ERGOMED

ANNUAL REPORT AND ACCOUNTS 2019

Delivering results

Ergomed is a global provider of specialised services to the pharmaceutical industry

Our comprehensive suite of pharmacovigilance solutions and high-quality clinical research services help support the most complex clinical trials, playing a vital role in the development of new drugs

Contents

Highlights

As reported

Revenue
£68.3m
+26%

EBITDA (adjusted)[1]
£12.5m
+£10.2m

Contracted order book
£124.1m
+14%

Gross margin
43%
2018: 36%

Cash generated from operations
£11.7m
2018: £2.0m

Earnings per share (basic)
12.0 pence
2018: (20.0) pence

Financial
- Strong organic revenue growth across Clinical Research and Pharmacovigilance businesses
- Enhanced gross margin through continued focus on business development
- Growth of EBITDA and operating cash flows has resulted in a strong cash position – ready to pursue growth opportunities

Operational
- Focused service business strategy has generated strong growth across the business
- Strengthened management team and Board through the addition of a new CFO, COO and CCO
- Continued focus on business development and cross-selling opportunities has resulted in double digit order book growth and enhanced confidence in revenue pipeline for 2020

Post year-end
- Acquisition of Ashfield Pharmacovigilance Inc. for $10 million cash will expand the PrimeVigilance geographical reach to North America and enhance the platform for broader clinical services in the region
- Agreed a new three year, multi-currency, £30 million credit facility with the Group's bankers to facilitate the pursuit of the growth strategy

1 Adjusted EBITDA is an 'Alternative Profit Measure' and is defined on page 22.

We provide full service solutions to the pharmaceutical and biotechnology industries

We are global leaders in Pharmacovigilance and Orphan Drug Development

850+
employees

56
countries with active clinical trials

100+
countries supported by pharmacovigilance services

190k+
pharmacovigilance patient cases processed p.a.

Our geographical reach

North America

- World's largest pharmaceutical market
- CRO presence and base of operations through Ergomed's Boston office servicing North and South America
- Post year end acquisition of Ashfield Pharmacovigilance enhanced North American presence through a dedicated PV service office

Europe

- Second largest pharmaceutical market globally
- Founded in Europe, Ergomed has complete coverage of the PV and CRO markets through its strategically placed offices in the UK, Croatia, the Czech Republic, Germany, the Netherlands and Serbia
- Comprehensive network of PV and CRO specialist with in-depth knowledge of EU and country specific regulatory requirements

MENA

- Ergomed is one of the few CRO companies that offer clients access to patients in the Middle East and North Africa region
- We have full-service operational staff supporting trials in Algeria, Morocco, Egypt, Lebanon, Turkey, Oman, Saudi Arabia and South Africa

Asia-Pacific

- The Asia-Pacific region is one of the fastest growing regions in the CRO industry
- Ergomed has an established CRO presence in India and is exploring opportunities to expand its full-service CRO offering to clients in this region

Our areas of operation

PRIMEVIGILANCE

Pharmacovigilance ('PV') – the ongoing monitoring of drug safety

- PV services offered to clients through the PrimeVigilance brand include case, signal and risk management, pharmacoepidemiology, audits, training, advisory literature services and medical information
- Offices located in the UK, US and Europe
- PrimeVigilance supports pharmaceutical, biotechnology and generics companies in managing the global safety of their products from clinical trial to post-marketing

PV revenue in 2019

£35.4m

(2018: £27.5m)

New PV contracts won in 2019

£41.7m

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PSR ORPHAN EXPERTS

Clinical Research Outsourcing ('CRO') – the management of clinical trials

- High-quality contract research and clinical trial management across all phases (I to IV)
- Offices located in the UK, US and Europe
- Plan, manage, monitor and report on the most complex clinical trials
- Specialism in rare disease trials – orphan drug development

CRO revenue in 2019

£32.8m

(2018: £26.6m)

New CRO contracts won in 2019

£41.5m

2019 has been a transformational year for Ergomed

"2019 has been a transformational year for Ergomed, delivering strong financial results and executing our focused strategy to become a leading global provider of specialist services to the pharmaceutical industry."

The Company continued to deliver its focused strategy to provide specialised services to the global pharmaceutical and biotechnology industries and delivered strong revenue growth across both pharmacovigilance ('PV') and clinical research outsourcing ('CRO') offerings. We also strengthened our Board and executive management team through the appointment of senior leaders with significant industry experience and proven track records in building international businesses.

Ergomed is now firmly established in a position of strength and stability which will support our ambitious long term growth plans.

A Solid Base for Continued Growth

During the year, we have substantially strengthened the Ergomed business by completing our transition to a profitable and cash-generative service-based business model, with both divisions now demonstrating consistent growth and profitability, whilst terminating the previous co-development strategy and thereby eliminating ongoing R&D expense. We have also now closed out all deferred payments on prior acquisitions, enabling our strengthened management team to complete the integration of those prior acquisitions and to develop cost saving and cross-selling opportunities.

From this stable platform, our ambitious plans to rapidly build a global pharmaceutical services business are strongly underpinned by our substantial forward order book providing high visibility of future contracted profitable revenue growth. The potential for investment in the future of the business is supported by our existing cash balances, organic cash generation and substantial new banking facilities. Our 2019 results show our highest level of revenue growth is in North America. Together with the acquisition and rapid integration of Ashfield Pharmacovigilance Inc. ("Ashfield PV"), we have rapidly built a platform for future growth in the largest pharmaceutical market globally for both clinical research and pharmacovigilance.

Attractive Long-Term Market Dynamics

The global CRO market is predicted to grow at 5% compound annual growth rate ('CAGR') to $70 billion by 2027[1]. Higher growth is expected in markets in the biotechnology and specialty pharma drug development sectors in which Ergomed specialises, including rare disease and orphan drug development growth of 11% CAGR and oncology growth of 9% CAGR. The North American and European markets are key to this growth, with over 70% of all global clinical trials started in 2018 requiring either US or European operations.

The global PV market is also expected to see continued growth of 11.6% CAGR to $8.9 billion by 2025[2]. This growth reflects the increasing complexity of pharmacovigilance regulation globally and the trend among pharmaceutical and biotechnology companies towards greater outsourcing of PV workstreams to specialist providers such as Ergomed.

We believe that these macro trends and the continued consolidation of the larger global pharmaceutical service companies will create an opportunity for Ergomed and its shareholders over the long term, through the creation of a publicly-traded global specialist service provider meeting dynamic industry demands, with high growth potential.

Executing our Strategy

In 2018, Ergomed announced that it would focus its strategy on its core service businesses in the PV and CRO sectors. We envisaged that this focus would result in significant growth and improved financial performance through realising the potential of our specialist services and established brands.

2019 saw further execution of this strategy, resulting in a significantly improved financial and operational performance. During the year, we saw revenue growth of 26.1% to £68.3 million underpinned by strong performances in PV and CRO. This continues a trend which has seen a compound annual growth rate of 22% over the past 6 years.

We have refined and aligned commercial strategies in our CRO and PV businesses and invested in our business development teams, the benefits of which can be seen in our growing order book and the increase in cross-selling opportunities.

Having acquired and successfully integrated several businesses into the Group, Ergomed is now realising the benefits of these acquisitions, positioning the Group as a leader in rare disease and orphan drug development, oncology, biotechnology and specialty pharma drug development, key drivers of growth across the combined PV and CRO business.

The acquisition of Ashfield PV, a long-established and respected provider of pharmacovigilance services in the US, provides the opportunity for further growth and, in line with its stated strategy, the Board will continue to actively consider the acquisition of PV and CRO businesses that will complement and strengthen the existing service offering of the Ergomed and PrimeVigilance brands and give access to new customers and geographies.

Strengthening the Board

During the year, Ergomed announced a number of key appointments including additions to the executive team and Board. Richard Barfield, our Chief Financial Officer ('CFO'), appointed in June 2019, brings with him a wealth of experience, including as the former CFO of Chiltern International. Post year-end, we welcomed Lewis Cameron to the Board as Chief Operating Officer ('COO') and expect to benefit from his considerable operational expertise from companies including Covance and Chiltern.

The Board was also pleased to welcome Dr. Jim Esinhart, former CEO of Chiltern, Rolf Soderstrom, former CFO of BTG plc and Ian Johnson, former Executive Chairman of Bioquell PLC, as Non-Executive Directors, joining Michael Spiteri, Global COO of Digital Data and Development at HSBC, who has been a Non-Executive Director since October 2018.

These appointments add to the growing pool of industry-leading talent Ergomed is attracting and reflect the professionalism of the current team and the growth potential of the business. We have now established a single leadership structure across all commercial and operational functions to maximise opportunities for synergies and cross-selling and delivery on strategy.

1 Grand View Research: Clinical Trials Market Size Worth $69.8 Billion By 2027
2 Global Market Insights: Pharmacovigilance Market size to exceed USD 8.9bn by 2025

Executive Chairman's statement continued

COVID-19

Events in relation to the COVID-19 virus outbreak are continuing to evolve rapidly. The Group is monitoring the situation closely as it develops.

Health and Safety

Ergomed's priorities remain the health and safety of our employees and the maintenance of our service to all the patients and medical staff involved in our clinical studies and pharmacovigilance services.

We have increased vigilance on hygiene across all our sites and stopped all but absolutely necessary travel. After thorough systems stress testing and in reliance on our established business continuity plans, the Group has transitioned to home working and digital communications for the majority of our staff. We are fortunate that the nature of our work and the robustness of our technology systems make this possible with minimal disruption to our operations. We have additional protocols to take further contingency measures should the situation deteriorate further.

We are continuing to provide clinical study and pharmacovigilance monitoring services in support of all our patients and medical partners. In most cases these services are already or can be performed remotely and we have now been able to transition to full remote working. To date we have not seen any reduction in our service levels or productivity metrics, indicating that the quality and scale of the care we are providing to our patients and the healthcare profession continue at normal levels so far.

Business Continuity

At this time, Ergomed has not seen a material impact on its business. As mentioned above, we have not so far seen any decline in our performance metrics. As the vast majority of Ergomed's services in both clinical research and pharmacovigilance are provided under long-term contracts and in order to meet medical monitoring needs essential for medical research and to meet legally mandated pharmacovigilance requirements, we believe it is likely that this will continue to be the case for all existing contracted services. However, whilst the duration of the outbreak and the prospects for financing of new drug development remain unclear, it can be expected to cause disruption to business development activities as scientific conferences are cancelled and travel restrictions tighten.

Risk mitigation

Ergomed will continue to monitor closely the rapidly evolving situation. Whilst no immediate risks to the Group's revenues have been identified, plans for financial risk mitigation are in place and will be implemented should this become necessary. The Group has a strong balance sheet and a £30 million credit facility and is a resilient business in the face of the risks posed by COVID-19.

Our contribution to the global fight against COVID-19

Ergomed will use all the resources at its disposal to contribute to the efforts of the global and scientific community to beat the COVID-19 virus. We will do this by continuing to provide our clinical trial and monitoring services for our existing and new clients and patients to the highest professional standards.

At the same time, we will provide our services to researchers and clinicians for new projects designed to combat the virus. As an example, we have recently announced the initiation of a study of siltuximab, an interleukin (IL)-6 targeted monoclonal antibody, for the treatment of patients with COVID-19 who have developed serious respiratory complications. The study is sponsored by the Papa Giovanni XXIII Hospital in Bergamo, Italy and supported by EUSA Pharma. This important study illustrates how Ergomed's long experience and deep expertise in the provision of clinical study and pharmacovigilance services can play a part in assisting the global scientific community in its fight against COVID-19.

Conclusion

The success which Ergomed achieved in 2019 is the product of the hard work and dedication of all our colleagues. We attracted many new professionals to our team during the year, which will create more opportunities, both in the UK and internationally, as we look to strengthen our operational base further. I would like to thank everyone at Ergomed for their contribution during the year, and our investors for their continued support.

Globally the COVID-19 situation is developing extremely rapidly. In light of the significant uncertainties arising from the spread of the coronavirus and the policy choices made in each country, the outlook and longer term financial impact of the pandemic remain uncertain. We will provide further updates as we have more clarity, including as part of our usual reporting cycle in July and September 2020.

Miroslav Reljanović
Executive Chairman

Investment case

Ergomed's pharmacovigilance and clinical research businesses provide differentiated offerings in growth markets

Favourable market drivers

The trend to outsource continues to drive growth in pharmaceutical services. The clinical research market is expected to reach $70 billion by 2027[1] and the pharmacovigilance market, at around $8.9 billion by 2025, is growing at 11.6% CAGR[2]. The contract research services market overall is growing at 7.5% p.a[3].

Market leadership

PrimeVigilance is a leading provider of pharmacovigilance services in Europe.

Within clinical research services, we aim to be the leading mid-tier provider, specialising in orphan drug development.

Global coverage

Ergomed has both a comprehensive network of PV and CRO experts and locations throughout Europe and has recently expanded its North American operations.

70% of all global clinical trials started in 2018 required operations in either the US or European markets.

High growth

We continue to grow both PV and CRO businesses with an overall CAGR of 22% over the past six years. This growth was underpinned by exceptional organic growth in the PV business which has more than doubled since 2016.

For CRO, our focus will be on orphan drug development. The market for orphan drugs is expected to reach $294 billion by 2025[4].

