e-Therapeutics

Modern science for complex disease

Annual report and accounts 2017

e-Therapeutics plc

Modern science for complex disease

Who we are

e-Therapeutics plc ("e-Therapeutics" or "the Company") is a drug discovery company with a unique and proprietary *in silico* discovery platform based on the application of network science to the modelling and analysis of cellular processes and leveraging public and proprietary chemical biology and "multi-omics" data.

The Company is applying its computational platform to the discovery of new drug candidates for which it can secure robust intellectual property rights. The therapeutic focus of the Company's discovery activity is in areas of complex disease with unmet medical need, including immuno-oncology.

The platform is highly productive and, in new discovery projects, it consistently generates hits in phenotypic screens that have been progressed into potent, selective, novel drug-like molecules of multiple chemotypes.

Significant numbers of active molecules can be identified from screens of modest size, providing gains in both cost and time and enabling the use of more physiological assays, thereby increasing the likelihood that candidates arising from the approach will translate into clinically efficacious drugs.

Our approach

Cells contain many different proteins that interact in complex networks. These networks are vital to normal (healthy) function and also play a central role in disease. The structure of these biological networks ensures resilience, making them difficult to change. The identification of effective interventions is not obvious without mathematical analysis.

e-Therapeutics applies specialised biological expertise and sophisticated computational techniques to model and analyse biological networks and hence identify key proteins that are relevant to a particular disease. We then use other cutting edge *in silico* techniques, including AI, to evaluate small molecules based on their potential bioactivity, drawing from our comprehensive library of millions of active compounds. The unique combination of computational techniques allows us to select the very best drug-like molecules for screening in cellular assays and for subsequent medicinal chemistry and pre-clinical testing.

We have termed this approach Network-driven Drug Discovery. It complements more conventional single-target-driven drug discovery approaches by explicitly considering the 'optimal' protein signatures required to change a network and matching these to compound bioactivity.

By engaging with the true complexity of disease at the outset, e-Therapeutics believes its approach has the potential to discover more effective drug treatments, more efficiently.

Read more at:
www.etherapeutics.co.uk

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Operational highlights

Major review and reorganisation

- Board and management changes, with Malcolm Young and Steve Self stepping down as CEO and Development Director respectively, and post-year end, Sean Nicolson stepped down as Executive Director and Company Secretary
- Refocus towards drug discovery and the core *in silico* platform; away from clinical development, with closure of clinical development function during the year

Focusing of resources

- Reduction in number of discovery projects, from 12 to 6, to improve efficiency and focus more resources on fewer projects
- Acquisition of Searchbolt to secure ownership of the Company's IP

New leadership

- Post-year end, on 6 April 2017, Dr Ray Barlow, formerly of Amgen, joined as new CEO: now undertaking a full review of the Company's operations, projects and technologies

Financial highlights

Cash and fixed-term deposits

£14.0M (FY16: £24.8M)

Reduction in cash and fixed-term deposits in the year

£10.8M (FY16: £9.0M)

Operating loss, including impairment of goodwill and intangibles of £2.8m (FY16: £nil)

£16.3M (FY16: £11.6M)

R&D tax credit

£3.1M (FY16: £2.5M)

Discovery spend

£7.6M (FY16: £4.4M)

A focused transition, restructured Board and new leadership

Chairman's statement

The business has changed fundamentally in the past twelve months. We are now focusing on our core strengths around our unique drug discovery platform and the discovery of novel preclinical drugs. The priority has been to ensure we have the right infrastructure, skills and capabilities in place to execute our business strategy. We approach the coming year with increasing optimism.

Dear Shareholder,

A focused transition of the business...

During the period under review there has been a fundamental shift in the way in which we operate the business. Following Board and Management changes mid-year, and a subsequent operational re-organisation, we have redressed the overall balance of the business. We have re-focused it such that we can concentrate upon our core strengths around the development of the Company's unique and proprietary drug discovery platform and its application to the discovery of novel preclinical drugs with the potential to treat serious illness.

We have cut out non-core expenditure, and moving forward, we have materially reduced our rate of cash burn.

Furthermore we have applied our highly competent scientific resources to value-enhancing initiatives, which will further validate the Company's discovery platform. We have empowered our scientific team to take responsibility and be accountable for individual projects.

We have strengthened our IP position with the acquisition of Searchbolt Limited and taken a highly disciplined approach to the review of our project portfolio. Accordingly, we have not hesitated to triage projects and put on hold those that do not offer an immediate opportunity to validate the platform.

...with a re-structured Board and management team...

During the period Professor Malcolm Young and Stephen Self stepped down from the Board and, more recently, Sean Nicolson, Executive Director, resigned to pursue other business interests. We wish them all continued success and thank them for their contribution to the business. As a result, I undertook the role of Interim Executive Chairman and our Finance Director, Steve Medlicott, took on additional responsibility as Interim Chief Operating Officer. Professor Trevor Jones and Brad Hoy, our independent Non-Executive Directors took on specific responsibilities to assist during this period of transition.

On a personal basis I am grateful to the Board and management team for 'stepping up' to the challenge set mid-year. With the recent appointment of a new CEO and the anticipated addition of one new Non-Executive Director in the coming year, I believe the Board and management team will be well positioned to take this fundamentally sound business to the next stage of its development.

...under new leadership

On 6 April Dr Raymond Barlow took up his appointment as our new CEO. Ray comes to us from Amgen Inc., with an excellent scientific pedigree and an outstanding record in senior management and commercial business. Under his leadership our goals for the next twelve months will include a more active engagement with our stakeholders; obtaining external third party validation of the Company's platform and discovery programmes; further focusing and strengthening of the Company's talents and resources; and ensuring a compliant and productive environment such that we can create a sustainable increase in shareholder value.

In conclusion, I would like to re-iterate that your Board believes with this re-defined focus, new leadership and continued investment that a significant increase in value can be generated over time and that the Company is entering an exciting phase.

I would like to thank all the Company's stakeholders for their patience, understanding and support during my brief period as Interim Executive Chairman and, in particular, I would like to recognise the e-Therapeutics team for their outstanding dedication and enthusiasm during a period of transition, which I know has been difficult at times.

I believe the forthcoming year will be transformational, and I look forward to a very exciting future under Ray's leadership.

Iain G Ross
Non-Executive Chairman
18 April 2017

"

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Non-Executive Chairman
18 April 2017

Financial review

Since the restructuring last summer, the core focus of Management has been to balance cash preservation with targeted investment. The ultimate aim of this has been to provide the incoming CEO with sufficient resources and time to be able to pursue a strategy that will lead to commercial validation of the drug discovery platform.

By resources, we mean both intellectual and financial capital and whilst we have not avoided cutting cost where necessary, we have also looked to invest, particularly in the core *in silico* drug discovery platform and in the generation of proprietary data. The fundamental aim of the current and past investment has been to provide technical validation of our approach to drug discovery.

There was some significant committed spend during the year, for example the ongoing treatment of patients on the ETS2101 Ib study during the wind down of that trial, but wherever possible, we have looked to control non-essential costs. Consequently, we have ended the year with £14m of cash and fixed-term deposits which is above our original expectations. In addition, we will be applying for an R&D tax credit of £2.8m over the coming couple of months. As we spend this cash, we anticipate generating additional future R&D tax credits of up to £3.0m, providing in excess of £19m of funds available for investment.

The Company's operating loss for the year was £16.3m (FY2016: £11.6m). The overall R&D spend in the year was £10.9m (FY2016: £10.0m) and, as in previous years, the mix of spend continued to change with a £3.2m increase in drug discovery and a £2.3m reduction in clinical development spend.

Drug discovery spend for the 12 months to 31 January 2017 increased to £7.6m (FY2016: £4.4m). The majority of the increased spend related to external discovery spend and we continued to incur costs on a number of projects. As part of the strategic review last July, we materially reduced the number of discovery projects from twelve to six. As a result, spend on external discovery was reduced by over £2m in the second half of last year, when compared to our previous expectations. On the same basis the reduction in external discovery spend in the new financial year is expected to be significantly more than £2m. We continue to have a number of active and interesting discovery projects in a variety of disease areas, including in immuno-oncology.

Drug development spend in the year to 31 January 2017 fell by £2.3m to £3.3m (FY2016: £5.6m), reflecting declining spend on the one remaining clinical trial. On 22 March 2016, we announced the orderly wind down of the ETS2101 Ib study and closed the trial to new patients, but we remain committed to the continued treatment of all existing patients.

As of today, two patients remain on trial, one in the pancreatic cancer monotherapy trial and one in the hepatocellular carcinoma in combination with standard of care trial. In the interim statement last year we highlighted that some costs relating to the wind down of the ETS2101 Ib study were anticipated in the first half of 2017. With two patients remaining on the study, there is a possibility that some costs extend into the second half of the current financial year.

Admin spend of £2.6m was £1.0m higher than the previous year (FY2016: £1.6m). Changes to the Board last year led to one-off increases in administrative expenses of £0.7m, £0.6m of which related to compensation for loss of office to two former Directors. Moving forward, total Board costs will be materially reduced reflecting the fact that there are now two Executive Directors compared to four for much of last year.

Impairment of intangible assets in the year was £2.8m (FY2016: £nil). £2.1m of this was reported in the interim results last September and related to the acquisition of Searchbolt Limited. In order to reflect the repositioning of the Company with a focus on discovery, we have also taken the decision to impair a number of previously capitalised patent costs relating to the clinical assets.

Year-end cash and fixed-term deposits of £14.0m was £10.8m lower than the opening position of £24.8m. During the year we received a R&D tax credit of £2.6m, which was £0.1m higher than we had originally anticipated. A further £0.1m, relating to adjustments to prior years' R&D tax credit claims, was received post the year end. Subject to no change in the tax environment, we anticipate receiving a further £2.8m R&D tax credit in the current year, and up to an additional £3m in future years.

Summary and Outlook

As we exit the first quarter of the new financial year, the monthly cash burn of the Company continues to fall. Furthermore, we have committed to invest in the core drug discovery platform: this investment includes both people and the integration of additional complementary technologies and capabilities. The current cash position and change of emphasis of the Company away from clinical development and towards drug discovery and the core *in silico* platform, mean that we now have greater flexibility to manage costs as we move forward. We remain confident that we are able to extend our cash runway into 2019, and potentially beyond as we undertake the coming phase of commercialisation.

Ray Barlow, our recently appointed CEO, is undertaking a full review of the Company's operations, projects and technologies and we look forward to reporting the findings of this review to shareholders over the coming few months.

Steve Medlicott
Finance Director
18 April 2017

Strategic focus on drug discovery

Strategic report

Strategy and business model

The Group's business strategy is now fully focused on maintaining and continuing to develop its novel and proprietary *in silico* drug discovery platform and on the application of the platform to the discovery of innovative preclinical drugs with the potential to address areas of significant unmet clinical and commercial need.

We anticipate that the Group's *in silico* drug discovery platform will be of significant interest to traditional pharmaceutical and biotechnology companies who are looking to decrease the cost and increase the speed and productivity of their drug discovery activities. In addition, we anticipate that the Group's computational platform will also be viewed as an important innovation by a new generation of informatics-based companies who are looking at ways to use technology to redesign and "disrupt" the traditional drug discovery process. Moving forward, we will focus our business development efforts on demonstrating the value and utility of our approach and consider there to be potential to enter into a number of different types of collaborative partnerships and agreements.

Given the productivity of the platform, we will also continue to use the Group's resources to develop certain internal, preclinical drug discovery programmes to a point where they could become attractive to industrial partners looking to acquire or in-license such assets. We expect this approach to generate revenues in the form of upfront payments, progress-based milestone payments and ultimately royalties on sales.

Following this strategy is expected to result in continuing losses until revenues from external sources exceeds investment in R&D. The Board expects to be able to support its discovery plans for the near-term in the absence of any income from partners.

Business review

The Group's results for the year are set out in the consolidated income statement on page 29. A review of the Group's performance during the year, together with its position at the end of the year, is given in the Non-Executive Chairman's statement and the financial review on pages 2 and 3.

Principal risks and uncertainties

The principal risks faced by the Group, and the actions taken to mitigate them, are detailed on page 7.

Key performance indicators

The Directors monitor a number of performance indicators on a regular basis, the most important of which are summarised on page 6. These show sustained R&D spend and consequent reduction in cash and fixed-term deposits. The number of active drug discovery projects reflects the recent refocusing of the Company's activities, and the Directors expect that the number of revenue-generating commercial agreements in place will be an important indicator of progress in future periods.

The future

More information on the Group's future prospects and the Directors' consideration of the applicability of the going concern basis of accounting appears on page 6.

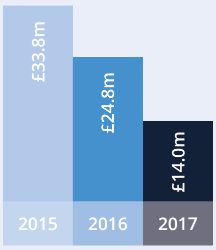
Measuring our progress

Key performance indicators (KPIs)

The Directors monitor a number of performance indicators on a regular basis, the most important of which are summarised below.

Financial KPIs

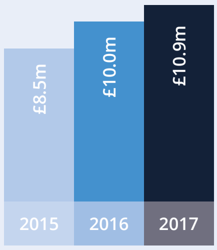
Cash and fixed-term deposits



-£10.8m

Where to look for more detail
Balance sheet and cash flow statement pages 32 and 33

R&D spend

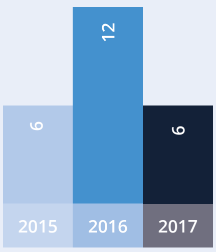


+9%

Where to look for more detail
Financial review page 4

Non-Financial KPIs

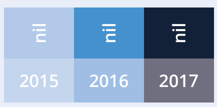
Number of active discovery projects



-50%

Where to look for more detail
Financial review page 4

Number of commercial agreements



The number of commercial agreements in place will be an important indicator of progress in future periods.

Future developments

The Group retains a sound financial base following the 2013 fundraising, which it is using to continue to support its current discovery activity. We aim to see progress from our focus on the commercialisation of both our preclinical assets and our *in silico* platform approach to drug discovery, the latter most likely through collaboration agreements.

Going concern basis

Information on the Group's business activities and financial position, together with the factors most likely to affect its future development, performance and position, is set out above. In addition, Note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

During the year, the Group met its day-to-day working capital requirements through cash reserves obtained through fundraising. The Directors consider that the current position of the Group is not unusual for a drug discovery company.

The Group has prepared detailed financial forecasts for the next two years. These forecasts assume no sales and the continuation of costs associated with drug discovery and development. The forecasts show that the Group should be able to operate within the level of its current cash balances for in excess of two years from the date of these financial statements.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board and signed on its behalf by

Iain G Ross
Non-Executive Chairman
18 April 2017

Mitigating our risks

Principal risks and uncertainties

The principal risks faced by the Group, and the actions taken to mitigate them, are shown in the table below.

