted financial liabilities at 31 December 2017 and 31 December 2016.

Liquidity risk – 31 December 2017	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	**–**	**87**	**–**	**–**	**87**

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	–	47	–	–	47

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. The Group's maximum exposure is shown at Note 21.

25. Risk management continued

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.

26. Share capital

	Number 000	£000
At 1 January 2017	108,135	1,622
Exercise of Warrants	7,194	108
Issuance of shares pursuant to placing	1,000	15
Issuance of shares pursuant to subscription	97	1
At 31 December 2017	**116,426**	**1,746**

See Note 2 for details of share capital issued during the course of the year.

27. Reserves

The Group's balance sheet contains 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. During the course of the year the Warrants were either exercised or lapsed (see Note 2 for details).

28. 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.

28. Share-based payments continued

Long Term Incentive Plan (LTIP) continued

The total expense recognised for share-based payments, in relation to the LTIP, in the Group's financial statements during the year was £541,000 (2016: £288,000).

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
July 2017	Equity	1,683,877	One-third on 31 December 2017, one-third on 31 December 2018 and one-third on 31 December 2019 in the event of a Compound Annual Growth Rate in the Company's share price of at least 9.6%. A growth of 9.6% results in a minimum entitlement for each participant. The percentage growth triggering maximum entitlement varies by participant, but in no case exceeds 19.6%.	July 2027

The number of share options are as follows:

	Number of options	
	Year ended 31 December 2017	Year ended 31 December 2016
Outstanding at the beginning of the year	**1,523,393**	–
Granted during the year	**1,683,877**	2,106,725
Forfeited during the year	**(1,612,695)**	(583,332)
Outstanding at the end of the year	**1,594,575**	1,523,393
Exercisable at the end of the year	**–**	–

The remaining contractual life of options is 2 years. 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 Monte Carlo valuation model. Measurement inputs and assumptions are as follows:

	July 2017	March 2016	July 2016	September 2016
Weighted average share price	£0.69	£0.79	£0.75	£0.60
Exercise price	£0.015	£0.015	£0.015	£0.015
Expected volatility	44%	44%	43%	44%
Expected option life	3 years	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate (based on UK government bonds)	0.37%	0.6%	0.17%	0.16%
Fair value at measurement date	£0.69	£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 Compound Annual Growth Rate in the Company's share price as illustrated above.

28. 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. The scheme is intended to attract, retain and incentivise participants, whilst encouraging higher standards of performance and aligning the objectives of employees 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 CSOP, in the Group's financial statements during the year was £19,000 (2016: £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
July 2017	Equity	288,610	None	July 2027

Of the 288,610 of share options issued to CSOP participants in July 2017 60,034 were issued to participants in the LTIP scheme and vest under the same conditions described for the LTIP award in July 2017. LTIP participants have the choice of exercising their LTIP award in full or scaling back their LTIP award in order to receive their CSOP equivalent. LTIP participants are unable to exercise both awards in full and potentially dilutive shares therefore exclude the element of the above options which is effectively double counted.

The number of share options is as follows:

	Number of options	
	Year ended 31 December 2017	Year ended 31 December 2016
Outstanding at the beginning of the year	**–**	–
Granted during the year	**288,610**	–
Forfeited during the year	**(116,952)**	–
Outstanding at the end of the year	**171,658**	–
Exercisable at the end of the year	**–**	–

The remaining contractual life of options is 2.5 years. 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:

	July 2017
Weighted average share price	£0.47
Exercise price	£1.575
Expected volatility	44%
Expected option life	3 years
Expected dividends	Nil
Risk-free interest rate (based on UK government bonds)	0.04%
Fair value at measurement date	£0.47

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

29. 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:

	2017 £000	2016 £000
Management services provided	**–**	40
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.

Key management compensation information is as follows:

	2017 £000	2016 £000
Wages and salaries	**2,133**	1,585
Share-based payments	**556**	280
Other employee benefits	**139**	137
Pensions	**106**	60
	2,934	2,062

30. 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	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Less than one year	**467**	72	**–**	–
One to five years	**–**	–	**–**	–
More than five years	**–**	–	**–**	–
	467	72	**–**	–

The lease expense in respect of the year was £418,000 (2016: £333,000).

31. 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. 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.