Acquisition opportunities

We have acquired and successfully integrated eight service acquisitions since IPO in mid-2014, which have enhanced the Company's revenues and earnings, added specialist skills and added geographical coverage. Strategic acquisitions remain key to our growth strategy.

Debt free, net cash position

Ergomed's cash and equivalents at 31 December 2019 was £14.3 million with zero debt. Post year end a multi-currency £30 million credit facility was agreed with the Group's bankers. This is intended to assist in financing any possible acquisition opportunities.

Pharmacovigilance market value

$8.9bn
by 2025

Clinical research market value

$70bn
by 2027

PV and CRO Compound Annual Growth Rate

22%
6 years to 2019

Orphan drugs market value

$294bn
by 2025

Ergomed's cash and equivalents

£14.3m
at 31 December 2019

1. Grand View Research: Clinical Trials Market Size Worth $69.8 billion by 2027
2. Global Market Insights: Pharmacovigilance Market size to exceed $8.9 billion by 2025
3. Global Data 2018
4. Fortune Business Insights: Orphan Drugs Market Size

Our mission is to build a profitable services business targeting global specialist leadership in pharmacovigilance and clinical research services for orphan drug development

Strategic objectives

Grow

- Deliver strong organic growth in our core pharmacovigilance and clinical research services businesses
- Realise commercial synergies and cross selling opportunities between pharmacovigilance and clinical research
- Advance our orphan drug and other research specialisms

Build

- Augment organic growth with strategic and selective acquisitions
- Position the business as a one-stop shop for all our customers' specialist pharmaceutical needs
- Continue to strengthen our geographical footprint, particularly in the US

Invest

- Increase investment in people, attracting the best talent worldwide, and foster personal growth within our business
- Further invest in technology, becoming a leader in robotic processing and the use of intelligent automation

2019 performance	2020 focus
Revenue **£68.3m** ↑ 26% (2018: £54.1m) **Order book of contracted future revenue** **£124.1m** ↑ 14% (2018: £109.2m)	• Continued focus on a quality first service led by expert professionals • Cultivating business development and crossing-selling opportunities between PV and CRO customers • Further develop orphan drug and other research specialisms
Ashfield Pharmacovigilance acquisition contribution: **Annualised revenue** **$9.8m** **New clients added** **40+**	Identify acquisition targets offering: • Geographic growth and market coverage • Economies of scale through Ergomed's existing technology, infrastructure and systems • An enhanced platform to develop a combined PV and CRO business expertise
360+ people Staff recruited during 2019 **£0.6m** Investment in software technology in 2019	• Continue to facilitate growth through the recruitment and training of our people • Providing a quality service through investment in technology – develop and validate additional robotic process automation functionality

The Group enters 2020 on a stable platform with a clear and proven growth strategy, a robust financial position and experienced leadership to realise the longer-term strategic priorities of the business

2019 has seen a strong operational and financial performance across the Group.

This reflects the continued execution of our strategy to deliver world-class pharmacovigilance ('PV') and clinical research outsourcing ('CRO') services to customers and cultivating business development and cross-selling opportunities between these two complementary businesses.

The Group enters 2020 on a stable platform with a clear and proven growth strategy, a robust financial position and experienced leadership to realise the longer-term strategic priorities of the business.

PRIMEVIGILANCE

PV Revenue

£35.4m

(2018: £27.5m)

Contracted PV order book

£54.6m

(2018: £48.4m)

Pharmacovigilance ('PV')

Ergomed's comprehensive range of services in both the PV and CRO sectors are complementary and allow it to support pharmaceutical and biotechnology companies through all phases of clinical development, post-approval pharmacovigilance and medical information services.

The PV market continues to see significant change through the introduction of strict drug testing and approval regulations and the need for the market to use big data analytics. PrimeVigilance is recognised as a global leader in providing pharmacovigilance, regulatory and medical information services, as highlighted by the receipt of The Queen's Award for Enterprise in the International Trade category in 2019. The increased visibility of the brand and PrimeVigilance's growth over the past year has been facilitated by our focus on a 'quality first' approach, ongoing investment in people, recruitment and training, and the development and deployment of the latest available technologies, including automation and robotic technology.

Fundamental to the "quality first" approach is Ergomed's medic-led service. PrimeVigilance employs around 50 physicians, over 300 pharmacists and other life sciences professionals and over 20 in-house EU Qualified Persons for Pharmacovigilance (EU QPPV) and has a network of Local Qualified Persons covering over 60 countries. This constitutes one of the largest qualified teams of PV specialist professionals in any independent pharmaceutical services business globally.

The breadth and depth of staff and professionals supporting PrimeVigilance has contributed to the growing number of customers serviced in the year increasing to more than 150 with a presence in over 100 countries and resulting in a top-line service revenue growth of 28.6% (2018: 21.9%).

This was complemented post year-end as a result of the acquisition of Ashfield PV by the addition of a further 40 customers and over 70 new PV specialist colleagues.

Technology is at the core of the PrimeVigilance quality first approach. Its technology offering has allowed pharmacovigilance services to be delivered with speed, consistency and accuracy within both customer and in-house databases. Ergomed will continue to invest in technology to further drive efficiency, quality and, as a result, competitiveness.

In addition, the PV strategy has been to grow the business and brand awareness organically and through the acquisition and successful integration of businesses which are complementary to the PrimeVigilance approach and offer routes into new markets, be it customer specialisms or geographies. In 2019, this focus has effectively delivered with revenue growth up 28.6% to £35.4 million (2018: £27.5 million) and gross margin growth up 44.8% to £18.2 million (2018: £12.6 million).

The PV business, with the significant growth over the last year and the post year-end acquisition of Ashfield PV, is well placed to continue the delivery of its growth strategy into 2020.

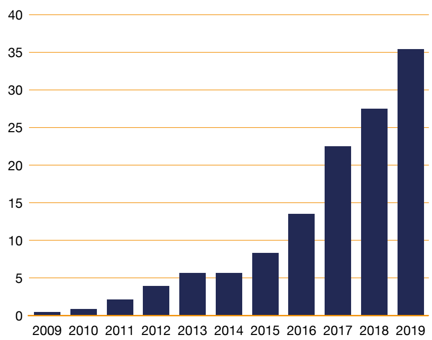
620+
employees

120+
active customers

100+
countries supporting clients

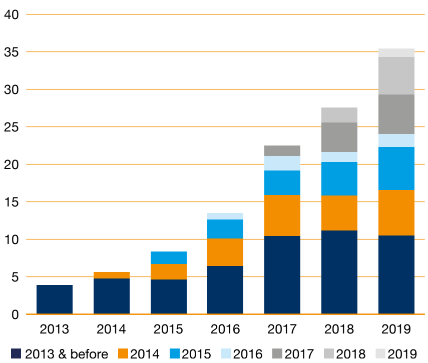
Consistent growth

PV revenue (£m)



Exceptional client retention

PV revenue by customer cohort (£m)



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PSR
ORPHAN EXPERTS

CRO revenue
£32.8m
(2018: £26.6m)

Contracted CRO order book
£69.5m
(2018: £60.8m)

230+
employees

70
active studies

56
clinical trials in countries

Clinical Research Outsourcing ('CRO')

Ergomed delivers market-leading quality CRO services through a comprehensive offering of clinical trial research support covering all phases of medical development via a global network of research experts and patients.

The Group's CRO brands, Ergomed and PSR Orphan Experts, are leading providers of full-service clinical research in the specialist areas of oncology and orphan drug development. Using their extensive experience in specialist fields and their global presence, both brands are able to focus on effective patient recruitment and reducing the time and cost of clinical trials across all phases of development.

The continued growth and success of the Group's CRO business is a result of its focus on management and physician teams working closely together to ensure focus on a considered patient recruitment process, maximising patient retention and ensuring efficient programme management and control over complex trial protocols. In addition, the Group has continued to invest in its CRO service offering through its investment in the enhanced digitalisation of CRO services.

Orphan drug development focuses on rare diseases, which by definition are smaller drug trials, but which require specialist expertise. Through the PSR brand, Ergomed has distinguished itself from competitors in this market, and as a result, 45% of new CRO business in 2019 has been secured through orphan drug related customers.

Revenues for the CRO business have grown 23.6% from £26.6 million to £32.8 million resulting in an increase in gross margin to £11.3 million, up 50.8% from £7.5 million in 2018.

As is typical for a CRO business, 25.9% (£8.5 million) of Ergomed's CRO revenue is generated as reimbursement revenue or pass-through costs (2018: 28.5%, £7.7 million). This reimbursement revenue, which is generated from costs on clinical trials passed on to the customer at no mark-up, can cause fluctuations in both revenue and gross margin. However, the underlying service fee gross margin of the CRO business (gross margin less reimbursement revenue and costs) increased substantially during the year, from 38.0% in 2018 to 46.4% in 2019.

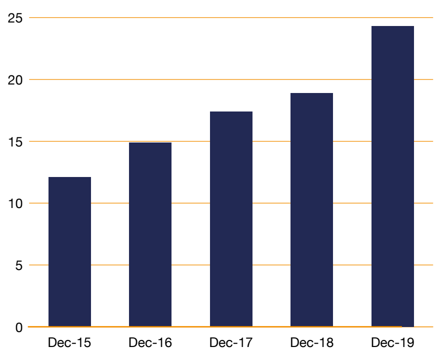
Acquisitions

The Group continued to integrate, deliver revenue and cost synergies and realise growth opportunities from the PharmInvent, Harefield, Pharmacovigilance Services and PSR Group acquisitions from prior years. These businesses have allowed Ergomed to strengthen its position as a leading global specialist, leveraging this position and the cross-selling opportunities it provides across the PV and CRO businesses.

Shortly after the year-end in January 2020, the Group acquired Ashfield PV, a long-established and respected provider of PV services in North America, from UDG Healthcare. The Ashfield PV name was immediately rebranded to PrimeVigilance USA Inc and, through its offices in the Research Triangle in Cary, North Carolina, expands PrimeVigilance's geographic coverage in the strategically important US market and strengthens Ergomed's global service offering.

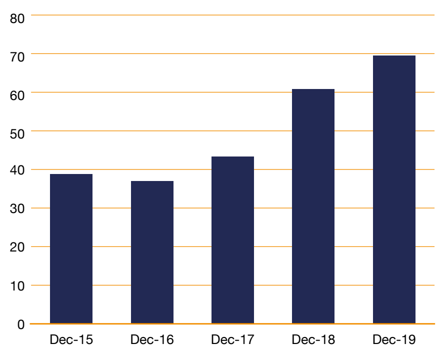
Service fee growth

CRO service revenue
(excludes reimbursement revenue) (£m)



Order book growth

Contracted order book (£m)



Operations

Leadership changes and appointments

During the year Dr. Miroslav Reljanović was appointed as Executive Chairman following the resignation of former CEO, Stephen Stamp, in January 2019. Miroslav is the founder of Ergomed and was previously the Chief Executive Officer of the Group.
The Group was pleased to welcome Richard Barfield, who took over from Stuart Jackson as CFO in June 2019. Richard is a Fellow of the Institute of Chartered Accountants with previous experience of the international CRO market having formerly served as CFO at Chiltern International.

Post year-end Lewis Cameron was appointed as Chief Operating Officer (COO). Lewis brings considerable operational expertise from companies in the services industry, including Covance and Chiltern.

Roy Ovel was appointed as Chief Commercial Officer (CCO) in April 2019 and leads the business development team across both the PV and CRO businesses, with a remit to maximise opportunities arising from the commercial integration of the business. Roy has worked in the clinical services industry for over 35 years and has a strong track record for developing high performing sales and marketing teams, previously with TFS and more recently with Worldwide Clinical Trials.

Jonathan West was appointed as President of Ergomed's pharmacovigilance business, PrimeVigilance, in September 2019. Jon brings a wealth of experience in the global pharmacovigilance sector, including senior roles with Parexel. He is a PV expert and was the first employee of PrimeVigilance when it was formed in 2008, and later its Commercial Director.

Outlook

The demand for both PV and CRO services is expected to remain strong over the long term and in our CRO business we are currently experiencing high levels of interest in COVID-19 clinical research. Ergomed remains focused on its strategy to become a market leader in pharmacovigilance and orphan drug trial services. These combined businesses are expected to continue to create organic and inorganic growth opportunities to strengthen the existing service offering and expand the Group's geographical markets.

The Group's strong financial position is expected to support the delivery of its strategy, based on its year-end cash balance, cash generative operations, substantial contracted order book and the recently agreed credit facility.

Co-development

During the year, in line with our previously stated strategy to develop Ergomed as a pharmaceutical services business and reduce our commitment to co-development projects, no new co-development partnerships were signed. The Group continues to seek a licensing or financial partner (or partners) for the Haemostatix products, Peprostat and ReadyFlow, whilst seeking to minimise our ongoing R&D expense and protect our intellectual property interests.

Any future ongoing costs relating to co-development programmes are expected to be minimal.