Risk and description	Principal mitigation
Intellectual property ("IP") In common with other companies engaged in drug discovery, the Group faces the risk that intellectual property rights necessary to exploit its research and development efforts may not be adequately secured or defended. Similarly, the intellectual rights relating to the Group's technology platform may not be adequately secured or defended. The Group's IP may also become subject to infringement claims by others, or obsolete, preventing commercial exploitation.	The Group actively manages its IP, engaging with specialists to apply for and defend IP rights in appropriate territories. The Group's patent portfolio is reviewed regularly. Furthermore, the creation, maintenance and operation of the Group's technology platform requires detailed, advanced know-how and expertise which would be difficult and time-consuming for competitors to replicate.
Research and Development The Group may not generate further attractive drug candidates and candidates already in development may fail in preclinical testing because of a lack of efficacy or potency, unacceptable toxicology results or insurmountable challenges in medicinal chemistry.	The Group's drug discovery activity is designed to generate multiple structurally diverse candidates in different disease areas. In deciding which of these candidates to advance to preclinical testing the Group considers a range of factors including technical, IP, commercial, medical, economic and financial, where appropriate seeking advice from relevant experts.
Regulatory Drug development is a highly regulated activity governed by different regulatory authorities in different jurisdictions. It can be difficult to predict the exact requirements of different regulatory bodies and decisions by regulators and payors may lead to delays in development and approval of drugs or lack of marketing authorisations or commercialisation in some or all territories.	Whilst the bulk of the Group's drug development activity is in the process of being brought to an orderly close, the team still includes specialists in regulatory affairs who consult with other experts to ensure that internal control processes and preclinical and clinical trial activities meet current regulatory requirements. The Group also engages directly with regulatory authorities when appropriate.
Technology The Group's technology platform and its individual programmes may be superseded by direct competitors.	The Group has pioneered the development of network pharmacology as a method of drug discovery and pursues a process of continuous improvement and development of its drug discovery platform.
Commercial and economic The Group may be unable to license its products to partners or may not be able to execute licensing deals that provide significant revenues. Development of alternative technologies or products may undermine the Group's capacity to generate revenue flowing from commercialisation of its assets. If the Group's drugs are commercialised, they may not generate significant revenues if their use and sale is restricted by regulators or by failure of healthcare payors to provide adequate reimbursement of drug costs.	In order to maximise the likelihood of entering into attractive discovery collaboration and licensing deals, the Group aims to ensure that potential licensors are appraised of the utility of the *in silico* platform and of drug discovery candidates' progress in discovery and/or preclinical and clinical trials. The commercial prospects of each drug discovery programme are reviewed on a regular basis. The Group consults with clinical and scientific experts to assess the potential impact of competing products and technologies or changes in the economic landscape pertaining to specific disease indications. The Group actively considers the opportunities for value realisation at multiple points within the drug discovery and development process.
Financial The successful development of the Group's assets requires financial investment which can come from revenues, commercial partners or investors. Failure to generate additional funding from these sources may compromise the Group's ability to execute its business plans or to continue in business.	The Group has successfully engaged with investors to generate cash resources which are considered sufficient to fund current plans for the development of the Group's technology platform, the generation of new drug candidates using the platform, and any advancement of these candidates to preclinical testing. The Group operates robust controls over expenditure including detailed budgeting and authorisation of individual orders.
Operational The Group may not be able to recruit and retain appropriately qualified staff. Facilities and other resources may become unavailable.	The Group's recruitment processes are tailored to identify and attract the best candidates for specific roles. The Group aims to provide competitive rewards and incentives to staff and Directors, and informally benchmarks the level of benefits provided to its people against similar companies. The Group maintains appropriate types and levels of insurance cover and has business continuity and disaster recovery plans in place.

Our expert team

Board of Directors

Dr Raymond Barlow
Chief Executive Officer

Ray, 48, was announced as e-Therapeutics' Chief Executive Officer in January 2017, taking up the role on 6 April 2017. Ray brings to e-Therapeutics broad experience of drug discovery, development and commercialisation, acquired through regional and global roles in the biotechnology and pharmaceutical sectors.

Having completed a BSc (Hons) in Chemistry from Leeds University in 1990, Ray moved to the University of Manchester from where he gained a PhD in Chemistry in 1994. He then spent a year at McGill University, Montreal, Canada as a post-doctoral fellow before entering the pharmaceutical industry as a Senior Scientist with Zeneca in Pharmaceutical R&D's Technology Access and Strategic Alliances team, of which he later became Team Leader in 1998.

Following the merger with Astra, he became a Global Manager in the Discovery and Development function, in-licensing technologies and working on the development of a range of molecules, including those in oncology, cardiovascular, respiratory and inflammatory disease areas. During this period he graduated from Manchester Business School with an MBA (with distinction) and moved into the Business Development function, first as a Senior Business Analyst before his appointment as Director of Corporate Development, reporting into AstraZeneca's London HQ. In this role he was involved in a number of transactions and was part of the team responsible for shaping AZ's strategy with the Board, including its move into biologics. In 2004, he stepped into a Regional commercial leadership role in Brussels covering 14 countries in Central and Eastern Europe and Russia.

After 10 years with AstraZeneca, Ray moved into the biotech sector working in senior business development roles for Microscience Limited and Emergent Solutions Inc. (EBS). During this period Ray out-licensed a portfolio of Meningitis B assets to Sanofi and was involved with the team that successfully listed EBS on NASDAQ. Ray then spent five years running his own business (BD Solutions Limited) focused upon advising and aiding clients on corporate development and commercialisation projects. During this period he was CEO of Asterion Ltd, and delivered deals with Genzyme Inc. and Ipsen.

In 2010, he joined Crucell NV and was instrumental in the sale to Johnson & Johnson for whom he worked on a wide range of infectious disease and vaccine deals, before joining Amgen in 2012. In his role as Executive Director of Corporate Development at Amgen he has completed numerous deals including immuno-oncology deals with Boehringer Ingelheim and Genenta, international commercial deals with GSK and Mitsubishi Tanabe as well as playing a key part in the acquisition of Onyx Pharmaceuticals Inc. and Dezima Pharma BV.

Mr Steven Medlicott
Finance Director

Steve, 51, joined e-Therapeutics' Management team in April 2014, having previously advised the Company in its £40m fundraising in 2013. He is a Chartered Accountant. Steve acted as Interim Chief Operating Officer between July 2016 and April 2017.

Prior to joining e-Therapeutics, Steve worked in the UK equity market for over 20 years. During this time he was involved primarily in research and advised on numerous flotations, acquisitions and corporate transactions. He has held various research and executive roles within UK capital market companies including Altium Capital, N+1 Singer and Peel Hunt. He co-founded Blueprint Advisors in 2012.

AC RC

Mr Iain Ross
Non-Executive Chairman

Iain, 63, has over 35 years' experience in the international life sciences and technology sectors where he has completed multiple financing transactions, and over 25 years in cross- border management as a chairman and chief executive officer. He has led and participated in five Initial Public Offerings, and has direct experience of M&A transactions in Europe, USA and Pacific Rim.

Currently he is Non-Executive Chairman of Redx Pharma plc (AIM) and Biomer Technology Ltd; and also a Non-Executive Director of Premier Veterinary Group plc (LSE); Anatara LifeSciences Ltd (ASX) and Novogen Ltd (ASX & NASDAQ). He is actively advising biotech and medtech companies in the USA. He is a qualified Chartered Director, and Vice Chairman of the Council of Royal Holloway, London University.

Previously, he has held significant roles in multi-national companies including Sandoz, Hoffman La Roche, Reed Business Publishing and Celltech Group plc where as Chief Executive Officer of Celltech Biologics plc, he moved the company from a loss-making position to reporting a net profit before the sale to Lonza. He has advised banks and private equity groups on numerous company turnarounds. These include as Chief Executive Officer of Quadrant Healthcare taking the company public, signing numerous collaborations and selling the business to Elan in 2001. As Chairman and Chief Executive Officer, at Allergy Therapeutics, he re-structured the company balance sheet to position Allergy Therapeutics as a virtually debt free cash generative company prior to its subsequent IPO. As Executive Chairman at Silence Therapeutics Plc (formerly SR Pharma plc), he turned the business around through M&A and established collaborations with Pfizer, Astra Zeneca and Dainippon Sumitomo before completing a merger with Intradigm Inc. Iain was appointed as Chairman of e-Therapeutics in January 2016 and acted as Interim Executive Chairman from July 2016 until the appointment of Ray Barlow as Chief Executive Officer in April 2017.

AC RC

Mr Bradley Hoy
Non-Executive Director

Brad, 54, has over 20 years' commercial experience in the pharmaceutical and biotechnology industries gained through financial and general management roles in the UK and US.

Brad is Chief Financial Officer and Director of C4X Discovery Holdings plc (AIM). Previously Brad was Chief Financial Officer of Plethora Solutions Holdings plc, an AIM-listed speciality pharmaceutical company; Chief Executive Officer of Xcellsyz Limited, a UK venture capital-backed life science company; Senior Director of Geron Corporation's stem cell-focused UK subsidiary; Chief Financial Officer at Cyclacel Limited, a UK oncology company, and held senior financial management positions at ChiRex Inc., a US-based pharmaceutical CMO. Brad is a Chartered Management Accountant. He was appointed as a Non-Executive Director of e-Therapeutics in September 2008, and chairs the audit committee.

RC

Professor Trevor Jones CBE
Non-Executive Director

Trevor, 74, has over 40 years' distinguished experience in the pharmaceutical and biotech industry as well as in academia. He is currently Chairman of the international CRO, Simbec-Orion Group Limited, and a Non-Executive Director of the Welsh investment company, Arthurian Life Sciences Limited and the global health and life sciences investment company Arix Bioscience plc. He is also Visiting Professor at King's College, London and holds honorary degrees and Gold Medals from seven universities.

Previously, Trevor held significant roles in industry including Director of Allergan Inc from 2005 to 2015 and R&D Director of The Wellcome Foundation from 1987-1994, where he was responsible for the development of AZT, Zovirax, Lamictal, Malarone and other medicines.

Trevor has also held a number of advisory and regulatory roles including Director General of the Association of the British Pharmaceutical Industry (ABPI), board member of the European Federation of Pharmaceutical Industry Associations (EFPIA) and the International Federation of Pharmaceutical Manufacturers Associations (IFPMA), a member of the UK Government regulatory agency, The Medicines Commission, a member of the UK Government Pharmaceutical Industry Ministerial Strategy Working Group on Pharmaceuticals, an adviser to the Cabinet Office on the Human Genome Project, a member of the Prime Minister's Task Force on the Competitiveness of the Pharmaceutical Industry (PICTF) and Chair of the Government Advisory Group on Genetics Research. He joined the e-Therapeutics Board in October 2015 and chairs the remuneration committee.

Committee member key

Chair of committee

Member of committee

AC Audit committee

RC Remuneration committe

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 January 2017.

Biographical details of the Directors are given on pages 8 and 9. All current Directors served throughout the year, except Ray Barlow, who was appointed on 6 April 2017. Malcolm Young resigned on 12 July 2016, Stephen Self resigned on 30 September 2016, and Sean Nicolson resigned on 28 February 2017.

Directors' remuneration

Details of Directors' remuneration and shareholdings appear in the Directors' remuneration report and the remuneration policy and statement of remuneration for 2016/17 on pages 20 to 27.

Research and development

The Group continues to invest in drug discovery research activities, aspects of which are outsourced when appropriate.

Political donations

The Group made no political donations during the current or prior year.

Financial instruments and financial risk management

The financial risks faced by the Group, and its policy towards these risks, are set out in Note 25 to the accounts.

Proposed dividend

The Directors do not recommend the payment of a dividend (2016: £nil).

Employees

The Group adopts a policy of equal opportunities in the recruitment and engagement of staff, as well as during the course of their employment. It endeavours to promote the best use of its human resources on the basis of individual skills and experience, matched against those required for the work to be performed.

The Group recognises the importance of investing in its employees and, as such, it provides opportunities for training and personal development and encourages the involvement of employees in the planning and direction of their work. The Group also recognises that commercial success depends on the full commitment of all its employees, and commits to respecting their human rights, to provide them with favourable working conditions that are free from unnecessary risk, and to maintain fair and competitive terms and conditions of service at all times. These values are applied regardless of age, race, religion, gender, sexual orientation or disability.

The benefits of diversity in the workforce are also recognised and, whilst the Group will continue to make all appointments based on the best candidate for the role, it is acknowledged that it is not just gender diversity that supports the strength and future success of the business, and the Group remains focused on achieving the right level of diversity whether related to ethnicity, gender, creed or culture.

Health and safety

The Directors are committed to high standards of health and safety at work. No significant incidents have been recorded during the period. Steve Medlicott is the Director with overall responsibility for health and safety matters.

The Group seeks to meet legal requirements aimed at providing a healthy and secure working environment to all employees and understands that successful health and safety management involves integrating sound principles and practice into its day-to-day management arrangements and requires the collaborative effort of all employees. All employees are positively encouraged to be involved in consultation and communication on health and safety matters that affect their work.

Major shareholdings

On 12 April 2017 the Company had been notified of the following shareholders with 3% or more of the issued share capital of the Company:

	Ordinary shares of 0.1 pence each Number	% of ordinary shares of 0.1 pence each held at date of notification
Invesco Asset Management	84,524,060	31.99
Woodford Asset Management	46,807,479	17.7
Aviva Investors Global Services	42,542,868	15.8
Lombard Odier Investment Managers	27,560,283	10.3
Professor Malcolm Young	23,854,572	8.9
Octopus Group	11,097,658	4.2

During the period between 31 January 2017 and 12 April 2017, the Company received the following notification under Disclosure and Transparency Rule 5:

- on 4 April 2017 Henderson Global Investors transferred their entire holding in the Company to Lombard Odier Investment Managers.

Most recently notified details of significant shareholdings may be found on the Company's website, at www.etherapeutics.co.uk/investors.

Articles of association and capital structure

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

There are no restrictions on the transfer or voting of securities in the Company, and there are no agreements known to the Company which might result in such restrictions. There are no shareholders carrying special rights with regard to the control of the Company.

Disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company'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.

Independent Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as Auditor of the Company is to be proposed at the forthcoming annual general meeting ("AGM"). Deloitte LLP was first appointed as Auditor of the Company at the AGM in July 2014, following an extensive tender process.

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Post-balance sheet events

There were no material post-balance sheet events requiring disclosure in the financial statements except for the changes in Directors disclosed elsewhere in this report. An indication of likely future developments of the business of the Group is included in the strategic report.

Annual general meeting

At the AGM, the following resolutions will be proposed:

Resolution 1: Report and accounts

The Directors must present their report and the annual accounts to the meeting. This gives shareholders the opportunity to ask questions on the content before voting on the resolution.