	2017 £000	2016 £000
Cash and cash equivalents	**13,299**	20,978
Total net funds	**13,299**	20,978

32. Post balance sheet events

None noted.

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2018 financial calendar

Preliminary results release	11 April 2018
Annual report release	4 June 2018
Annual General Meeting	27 June 2018
Interim report release	September 2018

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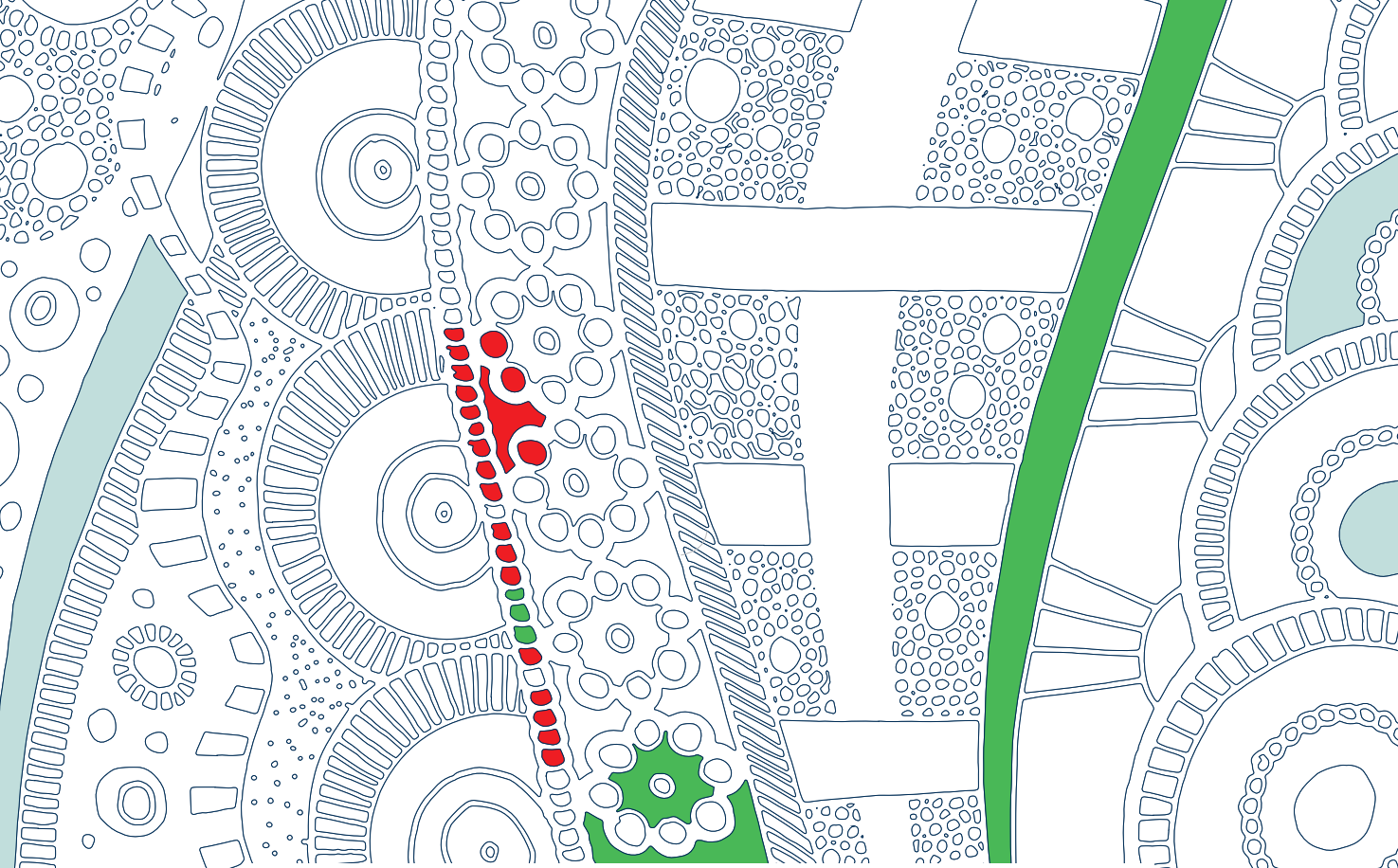

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