The status of co-development projects are as follows:

Programme	Status update
Haemostatix **Peprostat** **ReadyFlow**	• Awaiting Phase III trial, seeking financial/licence partner • Fully impaired – no carrying value on Ergomed balance sheet • Minimal ongoing cost to maintain IP during marketing process
Modus **Sevuparin** **Sickle cell disease**	• Negative Phase II data • New funding sought for new indication, Ergomed will not contribute
Asarina **Sepranolone** **PMDD**	• Recruitment finished, results expected H1 2020 • Ergomed c. 2.5% shareholding in Stockholm listed company
CEL-SCI **Multikine** **Head and neck cancer**	• Phase III study ongoing • Advanced stage of progress

Platform for growth
Ergomed in action

Focus on services business model

Ergomed's full services offering, with its 20-year track record in specialist contract clinical development and strength in pharmacovigilance, provides significant benefits to clients across the pharmaceutical industry.

The growing impact of this combined services offering is illustrated in the case studies opposite, which show the application and strength of the Company's capabilities and the potential for cross-selling within the business. The projects demonstrate Ergomed's high levels of client retention, international client base, significant progress in the automation strategy, and its specialisms including oncology and orphan drug development.

They also exemplify the foundations for the underlying services growth that has been historically present in the business and delivered a compound annual growth rate ('CAGR') of 22% between 2014 and 2019, when excluding revenue attached to co-development projects and acquisitions.

Pharmacovigilance new contracts won

£41.7m

Clinical research new contracts won

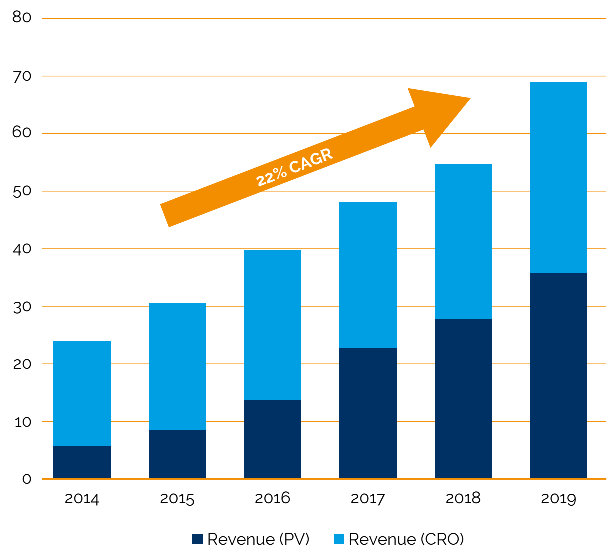
£41.5m

"With its current global platform, Ergomed is well placed to grow from strength to strength, continuing to support pharmaceutical and biotechnology companies through all phases of clinical development, post-approval pharmacovigilance and medical information services."

Roy Ovel
Chief Commercial Officer

Total revenue growth

22% compound annual growth rate



Business development opportunities

The projects below illustrate Ergomed's recent success in executing its strategy and winning substantially new global business, utilising all its innovative approaches.

	Project A	Project B	Project C
Date won	February 2020	November 2019	November 2019
Type of client	New client Middle East based pharmaceutical	Existing client US based biopharmaceutical	New client US based biotechnology
Services provided	CRO study	Pharmacovigilance and Clinical PV support	Full service Pharmacovigilance and CRO Phase I & II study
Unique attributes	Niche Phase I & II Oncology trial 50+ patients US only study	2 year extension Scope changed to include regulatory/compliance services and clinical PV support	Specialist Phase I & II Oncology trial 100+ patients 30 sites across CEE
Scale and time frame	Total revenue ~ **£6.4m** Over 3 years	Total revenue ~ **£2.0m** Over 2 years	Total revenue ~ **£5.8m** Over 4 years

Acquisitions
Ashfield Pharmacovigilance

A major strategic step in the US

The post year end acquisition of Ashfield Pharmacovigilance Inc. ('Ashfield') provides a significant US pharmacovigilance presence and access to a genuinely global offering for customers.

It also strengthens the US platform for the Ergomed CRO business as it continues its drive towards becoming a leading mid-tier pharmaceutical services specialist with a global presence.

The acquisition cost of $10 million was funded using the Company's existing cash resources, without impacting working capital or any significant detriment to the Company's ability to fund future potential acquisition opportunities.

The Company is continuing to successfully integrate the activities of Ashfield into the operational platforms of the Group and realise synergies.

"With our existing strong service and loyal clients in North America, we are confident that combining with PrimeVigilance will provide a platform to grow the combined pharmacovigilance business through additional services, market-leading systems and extended coverage globally."

Lee Chaiken
Senior Vice President and General Manager of Ashfield PV

Ashfield acquisition by numbers
Year ended 30 September 2019

Revenue
$11.6m

Adjusted EBITDA
$0.9m

Contracted future revenues (order book)
$9.8m

PrimeVigilance new clients
40+

Total cash consideration
$10m

Acquisition benefits

The Acquisition aligns with Ergomed's strategy to grow its existing profitable services business both organically and through acquisition and advances a number of important strategic objectives for Ergomed:

Expanded geographic coverage for PrimeVigilance and enhanced growth

The combined business will enable coverage of North America to be offered to PrimeVigilance's existing customers and global coverage to Ashfield PV's existing customers. Both Ashfield PV's and PrimeVigilance's existing clients and potential new clients in North America are expected to find the increased global capabilities of the combined business more attractive. The Acquisition is therefore expected to further enhance the already strong growth rate in the existing PrimeVigilance business and to be revenue enhancing in the acquired client base of Ashfield.

Economies of scale and leverage of prior investments

PrimeVigilance's strong history of investment in technology, infrastructure and systems has ensured that it is a market leader, offering highly effective and compliant solutions to all its clients. The Acquisition is expected to drive economies of scale, as prior investments and existing support functions are leveraged across Ergomed's entire customer base.

Enhanced platform for broader services business

The Acquisition will support Ergomed's drive to further develop its broader combined CRO and PV business globally, adding to the existing US presence in its CRO business and providing a platform for potential further growth in North America.

Platform for growth
Strengthened management team

Miroslav Reljanović
Executive Chairman

Q What is your strategic vision for the future of Ergomed, both in the near-term and the longer-term?

As a former medic, my passion is for improving the lives of patients by helping in the development of new therapies and treatments. At the same time, I am committed to continuing Ergomed's profitable growth and creating opportunities for all our colleagues as well as value for our stakeholders. My strategic vision is to bring these two things together to build an organisation at the forefront of the development of exciting new drugs and therapies, while continuing to grow successfully as a global specialist pharmaceutical services business.

Q How has your view of the CRO/pharmaceutical services market changed since you founded Ergomed?

Ergomed was founded over 20 years ago, and during that time the growth of the specialist pharmaceutical and biotechnology industry, as well as orphan drug research, has been phenomenal, enabling hundreds of exciting new drugs and therapies to be developed. Clinical research and pharmacovigilance companies have played an essential role in facilitating that growth. Ergomed has been a very successful participant in this story, growing faster than the overall market and our ambition is to see that continue into the future.

Q How important are your employees to the success of the business?

It goes without saying that our colleagues are the heart and soul of the business. We have a very diverse team, working in every corner of the globe, and travelling far and wide to provide whatever our clients require of us. Our team includes medical and scientific professionals who are leading experts in their chosen fields, as well as colleagues in all departments who are passionate about being involved in improving people's lives. It is their passion and commitment which drives the success of the company, and their efforts are truly appreciated by all our of clients, patients and stakeholders.

Q What most excites you about the business in 2020?

This is an exciting time for Ergomed. The business is in a stable position with a solid financial foundation in place. 2019 was a highly successful year for Ergomed, in which we achieved a transformational financial performance, decisively transitioned our strategy to a services business model, and significantly strengthened the Board and executive team, as well as delivering major new projects for our clients and a substantial increase in value for our investors. Looking forward, we have a strong order book, we have substantially increased our global reach and expertise, and we have a pipeline of significant new projects. These all provide good visibility towards what we believe should be another successful year. ■

Q What are your first impressions of the Group?

I have been with Ergomed for about ten months so now have a good handle on the business. The thing that impresses me the most is the professionalism and diversity of the whole team at all levels and in all departments. Ergomed has a large number of highly qualified, experienced and committed colleagues around the globe working together to do their absolute best in the pursuit of new therapies and treatments. That in itself, is impressive.

Q What do you view as the Company's key strengths?

If you have a business that clients want to work with, that they stick with and keep coming back to over the years, then you have a strong business. That's what we have at Ergomed. Our PrimeVigilance business establishes long term client relationships and builds on those incrementally with coverage of new products and geographies, while our CRO business runs long term clinical trials which can go on for a number of years. This is driven by the expert capabilities of our colleagues, and provides a high degree of forward visibility to our financial outlook.

Richard Barfield
Chief Financial Officer

Lewis Cameron
Chief Operating Officer

Q How would you summarise the performance of the business in 2019?

Overall it has been a successful year from a financial perspective. When a business grows quickly, as Ergomed has been doing for a number of years now, and particularly so in 2019 when revenues increased by over 26%, this can place significant demands on its finances. We have taken this growth in our stride and the business has demonstrated improved margins, good cost control, and positive cash flow – in fact, enough to fund our $10 million acquisition of Ashfield Pharmacovigilance Inc. in January 2020. However, just as important is that these results reflect the hard work and dedication to their clients and patients of all our Ergomed colleagues around the world.

Q What is your message to Ergomed's stakeholders?

The key message is that the Company is in good shape, particularly from a financial standpoint. We came out of 2019 with a significant level of growth and profitability, and with a strong balance sheet which includes significant cash balances, and now in addition to that we have set up new credit facilities with the Company's bankers. So we have a stable financial platform in place on which to continue to build the business for our stakeholders in the future. I would like to thank our stakeholders for supporting the business and sharing our enthusiasm and commitment for what the Company does.

Q What attracted you to Ergomed?

Until the past year or so, Ergomed's strength in CRO was largely focused on Europe and the opportunity to bring my experience from global CROs to support Ergomed's strategy is very exciting. I am also delighted to be joining a rapidly growing and ambitious organisation with a strong underlying pharmacovigilance business and an expanding clinical business. On a personal level, whilst I have worked in international listed companies before, it is great to be on the Board of a UK-listed company for the first time, a real personal development opportunity for me. Finally, I'm delighted to be part of a strong management team with an excellent track record, and to share their high ambitions for the Company.

Q How do you think your previous experience will help Ergomed?

My previous roles have been focussed on similar businesses and my experience includes growing businesses regionally and internationally. I also have in-depth knowledge of oncology from my time as CEO of an oncology biotech and as head of the oncology division at a large CRO, as well as knowledge in other therapeutic areas in which Ergomed specialises. In addition, my involvement in several acquisitions and integrations over the years fits right in with Ergomed's established strategy. I am very client-focussed and a great believer in relationships. So all in all, I feel well equipped for the opportunities that lie ahead.

Q What have been your first impressions of Ergomed's company culture?

Ergomed has a long and distinguished history in drug development. There is a strong culture of "can do", which comes from a real focus on the benefit of new medicines for patients and a determination to do whatever it takes to bring the benefits of new therapies to them. The strength and depth of our expertise in rare disease and oncology positions us well for our strategy to grow significantly in these core areas, and the expertise in pharmacovigilance is unique on a global scale. It is clear to me that the culture at Ergomed is very much centred on these two things: expertise and patients.

Q What are your priorities for 2020?

Our approach to 2020 is not complicated – we want to serve our clients well, focus on patients, and build on the success and stable foundations we put down in 2019 with further growth in the combined PV and CRO business. To support a more global offering we are looking to expand our geographical reach particularly in the USA building on the platform of the Ashfield acquisition. In the PV business we are looking to increase our investment in technology and processes to maintain and extend our leadership position. I know I can speak for the whole management team in saying that we are up for the challenge!

A stable financial platform to facilitate future growth

> "2019 saw a number of upgrades to market expectations, and the full year results include a further small uplift."

2019 saw a number of upgrades to market expectations, and the full year results include a further small uplift compared to the latest market expectations, as well as the announcement of the Group's new credit facilities, thereby underlining the two key financial achievements of 2019: profitable growth and financial stability.

The upturn in revenues and margins seen in the second half of 2018 continued into 2019 and the Group is in a strong financial position at the year-end with a strengthened balance sheet. We believe that the Group now has the platform and resilience required to maintain a steady course through 2020, recently bolstered by the acquisition of Ashfield PV in January 2020.

The Group and wider financial reporting community have experienced significant changes in the accounting regulatory landscape over the past two years, firstly with the introduction of the International Financial Reporting Standards IFRS 9 on financial instruments and IFRS 15 on revenue from contracts with customers, and more recently with the introduction of IFRS 16 on leases. These new accounting standards continue to increase the robustness and transparency of financial reporting.

The implementation of IFRS 16, Leases, for the 2019 results has introduced all the Group's leases onto the balance sheet as a 'right-of-use' asset and lease liability and uplifted 2019 reported and adjusted EBITDA by £1.8m. Further detail on the adoption of IFRS 16 is set out in note 38.

KPIs and APMs

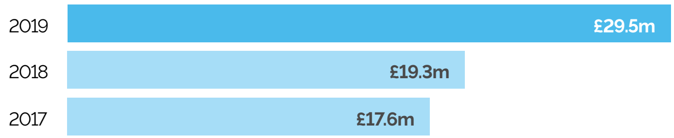
Key Performance Indicators ('KPIs')

The table below summarises the KPIs that management uses to measure the financial performance of the Group. The 2019 results are set out 'As reported' under current applicable accounting standards including the adoption of IFRS 16 in the year, and 'Under IAS 17' as if they were presented under the prior year accounting standards and were consistent with those prepared in 2018.