Resolutions 2, 3 and 4: Directors

The Company's articles of association require Directors to retire and submit themselves for election at the first AGM following their appointment and for re-election at least every three years thereafter. The Directors who retire at each AGM are those who would otherwise have served for over three years without re-election by the date of the following AGM. Ray Barlow was appointed as Chief Executive Officer on 6 April 2017. Steve Medlicott and Brad Hoy were last elected in July 2014, and will accordingly retire and submit themselves for re-election at the AGM. The Board has approved the nomination of all Directors seeking election and re-election at the AGM. Each of the Directors has skills and experience which relate directly to the Company's strategic objectives. The Board recommends shareholders vote in favour of all the resolutions relating to the election and re-election of Directors.

Resolution 5: Appointment of the Auditor

An ordinary resolution will be proposed to re-appoint Deloitte LLP as the Company's Auditor to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 6: Remuneration of the Auditor

An ordinary resolution will be proposed to authorise the Directors to determine the remuneration payable to the Auditor.

Resolution 7: Directors' authority to allot shares

This resolution seeks shareholder approval for the Directors to be authorised to allot shares. Under the provisions of section 551 of the Companies Act 2006, the Directors are not permitted to allot shares unless authorised to do so by the shareholders. This Act provides for such authority to be granted either by the Company in general meeting or by the articles of association and, in both cases, such authority must be renewed at least every five years. Notwithstanding the statutory provisions, in accordance with institutional best practice, it is the present intention of the Board to seek a similar authority each year.

At the previous AGM of the Company held on 25 May 2016, the Directors were given authority to allot ordinary shares in the capital of the Company up to approximately 70% of the Company's then issued ordinary share capital. The Directors consider it appropriate that this authority be renewed and seek authority to allot shares in the capital of the Company up to a maximum nominal amount of £187,898.23, representing 70% of the Company's issued ordinary share capital as at 12 April 2017. If granted, this authority will expire on the earlier of the date falling 18 months after the date of passing this resolution and the conclusion of the AGM of the Company in 2018. The Directors have no present intention of exercising this authority.

Directors' report continued

Resolution 8: Directors' power to disapply pre-emption rights
This resolution, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company proposed by resolution 7.

Section 561 of the Companies Act 2006 requires a company proposing to allot equity securities (which includes selling shares held in treasury) to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities includes ordinary shares (the only class of share capital the Company has at present) but does not include shares issued under employee share schemes. If resolution 8 is passed, the requirement imposed by section 561 will not apply to allotments by the Directors in the specific cases referred to in the resolution and also in the following cases:

1. in connection with a rights (or similar) issue, where strict application of the principle in section 561 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local, legal or regulatory requirements in any given overseas jurisdiction; and

2. allotments of shares for cash up to a total nominal value of £53,685.21 (representing 20% of the Company's issued share capital at 12 April 2017).

This authority will expire at the conclusion of the AGM of the Company in 2018 or, if earlier, 18 months after the date of the resolution, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

The Directors believe that this resolution together with resolution 7 will provide the Company with flexibility to take advantage of business opportunities that may arise.

Iain G Ross
Non-Executive Chairman
18 April 2017

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 18 April 2017 and is signed on its behalf by:

Iain G Ross
Non-Executive Chairman

Steven Medlicott
Finance Director

Corporate governance statement

As an AIM-listed company, e-Therapeutics does not have to comply with the UK Corporate Governance Code published by the Financial Reporting Council in 2016. However, the Board embraces the principles of good corporate governance and has continued to apply high standards of governance by having regard to the principles of the QCA Corporate Governance Code for small and medium sized listed companies published in 2013 (the "QCA Code").

Board of Directors

During the year under review, the Board comprised four Executive Directors (Steve Medlicott, Sean Nicolson, Malcolm Young until his resignation on 12 July 2016, and Steve Self until his resignation on 30 September 2016) and three Non-Executive Directors (Iain Ross, who acted as Interim Executive Chairman from July 2016 until the appointment of Ray Barlow in April 2017, Trevor Jones and Brad Hoy). Sean Nicolson resigned on 28 February 2017, and Ray Barlow was appointed on 6 April 2017. A brief biographical summary of each of the current Directors is given on pages 8 and 9.

The Board is responsible to shareholders for the effective stewardship of the Company's affairs and has a formal schedule of matters specifically reserved for its decision which include: overall company strategy, the annual business plan, acquisitions, approval of aggregate expenditure in discovery and development projects, approval of the accounts, assessment of the effectiveness of governance practice and risk management, appointment of senior executives and consideration of significant financial matters and regulatory issues. The Board also seeks to ensure that the necessary financial and human resources are in place for the Company to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met.

Chairman

Iain Ross was appointed as Non-Executive Chairman on 6 January 2016. The Non-Executive Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and has no involvement in the day-to-day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

On 13 July 2016, following the resignation of Malcolm Young as Chief Executive Officer, Iain Ross was appointed Interim Executive Chairman, taking responsibility for corporate and commercial decisions, and leading the search for a new CEO, which commenced immediately. The appointment of Dr Ray Barlow as CEO was announced on 9 January 2017, and Iain Ross returned to the position of Non-Executive Chairman when Dr Barlow officially took up the role, on 6 April 2017.

Company Secretary

Sue Steven was appointed as Company Secretary in March 2017, following the resignation of Sean Nicolson. Sue provides information and advice on corporate governance and individual support to Directors on any aspect of their role, particularly supporting the Chairman and those who chair Board committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties.

Reporting directly to the Chairman, the Company Secretary is responsible for ensuring that Board procedures are followed, that the Company complies with company law and the AIM Rules and that the Board receives the information it needs to fulfil its duties effectively. The appointment (or termination of appointment) of the Company Secretary is a matter for decision by the whole Board.

Independence of Directors

The Board currently comprises the Non-Executive Chairman, two further Executive Directors and two independent Non-Executive Directors. The independent Non-Executive Directors, Trevor Jones and Brad Hoy, constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The independent Directors are of sufficient experience and competence that their views carry significant weight in the Board's decision making.

The Board considers Brad Hoy and Trevor Jones to be independent in character and judgement and they:

- have not been employees of the Group within the last five years
- have not, or have not had within the last three years, a material business relationship with the Group
- have no close family ties with any of the Group's advisers, Directors or senior employees
- do not hold cross-directorships or have significant links with other Directors through involvement in other companies or bodies
- do not represent a significant shareholder

Non-Executive Directors have, from time to time, been remunerated in part by the issue of fully paid shares. The Board considers that such arrangements align the interests of shareholders and the Non-Executive Directors in an appropriate manner. The majority of the Non-Executive Directors' remuneration continues to be paid in cash.

The Company Secretary maintains a register of outside interests and any potential conflicts of interest are reported to the Board. The Non-Executive Directors have regular opportunities to meet without Executive Directors being present (including time after Board and committee meetings).

Professional development

Throughout their period in office the Directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a director of a listed company, both in writing and in face-to-face meetings with the Company Secretary. They are reminded of these duties and they are also updated on changes to the legal and governance requirements of the Group and upon themselves as Directors.

Re-election

In accordance with the articles of association, each Director must be subject to re-election at least every three years. All newly appointed Directors are also subject to election by the shareholders at the first AGM following their appointment.

The Board in 2016/17

The Board's focus at the beginning of the year was to accelerate the discovery of new drugs and to make substantial progress in the clinical trials of ETS2101 and ETS6103. During the year the Board led the refocusing of the Group's activities concentrating on the development of the proprietary discovery platform and the transition to a new leadership team. More information on these matters is provided in the Non-Executive Chairman's statement and the strategic report.

The Board continued to develop its investor strategy to promote greater liquidity of the Company's shares.

The overall performance of the Company was reviewed throughout the year.

Meetings of the Board and committees of the Board

During the financial year, the Board met nine times in person and on other occasions by telephone. In addition, authority was delegated on an ad hoc basis to committees to deal with statutory matters such as the approval of the announcements of the final results and interim statement. Those committee meetings are not reported below.

The number of meetings attended by each Director who held office during the year was as follows:

Director	Board	Audit committee	Remuneration committee
Iain Ross	9	2	7
Steve Medlicott	9	n/a	n/a
Malcolm Young[1]	4	n/a	n/a
Steve Self[2]	2	n/a	n/a
Sean Nicolson[3]	9	n/a	n/a
Brad Hoy (Non-Executive)	9	2	7
Trevor Jones (Non-Executive)	9	n/a	7

1 Resigned on 12 July 2016.
2 Resigned on 30 September 2016.
3 Resigned on 28 February 2017.

Board committees

The Board has appointed two standing committees to make recommendations to the Board in specific areas, as follows:

Audit committee

The audit committee's primary responsibilities are to review the financial statements, to ensure that there are suitable internal control and risk management systems in place, to consider the appointment of the external Auditor and its independence and to review audit effectiveness. Independent Non-Executive Director Brad Hoy, a Chartered Management Accountant and Chief Financial Officer of C4X Discovery Holdings plc, chairs the audit committee. Iain Ross is the other member of the committee. With the consent of the committee chairman, meetings are attended by the Finance Director and representatives of the Company's independent Auditor. Time is set aside for discussions between the Non-Executive Directors and the independent Auditor in private. The audit committee's report on its work during the year appears on page 19.

Remuneration committee

The remuneration committee makes recommendations to the Board on strategy and policy for executive remuneration. It also sets the remuneration packages for the Executive Directors and is also responsible for the granting of options under the Company's share option schemes to Executive Directors. The chairman of the remuneration committee is independent Non-Executive Director Trevor Jones and the other members are Iain Ross and Brad Hoy. No Executive Director takes part in discussions regarding their own remuneration. The remuneration committee considers that inclusion of fluctuating emoluments, which include performance bonuses, is an important element of the Company's remuneration of Executive Directors and senior managers. The remuneration of the Non-Executive Directors is set by the Board, led by the Executive Directors. The remuneration committee's reports on its work during the year may be found on pages 20 to 27.

Corporate governance statement continued

Risk management and internal control

The audit committee is responsible for establishing the Company's system of internal control (covering all aspects of the business) and for reviewing its effectiveness. The audit committee adopts an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This ongoing process is regularly reviewed by the audit committee and has regard to the Financial Reporting Council's "Guidance on Risk Management Internal Control and Related Financial and Business Reporting" published in September 2014. The audit committee meets with the Executive Directors and the Company's independent Auditor and satisfies itself as to the adequacy of the Company's internal control systems. A list of the Company's principal risks and the principal actions taken to mitigate them appears on page 7.

e-Therapeutics is an entrepreneurial company with strong financial and management controls within the business. Examples of control procedures include:

- an annual budget set by the Board, with regular review of progress
- monthly management accounts
- dual bank signatories for all payments with pre-determined authority limits for specific Directors and employees
- regular meetings of Executive Directors to review management information and follow up on operational issues or investigate any exceptional circumstances
- a risk register
- clear levels of authority, delegation and management structure
- extensive use of standard operating procedures throughout the Company
- Board review and approval of significant contracts and overall project spend
- a Quality Management System to support the clinical trial activities the Company conducts, ensuring compliance with clinical trial legislation and guidelines
- regular "GxP" training programmes to maintain and enhance staff knowledge and expertise
- annual audits and other contractor management procedures to ensure good vendor performance
- restriction of user access to IT systems

The Company's system of internal control is designed to safeguard the Company's assets and to ensure the reliability of information used within the business. The system of controls manages appropriately, rather than eliminates, the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The independent Auditor does not perform a comprehensive review of internal control procedures, but reports to the audit committee on the outcomes of its annual audit process.

The Board confirms that the effectiveness of the system of internal control, covering all material controls including financial, operational and compliance controls and risk management systems, has been reviewed during the year under review and up to the date of approval of the annual report.

Board effectiveness and performance evaluation

The Board is mindful that it needs continually to monitor and identify ways in which it might improve its performance and recognises that board evaluation is a useful tool for enhancing a board's effectiveness. Alongside the formal annual evaluation, the Chairman routinely assesses the performance of the Board and its members and discusses any problems or shortcomings with the relevant Directors. As a consequence, during the period the Board has undertaken a rigorous and formal annual evaluation of its own performance, balance of skills, experience, independence, diversity (including gender diversity) and other factors relevant to its effectiveness (and also of that of its committees) and the performance of its individual Directors. During the review, the Chairman undertook a formal discussion with the other Non-Executive Directors regarding the performance of the Board and its committees and the other Non-Executive Directors' own individual contribution and performance. In preparation, the Chairman solicited the views of the other Directors, including the completion by each Director of a confidential questionnaire.

With regard to the evaluation of the Board itself, the discussions focused in particular on:

- Board roles and responsibilities
- the Board's contribution to developing and testing strategy and to risk management
- the composition of the Board (i.e. mix of skills, experience and expertise)
- the effectiveness of internal and external relationships and communication
- the effectiveness in anticipating and responding to challenges and crises
- the effectiveness of Board committees
- the flexibility of the Board in dealing with a wide range of issues

The evaluation of the performance of individual Directors encompassed:

- preparation and meeting attendance
- preparedness to understand key Company issues
- quality of contribution at Board and committee meetings
- contribution to the development of strategy and risk management
- use of previous experience to contribute to key issues and strategy
- effectiveness in challenging assumptions, in maintaining own views and opinions and in following up main areas of concern
- building successful relationships with other Board members, management and advisors
- communication with and influence on other Board members, management and key shareholders

In addition to the above, the Chairman was evaluated on his:

- effective leadership of the Board
- management of relationships and communications with shareholders
- identification of development needs of individual Directors with a view to enhancing the overall effectiveness of the Board as a team
- promotion of the highest standards of corporate governance
- management of Board meetings and ensuring effective implementation of Board decisions

Following the reviews, the Chairman shared his observations and any actions arising, where appropriate, with the other Non-Executive Directors and the Executive Directors. These individual evaluations aim to confirm that each Director continues both to contribute effectively and to demonstrate commitment to the role (including the allocation of necessary time for preparation and attendance at Board and committee meetings and any other duties). The CEO reports to the Board and the Chairman will review his performance on behalf of the Board. The CEO will review the performance of the other Executive Directors. The Executive Directors and the other Non-Executive Directors are responsible for evaluating the performance of the Chairman.

Following the evaluation process, the Company considers that the Board and its individual members continue to perform effectively, that the Chairman performs his role appropriately and that the process for evaluation of his performance had been conducted in a professional and rigorous manner.

The schedule of matters reserved for Board decision and terms of reference of the Board committees are published on the Company's website (www.etherapeutics.co.uk).

Corporate governance statement continued

Shareholder communication

The Board is keen to promote greater awareness of the Company. The Board seeks to build on a mutual understanding of objectives between the Company and its shareholders by:

- communicating regularly with shareholders throughout the year
- providing information to shareholders in a balanced and understandable way
- making annual and interim presentations to institutional investors
- meeting shareholders to discuss long-term issues and to obtain their views
- encouraging private investors, in particular, to attend the AGM, so that they have an opportunity to ask questions of the Board and are equipped to make their own assessment of the Company's position and prospects
- regular meetings of the Board being used as the forum to ensure that Non-Executive Directors are updated on the views of major shareholders that have been communicated to the Executive Directors

The Board believes that the Company has a strong governance culture. The Board has regard to the twelve principles of corporate governance set out in the QCA Code and considers them in a manner appropriate for a company of its size. The Board is committed to continued engagement with its shareholders.

Independence of the independent Auditor

Both the audit committee and the independent Auditor have in place safeguards to avoid the Auditor's objectivity and independence being compromised. The Company's policy with regard to services provided by the independent Auditor is as follows:

- Statutory audit services – the independent Auditor, which is appointed annually by the shareholders, undertakes this work. The audit committee reviews the Auditor's performance on an ongoing basis.
- Non-audit services – the independent Auditor is not permitted to provide internal audit, risk management, litigation support, remuneration advice or information technology services. The provision of other non-audit services, including taxation services, is assessed on a case-by-case basis, depending on which professional services firm is best suited to perform the work. These safeguards, which are monitored by the audit committee, are regularly reviewed and updated to ensure they remain appropriate. The Auditor reports to the audit committee on the actions it takes to comply with the professional and regulatory requirements and best practice designed to ensure its independence, including the rotation of key members of the audit team. Deloitte LLP has formally confirmed this to the Board. The disclosure of non-audit fees paid to Deloitte LLP during the year is included in Note 7 to the consolidated financial statements.

By order of the Board

Iain G Ross
Non-Executive Chairman
18 April 2017

Audit committee report

While operating as a committee of the Board, the Company's audit committee is by no means remote from the key issues facing the business. The committee has considered not only the adequacy of financial reporting and the applicability of accounting standards to the business, but also how the challenges faced by the Company may flow through into internal control, accounting policy and financial reporting to shareholders.

The committee is responsible for reviewing approaches to risk management and looking at internal controls on behalf of the Board. The full Board has been engaged in looking at the critical success factors for the Company. The risk management process is discussed on page 16 and a table of risks and how the current strategy helps to mitigate those risks appears on page 7.

Membership and meetings of the audit committee

The audit committee is chaired by Brad Hoy. The other member is Iain Ross. At the invitation of the committee, the Finance Director and representatives of the external Auditor usually attend committee meetings. Time is allowed at the end of each meeting for discussion without any members of the executive team being present, to allow the external Auditor to raise any issues of concern.

Two meetings were held in 2016/17. In addition to formal reviews of reports from the external Auditor, the audit committee discussed matters relating to financial policy, controls and reporting, as summarised in the following table.

Date	Matters discussed
March 2016	Review of external audit for the year ended 31 January 2016 Internal controls and risk management
November 2016	Review of audit planning report including audit risk areas

Terms of reference

The audit committee's terms of reference confirm the main responsibilities of the committee and are available on the Company's website at www.etherapeutics.co.uk/investors/corporate-governance.

The audit committee is responsible for monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. The audit committee reviews the accounting standards, policies and judgements behind and the clarity and fairness of, the interim and year end results statements.

The audit committee reviews internal controls and risk management procedures in the context of any issues which arise during the external audit process, or if concerns are raised by a member of the Board or by an employee under the 'whistle blowing' procedures.

The audit committee has primary responsibility for the relationship between the Company and its external Auditor. Representatives from the external Auditor are invited to attend audit committee meetings and the chairman of the audit committee meets less formally with the audit partner, as needed. The independence of the Auditor is kept under review and is reported on once a year, as part of the key issues memorandum presented to the audit committee by the Auditor.

The audit committee reviews the fee proposals presented by the Auditor and the scope of work is monitored carefully to ensure that independence is not compromised. In the year to 31 January 2017, audit fees for the Company totalled £39,000 (2016: £35,000), compared with non-audit fees (including advice on tax) of £17,000 (2016: £65,000). The audit committee is satisfied with the independence, objectivity and effectiveness of the external Auditor and the audit committee has not felt it necessary at this stage to propose re-tendering of the audit contract. A resolution for the re-appointment of Deloitte LLP as the statutory Auditor will therefore be proposed at this year's AGM.

No other formal recommendations have been made to the Board by the audit committee and no external reports have been commissioned on financial control processes during 2016/17.

This report was approved by the audit committee and the Board on 18 April 2017.

Brad Hoy
Chairman of the Audit Committee

Directors' remuneration report

On behalf of your Board, I am pleased to present our remuneration report for the year ended 31 January 2017.

As an AIM-listed company, e-Therapeutics is not obliged to provide a full Directors' remuneration report meeting the requirements of the UK Corporate Governance Code. We do, however, have regard to the principles of the QCA Code that we consider to be appropriate for an AIM company of our size. The report provides details of remuneration for all Directors and explains the potential and actual bonus amounts in the year. It gives a general statement of policy on Directors' remuneration as it is currently applied, and a summary of the share incentive scheme currently in place (more details of awards under the scheme appear in Note 24 to the accounts on pages 50 and 51).

The remuneration committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors. The remuneration committee's terms of reference are available on the Company's website (www.etherapeutics.co.uk/investors/corporate-governance). The remuneration committee recognises the importance of our reward and performance strategy in recruiting and retaining high quality individuals who can lead, develop and sustain business growth over the longer term. The information in the remuneration policy and statement of remuneration for 2016/17 on pages 21 to 27 highlighted as being subject to audit has been audited by the Company's Auditor.

Membership and meetings of the remuneration committee

The chairman of the remuneration committee is Trevor Jones, an independent Non-Executive Director and its other members are Iain Ross and Brad Hoy. Other Directors may attend by invitation of the remuneration committee. It is a fundamental principle that no individual should be able to participate in discussions about their own remuneration. All remuneration committee meetings are minuted and copies of the minutes are provided to the full Board. The remuneration committee operates within terms of reference adopted by the committee and approved by the Board in March 2015. The remuneration committee is responsible for recommending any changes in the structure of remuneration packages for the Executive Directors. It also plays an important role when an Executive Director joins and leaves the Company. It recommends to the Board the terms of employment for any appointment and any subsequent changes which may be needed and reviews any payments which might arise on termination of an Executive Director's contract.

The remuneration committee met seven times this year, and the main matters of business were:

- review of remuneration for the Executive Directors
- decision on awards to be made under the e-Therapeutics Performance Share Plan 2013
- completion of agreements relating to departing and incoming management
- determination of remuneration associated with interim executive positions

The remuneration committee did not undertake formal benchmarking of Directors' remuneration in 2016/17 and does not have retention agreements with any external remuneration consultants. Advice is taken from Executive Directors and external advisers as needed in relation to specific questions and projects.

Long-Term Incentive Plan

Long-term incentive awards were made to Executive Directors under the e-Therapeutics Performance Share Plan 2013 in the year ended 31 January 2017. Awards made in previous years may vest in the year ending 31 January 2018. Awards made during the year have two- or three-year vesting periods, and exercise prices of between 200% and 300% of the share price at the date of grant. The vesting of awards made in previous years is subject to targets based on increases in the price of the Company's shares over a three-year period, with a minimum threshold of 25%. More details are provided in Note 24 to the accounts.

Key remuneration decisions for the year to 31 January 2018

The committee conducted its annual review of all aspects of the remuneration packages of the Executive Directors to ensure that they continue to reward and motivate achievement of medium and long-term objectives, and align the interests of Executive Directors and shareholders. Accordingly, the committee's activities during the year included reviewing the basic salaries of the Executive Directors for the year ending 31 January 2018. The remuneration committee's activities during the year ending 31 January 2018 will include determining the amounts that may potentially be payable in the form of bonuses, and the form of the long-term incentive arrangements for the year ending 31 January 2018 under the e-Therapeutics Performance Share Plan 2013 including the size of awards and the applicable vesting periods and performance targets.

Further details are given in the remuneration policy overleaf.

Conclusion

The Directors' remuneration policy and statement of remuneration which follows this annual statement sets out the remuneration committee's approach to remuneration for the future and provides details of remuneration for the year ended 31 January 2017. This report is intended to provide shareholders with sufficient information to judge the impact of the decisions taken by the remuneration committee, to assess whether remuneration packages for Directors are fair in the context of business performance.

The remuneration committee is mindful of shareholder views and interests and we believe that our Directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives. As always, the AGM provides an opportunity for face-to-face discussions on important matters for the Company and its shareholders.

Trevor M Jones CBE
Chairman of the Remuneration Committee
18 April 2017

Remuneration policy and statement of remuneration for the year ended 31 January 2017

The policy of the remuneration committee is to ensure that the Executive Directors are fairly rewarded for their individual contributions to the Company's overall performance and to provide a competitive remuneration package to Executive Directors (including long-term incentive plans) to attract, retain and motivate individuals of the experience and competence required to ensure that the Company is managed successfully in the interests of shareholders. In addition, the remuneration committee's policy is to reward performance in a way which seeks to align the interests of management with those of shareholders.

Future policy

The main elements of the remuneration package of Executive Directors are set out below.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Basic salary			
Attract and retain Executive Directors with sufficient experience and competence to deliver strategy	Paid in twelve equal monthly instalments during the year.	Reviewed annually and as required to reflect role, responsibility, performance of the individual and the Company and informally to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the remuneration committee has regard to, amongst other things, the progress of the Company's research and development programmes, market worth and business sector. There is no prescribed minimum or maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None
Benefits			
Provide benefits consistent with role	Currently these consist of health insurance and membership of a Group life assurance scheme. The remuneration committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Company.	The cost of providing benefits is borne by the Company and varies from time to time.	None
Discretionary bonus			
Incentivise achievement of business objectives by providing a reward for performance against annual targets	Paid in cash after the end of the financial year to which it relates.	The maximum annual bonus is currently capped at 50% of basic salary. The level of such caps is reviewed annually and is set at an appropriate percentage of salary.	Targets are based on the appropriate progression of both the research and development programmes and the performance of the business as a whole. Payment of any bonus is subject to the overriding discretion of the remuneration committee.

Remuneration policy and statement of remuneration for the year ended 31 January 2017 continued

Future policy continued

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Long-term incentives			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares	Grant of awards under the e-Therapeutics Performance Share Plan 2013. Participants are entitled to acquire award shares after a vesting period and subject to payment of an exercise price.	There is no individual limit although the scheme is subject to an overall limit of 10% of the Company's issued share capital (this limit includes outstanding options from all current and historic employee option schemes and any shares issued upon the exercise of employee share options in the previous ten years).	For recent awards, participants are entitled to acquire award shares after a vesting period of 2 or 3 years, at an exercise price of between 200% and 300% of the share price prevailing at the date of grant. Previous awards under the Plan had a nominal exercise price, with vesting dependent on minimum share price increases over the vesting period.
Pension			
Attract and retain Executive Directors for the long term by providing funding for retirement	Some Executive Directors are entitled to participate in money purchase arrangements, or to receive a cash allowance in lieu of pension contributions. In addition, those Executive Directors who do not receive pension contributions (or payments in lieu) will be entitled to pension contributions under the Pensions Act 2008.	The Company may make payments of up to 12.5% of basic salary into any pension scheme or similar arrangement as the participating executive may reasonably request (or a payment in lieu). Such payments are not counted for the purposes of determining bonuses or awards under the e-Therapeutics Performance Share Plan 2013.	None

Notes to the future policy table

Performance conditions

The performance targets for the annual bonus are determined annually by the remuneration committee with the maximum bonus typically requiring a very high level of performance.

The performance target for the e-Therapeutics Performance Share Plan 2013 is based on increases in the price of the Company's shares over a two- or three-year period.

Differences from remuneration policy for all employees

All employees of the Company are entitled to base salary and benefits. The opportunity to earn a bonus is made available to all the Company's employees. The maximum opportunity available is based on the seniority and responsibility of the role.

All the Company's employees are eligible to be considered for awards under the e-Therapeutics Performance Share Plan 2013.

Statement of consideration of employment conditions of employees elsewhere in the Company

The remuneration committee receives reports on an annual basis on the level of pay rises awarded across the Company and takes these into account when determining salary increases for Executive Directors. In addition, the remuneration committee receives regular reports on the structure of remuneration for senior management in the tier below the Executive Directors and uses this information to ensure a consistency of approach for the most senior managers in the Company. The remuneration committee also approves the award of any long-term incentives.

The remuneration committee does not specifically invite colleagues to comment on the Directors' remuneration policy, but it does take note of any comments made by colleagues.

Statement of consideration of shareholder views
The chairman of the remuneration committee consults with major shareholders from time to time or when any significant remuneration changes are proposed to understand their expectations with regard to Executive Directors' remuneration and reports back to the remuneration committee. The remuneration committee previously consulted with certain major shareholders in relation to the introduction of the e-Therapeutics Performance Share Plan 2013, and did so again in respect of awards made under the plan during the year. Any other concerns raised by individual shareholders are also considered. The remuneration committee also takes into account emerging best practice and guidance from major institutional shareholders.

Approach to recruitment remuneration
The remuneration committee's approach to recruitment remuneration is to offer a market competitive remuneration package sufficient to attract candidates who are appropriate to the role but without paying any more than is necessary.

Any new Executive Director's regular remuneration package would include the same elements and be in line with the policy table set out earlier in this Directors' remuneration policy, including the same limits on performance-related remuneration.

Reasonable relocation and other similar expenses may be paid if appropriate.

Directors' service contracts, notice periods and termination payments

Provision	Policy	Details
Notice periods in Executive Directors' service contracts	Six months by Company or Executive Director.	Executive Directors may be required to work during the notice period.
Compensation for loss of office	Depending on the notice period, no more than six months' basic salary and benefits (including Company pension contributions and other non-cash benefits).	—
Treatment of annual bonus on termination	Bonuses which have already been declared and paid before the giving of notice may be retained by the Executive Director.	—
Treatment of unvested e-Therapeutics Performance Share Plan 2013 awards	Awards lapse on the termination of employment although the Board has a discretion (which may be exercised within the 30 day period following the termination of employment) to treat awards as not lapsing.	Where the Board exercises its discretion to treat awards as not lapsing, there is a proportionate reduction in the number of award shares that can be acquired.
Exercise of discretion	Intended only to be relied upon to provide flexibility in exceptional or inequitable circumstances.	The remuneration committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company.
All Directors	Re-election.	All Directors are subject to re-election every three years. No compensation is payable if they are required to stand down.