£m (unless otherwise stated)	2019 As reported	2019 Under IAS 17	2018
Total revenue	**68.3**	**68.3**	54.1
CRO	***32.8***	***32.8***	*26.6*
PV	***35.4***	***35.4***	*27.5*
Gross profit	**29.5**	**29.5**	19.3
Gross margin	**43.3%**	**43.3%**	35.6%
EBITDA	**9.2**	**7.4**	(7.9)
Adjusted EBITDA	**12.5**	**10.7**	2.3
Earnings per share (basic)	**12.0p**	**12.2p**	(20.0)p
Cash generated from operations	**11.7**	**10.1**	2.0
Cash and cash equivalents	**14.3**	**14.3**	5.2
Order book	**124.1**	**124.1**	109.2

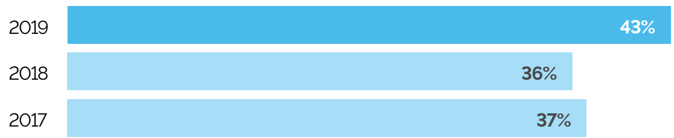
Gross profit

£29.5m



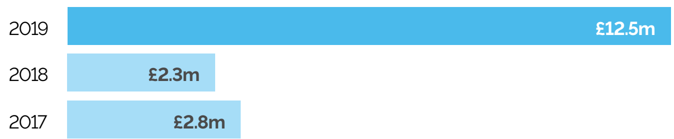
Gross margin

43%



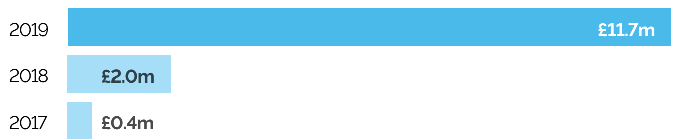
Adjusted EBITDA

£12.5m



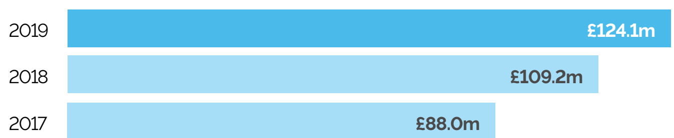
Cash generated from operations

£11.7m



Order book

£124.1m



Alternative Performance Measures ('APMs')

In measuring and reporting financial information, management reviews Alternative Performance Measures (APM's), such as EBITDA and adjusted EBITDA, which are not defined measures under financial reporting standards. Management believes that these measures, when considered in conjunction with defined financial reporting measures, provide management and stakeholders with a better understanding of the performance of the business.

Operating profit/(loss) is the financial reporting measure under IFRS most comparable to EBITDA and adjusted EBITDA. Operating profit/(loss) is reconciled to EBITDA and adjusted EBITDA as follows:

	2019 £000s	2018 £000s
Operating profit/(loss)	**5,517**	**(10,446)**
Adjust for:		
Depreciation and amortisation charges within other selling, general and administration expenses	**3,041**	1,248
Amortisation of acquired fair valued intangible assets	**671**	1,286
EBITDA	**9,229**	**(7,912)**
Share-based payments	**870**	758
Acquisition-related contingent compensation	**87**	972
Change in the fair value of contingent consideration for acquisitions	**(512)**	(233)
Acquisition costs	**393**	174
Exceptional items (note 8)	**2,427**	8,494
Adjusted EBITDA	**12,494**	**2,253**

The Directors make certain adjustments to EBITDA to derive adjusted EBITDA, which they consider more reflective of the Group's underlying trading performance and enables comparisons to be made with prior periods. Certain items, such as share-based payments, revaluation of deferred consideration for acquisitions and write-back of deferred consideration for acquisitions are non-cash items and reflect adjustments to expected future deferred consideration payments.

Deferred consideration for acquisitions expense relates to the cash component of deferred consideration which is payable contingent on the continued employment of the vendors. These costs, together with acquisition costs and exceptional items, are cash costs but are not considered as normal recurring trading items and therefore are not included in adjusted EBITDA.

Management also uses order book, or, in prior years, contracted order backlog, as an APM. Order book is the contracted value of customer revenue relating to in-progress performance obligations which are expected to be recognised in the future. The use of order book by management is no longer considered to be an APM as, from 1 January 2018, it is now a defined financial measure under IFRS 15.

Growth

The positive revenue performance seen in both Clinical Research Outsourcing and Pharmacovigilance during the first six months of the year continued through to the year-end and resulted in a strong order book at the start of 2020.

Revenues for 2019 totaled £68.3 million, an increase in of 26.1% over the prior year (2018: £54.1 million), with CRO revenues increasing 23.6% from £26.6 million to £32.8 million and PV revenues increasing 28.6% from £27.5 million to £35.4 million.

The growth in revenue was accompanied by a 53.3% increase in gross profit from £19.3 million in 2018 to £29.5 million in 2019 and an enhancement in gross profit margin from 35.6% in 2018 to 43.3% in 2019. The increase in revenue and gross margin percentage was enhanced by one-off change orders and project completions in the first half of the financial year which are not expected to recur in 2020.

The Group also progressed its strategy to close out its co-development activities to enable greater focus on the PV and CRO service model. As a result, the Group has reduced its overall R&D expenditure from £1.6 million in 2018 to £0.5 million in 2019 and, during 2019, realised impairment charges and write-offs totaling £2.4 million as exceptional costs (2018: £6.6 million). The Group will continue to minimise the ongoing costs to maintain the programmes while continuing to exercise prudent stewardship over the co-development assets.

The strong revenue growth and continued focus on profitability in 2019 have resulted in an adjusted EBITDA of £12.5 million, an increase of £10.2 million over the prior year (2018: £2.3 million). The adjusted EBITDA result for 2019 was augmented by the cost reduction program implemented and completed in 2018.

Financial stability

The strong results for the year, specifically the growth in revenue and profitability, have significantly enhanced the Group's cash generation at an operating level, with cash generated from operations of £11.7 million, an increase of £9.7 million over the prior year (2018: £2.0 million).

The Group continues to strengthen its balance sheet, with cash and cash equivalents increasing by £9.1 million to £14.3 million at the year-end (2018: £5.2 million). The cash headroom has been augmented after the year-end by the agreement of a £30 million credit facility with the Group's bankers, HSBC UK Bank plc. The facility comprises a £15 million, three-year, multi-currency revolving credit facility and an accordion facility under which up to an additional £15 million can be borrowed on the same terms with the bank's approval. The facility is secured by a debenture.

Outlook

We move into 2020 having secured a combined order book at the end of 2019 of £124.1 million, up 13.6% on the prior year (2018: £109.2 million), being debt free and starting the year with significant cash headroom, including cash and cash equivalents of £14.3 million prior to the Ashfield PV acquisition in January 2020.

This stable financial platform facilitated the acquisition of Ashfield PV, which completed on 10 January 2020 for a total cash consideration of $10 million. Ashfield PV was rebranded as PrimeVigilance USA Inc immediately after purchase and is expected to drive the rapid expansion of the PV business in North America and to strengthen our global service offering. The purchase of the business at the start of 2020 will allow almost a whole financial year of enhanced revenue and EBITDA to complement the Group's results in 2020.

Ergomed will continue to monitor closely the rapidly evolving coronavirus outbreak. Whilst no immediate risks to the Group's revenues have been identified, plans for financial risk mitigation are in place and will be implemented should this become necessary. The Group has a strong balance sheet and a £30m credit facility and is a resilient business in the face of the risks posed by COVID-19.

Richard Barfield
Chief Financial Officer

We are committed to conducting our business in a responsible way

Ergomed recognises that its activities and operations have a societal impact and we place a high emphasis on our social responsibilities.

Our commitment to operate responsibly focuses on Colleagues, Patients and Communities.

Colleagues

In order to attract and retain staff, it is vital to maintain a good working environment. We have made every effort to create a harmonious working environment, which is free from harassment and bullying where every employee is treated with respect and dignity and where employees have the best opportunity to excel in their role. It is our commitment to provide a positive work environment for all employees to enjoy.

Equality and diversity

The Company recognises the benefits of a diverse workforce and is committed to providing a working environment that is free from discrimination. Ergomed is proud of, and committed to, the promotion of equality of opportunity for all employees and job applicants. The Company aims to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit. Equality is achieved through sound employment policies and by applying fair standards in every aspect of employment.

The Company will seek to promote the principles of equality and diversity in all its dealings with employees, job applicants, clients, customers, suppliers, recruitment agencies and the public.

Engagement, recruitment and retention

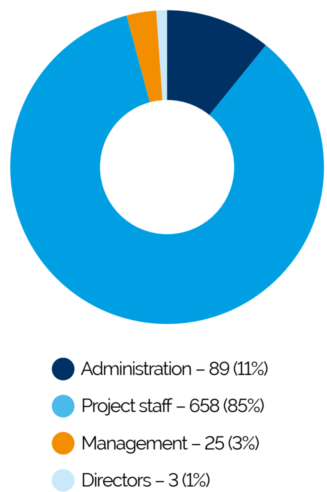
Ergomed aims to attract, recruit and retain employees who meet the current and future needs of the business. Recruitment and selection is conducted in a fair, lawful, professional and cost-effective manner. It is the aim of the Company to ensure that it recruits and selects the right people, at the right time, in the right job, who add value to the business. The correct recruitment and selection process, along with ongoing employee engagement and training, plays a key part in ensuring more effective matching of abilities to jobs, better retention of skills and knowledge, improved employee well-being and increased motivation among the workforce.

Employee initiatives undertaken in the year:

- Charitable bake sale for Macmillan Coffee Morning
- Rare Disease Day
- '12 Days of Christmas' activities
- Culinary team building
- Company breakfast with senior management
- Team building day by the sea
- Sports competitions
- Giving blood
- Quiz evenings
- Charity sales

Diversity: ratio of men and women

Staff ratios



Number of offices globally

22

Language diversity

41

Patients

The Group's operations support the pharmaceutical and biotechnology industries in the development and monitoring of new drugs and treatments and have a high impact on improving patient and community health and well-being.

Ergomed has planned, managed, monitored and reported over 600 Phase I-IV clinical trials with a range of technologies that include small molecule drugs, monoclonal antibodies and other targeted agents as well as cancer vaccines, immunotherapy, radioactive agents and photodynamic therapies.

PrimeVigilance processes in excess of 190,000 patient cases annually in over 100 countries and ensures the accurate and timely monitoring of drug safety throughout the product life cycle.

PSR Orphan Experts ('PSR') is one of the few companies exclusively focused in orphan disease drug development and is recognised as a leading expert in assisting biotech and pharma companies in the rare disease niche. Through the Company's Site Management model and Study Physician Team Support, PSR locates patients around the globe and works with investigative sites to create the best designs to maximise clinical programmes and registries.

Communities

Giving back to the community and addressing their needs is a key priority for the Company. The Company believes that the progress of the local community should go hand-in-hand with the growth of the Company and supports this through activities such as graduate placements through local universities, helping relevant local charities and social initiatives, voluntarily presenting and teaching at clinical research and pharmacovigilance conferences and symposia, engaging with relevant professional societies, and other forums and contributing when possible to research and educational programmes aimed at improving the scientific basis and application of clinical research and pharmacovigilance. In addition to this, the Company is proud to support employee-led initiatives.

Stakeholder engagement

We believe that, to maximise value and secure our long term success, we must listen to and engage with our key stakeholders.

Who are our main stakeholders	Their material issues	How we engage
Clients	• Regulatory compliance • Professional expertise and service offering • Open and fair business agreements	Ergomed has a Regulatory Group with experienced leadership who engage with Regulatory bodies in all the relevant countries as well as aligned support from our Quality Assurance group to ensure compliance. Our team is built up of the experienced relevant industry experts to support our core services of clinical trials and pharmacovigilance services. We have a specialised contracts and legal team focused on meeting regulatory and industry standards.
Colleagues	• Opportunities for development, progression and to make a difference • Diversity and inclusion • Positive work environment and flexible working patterns	We encourage effective, professional, respectful and open communication at all levels both written and oral, in our offices globally. This is done both formally, through performance reviews and 360 feedback cycles, and informally through discussion forums and town hall meetings.
Suppliers	• Long term partnerships • Open and fair business agreements • Financial stability	We have stable relationships with suppliers for core service provisions that are based on shared values and financial stability. We regularly engage with suppliers and ensure that we pay our suppliers to agreed terms.
Regulatory and government bodies	• Compliance • Openness and transparency • Proactive engagement with new regulations	We work in a strictly controlled Regulatory environment and our specialist teams, systems and processes are designed to meet these requirements. We work directly with the relevant authorities to ensure all relevant information is shared in a timely manner. Our team maintains an ongoing database as well as specialist information departments collating up to date regulatory information.
Patients and Communities	• Safety • Security and privacy of data • Engagement and compassion	Our staff, systems and processes are focused on ensuring patient safety as our number one priority. Our legal and operations team are regularly implementing processes and continually monitoring our compliance with data privacy. We are particularly focused in patient engagement in support for our clinical trials including a patient engagement officer.
Investors	• Financial performance • Alignment of long term goals • Regulatory compliance and good governance	We regularly engage with shareholders through a variety of channels including: public announcements and press releases using the London Stock Exchange's Regulatory News Service ('RNS'), analyst briefings, face-to-face meetings with significant institutional shareholders, presentations at investor conferences, press interviews and our website. See 'Application of QCA Code' page 32 to 34.