In the event of the negotiation of a compromise or settlement agreement between the Company and a departing Director, the remuneration committee may make such payments it considers reasonable in settlement of potential legal claims. Such payments may also include reasonable reimbursement of professional fees in connection with such agreements. The remuneration committee may also include the reimbursement of repatriation costs or fees for professional or outplacement advice in the termination package, if it considers it reasonable to do so. It may also allow the continuation of benefits for a limited period.

Remuneration policy and statement of remuneration for the year ended 31 January 2017 continued

Directors' service contracts and letters of appointment

Copies of Directors' service contracts and letters of appointment (listed below) are available for inspection at the Company's registered office.

Director	Date of service contract/letter of appointment
Raymond Barlow	8 January 2017 (taking effect on 6 April 2017)
Steve Medlicott	7 April 2014
Iain Ross	6 January 2016
Brad Hoy	19 September 2008
Trevor Jones	28 October 2015

Directors' insurance and indemnity

Directors' and officers' liability insurance is provided at the cost of the Company for all Directors and officers. The articles of association provide for the Company to indemnify Directors against losses and liabilities properly incurred in the execution of their duties.

Non-Executive Directors' fee policy

The policy for the remuneration of the Non-Executive Directors is as set out below. Non-Executive Directors cannot participate in the Company's share option scheme and they are not eligible for pension arrangements.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
To attract Non-Executive Directors who have a broad range of experience and skills to oversee the implementation of the Company's strategy	Non-Executive Director fees are determined by the Board within the limits set out in the articles of association and are paid in twelve equal monthly instalments during the year (subject to part-payment of fees in fully paid shares by agreement between the Company and the Director).	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed minimum or maximum annual increase.	None

Information subject to audit

Directors' remuneration

Remuneration arrangements for Executive Directors are set by the remuneration committee. Remuneration is designed to align Executive Directors' remuneration with shareholders' interests. As well as fixed compensation, Executive Directors and other employees can receive cash bonuses based on achievement of individual and corporate objectives. The maximum bonus for each Executive Director is 50% of basic salary, dependent on the Company's and the Executive Director's performance during the year. The Chief Executive Officer assesses the individual performance of each of the other Executive Directors and the Chairman assesses the performance of the Chief Executive Officer. In all cases, following these processes, the remuneration committee decides the bonuses to be awarded.

The remuneration of the Directors for the years ended 31 January 2017 and 31 January 2016 is shown below.

2017

	Base salary £000	Salary/fees for interim role £000	Bonus £000	Contributions to money purchase schemes £000	Payments in lieu of contributions to money purchase schemes £000	Benefits in kind £000	Compensation for loss of office and payments in lieu of notice £000	Compensation for loss of office: payments to money purchase schemes £000	Total remuneration £000
Steve Medlicott	209	21[1]	103	—	—	—	—	—	333
Sean Nicolson	154	—	15	1	—	1	—	—	171
Malcolm Young	161	—	—	3	21	6	292	26	509
Stephen Self	139	—	—	—	14	—	260	—	413
Iain Ross	81	70[2]	50	—	—	—	—	—	201
Brad Hoy	41	—	10	—	—	—	—	—	51
Trevor Jones	40	—	25	—	—	—	—	—	65
	825	91	203	4	35	7	552	26	1,743

2016

	Base salary £000	Salary/fees for interim role £000	Bonus £000	Contributions to money purchase schemes £000	Payments in lieu of contributions to money purchase schemes £000	Benefits in kind £000	Compensation for loss of office and payments in lieu of notice £000	Compensation for loss of office: payments to money purchase schemes £000	Total remuneration £000
Steve Medlicott	153	—	—	—	—	1	—	—	154
Sean Nicolson	125	—	—	—	—	1	—	—	126
Malcolm Young	352	—	—	49	4	1	—	—	406
Stephen Self	204	—	—	—	20	—	—	—	224
Iain Ross	7	—	—	—	—	—	—	—	7
Brad Hoy	41	—	—	—	—	—	—	—	41
Trevor Jones	10	—	—	—	—	—	—	—	10
Raj Chopra	27	—	—	—	—	—	—	—	27
	919	—	—	49	24	3	—	—	995

1 Steve Medlicott received additional base salary in respect of his role as Interim Chief Operating Officer.
2 Iain Ross received additional fees in respect of his role as Interim Executive Chairman.

Remuneration policy and statement of remuneration for the year ended 31 January 2017 continued

The Company operates a share scheme (the e-Therapeutics Performance Share Plan 2013) under which Directors and other employees have received options to acquire ordinary shares in the Company subject to fixed performance conditions. Full details of the options outstanding under this and previously operated share schemes are set out in Notes 9 and 24 to the accounts. Options granted to and held by Directors who served during the year are summarised below:

	2017				
	Options held at beginning of the year No.	Options granted during the year No.	Options exercised during the year No.	Options lapsed during the year No.	Options held at end of the year No.
Steve Medlicott	1,562,694	2,000,000	—	—	3,562,694
Sean Nicolson (resigned 28 February 2017)	—	750,000	—	—	750,000
Malcolm Young (resigned 12 July 2016)	2,644,198	—	—	1,894,655	749,543
Stephen Self (resigned 30 September 2016)[1]	2,764,584	—	—	2,290,707	473,877
Iain Ross	—	—	—	—	—
Brad Hoy	—	—	—	—	—
Trevor Jones	—	—	—	—	—
	6,971,476	2,750,000	—	4,185,362	5,536,114

1 Stephen Self has an interest in a further 37,910 options (1 February 2016: 154,428 options) awarded to his wife in the course of her employment by the Group as Quality Manager.

Directors' shareholdings

The Directors of the Company who served during the year, and their interests (in respect of which transactions are notifiable to the Company under Disclosure and Transparency Rule 3.1.2R) in the issued ordinary shares of the Company, were as follows:

Director	Ordinary shares of 0.1 pence each at 31 January 2017 or date of resignation
Steve Medlicott	250,000
Malcolm Young[1]	23,854,572
Stephen Self[2]	273,577
Sean Nicolson	140,573
Iain Ross	—
Brad Hoy	—
Trevor Jones	107,497

1 Malcolm Young resigned on 12 July 2016. His shareholding as stated above is the number notified to the Company as a major shareholder under Disclosure and Transparency Rule 5 as at 31 January 2017.
2 Stephen Self resigned on 30 September 2016. His shareholding is stated as at that date.

During the period between 31 January 2017 and 12 April 2017, the Company received no notifications under Disclosure and Transparency Rule 3.1.2R. Details of the most recently notified transactions in the ordinary shares of the Company by the Directors are available on the Company's website at www.etherapeutics.co.uk/investors/reg-announcements.

Information not subject to audit

Implementation of remuneration policy for the year ending 31 January 2018

The salaries and fees to be paid to Directors in the year ending 31 January 2018 are set out in the table below, together with any increase expressed as a percentage.

	Annual base salary/fees		
	31 January 2017 £000	31 January 2018 £000	Increase %
Raymond Barlow	**n/a**	300	n/a
Steve Medlicott	**209[1]**	220	5.2
Iain Ross	**81[1]**	81	—
Brad Hoy	**41**	41	—
Trevor Jones	**40**	40	—

1 Figures for the year ended 31 January 2017 exclude temporary increases paid to Steve Medlicott and Iain Ross in their interim roles, which both ended on Ray Barlow's appointment as CEO, of Chief Operating Officer and Executive Chairman, respectively.

The basis for determining annual bonus payments for the year to 31 January 2018 is set out in the future policy table on page 21. The performance targets are considered commercially sensitive because of the information that they would provide to the Company's competitors.

The remuneration committee intends to make awards under the e-Therapeutics Performance Share Plan 2013 during the year ending 31 January 2018. These awards will be made subject to appropriate exercise prices and vesting periods.

The Directors' remuneration report and this statement of the Company's remuneration policy and remuneration for 2016/17 were approved by the remuneration committee and by the Board on 18 April 2017.

Trevor M Jones CBE
Chairman of the Remuneration Committee

Independent Auditor's report to the members of e-Therapeutics plc

We have audited the financial statements of e-Therapeutics plc for the year ended 31 January 2017 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Parent Company statements of changes in equity, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, and the related Notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 January 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

Matters on which we are required to report by exception

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

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

Tobias Wright FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

18 April 2017

Consolidated income statement for the year ended 31 January 2017

	Notes	2017 £000	2016 £000
Revenue		—	—
Cost of sales		—	—
Gross profit		—	—
Research and Development expenditure		(10,911)	(9,965)
Administrative expenses		(2,614)	(1,590)
Impairment of intangible assets	14	(704)	—
Write-off of goodwill arising from acquisition of subsidiary	14, 22	(2,101)	—
Operating loss	6	(16,330)	(11,555)
Investment income	10	132	271
Loss before tax		(16,198)	(11,284)
Taxation	11	3,073	2,464
Loss for the year attributable to equity holders of the Company		(13,125)	(8,820)
Loss per share – basic and diluted	13	(4.91)p	(3.34)p

Consolidated statement of comprehensive income for the year ended 31 January 2017

	2017 £000	2016 £000
Loss for the financial year	(13,125)	(8,820)
Other comprehensive income	—	—
Total comprehensive income for the financial year	(13,125)	(8,820)

Consolidated statement of changes in equity for the year ended 31 January 2017

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
As at 1 February 2015	264	64,560	(27,800)	37,024
Total comprehensive income for year				
Loss for the financial year	—	—	(8,820)	(8,820)
Total comprehensive income for year	—	—	(8,820)	(8,820)
Transactions with owners, recorded directly in equity				
Issue of ordinary shares	—	12	—	12
Equity-settled share-based payment transactions	—	—	215	215
Total contributions by and distribution to owners	—	12	215	227
As at 31 January 2016	**264**	**64,572**	**(36,405)**	**28,431**
As at 1 February 2016	264	64,572	(36,405)	28,431
Total comprehensive income for year				
Loss for the financial year	—	—	(13,125)	(13,125)
Total comprehensive income for year	—	—	(13,125)	(13,125)
Transactions with owners, recorded directly in equity				
Issue of ordinary shares	4	571	—	575
Equity-settled share-based payment transactions	—	—	99	99
Total contributions by and distribution to owners	4	571	99	674
As at 31 January 2017	**268**	**65,143**	**(49,431)**	**15,980**

Company statement of changes in equity for the year ended 31 January 2017

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
As at 1 February 2015	264	64,560	(24,976)	39,848
Total comprehensive income for year				
Loss for the financial year	—	—	(8,820)	(8,820)
Total comprehensive income for year	—	—	(8,820)	(8,820)
Transactions with owners, recorded directly in equity				
Issue of ordinary shares	—	12	—	12
Equity-settled share-based payment transactions	—	—	215	215
Total contributions by and distribution to owners	—	12	215	227
As at 31 January 2016	**264**	**64,572**	**(33,581)**	**31,255**
As at 1 February 2016	264	64,572	(33,581)	31,255
Total comprehensive income for year				
Loss for the financial year	—	—	(13,391)	(13,391)
Total comprehensive income for year	—	—	(13,391)	(13,391)
Transactions with owners, recorded directly in equity				
Issue of ordinary shares	4	571	—	575
Equity-settled share-based payment transactions	—	—	99	99
Total contributions by and distribution to owners	4	571	99	674
As at 31 January 2017	**268**	**65,143**	**(46,873)**	**18,538**

Balance sheets
as at 31 January 2017

		Group		Company	
	Notes	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Non-current assets					
Intangible assets	14	**156**	740	**2,980**	3,564
Property, plant and equipment	15	**51**	64	**51**	64
Investments	16	**—**	—	**—**	—
		207	804	**3,031**	3,628
Current assets					
Tax receivable		**2,972**	2,469	**2,972**	2,469
Trade and other receivables	17	**777**	1,472	**777**	1,472
Fixed-term deposits	18	**9,500**	18,500	**9,500**	18,500
Cash and cash equivalents	19	**4,475**	6,342	**4,475**	6,342
		17,724	28,783	**17,724**	28,783
Total assets		**17,931**	29,587	**20,755**	32,411
Current liabilities					
Trade and other payables	20	**1,951**	1,156	**2,217**	1,156
Total liabilities		**1,951**	1,156	**2,217**	1,156
Net assets		**15,980**	28,431	**18,538**	31,255
Equity					
Share capital	21	**268**	264	**268**	264
Share premium	21	**65,143**	64,572	**65,143**	64,572
Retained earnings	21	**(49,431)**	(36,405)	**(46,873)**	(33,581)
Total equity attributable to equity holders of the Company	21	**15,980**	28,431	**18,538**	31,255

These financial statements were approved and authorised for issue by the Board of Directors on 18 April 2017 and were signed on its behalf by:

Iain G Ross
Director

Steven Medlicott
Director

Registered number: 04304473

Statements of cash flow for the year ended 31 January 2017

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Cash flows from operating activities					
Loss for the year		**(13,125)**	(8,820)	**(13,391)**	(8,820)
Adjustments for:					
Depreciation, amortisation and impairment	14, 15	**2,861**	73	**3,134**	73
Loss on disposal of fixed assets		**2**	—	**2**	—
Investment income	10	**(132)**	(271)	**(132)**	(271)
Equity-settled share-based payment expenses	24	**99**	215	**99**	215
Taxation	11	**(3,073)**	(2,464)	**(3,073)**	(2,464)
		(13,368)	(11,267)	**(13,361)**	(11,267)
Decrease in trade and other receivables		**611**	40	**633**	40
Increase in trade and other payables		**751**	23	**1,017**	23
Tax received		**2,570**	2,027	**2,570**	2,027
Net cash from operating activities		**(9,436)**	(9,177)	**(9,141)**	(9,177)
Cash flows from investing activities					
Interest received		**194**	329	**194**	329
Acquisition of subsidiary	22	**(1,473)**	—	**(1,768)**	—
Acquisition of property, plant and equipment	15	**(22)**	(6)	**(22)**	(6)
Acquisition of other intangible assets	14	**(143)**	(138)	**(143)**	(138)
Decrease in fixed-term deposits	18	**9,000**	13,500	**9,000**	13,500
Net cash from investing activities		**7,556**	13,685	**7,261**	13,685
Cash flows from financing activities					
Net proceeds from issue of share capital	21	**13**	12	**13**	12
Net cash from financing activities		**13**	12	**13**	12
Net (decrease)/increase in cash and cash equivalents		**(1,867)**	4,520	**(1,867)**	4,520
Cash and cash equivalents at 1 February		**6,342**	1,822	**6,342**	1,822
Cash and cash equivalents at 31 January	19	**4,475**	6,342	**4,475**	6,342

Notes (forming part of the financial statements)

1. General information

e-Therapeutics plc (the "Company") is a company incorporated and domiciled in the UK. The nature of the operations and principal activities of the Company and its subsidiary undertakings (the "Group") are set out in the strategic report (pages 5 to 7) and the Directors' report (pages 10 to 12).