Principal risks and uncertainties

There are a number of risks and uncertainties that have the potential to impact the execution of the Group's strategy, as well as its short-term results. The Board has identified the following principal risks and uncertainties along with mitigation actions being pursued.

The uncertainties presented as a result of the COVID-19 virus outbreak are continuing to evolve rapidly. Although these are not addressed in the table below, the Board continues to monitor the situation closely. Further information on the impact of the COVID-19 virus outbreak on the Group are included in the Executive Chairman's statement on pages 4 to 6.

Trend direction:

↑ Increased risk ↔ No change ↓ Decreased risk + New risk

Strategic priorities	Movement	Mitigation of risk
Competition Ergomed's competitors and potential competitors include companies which may have greater resources. The ability of Ergomed to win new or repeat business from existing customers is a key driver of the Group's growth strategy and financial stability. This relies upon the business development function continuing to deliver new, profitable contracts.	↓	Simplified strategy to focus on CRO and PV service sectors and foster cross development opportunities. Appointment of a Chief Commercial Officer to bolster and lead the business development team. Drive to provide high quality services at competitive rates, drawing upon our differentiators in the marketplace, as demonstrated by the Queen's Award for Enterprise 2019.
Cancellation or delay of clinical trials or projects by customers Customers of Ergomed may cancel or delay proposed clinical trials or pharmacovigilance projects without notice or upon short notice. The cancellation or delay of a clinical trial may result in Ergomed having underutilised staff resource and reduced profitability.	↔	The terms of Ergomed's contracts seek to mitigate the impact of cancellation or delay by structuring standard study close down procedures with the customer. In addition, pharmacovigilance contracts contain provisions for transition of services.
Dependency on pharmaceutical industry Ergomed's current revenue results from expenditure by pharmaceutical and biotech businesses on research and development and regulatory compliance. Ergomed's business could be negatively impacted if customers or potential customers in this sector were to: • reduce such expenditure, in particular by reducing the numbers of drugs put into clinical trials; • seek to retain work in-house rather than outsourcing it; and/or • consolidate through the vertical integration of their businesses and choose not to engage Ergomed.	↓	Ergomed actively engages with its customers to protect its existing relationships and seeks to increase the diversification of its customer base through diversification of: • sector – pharmaceutical, biotech and generics customers; • geography – USA and European; and • product development stage – pre-product approval clinical trials, post-approval trials and pharmacovigilance services.
Legislation and regulation of the pharmaceutical and biotechnology industries An element of Ergomed's competitive advantage stems from its ability to navigate the regulated medicinal products approval processes and pharmacovigilance regulations which are expensive and complex. If there were to be substantial relaxation of such processes, cross-jurisdictional harmonisation or simplification of the legislative or regulatory framework, this could reduce the barriers to entry which prospective competitors face, thereby eroding the Group's competitive advantage.	↔	Ergomed is a strong advocate of rigorous Good Clinical Practice ('GCP') guidelines and pharmacovigilance regulation. Our management team includes professionals who are experts in their respective fields and, through industry associations, remain active promoters of regulation.
Quality and third party oversight (TPO) Failure to maintain adequate quality, governance and oversight of internal and third party operations, and failure of third parties to meet their contractual, regulatory, confidentiality or other obligations, could result in key operational licences and regulatory approvals being restricted or revoked. This could adversely affect the Group's growth and profitability strategy. More generally, Ergomed operates in an environment which is subject to detailed and complex regulation.	↓	Ergomed maintains a highly professional Quality Assurance team and self-audit programme which checks on all aspects of compliance on a structured basis. In addition, customers audit Ergomed's compliance on a regular basis.

Information security ('IS') and data privacy The failure to collect, secure, use and destroy personal information in accordance with applicable data privacy laws, including as a result of unauthorised information disclosure, could result in consequences which damage the Group's ability to effectively provide its contracted services, namely: regulatory bans, breach of customer contract, reputational damage, financial fines and liability for damages.	+	Ergomed has robust internal policies and procedures to ensure the protection of personal data and to ensure compliance with data privacy laws and protection from unauthorised access. All employees undergo regular training and procedures are tested to ensure that the safeguards in place are appropriate and robust. The physical and virtual security of information includes controls over: access, availability, transfer and input as well as the separation of data processing for different purposes. We aim to apply industry best practices as part of our data privacy and IS policies, processes and technologies and invest in strategies that are commensurate with the changing nature of the security threat landscape. This includes appropriate levels of insurance including cyber-risk.
United Kingdom's withdrawal from the European Union ('Brexit') The process of the United Kingdom's departure from the European Union ('EU') and the terms of the UK's future relationship with the EU remain uncertain. The Group's parent company and its place of listing are in the United Kingdom and its business in the EU is subject to EU regulation. After Brexit, regulatory or other new barriers to trade may be implemented that may lead to disruption to the Group's business processes and make it less convenient for the Group's customers to contract with its UK entities. Depending on the future regulatory arrangements between the EU and the UK, it may become more difficult for the Group's clients to transfer clinical trial and other personal data to the Group for processing in the UK under the General Data Protection Regulation ('GDPR') than it is at present. It may become more difficult for the Group to recruit EU employees into UK entities after Brexit. Many of the Group's contracts with EU customers are governed by English law and subject to the agreed jurisdiction of the English courts, and it may become more complex to enforce such contracts, should court enforcement be required.	↔	The Group's business is international and it has a strong presence and established trading subsidiaries both in and outside the UK. 80% of Group revenue for the 2019 financial year was derived from markets outside the UK and approximately 90% of the Group's employees are employed outside the UK at the date of this report, including employees engaged in client work, and those providing internal support services. The Group has a thorough understanding of the international regulatory processes relating to its business, enabling it to respond rapidly to local changes in circumstances or events. The Group's regulatory experts have analysed the known effects of Brexit and continue to monitor progress. The Group has prepared for Brexit in line with the guidance published by the Medicines and Healthcare Products Regulatory Authority (UK regulatory authority) and European Medicines Agency (EU regulatory authority). Measures planned by the Group to mitigate the effect of regulatory changes resulting from Brexit include the establishment of Qualified Persons for Pharmacovigilance who reside and operate in the EU and UK respectively, and the use of Ergomed plc's existing Polish subsidiary, Ergomed Sp. z o.o., to act as EU legal representative on clinical trials for CRO clients outside the EU. Well-established procedures are available under the GDPR to permit the transfer of personal data outside the EU which, although they require certain additional administrative steps, will allow continued transfers of data to be made to the Group in the UK in compliance with GDPR requirements.
Access to capital The Group's ability to pursue its growth strategy and meet shareholder expectations may be dependent on its ability to raise capital through debt or equity.	+	In line with Ergomed's growth strategy, during the year the Group was cash generative and has built up a cash and equivalents balance of £14.3 million at the year end. In addition, the Group secured a debt facility of £30 million which, if required, and subject to its terms, could be used to fund future growth through acquisitions or organic means.
Retention of senior and key employees The Group's ability to effectively operate and deliver its strategy is dependent upon the retention of senior and key employees. Loss of these employees can significantly disrupt customer relationships and regulatory compliance. The Group experienced high turnover of Executive and Non-Executive Board members in prior years, however this has now stabilised with a significantly strengthened Board and senior executive team.	+	With the support of senior management and Human Resources, the Remuneration Committee continues to develop its strategy for identifying, retaining and motivating key and senior employees. This is done through a mix of short and longer-term financial and non-financial incentives to ensure that employees are motivated in line with shareholder interests.
Dependence on a limited number of key clients A significant proportion of the Group's revenue is derived from a relatively small number of clients. The percentage of the Group's total revenue generated by the top five clients in the year ended 31 December 2019 was 28% (2018: 40%). The loss of any client which represents a significant proportion of Ergomed's revenue could have a negative impact on operating results and cash flows.	↓	A significant part of the business development team's focus is generation of leads and requests for proposals from new clients to diversify the Company's customer base. The Company's organic growth combined with acquisitions is naturally diluting reliance on relatively few large clients.

Board of Directors

Miroslav Reljanović
Executive Chairman

Experience
Miroslav has held several senior physician appointments in clinical trials as a consultant neurologist and served as a consultant to major international pharmaceutical companies. He introduced the novel Study Site Coordination model as an intrinsic part of the conduct of clinical studies and successfully introduced the first European co-development business model.

In 1997 he founded Ergomed and in 2008 he cofounded PrimeVigilance. Miro led Ergomed through a successful IPO on the AIM market of the London Stock Exchange in July 2014 and since then has led the Group through the subsequent completion of six acquisitions and a secondary offering.

Qualifications
Miroslav is a medical doctor and a board-certified neurologist.

Previous appointments
Miro was previously a physician in a large WHO Collaborating Centre in Zagreb. He is a Director of Asarina Pharma AB (listed on the Nasdaq First North Exchange) and Modus Therapeutics Holding AB.

Committee membership
N

Richard Barfield
Chief Financial Officer

Experience
Richard joined Ergomed in June 2019 and has more than 25 years' experience at Chief Financial Officer level in the healthcare, technology and business services sectors in US multinational companies as well as in UK-listed and PE-backed businesses. His expertise includes turnarounds, fundraisings, acquisitions and disposals, and he has extensive international experience.

Qualifications
Richard is a Chartered Accountant Fellow and holds a bachelor's and a master's degree in modern languages.

Previous appointments
Richard has proven experience within the contract research outsourcing sector, having most recently been Chief Financial Officer at Chiltern International Ltd from July 2013 to March 2018, which was a leading global mid-tier private CRO. Richard has also held roles as Chief Executive Officer, Chairman, and Audit Committee Chairman of UK-listed companies as well as serving as a Board Member of an NHS Foundation Trust.

Lewis Cameron
Chief Operating Officer

Experience
Lewis joined Ergomed in January 2020 and is an experienced senior executive with a proven track record in the global pharmaceutical services sector, specialising in oncology. He has held several senior executive positions with CRO and biotech businesses where he has led successful operational turnarounds, venture capital seed financing and M&A activity.

Qualifications
Lewis holds an MBA and a master's degree in biotechnology.

Previous appointments
Lewis was the Head of Global Clinical Development at Covance, the CRO division of LabCorp from 2017 to 2019. Prior to that, he was the Executive Vice President of Oncology and the General Manager for Central and Eastern Europe and Asia Pacific Regions at Chiltern International from 2014 to 2017. Lewis was CEO of Avillion LLP, a biotech business from 2012 to 2014 and CEO of Clearstone Central Laboratories, a global central lab organisation based in Paris, from January 2010 to July 2011.

Committee key

A Audit & Risk
N Nomination
R Remuneration
Chair

James Esinhart
Non-Executive Director

Experience
James is an experienced leader in the clinical research industry with over 30 years' experience working in biopharmaceutical companies, academia, and global clinical research organisations.

Qualifications
James holds a PhD in Biostatistics from Virginia Commonwealth University School of Medicine and a BS in Statistics from Radford University.

Previous appointments
James was previously CEO at Chiltern International, held leadership positions at Charles River International, Inveresk Research, and was an executive and co-founder at PharmaResearch Corporation. He was Assistant Professor at East Carolina University and served on the university's internal review board for human subject research.

Committee membership
R

Ian Johnson
Non-Executive Director

Experience
Ian has spent his business career in life science businesses and was the founder and CEO of Biotrace International PLC, which was a listed company until its sale to 3M in December 2006. In addition to his Non-Executive role with Ergomed PLC Ian is also currently Executive Chairman of Circassia Pharmaceuticals PLC and Non-Executive Director of Redcentric PLC.

Qualifications
Ian studied at Cardiff University obtaining a BSc and MSc in Microbiology. He is a chartered biologist, and a member of the Institute of Biology and the Institute of Directors.

Previous appointments
Most recently Ian was Executive Chairman of Bioquell PLC, which was acquired by Ecolab Inc. in January 2019. Prior to this Ian was Non-executive Chairman of Quantum Pharma PLC, Cyprotex PLC and Celsis Group Ltd. He has also served on the boards of various other public and private companies including AIM listed companies, Evans Analytical Group, MyCelx Technologies Corporation and AOI Medical Inc.

Committee membership
A

Rolf Soderstrom
Senior Independent Director

Experience
Rolf has over 30 years' experience in finance and a track record of accelerating the profitable growth of companies and delivering shareholder returns. Rolf has extensive strategic, operational and international experience including M&A, fundraisings and disposals.

Qualifications
Rolf is a Chartered Accountant and holds a bachelor's degree in History from University College London.

Previous appointments
From 2008 to 2018 Rolf was CFO of BTG plc and helped drive the successful transformation of the company into a fully integrated global manufacturing and sales organisation focused on specialist healthcare. Before BTG Rolf was Divisional Finance Director at Cobham Plc from 2004 to 2007 where he was responsible for a portfolio of companies in Europe and the United States and prior to that he was Director of Corporate Finance at Cable & Wireless Plc. He qualified as a chartered accountant at PricewaterhouseCoopers where he worked initially in audit and then in the corporate finance function.

Committee membership
R A N

Michael Spiteri
Non-Executive Director

Experience
Michael has held a number of senior leadership positions in the consulting industry and financial services industry over a 25-year period. He specialises in helping organisations implement technology that transforms their business and operating models and is currently Global COO for Digital, Data and Development in HSBC's Retail Banking and Wealth Management business. Michael brings his extensive experience in technological innovation to help the Board develop Ergomed's business across digital, automation and machine learning.

Qualifications
Michael has a degree in Mechanical Engineering.

Previous appointments
Michael was previously a partner at PwC and held senior leadership positions at Accenture and IBM. He was involved in the early stages of telematics and the development of automation technology and business models in insurance and telecoms.

Committee membership
R N A

Miroslav Reljanović
Executive Chairman

"The Board is committed to continuously raising corporate governance standards and enhancing long-term shareholder value."

Introduction

The Board is committed to maintaining the highest standards of corporate governance, striving at all times for effective and open communication, transparency and integrity. The Board continuously and diligently works to manage Ergomed in an efficient and entrepreneurial manner for the benefit of shareholders over the longer term.

As a public company with shares listed on AIM (LSE: ERGO), Ergomed has adopted the 2018 Quoted Companies Alliance's Corporate Governance Code ('QCA Code'). In my capacity as Executive Chairman, I have assumed responsibility for, and I am committed to, ensuring that the Company has appropriate corporate governance standards in place and that these requirements are followed and applied.

The corporate governance arrangements that the Board has adopted are designed to ensure not only that the Company delivers long-term value to its shareholders, but also that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

The Board recognises that its decisions regarding strategy and risk, and the way they are communicated, will affect the corporate culture of the Group as a whole, the engagement of employees and, inevitably, the performance of the Group. Each Director therefore places great importance on demonstrating ethical behaviours, both during the decision making process, and in the implementation and communication of strategic decisions.

In this Corporate Governance Report we aim to explain how the Board discharges its governance responsibilities.

Governance focus areas

Key areas of Governance focus in the year, and since the year end:

- Appointment of Executive and Non-Executive Directors with relevant industry experience and a strong performance record;
- Review and focus the Group's strategy on the CRO and PV service business sectors;
- Oversee and monitor the adoption of key financial standards (IFRS 16);
- Committed to the acquisition and integration of Ashfield Pharmacovigilance;
- Approved the sourcing and securing of debt financing;
- Instigated review of Risk, Compliance and Corporate Governance processes; and
- Appointment of Rolf Soderstrom as Senior Independent Director.

The Board of Directors

The Board currently consists of three Executive Directors and four Non-Executive Directors. Biographical information for each Director and their contribution to the business is set out on pages 28 to 29. The Board considers James Esinhart, Rolf Soderstrom and Michael Spiteri to be independent. Rolf Soderstrom was appointed as Senior Independent Director on 11 March 2020.

Meetings held during the year to 31 December 2019

The Board meets regularly throughout the year to consider strategy, performance and the framework of internal controls. Directors are expected to attend all meetings of the Board and the Committees on which they sit, and to devote sufficient time to the Group's affairs to enable them to fulfil their duties as Directors. In the event that Directors are unable to attend a meeting, their comments on the matters to be considered at the meeting are discussed in advance with the Chairman so that their contribution can be included in the wider Board discussion.

The Chief Commercial Officer and key management personnel are invited to attend Board and Committee meetings as appropriate.

The table below shows the number of scheduled Board and Committee meetings held during the year to 31 December 2019 and the attendance of individual Directors at those meetings. There were further ad hoc meetings held when required.

		Number of meetings			
Name	Notes	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee[1]
Number of meetings		7	3	2	0
Executive Directors					
Miroslav Reljanović		7/7	–	–	–
Stephen Stamp	Resigned 22 January 2019	1/1	–	–	–
Stuart Jackson	Resigned 18 June 2019	4/4	–	–	–
Jan Petracek	Resigned 17 September 2019	4/4	–	–	–
Richard Barfield	Appointed 18 June 2019	4/4	–	–	–
Lewis Cameron	Appointed after the year end on 20 January 2020	–	–	–	–
Non-Executive Directors					
Peter George	Resigned on 24 September 2019	4/5	1/2	2/2	–
Christopher Collins	Passed away and was removed as a Director on 8 March 2019	0/2	–	1/2	–
Michael Spiteri		6/7	2/3	2/2	–
James Esinhart	Appointed 19 July 2019. Appointed to Remuneration Committee 12 August 2019.	3/3	–	–	–
Rolf Soderstrom	Appointed 19 July 2019. Appointed to Remuneration Committee 12 August 2019. Appointed to Audit and Risk Committee 19 July 2019. Appointed to Nomination Committee 2 October 2019.	3/3	2/2	–	–
Ian Johnson	Appointed 19 August 2019. Appointed to Audit and Risk Committee 18 September 2019.	3/3	1/1	–	–

1. Board appointments during the year to 31 December 2019 were reviewed and approved at Board level.

Board Committees

The Board delegates certain items of business to its Committees. At the year-end, these were the Audit and Risk, Nomination and Remuneration Committees. Each Committee meets at least twice a year and operates under clear terms of reference.

Audit and Risk Committee

The Audit and Risk Committee has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Company is properly measured and reported on, reviewing reports from the Company's auditors relating to the Company's accounting and internal controls and monitoring the primary risks and uncertainties and the potential impact they have on the Group executing its strategy.

The Audit and Risk Committee is also responsible for ensuring that the Company is complying with the AIM rules and reviewing and monitoring the Company's corporate governance practices.

The Audit Committee is composed of three Non-Executive Directors, the majority of whom are independent. It was chaired by Peter George until his resignation as a Director in September 2019, when Rolf Soderstrom, who is considered by the Board to be independent, was appointed as Chair. Michael Spiteri and Ian Johnson are the other current members of the Committee. Chris Collins was also a member during the year until his death in March 2019.

The Audit and Risk Committee's report for the 2019 financial year is set out on page 35.

Nomination Committee

The Nomination Committee identifies and nominates for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Miroslav Reljanović is the Chair of the Nomination Committee. Michael Spiteri and Rolf Soderstrom are the other members of the Committee. Chris Collins was also a member of the Committee during the year until his death in March 2019.

Given the strengthening of the Board by virtue of a number of new Director appointments during the year, it was considered appropriate for the entire Board to identify, consider and, if thought fit, approve such appointments. The Committee did not, therefore, formally meet during the year, but continues to monitor Board structure and succession plans for both the Board and senior management below Board level. The Committee also considers potential conflicts of interest relating to non-independent members of the Board.

Remuneration Committee

The Remuneration Committee reviews the performance of the Executive Directors and determines their terms and conditions of service, including their remuneration and the grant of options, to ensure they are aligned to the execution of Group strategy, and effective risk management, for the medium to long term. The Committee does so within its formal terms of reference and having due regard to the interests of shareholders.

Michael Spiteri was Chair of the Remuneration Committee during the year. Rolf Soderstrom and James Esinhart were appointed as members of the Committee during the year. Peter George was a member of the Committee during the year until his resignation in September 2019 and Chris Collins was a member of the Committee during the year until his death in March 2019.

The Remuneration Committee's report for the 2019 financial year is set out on pages 36 to 38.

Miroslav Reljanović
Executive Chairman

Application of QCA Code

The QCA Code sets out 10 principles which should be applied by companies which have adopted it as their corporate governance code. These are listed below, together with a short explanation of how the Company applies them.

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

The Board is committed to delivering long-term value for Ergomed's shareholders.

Ergomed's strategy and business model have been worked on extensively by the Board, taking into account investors' feedback and expectations. Our strategy is explained fully within the Strategic Report on pages 1 to 27 of the 2019 Annual Report.

Principle 2

Seek to understand and meet shareholder needs and expectations

The Board attaches great importance to communication with all Ergomed's shareholders, both institutional and private.

Active relations and communications with our shareholders, and understanding their views, needs, expectations and feedback, are vital to our activities as is gaining the shareholders' understanding of the Company's circumstances, plans and, where relevant, constraints.

We regularly communicate with our shareholders through a variety of channels: public announcements and press releases using the London Stock Exchange's Regulatory Information News Service ('RNS'), analyst briefings, face-to-face meetings with significant institutional shareholders, presentations at investor conferences and press interviews.

We also continually update our website (www.ergomedplc.com). This is the primary source of information about the Group, giving an overview of activities and detailing all recent announcements, significant developments, presentations and our Annual Reports.

We seek feedback from investors through direct interaction between the Executive Chairman and Chief Financial Officer at meetings following its interim and final results, and certain other ad hoc meetings that take place during the year. There is also a regular dialogue with shareholders through the medium of the Company's nominated adviser and corporate broker, Numis Securities.

Rolf Soderstrom, was appointed as Senior Independent Director on 11 March 2020, and provides an alternative route of access for communication with the Company by its shareholders.

We encourage all our shareholders to attend our Annual General Meeting, which provides a forum and time for shareholders to meet the Board and ask questions. In addition, the Company seeks to stay abreast of shareholder expectations and reactions through its dedicated investor email address: ir@ergomedplc.com.

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

As a global group of companies, Ergomed has historically placed great importance on understanding and respecting different cultural and social values within the international realm in which it operates. We have adopted policies to encourage an open and transparent corporate culture, including policies addressing anti-slavery, anti-bribery and whistleblowing, and a Supplier Code of Conduct. We initiated a comprehensive review of these policies in the year and will implement the results of this review during 2020.

We recognise the importance of implementing feedback mechanisms to solicit, consider and act upon feedback from stakeholder groups. Further details of our engagement with stakeholders is set out on page 25.

We use LinkedIn, Facebook and Twitter to encourage dialogue with all stakeholders, including clients and employees. We post on topics such as company news, exhibitions we are attending, webinars we are involved in, company and employee achievements and corporate social responsibility activities. Our individual offices support a variety of local charities, with a focus on those related to healthcare.

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Details of the principal risks and uncertainties which the Board considers to be associated with the Group's activities, together with the mitigation actions which are being pursued in relation to them, are set out on pages 26 to 27 of the 2019 Annual Report.

Internal control and risk management

The Board acknowledges its responsibility for safeguarding shareholders' investments and the Group's assets. In applying this principle, the Board recognises that it has overall responsibility for ensuring that the Group maintains a system of internal control that provides it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the systems of internal control and management continues to invest significant time in further developing the Group's internal control environment. The key features of the internal control system are described below:

- control procedures and environment – the Group has an organisational structure with clearly drawn lines of accountability and authority. Employees are required to follow well-defined internal procedures and policies appropriate to the business and their position within the business and management promotes the highest levels of professionalism and ethical standards;
- identification and evaluation of risks – the Group employs Executive Directors and senior management with the appropriate knowledge and experience required for a medical and scientific research group. Identification and evaluation of risk is a continuous process, running in parallel with the significant organic growth of the Group. As a Group, we assess risk on an ongoing basis, and specifically, when assessing contracts, projects or directions. We consider that there is room for improvement in the creation and implementation of risk management policies, and this is a key area of future development;

- financial information – the Group prepares detailed budgets and working capital forecasts annually. These are based upon the strategy of the Group and are approved by the Board. Detailed management accounts and working capital re-forecasts are reviewed at least quarterly for each Board meeting, with any variances from budget investigated thoroughly and a summary provided to the Board. Annual Reports and any financial information transmitted to shareholders are reviewed by the Audit and Risk Committee prior to approval by the Board; and
- monitoring – the Board monitors the activities of the Group through the provision of reports from various areas of the business and contained in the Board papers, and those prepared for its committees. The Board has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Group's operations or undertakings. In addition, the Directors have direct access to the advice and services of the General Counsel, Company Secretary and Chief Financial Officer.

The Audit and Risk Committee instigated a review of the Group's risk, internal controls and corporate governance process during 2019, which is ongoing. The result and recommendations of this review will be considered and implemented throughout 2020.

The Board regularly considers the need for the requirement of an internal audit function. However, given the Group's relatively small size and level of complexity, the Board does not consider it either necessary or practical at present to have its own internal audit function.

Principle 5

Maintain the Board as a well-functioning, balanced team led by the Chair

The Board is responsible for taking all major strategic decisions and addressing any significant operational matters. In addition, the Board reviews the risk profile of the Group and ensures that an adequate system of internal control is in place. A schedule of matters reserved for the Board has been adopted and is regularly reviewed.

In January 2019, Miroslav Reljanović was elected Executive Chairman of the Board, following the resignation for health reasons of the CEO, Stephen Stamp. Dr Reljanović founded the Company as a CRO in 1997 and cofounded PrimeVigilance in 2008. He was CEO of the Company until June 2018, when he became Executive Vice-Chairman. With his thorough knowledge and experience of the Group and the market in which it operates, the Board decided that it was in the best interests of the Group for Dr Reljanović to reassume full executive responsibility for the Company. The Board recognises that best practice in corporate governance is to ensure a clear division of responsibilities between the roles of Chair and Chief Executive Officer, but given the changes to the Board during 2019, it was considered that Miroslav Reljanović's continued position as Executive Chairman was in the best interests of the Company, for the purposes of continuity and consistency. The Board continues to monitor investor feedback with regard to the need for a CEO appointment on an ongoing basis.

During the first quarter of 2019, Stephen Stamp (CEO) and Stuart Jackson (CFO) resigned as Directors and Chris Collins (Non-Executive Director) passed away.