These consolidated financial statements are presented in pounds sterling because that is the currency of the economic environment in which the Group operates. Most financial information presented has been rounded to the nearest thousand.

The Group financial statements consolidate those of the Company and its subsidiaries. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

2. Standards and interpretations applied for the first time

A number of new standards and interpretations have become effective for the first time in these financial statements, albeit with no significant impact on accounting policies or disclosure. These include:

Amendments:

- IAS1 – Disclosure initiative
- IFRS11 – Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 & IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 27 – Equity Method in Separate Financial Statements
- Various – Annual Improvements 2012–2014 cycle

No new standards or interpretations have been adopted early in these financial statements. The most relevant is likely to be the following but, again, no significant impact is currently anticipated:

New or revised standards:

- IFRS 9 – 'Financial Instruments' (2009 and 2010), which introduces new requirements for classifying and measuring financial assets and liabilities
- IFRS 9 – 'Financial Instruments' (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39), which introduces a new chapter on hedge accounting
- IFRS 9 – 'Financial Instruments' (2014), which is a finalised version of IFRS 9, contains accounting requirements for financial instruments and replaces IAS 39 'Financial Instruments: Recognitions and Measurement'
- IFRS 15 – 'Revenue from Contracts with Customers', which provides a single, principles-based five-step model to be applied to all contracts with customers
- IFRS 16 – 'Leases' which specifies how IFRS reporters will recognise, measure, present and disclose leases

Amendments:

- IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- IFRS 4 – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
- IAS 7 – Disclosure Initiative
- IFRS 10 & IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 15 – Clarifications to IFRS 15 'Revenue from Contracts with Customers'
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- IAS 40 – Transfers of Investment Property
- Various – Annual Improvements to IFRS Standards 2014–2016 Cycle
- Various – IFRS 10, IFRS 12 and IAS 27–Investment Entities
- Various – IFRS 10, IFRS 12 and IAS 28–Investment Entities, Applying the Consolidation Exception

3. Significant accounting policies

Basis of accounting

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with IFRSs as adopted by the EU and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of consideration given in exchange for goods and services. The principal accounting policies are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the strategic report on page 6.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and any equity interest issued by the Group in exchange for control of the acquiree. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 'Financial Instruments' or IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' as appropriate, with the corresponding gain or loss being recognised in profit or loss. Costs related to acquisitions are recognised in profit or loss as incurred. Identifiable assets acquired and liabilities assumed are recognised at their acquisition-date fair values. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the identifiable assets acquired and liabilities assumed. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during a measurement period of not more than one year, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Classification of financial instruments issued by the Group

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

(a) they include no contractual obligations upon the Company (or Group as the case may be) 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 (or Group); and

(b) 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 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.

Notes (forming part of the financial statements) continued

3. Significant accounting policies continued

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.

Fixed-term deposits

Fixed-term deposits are sterling fixed-rate deposits, with original maturities of three months or more. Interest on fixed-term deposits is recognised in the consolidated income statement over the term on a straight-line basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and term deposits with an initial maturity of less than three months.

Trade and other payables

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the assets. The annual rates of depreciation charged are as follows:

Plant and equipment	33.33% straight line
Fixtures and fittings	15% straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Investments in subsidiaries

Investments in subsidiaries are shown in the Company balance sheet at cost and are reviewed annually for impairment.

Intangible assets and goodwill

Goodwill

Goodwill is initially recognised and measured as set out in 'Business combinations' above. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. In respect of business acquisitions that have occurred since 1 February 2006, goodwill represents the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangible assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is allocated to cash-generating units and is not amortised but is tested at least annually for impairment. Goodwill is stated at cost less any accumulated impairment losses.

3. Significant accounting policies continued

Intangible assets and goodwill continued

Capitalised Research and Development expenditure

Expenditure on drug development activities is capitalised if the product or process is technically and commercially feasible (typically when regulatory approval is received), the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved drugs. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

All other Research and Development expenditure, which comprises a proportion of employee salaries and directly attributable overheads, is recognised in the income statement as an expense as incurred.

Patents and trademarks

External expenditure on the creation of patents and trademarks is capitalised as incurred. Expenditure to maintain patents and trademarks after the date of their grant is written off as incurred. Patents and trademarks are amortised on a straight-line basis over the remainder of their term from the date of their grant.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to those cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows associated with an asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate of recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (forming part of the financial statements) continued

3. Significant accounting policies continued

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

The Group has an equity-settled share-based payment scheme, whereby options over shares in the Company can be granted.

The grant-date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to performance conditions for vesting not being met.

Revenue

The Company expects to derive revenue in the future principally through different types of collaborative partnerships relying on its *in silico* drug discovery platform, and by licensing the products resulting from its drug discovery and development efforts. No revenues were recorded from this or other sources in the current period.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financial income and expenses

Financial income comprises interest receivable on funds invested. Financial expenses comprise interest payable.

Interest income and interest payable are recognised in the income statement as they accrue, on a straight-line basis.

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and non-employees. Where the Group makes a loss, diluted EPS equates to basic EPS.

4. Accounting judgements and sources of estimation uncertainty

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. The key area requiring the use of estimates and judgements which may significantly affect the financial statements is considered to be:

- judgement as to whether the carrying value of goodwill (Company only) and patents and trademarks (Group and Company) will be recoverable with reference to estimated future income potential (see Note 14).

5. Segmental reporting

The Board is considered to be the "chief operating decision maker" of the Group in the context of the IFRS 8 definition. The Board believes that the Group has one business segment of drug discovery and that all activities are carried out in the UK.

The Board has carefully considered the requirements of IFRS 8 and concluded that, as there is only one reportable segment whose revenue, losses, assets and liabilities are measured and reported on a consistent basis within the Group financial statements, no additional numerical disclosures are necessary.

6. Operating loss for the year

Included in operating loss are the following:

	2017 £000	2016 £000
Depreciation of own assets	**33**	38
Amortisation of intangible assets	**23**	35
Impairment of intangible assets	**704**	—
Research and Development costs	**10,911**	9,965
Operating leases – hire of other assets	**81**	79

7. Auditor's remuneration

	2017 £000	2016 £000
Amounts receivable by the Auditor and their associates in respect of:		
– audit of the Group's annual accounts	**36**	35
– audit-related assurance services	**3**	3
– taxation compliance services	**8**	6
– other services	**9**	56

8. Staff numbers and costs

The average number of persons employed by the Group and the Company (including Executive Directors and excluding Non-Executive Directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2017	2016	**2017**	2016
Staff	**21**	23	**21**	23
Directors	**3**	4	**3**	4
	24	27	**24**	27

Notes (forming part of the financial statements) continued

8. Staff numbers and costs continued

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Wages and salaries	**2,877**	2,291	**2,877**	2,291
Share-based payments (see Note 24)	**99**	215	**99**	215
Social security costs	**360**	286	**360**	286
Contributions to money purchase pension schemes	**201**	221	**201**	221
	3,537	3,013	**3,537**	3,013

Defined contribution arrangements

The Group makes defined pension contributions into money purchase schemes nominated by employees. The total expense relating to these plans in the current year was £201,000 (2016: £221,000).

There were outstanding contributions of £8,000 (2016: £8,000) and no prepaid contributions (2016: £nil) at the end of the financial year.

9. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	**1,713**	946
Contributions to money purchase pension schemes	**30**	49
	1,743	995

	2017		2016	
	Directors' emoluments £000	**Contributions to money purchase schemes £000**	Directors' emoluments £000	Contributions to money purchase schemes £000
Steve Medlicott	**333**	**—**	154	—
Sean Nicolson (appointed 1 April 2015)	**170**	**1**	126	—
Malcolm Young (resigned 12 July 2016)	**480**[1]	**29**[2]	357	49
Stephen Self (resigned 30 September 2016)	**413**[3]	**—**	224	—
Iain Ross (appointed 6 January 2016)	**201**	**—**	7	—
Trevor Jones (appointed 28 October 2015)	**65**	**—**	10	—
Brad Hoy	**51**	**—**	41	—
Rajesh Chopra (resigned 28 October 2015)	**—**	**—**	27	—
	1,713	**30**	946	49

1 Stephen Self has an interest in a further 37,910 PSP options (1 February 2016: 154,428 PSP options) awarded to his wife in the course of her employment by the Group as Quality Manager.
2 £26,250 (2016: £nil) of contributions to money purchase pension schemes for Malcolm Young represented compensation for loss of office.
3 Includes £260,110 (2016: £nil) representing compensation for loss of office and payments in lieu of notice, and £13,940 (2016: £20,400) in lieu of Company contributions to a money purchase pension scheme.

9. Directors' remuneration continued

	Number of Directors	
	2017	2016
Retirement benefits are accruing to the following number of Directors under:		
– money purchase pension schemes	**1**	1
Directors who exercised share options during the year	**Nil**	Nil

The Directors who held office during the financial year held share options as set out below:

Name	At end of year	At beginning of year	Exercise price (pence)	Date from which exercisable	Expiry date
LTIP					
Malcolm Young	—	200,000	0.1	26 October 2015	26 April 2016
Stephen Self	—	200,000	0.1	26 October 2015	26 April 2016
e-Therapeutics Performance Share Plan 2013 (PSP)					
Stephen Self[1]	—	527,658	0.1	30 July 2016	30 July 2023
Malcolm Young	435,606	1,254,544	0.1	8 July 2017	8 July 2024
Stephen Self[1]	272,727	1,347,272	0.1	8 July 2017	8 July 2024
Steve Medlicott	1,045,454	1,045,454	0.1	8 July 2017	8 July 2024
Malcolm Young	313,937	1,189,654	0.1	6 January 2018	6 January 2025
Stephen Self[1]	201,150	689,654	0.1	6 January 2018	6 January 2025
Steve Medlicott	517,240	517,240	0.1	6 January 2018	6 January 2025
Steve Medlicott	666,666	—	16.76	23 November 2018	23 November 2026
Steve Medlicott	666,667	—	20.95	23 November 2018	23 November 2026
Steve Medlicott	666,667	—	25.14	23 November 2019	23 November 2026
Sean Nicolson	250,000	—	16.76	23 November 2018	23 November 2026
Sean Nicolson	250,000	—	20.95	23 November 2018	23 November 2026
Sean Nicolson	250,000	—	25.14	23 November 2019	23 November 2026

1 Stephen Self has an interest in a further 37,910 PSP options (1 February 2016: 154,428 PSP options) awarded to his wife in the course of her employment by the Group as Quality Manager.

The mid-market price of the Company's shares at 31 January 2017 (the last trading day of the period) was 8.625 pence and the range during the year was 7.0 pence to 26.25 pence.

The LTIP options above were subject to a £1 share price target, and lapsed unexercised on the expiry date shown. Options issued under the e-Therapeutics Performance Share Plan 2013 are subject to various share price targets. Detailed performance conditions attached to outstanding share options are described in Note 24.

No Director sold shares or sold or exercised share options during the year.

All of the Directors benefited from qualifying third-party indemnity provisions.

10. Investment income

	2017 £000	2016 £000
Bank interest receivable	**132**	271

Notes (forming part of the financial statements) continued

11. Tax

Recognised in the income statement:

	2017 £000	2016 £000
Current tax income		
Current year	**(2,839)**	(2,469)
Adjustments for prior years	**(234)**	5
Current tax income	**(3,073)**	(2,464)
Deferred tax expense		
Origination and reversal of temporary differences	**—**	—
Reduction in tax rate	**—**	—
Recognition of previously unrecognised tax losses	**—**	—
Deferred tax expense	**—**	—
Total tax income	**(3,073)**	(2,464)

Reconciliation of effective tax rate:

	2017 £000	2016 £000
Loss for the year	**(13,125)**	(8,820)
Total tax income	**(3,073)**	(2,464)
Loss excluding taxation	**(16,198)**	(11,284)
Tax at 20% (2016: 20.17%)	**(3,240)**	(2,275)
Expenses not deductible for tax purposes	**441**	44
Enhanced relief for Research and Development	**(2,214)**	(1,936)
Surrender of tax losses	**1,077**	965
Unrelieved tax losses	**1,094**	732
Other	**3**	1
Adjustments in respect of prior period	**(234)**	5
Total tax income	**(3,073)**	(2,464)

The tax receivable relates to Research and Development tax credits.

The Group has unrecognised deferred tax assets of £3,533,000 (2016: £2,936,000) and unused tax losses of £20,650,000 (2016: £16,071,000).

The deferred tax asset relates primarily to tax losses carried forward. It has not been recognised due to the uncertainty surrounding its future recovery against taxable profits.

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and from 19% to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and a further reduction from 18% to 17% (effective 1 April 2020) was substantively enacted on September 2016. This will reduce the Group's future current tax charge accordingly. The unrecognised deferred tax asset at 31 January 2017 has been calculated based on the rate of 17% (2016: 18%) substantively enacted at the balance sheet date.

12. Loss of the Company

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its own income statement. The loss of the Company for the year was £13,391,000 (2016: £8,820,000).

13. Loss per share

The analysis of loss per share is as follows:

	2017	2016
Basic and diluted loss per share	**(4.91)p**	(3.34)p

Basic EPS is calculated by dividing the loss for the year of £13,125,000 (2016: £8,820,000) by the weighted average number of 267,062,262 shares (2016: 264,419,476) in issue during the year.

Diluted EPS is calculated in the same way as basic EPS but also with reference to reflect the dilutive effect of share options in existence at the year end over 15,601,052 (2016: 12,118,842) ordinary shares (see Note 24). The diluted loss per share is identical to the basic loss per share, as potential dilutive shares are not treated as dilutive since they would reduce the loss per share.

14. Goodwill and intangible assets – Group and Company

	Group			Company		
	Goodwill £000	Patents and trademarks £000	Total £000	Goodwill £000	Patents and trademarks £000	Total £000
Cost						
Balance at 1 February 2015	—	1,014	1,014	2,824	1,014	3,838
Other acquisitions – internally developed	—	138	138	—	138	138
Balance at 31 January 2016	—	1,152	1,152	2,824	1,152	3,976
Balance at 1 February 2016	—	1,152	1,152	2,824	1,152	3,976
Recognised on acquisition of a subsidiary	2,101	—	2,101	—	—	—
Other acquisitions – internally developed	—	143	143	—	143	143
Balance at 31 January 2017	**2,101**	**1,295**	**3,396**	**2,824**	**1,295**	**4,119**
Amortisation and impairment						
Balance at 1 February 2015	—	377	377	—	377	377
Amortisation charge for the year	—	35	35	—	35	35
Balance at 31 January 2016	—	412	412	—	412	412
Balance at 1 February 2016	—	412	412	—	412	412
Impairment losses	2,101	704	2,805	—	704	704
Amortisation charge for the year	—	23	23	—	23	23
Balance at 31 January 2017	**2,101**	**1,139**	**3,240**	**—**	**1,139**	**1,139**
Net book value						
At 1 February 2015	—	637	637	2,824	637	3,461
At 31 January 2016	—	740	740	2,824	740	3,564
At 31 January 2017	**—**	**156**	**156**	**2,824**	**156**	**2,980**

Notes (forming part of the financial statements) continued

14. Goodwill and intangible assets – Group and Company continued

Amortisation and impairment charge

Amortisation has been charged on patents for which the registration process is complete. Where the process is incomplete no charge has been raised. Impairment losses have been recognised in the year in respect of the goodwill arising on the acquisition of Searchbolt Limited (see Note 22) and patents relating to preclinical and clinical development candidates (specifically ETX1153c, ETS6103 and ETS2101) for which the carrying value would otherwise be in excess of the best estimate of current economic value.