The Board welcomed the appointment of Roy Ovel to the senior management team as Chief Commercial Officer in April 2019 and Richard Barfield as Chief Financial Officer and Executive Director in June 2019.

James Esinhart, Rolf Soderstrom and Ian Johnson were appointed as Non-Executive Directors in the third quarter of 2019 to bolster the Board's breadth and depth of experience. Peter George resigned as Non-Executive Director in September 2019.

Following the year-end, Lewis Cameron was appointed as Chief Operating Officer in January 2020.

The Board considers James Esinhart, Rolf Soderstrom and Michael Spiteri to be independent.

The biographies of all current serving Directors can be found on pages 28 to 29.

The Board meets face to face at least five times a year, and it is usual for all Directors to attend. In addition, the Board has telephone conferences or communicates via email on material matters that may arise throughout the year. The Board also meets for Strategic Meetings once to twice a year.

Board meetings typically take half a day with one day of preparation time per meeting. Non-Executive Directors are required to spend a minimum of 12 days per year, and such additional time as is necessary, on Company business (including attendance at Board meetings), and Executive Directors are full-time employees. The table on page 31 of the 2019 Annual Report shows the number of scheduled Board and Board Committee meetings held during the year to 31 December 2019 and the attendance of individual Directors at those meetings.

Ergomed's General Counsel and Company Secretary attend all Board meetings and assist Directors with any legal or administrative issues arising.

Principle 6

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

During 2019 the collective experience, skills and capabilities of the Board was significantly enhanced through the appointment of Rolf Soderstrom, James Esinhart and Ian Johnson as Non-Executive Directors, and Richard Barfield as Chief Financial Officer. The Board was further bolstered by the appointment of Lewis Cameron post year end. We firmly believe that Ergomed's transformed Board provides the right mix of skills and capabilities to support our focused strategy to become a leading global provider of specialist services to the pharmaceutical industry.

A summary of the skills and experience of each current Board member is included in the biographies on pages 28 and 29 and on the 'Investors' section of the Company's website at www.ergomedplc.com.

The Directors collectively bring a broad range of business experience and skills to the Board, resulting in a wide variety of perspectives being represented in Board discussions.

The Board is drawn from an international background, representing the international nature of the Group, and many clients' businesses. The Directors are mindful of the need to have the right diversity and balance on the Board, and across our wider employee base, and will be adopting a policy to promote this requirement. The Board recognises that diversity is an important factor in ensuring stakeholder representation and promoting long term shareholder value and supports an improved gender and cultural balance as an important goal.

Directors are subject to election by shareholders at the first Annual General Meeting ('AGM') following their initial appointment, and at each AGM one-third of the Directors shall retire by rotation and put themselves forward for re-election. All Directors must retire by rotation and put themselves forward for re-election at least once every three years.

Individual Directors attend ad hoc training, seminars and conferences relevant to their specific skills and roles within the Board. Executive Directors regularly attend industry seminars and conferences in furtherance of their experience, skills and industry awareness, and in order to consolidate relations with our stakeholders. New Directors attend induction training to familiarise themselves with their duties and responsibilities as Directors of an AIM listed company.

Principle 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Evaluation of Board performance has been carried out on an informal basis to date, and the Board discusses its performance from time to time. These discussions are open and aimed at achieving improvement whenever possible. The Board also considers the tenure of Board members and considers succession planning.

The Board has plans in place to enhance the formalisation of the criteria and processes of these evaluations and to seek external and independent evaluation expertise where possible.

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

Ergomed has been international from its very beginning and has always appreciated and accommodated different cultural experiences and values. Directors and employees of the Group are accustomed to collaborating in the interests of our business, whilst providing space for cultural differences. The Board promotes the involvement of local managers throughout the Group to integrate our core values with local cultural sensitivities.

Each Director places great importance on demonstrating ethical behaviours, both during the decision-making process, and in the implementation and communication of strategic decisions. Senior managers are also encouraged to lead by example in the promotion of ethical values and behaviours.

Our corporate culture is also based around our need to adhere to quality standards on our clients' behalf, and this focus on quality standards underlies our business processes. As a Group, we are subject to numerous external client and regulatory audits as well as internal audits of our operations and vendors.

Our Supplier Code of Conduct was adopted in late 2018, and during 2020 we intend to adopt and implement revised human resource and corporate policies which promote best practice behaviours and align policies throughout the Group.

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Further details on our governance structure and the role of our Board Committees are set out on pages 30 to 31 and in the 'Investors' section of our website at www.ergomedplc.com.

The Board meets regularly throughout the year to consider strategy, performance and the framework of internal controls. A scheduled meeting calendar is arranged as far in advance as possible, and ad hoc meetings are held in person or by telephone when it is necessary for the Board to discuss specific matters outside of scheduled meetings.

To enable the Board to discharge its duties, the Directors receive appropriate and timely information, including monthly management reports. A formal agenda and briefing papers are distributed to the Directors in advance of each Board meeting. The Directors have access to the advice and services of the General Counsel and Company Secretary, who are responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with, and to the Chief Financial Officer. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. The Board sets direction for the Company through a formal schedule of matters reserved for its decision, which is regularly reviewed.

Principle 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board attaches great importance to communication with both institutional and private shareholders.

Regular communication is maintained with our shareholders primarily through:

- our Annual General Meeting;
- our investors' dedicated email address: ir@ergomedplc.com;
- our website – www.ergomedplc.com;
- meetings and conversations between the Executive Chairman, Chief Financial Officer and shareholders, both on an ad hoc basis, and following publication of the interim and final results; and
- company announcements via RNS.

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders, especially considering the long-term nature of the business. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and give feedback regularly throughout the year. With private shareholders this is not always practical and the Board uses the Company's Annual General Meeting as its main opportunity to meet private shareholders. A presentation on the activities of the Group is given at each AGM, and following the presentation there is an opportunity for shareholders to ask questions of Directors on a formal and informal basis, and to discuss the development of the business.

Our Group website (www.ergomedplc.com) sets out details of the Group and its activities, regulatory announcements and company press releases, Annual Reports, half-year reports, notices of general meetings and information required by the AIM Rules for companies and the QCA Code. The 'Investors' section of the Group website includes a dedicated 'Corporate Governance' section, where our annual Corporate Governance Statements can be found.

We also utilise social and corporate media platforms such as LinkedIn, Facebook and Twitter to communicate with our stakeholders, including clients and employees, on topics such as company news, exhibitions we are attending, webinars we are involved in, company and employee achievements and corporate social responsibility activities.

Ergomed's AGM will be held on 10 June 2020 and I very much look forward to meeting shareholders who are able to attend. The meeting will give investors an opportunity to meet the Board personally and ask questions about the Group's activities.

Miroslav Reljanović
Executive Chairman
24 March 2020

Audit and Risk Committee report

Rolf Soderstrom
Chair of the Audit and Risk Committee

"The Audit and Risk Committee satisfies itself as to the integrity of the Group's financial statements and other formal announcements relating to the Group's financial performance and compliance with accounting standards, regulations and rules."

The Audit Committee's role is to assist the Board in its oversight of the financial stewardship of the Group.

Membership of the Audit and Risk Committee comprises entirely Non-Executive Directors of the Company, with myself as Chair, and Ian Johnson and Michael Spiteri as the other members.

Details of the qualifications of the Committee members are set out on pages 28 and 29.

Chris Collins was Chair of the Committee during the 2019 financial year until he passed away in March 2019. I would like to express my sincere condolences to his family.

After the passing of Chris Collins, Peter George served as Committee Chair until his resignation in September 2019. I was appointed to the Committee in August 2019, when I also accepted the position as Chair. Ian Johnson was appointed to the Committee on 18 September 2019.

At the invitation of the Committee, the external auditor, Chief Executive Officer and Chief Financial Officer may attend meetings along with other senior management as appropriate.

Details of the attendance of Committee members at Committee meetings are set out on page 31.

The Audit and Risk Committee meets at least twice each year and may meet at other times during the year, as required. During the 2019 financial year there were three meetings of the Committee.

The Audit and Risk Committee's main responsibilities include:

- to satisfy itself as to the integrity of the financial statements and other formal announcements relating to the Group's financial performance, ensuring compliance with applicable accounting standards, regulations and rules;
- to review and approve any changes to accounting policies and significant reporting matters, estimates and judgements they contain;
- to monitor and review the effectiveness of the Group's internal financial controls and risk management policies and systems and to monitor and review the going concern status of the Group. A summary of the principle risks and mitigations are set out on pages 26 and 27;
- to regularly consider the need for the requirement of an internal audit function;
- to consider the Group's whistleblowing procedures to ensure that employees can raise concerns, in confidence, about possible wrongdoing or malpractice;
- to satisfy itself of the independence and effectiveness of the external auditor, and to make recommendations to the Board in relation to the appointment and remuneration of the external auditor, and policy relating to their non-audit services; and
- to ensure that the audit services contract is put out to tender at least once every ten years. The Company's current auditor, KPMG, were first appointed at the Company's AGM held on 12 June 2018.

Activities during the year

- Reviewed the annual and half year financial reports and related statements;
- Discussed the key findings of the external auditors on the interim and annual financial statements;
- Considered significant accounting judgments, in particular:
  - IFRS 15 – Revenue from contracts with customers,
  - IFRS 16 – Lease,
  - Carrying value of goodwill, intangible assets and co-development contracts,
  - Review of support of the going concern assumption;
- Instigated review of the Risk, internal controls, Compliance and Corporate Governance processes;
- Instigated teaching session for all Directors on the Group's financial reporting;
- Adopted annual standing agenda, taking into account the recommendations of the QCA Audit Committee Guide;
- Approved the scope of the external audit plan and audit fees; and
- Reviewed the objectivity and independence of the external auditor, KPMG, if and when providing non-audit services.

Rolf Soderstrom
Chair of the Audit and Risk Committee

Michael Spiteri
Chair of the Remuneration Committee

"The Group's remuneration policy is designed to incentivise the achievement of the Group's strategy and the delivery of sustainable long-term performance by the Group."

Remuneration Committee governance

The Remuneration Committee's role is to ensure remuneration arrangements for the Group's Executive Directors and employees are aligned to the execution of Group strategy, and effective risk management, for the medium to long term.

The Remuneration Committee currently consists of myself (Chair), Rolf Soderstrom and James Esinhart, being all the Company's independent Non-Executive Directors. I became a member and Chair of the Remuneration Committee on 5 December 2019.

Details of the qualifications of the Committee members are set out on pages 28 and 29.

Chris Collins was a member of the Committee during the 2019 financial year until his death in March 2019. I would like to take this opportunity to thank Chris for his significant contribution to the work of the Committee and Ergomed and pass on my condolences to his family.

Peter George was a member of the Committee during the 2019 financial year until his resignation in September 2019.

Details of the attendance of Committee members at Committee meetings are set out on page 31.

The Remuneration Committee meets at least twice a year, and may meet at other times during the year, as required. During the 2019 financial year there were two meetings of the Remuneration Committee. No Director is involved in any decisions relating to his own remuneration.

The Remuneration Committee's primary responsibilities are:
- reviewing the ongoing appropriateness and effectiveness of the remuneration policy;
- determining and recommending to the Board the remuneration package of Executive Directors and the Company's Chairman;
- recommending to the Board and monitoring the level and structure of remuneration for senior management;
- approving the design of, and determining targets for, any performance related pay schemes and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans and determining each year whether awards will be made; and
- reviewing payments made on termination.

The Remuneration Committee report has been split into the following three sections:
- a summary of the work completed in the year;
- the remuneration policy overview which sets out the Group's approach to Directors' remuneration; and
- the annual report on remuneration.

Summary of work completed by the Committee in the year

During the year the Committee's key activities included:
- considering and agreeing the annual salary increase and bonus award;
- agreeing Long Term Incentive Plan ('LTIP') awards; and
- considering and approving remuneration packages for Directors and senior managers.

Remuneration policy overview

The Remuneration Committee has established a policy which enables the Group to retain and motivate the Executive Directors and senior management appropriately while still maintaining a strong 'pay-for-performance' culture within the Group. The remuneration policy is reviewed by the Remuneration Committee on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

The aim of the remuneration policy is to encourage, retain and reward superior performance by the Executive Directors and senior management, with performance being measured by reference to the achievement of corporate goals, strong financial performance and the delivery of value to shareholders.

The policy is designed to offer rewards that:
- enable the Group to attract and retain the management talent it needs to ensure its success;
- incentivise the achievement of the Group's strategy and the delivery of sustainable long-term performance of the Group by the executives; and
- have flexibility to accommodate the changing needs of the Group as it grows, and as its strategy evolves.

Remuneration levels are benchmarked against a subset of companies in the UK life sciences and biotechnology sectors with the aim of achieving the following:
- base salary between average and upper quartile;
- performance-based bonus between average and upper quartile;
- share incentives industry average; and
- total compensation between average and upper quartile.

Base salary
Base salaries are generally reviewed annually and effective from the beginning of March or April, depending on the Group company. The Remuneration Committee seeks to assess the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary, based on a number of factors, including market rates and benchmarking to peers, as well as the individual Director's experience, responsibilities and performance.