Impairment testing

The Group carries out a review at each balance sheet date to establish the economic value of each asset in the patent portfolio. If the economic value of a patent is believed to be lower than the carrying value, the carrying value is reduced accordingly. The economic value is based on estimated future income potential taking into account technical and commercial risks and external information on the likely market demand and penetration for the drugs for which the Group has patents. There is a risk that should these estimations require significant downward revision there would be a material adverse impact on the income statement in any one year.

The goodwill in the Company balance sheet arose following the hive up of the trade and assets of InRotis Technologies Limited on 15 November 2007. The goodwill is allocated to the drug discovery and development activities of the Group. In assessing goodwill impairment, recoverable amount is based on fair value less costs to sell.

15. Property, plant and equipment

Group and Company	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 February 2015	146	140	286
Additions	2	4	6
Disposals	—	—	—
Balance at 31 January 2016	148	144	292
Balance at 1 February 2016	148	144	292
Additions	18	4	22
Disposals	(38)	(41)	(79)
Balance at 31 January 2017	**128**	**107**	**235**
Depreciation			
Balance at 1 February 2015	109	81	190
Depreciation charge for the year	20	18	38
Eliminated on disposals	—	—	—
Balance at 31 January 2016	129	99	228
Balance at 1 February 2016	129	99	228
Depreciation charge for the year	16	17	33
Eliminated on disposals	(38)	(39)	(77)
Balance at 31 January 2017	**107**	**77**	**184**
Net book value			
At 1 February 2015	37	59	96
At 31 January 2016	19	45	64
At 31 January 2017	**21**	**30**	**51**

16. Investments in subsidiaries – Company

	Total £000
Cost	
Balance at 1 February 2015	—
Balance at 31 January 2016	—
Balance at 1 February 2016	—
Acquisition of subsidiary	2,374
Balance at 31 January 2017	**2,374**
Provision for impairment	
Balance at 1 February 2015	—
Balance at 31 January 2016	—
Balance at 1 February 2016	—
Impairment losses	2,374
Balance at 31 January 2017	**2,374**
Net book value	
At 1 February 2015	—
At 31 January 2016	—
At 31 January 2017	**—**

The Company has the following investments in subsidiaries:

	Principal activity	Country of incorporation	Registered number	Class of shares held	Ownership 2017	Ownership 2016
InRotis Technologies Limited	Dormant	United Kingdom	05019565	Ordinary	**100%**	100%
Searchbolt Limited	Search engine technology development	United Kingdom	06323379	Ordinary	**100%**	—

The value of the investment in InRotis Technologies Limited, which has not traded in the year, is £1 (2016: £1). The Group acquired the entire share capital of Searchbolt Limited during the year. Further details of the acquisition are given in Note 22 to the accounts. InRotis Technologies Limited is exempt from the requirement for an audit under s480 of the Companies Act 2006. Searchbolt Limited is exempt from the requirement for an audit by virtue of s479A of the Companies Act 2006 and has been provided with a statutory guarantee by the Company, its immediate parent, as required by s479c of the Companies Act 2006.

Notes (forming part of the financial statements) continued

17. Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Other receivables	**276**	554	**276**	554
Prepayments and accrued income	**501**	918	**501**	918
	777	1,472	**777**	1,472

The Group has a variety of credit terms depending on the customer. The Group makes provision against trade and other receivables when it considers them to be impaired and takes into account the specific nature of the receivable, the Group's relationship with the customer and historical default rates.

There is no doubtful debt provision in respect of trade and other receivables in the current or prior year for the Group or the Company.

All debts are not past due in the current and prior year. The Group and the Company's management have received no indication that any unimpaired amounts will be unrecoverable.

18. Fixed-term deposits

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Fixed-term deposits	**9,500**	18,500	**9,500**	18,500

Fixed-term deposits are sterling deposits with an initial maturity of three months or more. The Group seeks to maximise returns from its cash resources by placing funds on fixed-term deposit when it is possible to do so without negatively affecting access to required short-term working capital. The weighted average maturity of fixed-term deposits at the year end was 164 days (2016: 139 days).

19. Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Cash and cash equivalents per balance sheets	**4,475**	6,342	**4,475**	6,342
Cash and cash equivalents per cash flow statements	**4,475**	6,342	**4,475**	6,342

20. Trade and other payables

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Current				
Trade payables	**889**	562	**889**	562
Intercompany creditors	**—**	—	**266**	—
Non-trade payables and accrued expenses	**1,062**	594	**1,062**	594
	1,951	1,156	**2,217**	1,156

21. Capital and reserves

Reconciliation of movement in capital and reserves:

Group	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total equity £000
Balance at 1 February 2014	264	64,483	132	(20,261)	44,618
Total recognised income and expense	—	—	—	(7,777)	(7,777)
Issue of share capital	—	77	—	—	77
Lapse of warrants	—	—	(132)	132	—
Equity-settled share-based payment transactions	—	—	—	106	106
Balance at 31 January 2015	264	64,560	—	(27,800)	37,024
Balance at 1 February 2015	264	64,560	—	(27,800)	37,024
Total recognised income and expense	—	—	—	(8,820)	(8,820)
Issue of share capital	—	12	—	—	12
Equity-settled share-based payment transactions	—	—	—	215	215
Balance at 31 January 2016	264	64,572	—	(36,405)	28,431
Balance at 1 February 2016	264	64,572	—	(36,405)	28,431
Total recognised income and expense	—	—	—	(13,125)	(13,125)
Issue of share capital	4	571	—	—	575
Equity-settled share-based payment transactions	—	—	—	99	99
Balance at 31 January 2017	**268**	**65,143**	**—**	**(49,431)**	**15,980**

Company	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 February 2014	264	64,483	132	(17,437)	47,442
Total recognised income and expense	—	—	—	(7,777)	(7,777)
Issue of share capital	—	77	—	—	77
Lapse of warrants	—	—	(132)	132	—
Equity-settled share-based payment transactions	—	—	—	106	106
Balance at 31 January 2015	264	64,560	—	(24,976)	39,848
Balance at 1 February 2015	264	64,560	—	(24,976)	39,848
Total recognised income and expense	—	—	—	(8,820)	(8,820)
Issue of share capital	—	12	—	—	12
Equity-settled share-based payment transactions	—	—	—	215	215
Balance at 31 January 2016	264	64,572	—	(33,581)	31,255
Balance at 1 February 2016	264	64,572	—	(33,581)	31,255
Total recognised income and expense	—	—	—	(13,391)	(13,391)
Issue of share capital	4	571	—	—	575
Equity-settled share-based payment transactions	—	—	—	99	99
Balance at 31 January 2017	**268**	**65,143**	**—**	**(46,873)**	**18,538**

Notes (forming part of the financial statements) continued

21. Capital and reserves continued

Share capital	No. of ordinary shares 2017 000	2016 000
In issue at 1 February	**264,456**	264,363
Issued for cash	**107**	93
Issued as consideration in acquisition of subsidiary (Note 22)	**3,863**	—
In issue at 31 January – fully paid	**268,426**	264,456

	2017 £000	2016 £000
Allotted, called up and fully paid		
268,426,042 (2016: 264,455,551) ordinary shares of £0.001 each	**268**	264
	268	264
Shares classified as liabilities	**—**	—
Shares classified in shareholders' funds	**268**	264
	268	264

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The warrant reserve related to the following warrants:

Issue date	Exercise price £	Expiry date	No. of warrants
March 2009	0.260	16 March 2014	198,332
March 2011	0.260	4 March 2014	677,409

The fair value of warrants was calculated using a binomial model. All warrants lapsed unexercised on the expiry dates noted above.

22. Acquisition of subsidiary

On 1 June 2016, the Group's offer to acquire 100% of the issued share capital of Searchbolt Limited (announced on 11 May 2016) was declared wholly unconditional, and the group obtained control of Searchbolt Limited following initial settlement of the consideration on 8 June 2016. Searchbolt is a developer of internet search engine technology that was demerged from e-Therapeutics at the time of the latter's flotation in 2007.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out below:

	£000
Other debtors	324
Cash	4
Trade creditors	(55)
Total identifiable assets	273
Goodwill	2,101
Total consideration	**2,374**
Satisfied by:	
Cash	1,812
Equity instruments (ordinary shares in e-Therapeutics plc)	562
Contingent consideration	—
Total consideration transferred	**2,374**
Net cash outflow arising on acquisition:	
Cash consideration	1,812
Less:	
Cash consideration to be paid after the year end	(44)
Net cash outflow arising on acquisition (Company)	1,768
Less:	
Cash consideration payable to Searchbolt on behalf of Searchbolt shareholders	(291)
Cash and cash equivalent balances acquired	(4)
Net cash outflow arising on acquisition (Group)	**1,473**

The goodwill arising on the acquisition has been impaired in full in the period. The Directors are satisfied that the acquisition was commercially desirable for securing value for e-Therapeutics shareholders, but it is not possible at this stage to estimate a recoverable amount for the Searchbolt assets acquired. Accordingly, an impairment of the goodwill has been recognised in the period.

The contingent consideration arrangement ("earn out") entitles Searchbolt shareholders to a share of net sale proceeds received by the Group from any sale of ordinary shares in Searchbolt or sales or licensing of certain e-Therapeutics and Searchbolt assets. Given the uncertainty as to the realisation of such net proceeds within the time period concerned, no value has been recognised in respect of the earn out consideration.

Notes (forming part of the financial statements) continued

23. Operating lease arrangements

At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Within one year	**48**	30	**48**	30
In the second to fifth years inclusive	**24**	—	**24**	—
After five years	**—**	—	**—**	—
	72	30	**72**	30

Operating lease payments represent rentals payable by the Group for its properties and pursuant to agreements for telecommunication services.

24. Share-based payments

The Group operates a share scheme, the e-Therapeutics Performance Share Plan 2013 (PSP). Awards made under the scheme during the year entitle participants to acquire shares at exercise prices of between 200% and 300% of the share price prevailing and the date of grant after a vesting period of two or three years. Previously, participants were granted awards whereby, if certain share price targets are met, they are entitled to acquire an agreed number of shares for a nominal price. In the past, the Company has also granted options under a Long-Term Incentive Plan (LTIP) and other arrangements.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments at end of year	Number of instruments at beginning of year	Exercise price (pence)	Contractual life of options
October 2006[1]	—	250,460	13.9	10 years
April 2007[1]	92,730	92,730	38.6	10 years
October 2007[1]	118,020	118,020	67.0	10 years
October 2012[2]	—	934,174	0.1	3.5 years
July 2013[3]	—	770,211	0.1	10 years
July 2013[4]	—	490,813	0.1	10 years
July 2014 (effective grant date: October 2013)[5]	—	940,763	0.1	10 years
July 2014 (effective grant date: October 2013)[6]	—	625,375	0.1	10 years
July 2014 (effective grant date: April 2014)[5]	250,000	250,000	0.1	10 years
July 2014 (effective grant date: April 2014)[6]	250,000	250,000	0.1	10 years
July 2014 (effective grant date: June 2014)[5]	1,729,120	2,056,582	0.1	10 years
July 2014 (effective grant date: June 2014)[6]	626,651	1,660,103	0.1	10 years
January 2015[3]	1,578,571	2,053,654	0.1	10 years
January 2015[4]	645,960	1,625,957	0.1	10 years
November 2016	3,436,666	—	16.76	10 years
November 2016	3,436,667	—	20.95	10 years
November 2016	3,436,667	—	25.14	10 years

1 Options issued prior to April 2010 are exercisable and vest immediately.
2 Options issued under the Long-Term Incentive Plan since 31 July 2012 were capable of vesting if a share price target of £1 (measured as in ii above) was achieved at any time in the period three to three-and-a-half years from the date of grant.
3 "Basic options" issued under the PSP have a three-year vesting period. 25% of these options will be capable of vesting if a share price target of 125% of the grant date share price is achieved. The proportion of these options which are capable of vesting increases linearly to 100% if a share price target of 200% of the grant date share price is achieved.
4 "Supplementary options" issued under the PSP have a three-year vesting period and are capable of vesting if a share price target of 250% of the grant date share price is achieved.
5 "Basic options" issued under the PSP have a three-year vesting period from the grant date. 25% of these options will be capable of vesting if a share price target of 125% of the share price on the effective grant date is achieved three years from the effective grant date. The proportion of these options which are capable of vesting increases linearly to 100% if a share price target of 200% of the share price on the effective grant date is achieved.
6 "Supplementary options" issued under the PSP have a three-year vesting period from the grant date and are capable of vesting if a share price target of 250% of the share price on the effective grant date is achieved three years from the effective grant date.

24. Share-based payments continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2017 (pence)	**Number of options 2017**	Weighted average exercise price 2016 (pence)	Number of options 2016
Options				
Outstanding at the beginning of the year	**1.3**	**12,118,842**	1.4	12,937,539
Forfeited during the year	**0.6**	**(6,827,790)**	0.1	(725,967)
Exercised during the year	**—**	**—**	13.9	(92,730)
Granted during the year	**21.0**	**10,310,000**	—	—
Outstanding at the end of the year	**14.6**	**15,601,052**	1.3	12,118,842
Exercisable at the end of the year	**54.5**	**210,750**	32.45	461,267

The weighted average share price at the date of exercise of share options exercised during the prior year was 42 pence. The options outstanding at the year end have an exercise price in the range of 0.1 pence to 67 pence and a weighted average remaining contractual life of 9 years.

The fair value of options has been valued using a Monte Carlo option pricing model. Volatility has been estimated by reference to historical share price data over a period commensurate with the expected term of the options awarded.

The assumptions for the options granted during the current year were as follows (there were no grants in the prior year):

Date of grant	November 2016	November 2016	November 2016
Share price at date of grant (pence)	8.375	8.375	8.375
Minimum vesting period	2 years	2 years	3 years
Exercise price and share price target (pence)	16.76	20.95	25.14
Expected volatility	48.3%	48.3%	44.7%
Risk-free rate	0.13%	0.13%	0.25%
Dividend yield	0%	0%	0%
Number of shares	3,436,666	3,436,667	3,436,667
Fair value per option (pence)	0.650	0.360	0.362

The total expense recognised for the year arising from share-based payments is as follows:

	2017 £000	2016 £000
Group and Company equity-settled share-based payment expense	**99**	215

Notes (forming part of the financial statements) continued

25. Financial instruments

The Group's principal financial instruments comprise short-term debtors and creditors, short-term bank deposits and cash. There is currently no material difference between the carrying value of financial assets and liabilities and their fair value. The prime objectives of the Group's policy towards financial instruments are to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

Capital management

The Group's policy is to maintain a strong capital base. The Group does not yet have any significant recurring revenues and finances its operations through the issue of new shares and the management of working capital. The Group's capital resources are managed to ensure it has resources available to invest in operational activities designed to generate future income. These resources were represented by £13,975,000 of cash and fixed-term deposits as at 31 January 2017 (2016: £24,842,000).

Management of financial risk

The main risks associated with the Group's financial instruments have been identified as credit risk, liquidity risk and interest rate risk.

The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year, are set out below.

Credit risk

The carrying amount of financial assets is as follows:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Trade and other receivables	**777**	1,472	**777**	1,472
Fixed-term deposits	**9,500**	18,500	**9,500**	18,500
Cash and cash equivalents	**4,475**	6,342	**4,475**	6,342
	14,752	26,314	**14,752**	26,314

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations and arises principally from the Group's other receivables. The carrying amount of other receivables in the balance sheet represents the maximum exposure to credit risk and details are given in Note 17 to the accounts. No amounts are past due in the current or prior years.

The Group has adopted a Treasury Policy that aims to ensure adequate working capital for ongoing activity, maintain a high level of security of deposited funds and optimise income generated from those funds. A list of approved deposit counterparties with monetary limits for each is maintained and is regularly reviewed by the audit committee.

The Directors consider the Group's exposure to credit risk to be acceptable and normal for a similar entity at its stage of development.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to access the necessary funds to finance its operations.

The Group finances its operations using cash raised through the issue of equity. The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on two-year rolling cash forecasts. The Group's fixed-term deposits (Note 18) all have initial maturities of no more than twelve months.

The Group and the Company have the following financial liabilities:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Principal amounts				
Trade and other payables				
– payable within one year	**1,951**	1,156	**2,217**	1,156
	1,951	1,156	**2,217**	1,156

25. Financial instruments continued

Liquidity risk continued

Financial liabilities by category:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Financial liabilities at amortised cost	**1,951**	1,156	**2,217**	1,156

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2017						2016					
	Carrying amount £000	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2 years £000**	**2 to <5 years £000**	**5 years and over £000**	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables (Group)	**1,951**	**1,951**	**1,951**	**—**	**—**	**—**	1,156	1,156	1,156	—	—	—
Trade and other payables (Company)	**2,217**	**2,217**	**2,217**	**—**	**—**	**—**	1,156	1,156	1,156	—	—	—

Interest rate risk

Interest rate risk reflects the Group's exposure to fluctuations in interest rates in the market. The Group has no interest-bearing debt in issue and therefore interest rate risk applies only to the return achieved upon cash and fixed-term deposits.

The trade and other payables do not bear interest.

Sensitivity analysis

A 1% increase in interest rates throughout the year and prior year, with all other variables remaining constant, would have had no impact on interest expense in either the current or prior year. A 1% increase in the rate of interest earned on all cash and fixed-term deposits, with all other variables remaining constant, would have increased interest income in the current year by approximately £192,000 (2016: approximately £294,000).

26. Capital commitments

At the year end, the Group had not entered into contractual commitments for the acquisition of any capital items (2016: £nil).

27. Related parties

Transactions with subsidiaries – Company

Balances and post-acquisition transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

The key management personnel of the Group are the Directors, whose compensation is as follows:

	2017 £000	2016 £000
Directors' emoluments	**1,713**	946
Company contributions to money purchase pension schemes	**30**	49
	1,743	995

Mrs J Self, who is the wife of former Development Director Steve Self, was employed by the Group as Quality Manager and during the period received a salary of £34,556 (2016: £50,591) and contributions to a money purchase pension scheme of £6,766 (2016: £9,956), payable on terms equivalent to those that prevail in arm's length transactions.

Notes (forming part of the financial statements) continued

27. Related parties continued

Transactions with, and acquisition of, Searchbolt

Searchbolt Limited ("Searchbolt") is a search engine business, incorporated by way of a demerger from the Group on 14 November 2007, and acquired by the Group during the year (see Note 22). At the time of the acquisition, Malcolm Young was Chief Executive Officer of e-Therapeutics and a shareholder and Non-Executive Director of Searchbolt (holding 32.8% of Searchbolt's fully diluted shares), and Sean Nicolson was Executive Director of e-Therapeutics and a shareholder of Searchbolt (holding 0.35% of Searchbolt's fully diluted shares). During the year, Malcolm Young and Sean Nicolson received net consideration as follows:

	Consideration settled by cash £	Consideration settled by newly issued e-Therapeutics shares £	Total £
Malcolm Young	104,364	487,458	591,822
Sean Nicolson	—	7,520	7,520

Retained consideration of up to £46,175 and £486 may become payable to Malcolm Young and Sean Nicolson respectively, subject to receipt by Searchbolt of sums owed to it by third parties. Both Malcolm Young and Sean Nicolson may benefit from a share of future earn out consideration potentially payable to former Searchbolt shareholders. Prior to the acquisition, there were no transactions between the Company and Searchbolt during the year (2016: £nil). At the date of the acquisition there was a balance of £23,311 outstanding between the Company and Searchbolt (31 January 2016: £23,311).

Transactions with Lisles Research Limited

Former Chief Executive Officer Malcolm Young is a Non-Executive Director of Lisles Research Limited ("Lisles"). Lisles is engaged in the development of software for use in the financial services industry. The Company did not incur any costs in consulting services from Lisles (2016: £1,000), and no costs were incurred by the Company on behalf of Lisles (2016: £2,760 incurred and recharged in full). As at 31 January 2017 there was no balance outstanding between the Company and Lisles (2016: £828).

28. Subsequent events

There have been no events since the balance sheet date that require disclosure in these financial statements.

Notice of annual general meeting

e-Therapeutics plc (incorporated and registered in England and Wales under number 04304473)

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about its content or as to what action you should take, you should consult your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or another appropriately authorised independent adviser if you are in a territory outside the United Kingdom.

If you have sold or transferred all your shares in e-Therapeutics plc, please pass this document and the accompanying proxy form to the purchaser or transferee or to the stockbroker or other agent through whom you made the sale or transfer, for transmission to the purchaser or transferee.

Notice is hereby given that the annual general meeting of e-Therapeutics plc (the "Company") will be held at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH at 11.00am on 31 May 2017 to consider and, if thought fit, pass the following resolutions as ordinary resolutions other than resolution 8, which will be proposed as a special resolution:

1. To receive the accounts for the financial year ended 31 January 2017 together with the Directors' report and the Auditor's report for that period.
2. To elect Raymond Barlow as a Director of the Company.
3. To re-elect Steve Medlicott as a Director of the Company.
4. To re-elect Brad Hoy as a Director of the Company.
5. To reappoint Deloitte LLP as the Auditor of the Company.
6. To authorise the Directors to agree the remuneration of the Auditor of the Company.
7. That the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 ("Act") to exercise all the powers of the Company to allot or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £187,898.23, provided that:

   7.1 (except as provided in paragraph 7.2 below) this authority shall expire on the earlier of the date falling 18 months after the date of the passing of this resolution and the conclusion of the annual general meeting of the Company in 2018; and

   7.2 the Company may before such expiry make an offer or agreement which would or might require shares or equity securities (within the meaning of section 560 of the Act), as the case may be, to be allotted or such rights granted after such expiry and the Directors may allot shares or equity securities or grant such rights, as the case may be, in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   All unexercised authorities previously granted to the Directors to allot shares or to grant rights to subscribe for or to convert any security into shares be and are hereby revoked.

8. That, subject to the passing of resolution 7 above, the Directors, pursuant to the general authority conferred on them, be empowered pursuant to section 570 of the Companies Act 2006 ("Act") to allot for cash, either pursuant to the authority so conferred or where the equity securities are held by the Company as treasury shares (within the meaning of section 724(5) of the Act), equity securities (within the meaning of section 560 of the Act) as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

   8.1 made in connection with the allotment of ordinary shares of 0.1 pence each in the capital of the Company pursuant to the e-Therapeutics plc Long Term Incentive Plan 2007 (as amended from time to time) and the e-Therapeutics Performance Share Plan 2013;

   8.2 made in connection with the allotment of up to 210,750 ordinary shares of 0.1 pence each in the capital of the Company pursuant to those option agreements referred to in paragraphs 2.9 to 2.13 of Part VII of the admission document relating to the Company dated 22 November 2007 that have neither been fully exercised nor lapsed;

   8.3 made in connection with the allotment and issue of up to 118,020 ordinary shares of 0.1 pence each in the capital of the Company pursuant to the options granted to Oliver James;

Notice of annual general meeting continued

8.4 made in connection with an offer of securities, open for acceptance for a fixed period, by the Directors to ordinary shareholders of the Company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares or any legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any overseas territory or in connection with fractional entitlements) or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and/or

8.5 wholly for cash (otherwise than pursuant to paragraphs 8.1 to 8.4 above) up to an aggregate nominal value of £53,685.21,

and shall expire on the conclusion of the annual general meeting of the Company in 2018 or, if earlier, 18 months after the passing of this resolution, but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement notwithstanding that the power conferred by this resolution has expired.

All unexercised authorities previously granted to the Directors under section 570 of the Act are hereby revoked.

By order of the Board

Sue Steven
Company Secretary
8 May 2017

Registered office
17 Blenheim Office Park
Long Hanborough
Oxfordshire
OX29 8LN

Registered in England and Wales number 04304473

Notes

The following notes explain your general rights as a shareholder of the Company and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf.

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company at close of business on 29 May 2017 or, in the event that this meeting is adjourned, on the register of members as at close of business on the day two days before the date of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after close of business on 29 May 2017, or in the event that this meeting is adjourned, in the register of members after close of business on the day two days before the date of the adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at a meeting of the Company. On a poll vote, all of a member's voting rights may be exercised by one or more duly appointed proxies. Any such member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's registrars. A proxy need not be a member of the Company. Appointing a proxy will not prevent a member from attending in person and voting at the meeting. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman of the meeting) and give your instructions directly to them. A proxy must vote in accordance with any instructions given by the appointing member.

3. A form of appointment of proxy is enclosed. To appoint a proxy, this form must be completed and signed, sent or delivered to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney of the Company. If you return more than one proxy appointment in respect of a share, that received last by the registrar before the latest time for the receipt of proxies will take precedence.

4. The form of proxy includes a vote withheld option. Please note that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against any particular resolution.

5. The appointment of a proxy and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated should be deposited with Neville Registrars Limited at the address shown on the proxy form not later than 11.00am on 29 May 2017 or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used or lodged.

6. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

7. CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST) subject to the provisions of the Company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. To be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must be transmitted so as to be received by our agent, Neville Registrars Limited, whose CREST participant ID is 7RA11, by 11.00am on 29 May 2017.

8. Save through CREST, we do not have a facility to receive proxy forms electronically. Therefore, you may not use any electronic address referred to in the proxy form or any related document to submit your proxy form.

Voting results

9. The results of the voting at the annual general meeting will be announced through a regulatory information service and will appear on our website www.etherapeutics.co.uk as soon as reasonably practicable.

Notice of annual general meeting continued

Notes continued

Inspection of documents

10. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day and they may also be inspected at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH from 10.45am on the day of the meeting until the conclusion of the meeting:

    10.1 copies of Directors' service contracts with the Company; and

    10.2 copies of the Non-Executive Directors' letters of appointment.

Corporate representatives

11. A shareholder of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the annual general meeting. In accordance with the provisions of the Act, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder of the Company, though there are restrictions on more than one such representative exercising powers in relation to the same shares.

Nominated persons

12. Any person to whom this Notice is sent as a person nominated under section 146 of the Act to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

    The statement of the rights of members in relation to the appointment of proxies in paragraph 2 above does not apply to Nominated Persons. The rights described in that paragraph can only be exercised by members of the Company.

Issued share capital and total voting rights

13. As at close of business on 12 April 2017, being the last practicable day prior to the publication of this Notice, the Company's issued share capital comprised 268,426,042 ordinary shares of 0.1 pence. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at the date of this Notice is 268,426,042.

Members' requests under section 527 of the Act

14. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the Company to publish a statement on a website setting out any matter relating to: (i) the audit of the Company's Accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the annual general meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the last annual general meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the annual general meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

Members' rights to ask questions

15. Any member attending the annual general meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the annual general meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the annual general meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the annual general meeting that the question be answered.

Security

16. Security measures will be in place to ensure your safety at the annual general meeting. Please do not bring suitcases, large bags or rucksacks. If you do, we may ask you to leave the item in the cloakroom. Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted. Mobile phones must be turned off or on silent during the meeting. Please also note that those attending the annual general meeting will not be permitted to hand out leaflets in the venue.

Website

17. A copy of this Notice, and other information required by section 311A of the Act, can be found at www.etherapeutics.co.uk.

Except as provided above, members who have general queries about the meeting should contact the Company Secretary in writing at the Company's registered office. No other methods of communication will be accepted.

Notes

Notes

Advisers

Nominated adviser and nominated broker
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Tel: +44 (0) 20 7260 1000

Auditor to the Company
Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 118 950 8141

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

Tel: +44 (0) 121 585 1131

Solicitors
Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

Tel: +44 (0) 20 7329 4422

Bond Dickinson LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Tel: +44 (0) 845 415 0000

Bankers
Bank of Scotland
PO Box No. 10
38 St Andrews Square
Edinburgh
EH2 2YR

Tel: +44 (0) 131 465 3900

Registered office
17 Blenheim Office Park
Long Hanborough
Oxfordshire
OX29 8LN

Tel: +44 (0) 1993 88 00 00

Company Secretary
Sue Steven

ckd
Design & Production
www.carrkamasa.co.uk

e-Therapeutics

e-Therapeutics plc
17 Blenheim Office Park
Long Hanborough
Oxfordshire
OX29 8LN
United Kingdom
(Registered office)

Tel: +44 (0) 1993 88 00 00
Fax: +44 (0) 1993 88 02 07

www.etherapeutics.co.uk

Incorporated in England and Wales
Registered number: 04304473