Performance related annual bonus
Annual bonuses are awarded against achieving both corporate and individual performance targets. Typically, the majority of the bonus will be based on a balanced scorecard reflecting delivery against key commercial, technical, operational and financial deliverables. The Committee will therefore vary the specific measures and targets each year where required to ensure that they reflect the key financial and strategic priorities for the Group in a given year.

The maximum recommended bonus that can be earned by an Executive Director for the 2019 and 2020 financial year is 75% of base salary.

The Remuneration Committee reviewed the achievements of Miroslav Reljanović, Executive Chairman, and Richard Barfield, CFO, against their targets for the 2019 financial year and awarded bonuses in the amounts of £100,000 and £75,000 respectively. Both Dr Reljanović and Mr Barfield elected to forgo these payments in light of the uncertain circumstances relating to the COVID-19 virus outbreak. The COO was appointed after the year end and is not eligible to receive a bonus for that year.

Pension and other benefits
The Group pays an employer pension contribution of 10% of base salary to personal pension schemes established by the Executive Directors. Its pension provision for employees varies in accordance with local law and practice. It does not operate any defined benefit pension schemes.

Each jurisdiction gives access to benefits which are appropriate to secure and retain the best talent available in the market. Typically, these could include life assurance and private medical insurance.

Share options
The Company issues share options to Executive Directors and employees to reward performance, to encourage retention and to align medium and long-term objectives with those of shareholders, being Total Shareholder Return.

Ergomed has established three share option schemes:
- the Ergomed plc Long Term Incentive Plan;
- the Unapproved Executive Share Option Scheme 2007 (options are no longer issued under this scheme); and
- the Stahel Option Agreement (options are no longer issued under this scheme).

In addition, certain Executive Directors and employees hold options over shares held by Miroslav Reljanović.

Executive Director service agreements
All Executive Directors have service agreements that terminate on six months' notice.

Non-Executive Directors
The Non-Executive Directors are paid fees of £50,000 each annually and fees are designed to attract and retain individuals who have the expertise, responsibility and the time commitment to be able to contribute to an effective Board and deliver long-term sustainable shareholder value. The Chair of the Remuneration Committee, Audit and Risk Committee and the Senior Independent Director receive additional fees of £10,000 each annually in recognition of their additional responsibility and time commitment. The Group reimburses Non-Executive Directors for reasonable expenses incurred such as travel and hotel accommodation.

The Non-Executive Directors do not participate in the Group's pension, bonus or option schemes.

All Non-Executive Directors have letters of engagement that terminate on three months' notice.

Remuneration Committee report continued

Annual report on remuneration – AUDITED

The Directors received the following remuneration during the year:

£		Salary/fee	Benefits	Annual bonus[2]	Pension	Compensation for loss of office	Total 2019	Total 2018
Executive								
Stephen Stamp	Resigned 22 January 2019	10,349	–	–	–	–	**10,349**	210,434
Miroslav Reljanović[1]		207,548	6,608	–	–	–	**214,156**	151,491
Stuart Jackson	Resigned 18 June 2019	93,333	–	–	–	–	**93,333**	99,462
Richard Barfield	Appointed 18 June 2019	134,375	14,209	–	–	–	**148,584**	–
Andrew Mackie	Resigned 1 October 2018	–	–	–	–	–	**–**	165,904
Jan Petracek	Resigned 17 September 2019	177,065	1,709	–	644	212,500	**391,918**	203,733
Non-Executive								
Peter George	Resigned 28 September 2019	40,457	–	–	–	–	**40,457**	111,667
Chris Collins	Removed 8 March 2019	9,409	–	–	–	–	**9,409**	42,500
Michael Spiteri		52,884	–	–	–	–	**52,884**	12,500
James Esinhart	Appointed 19 July 2019	37,712	–	–	–	–	**37,712**	–
Rolf Soderstrom	Appointed 19 July 2019	25,448	–	–	–	–	**25,448**	–
Ian Johnson	Appointed 19 August 2019	18,397	–	–	–	–	**18,397**	–

1. Miroslav Reljanović has the occasional use of a Company-owned vehicle.
2. The Remuneration Committee reviewed the achievements of Miroslav Reljanović and Richard Barfield against their targets for the 2019 financial year and awarded bonuses in the amounts of £100,000 and £75,000 respectively. Both Dr Reljanović and Mr Barfield elected to forgo these payments in light of the uncertain circumstances relating to the COVID-19 virus outbreak.

Where relevant, amounts are prorated based on the respective Director appointment and termination dates.

See note 36 for all related party transactions with Directors of the Company.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary Shares in the Company granted to or held by the Directors. These are disclosed in note 29 of the financial statements.

Amounts payable to the highest paid Director:

	2019 £000s	2018 £000s
Aggregate emoluments	**177**	189
Company contributions to defined contribution pension schemes	**1**	20
Benefits	**2**	1
Compensation for loss of office	**212**	–
	392	210

Directors interest in share options – AUDITED

No Directors exercised share options during the year.

	At 1 January 2019 Number	Granted Number	Exercised Number	Lapsed/ Surrendered Number	At 31 December 2019 Number	Exercise price £	Exercise period
Richard Barfield							
Ergomed plc Long Term Incentive Plan	–	600,000	–	–	600,000	£0.01	Jun-22 – Jun-29
Non-dilutive share options	–	400,000	–	–	400,000	£0.01	Jun-22 – Jun-29
	–	1,000,000	–	–	1,000,000		

Directors' interest in shares

At 31 December 2019, the Directors had the following beneficial interests in the Company's shares:

Directors' interests	Number of shares	Percentage of total issued share capital
Miroslav Reljanović	10,879,297	23.0%
Richard Barfield	100,000	0.2%

Michael Spiteri
Chair of the Remuneration Committee

Directors' report

The Directors present their report and financial statements for the Company and Group for the year ended 31 December 2019.

Principal activities

Ergomed is a global business focused on providing specialised services to the pharmaceutical industry.

Business review, key performance indicators and future developments

The Group's results are set out in the consolidated income statement on page 44 and are explained in the Financial Review on pages 20 and 23. A detailed review of the business, its results and future direction is included in the Operational Review on pages 10 to 19.

The Directors continue to monitor developments in respect of the UK's withdrawal from the European Union ('EU') and the impact this may have on the Group. A detailed explanation of the risks and uncertainties and mitigating actions the Group has taken are set out on pages 26 and 27.

Research and development

The expenditure on Research and Development included in the income statement in the year has reduced from £1,578,000 in 2018 to £545,000 in 2019. This is primarily driven by the reduction in co-development activities undertaken by the Group, in particular, the wind down of co-development costs in relation to Haemostatix.

The Group continues to invest in software development which has given rise to the addition of £604,000 (2018: £753,000) which has been capitalised as an intangible asset.

Further details regarding the Group's Research and Development activities can be found in the Financial Review on pages 20 to 23.

Financial instruments

At the year end the Group did not have any complex financial instruments. The financial instruments it does have primarily comprise cash and liquid resources and other various short-term assets and liabilities, such as trade receivables and trade payables which are used to manage the Group's operations. Details of the Group's financial instruments can be found in note 30.

Results and dividends

The consolidated results of the Group for the year are set out in the consolidated income statement on page 44.

The Directors do not recommend the payment of a dividend (2018: £nil).

Directors

The Directors of the Company who served during the year and to the date of this report, unless stated, are as follows:

- **Richard Barfield** (Chief Financial Officer) – appointed 18 June 2019
- **Lewis Cameron** (Chief Operating Officer) – appointed 20 January 2020
- **Christopher Collins** (Non-Executive Director) – removed on death on 8 March 2019
- **James Esinhart** (Non-Executive Director) – appointed 19 July 2019
- **Peter George** (Non-Executive Director) – resigned 24 September 2019
- **Stuart Jackson** (Chief Financial Officer) – resigned 18 June 2019
- **Ian Johnson** (Non-Executive Director) – appointed 19 August 2019
- **Jan Petracek** (Chief Operating Officer) – resigned 17 September 2019
- **Miroslav Reljanović** (Executive Chairman)
- **Rolf Soderstrom** (Non-Executive Director) – appointed 19 July 2019
- **Michael Spiteri** (Non-Executive Director)
- **Stephen Stamp** (Chief Executive Officer) – resigned 22 January 2019

The Company maintains liability insurance for its Directors and Officers as permitted by the Companies Act 2006.

Biographical details of the Directors are set out on pages 28 and 29.

The interests of Directors in the shares and share options of the Company are set out in the Remuneration Committee Report on page 38.

Substantial shareholders

The Company has been notified of the following holdings of 3% or more of the 48,157,177 issued ordinary shares of £0.01 each of the Company in February 2020:

Investor	Number of £0.01 shares	Percentage
Miroslav Reljanović	10,879,297	22.6%
BlackRock	4,983,076	10.4%
Harwood Capital	4,695,000	9.8%
Slater Investments	3,603,000	7.5%
GVQ Investment Management	2,461,750	5.1%
Gresham House Asset Management	2,370,022	4.9%
Octopus Investments	1,954,044	4.1%

Corporate governance

The Directors recognise the importance of good corporate governance. The principles of how we have applied the updated 2018 Quoted Companies Alliance Corporate Governance Code (the '2018 QCA Code') and other corporate governance guidelines are set out in the Corporate Governance section of this report, and on the Company's website (www.ergomedplc.com).

Auditor

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Charitable and political contributions

The Group made no charitable or political donations and incurred no political expenditure during the year (2018: £nil).

By order of the Board

Richard Barfield
Chief Financial Officer
24 March 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, Directors' Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. As required by the AIM Rules of the London Stock Exchange, they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law. They have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company Financial Statements, state whether UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they intend either to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

The Directors' Responsibility Statement was approved by the Board on 24 March 2020.

Richard Barfield
Chief Financial Officer

Independent auditor's report

to the members of Ergomed PLC

Our opinion is unmodified

We have audited the financial statements of Ergomed PLC ("the Company") for the year ended 31 December 2019 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group and the related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We are independent of the Group and Parent Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard as applied to a listed entity, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key audit matters: our assessment of risks of material misstatement

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

In the prior year we considered the valuation of Haemostatix goodwill and intangible assets impairment and valuation of Haemostatix contingent consideration, to be a key audit risk. We do not consider these a key audit matters for the current year following the full write down of the carrying value of Haemostatix goodwill, intangible assets and contingent consideration in the prior year annual report.

In arriving at our audit opinion above, the key audit matter, was as follows:

- Revenue recognition: Clinical research organisation ("CRO") contracts

Revenue recognition: Clinical research organisation ("CRO"): £32.8 million (2018 - £26.6million)

Refer to Note 2 Revenue (pages 55 to 57)

The key audit matter	How the matter was addressed in our audit
There is a risk that revenue from Clinical research organisation contracts has not been appropriately recognised in line with the percentage completed, as required by IFRS 15 Revenue from contracts with customers. Clinical research contracts represents one performance obligation and revenue is recognised over time based on the percentage of actual costs incurred divided by the total costs to complete the contract. Revenue recognition requires considerable management estimation and judgement in determining the total costs to complete.	Our audit procedures included, amongst others, testing the design of management's key controls over revenue recognition including those controls over the estimation of the remaining costs to complete the study. For a sample of contracts, we performed tests of detail over the revenue amount recognised. We recalculated the revenue amounts, agreed the transaction price to the signed contracts, validated the reasonableness of key assumptions used by reference to the terms of the applicable contracts and change orders, reconciled the actual costs incurred to the general ledger and agreed the estimated costs to completion to the underlying data such as the contracts and the Company's standard rates. We inquired of project managers, independent of the revenue team, on the status of the project, any on-going concerns, and the expected remaining duration of the project. We found that the revenue recognition policies are in accordance with IFRS as adopted by the European Union and were appropriately applied.

Parent Company key audit matters

The revenue recognition: Clinical research organisation key audit matter above also applies to the parent company level, see group discussion above.

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

The materiality for the Group financial statements as a whole was set at £0.66 million (2018: £0.5 million). This was calculated using a benchmark of Group total revenue (of which it represents 1 per cent). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax. For the Parent Company, materiality was set at £0.4 million (2018: £0.4 million), calculated based on 60% of group materiality.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.033 million, in addition to other audit misstatements below that threshold that we believe warrant reporting on qualitative grounds.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our audit scope on the UK, Croatian, and Czech trading entities. As such Ergomed plc, PrimeVigilance Limited, PSR Group BV, Ergomed Virtuoso Sarl and PrimeVigilance s.r.o. were subject to a full audit. The seven additional components for which specified procedures were performed were chosen in order to provide sufficient coverage over the Group's key financial statement lines. These components were selected for being the next most significant to the Group, in terms of financial performance, risk and geographical location.

We have engaged KPMG Czech Republic as component auditors for the year ended 31 December 2019 to report on PrimeVigilance s.r.o. We, as Group auditor, instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the materiality for components which ranged from £0.033 million to £0.4 million, having regard to the mix of size and risk profile of the Group across the components.

The locations subject to total audit procedures represent the principal business units and account for 99% of the Group's revenue for the year ended 31 December 2019. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

At the Group level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

Other matter – the impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. Some of the uncertainties arising from Brexit may impact certain of the financial statement captions in the financial statements. The preparation of the financial statements on a going concern basis and the financial statement caption containing estimates all depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. No audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or Parent Company or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group and the company's business model, including the impact of Brexit, and analysed how those risks might affect the group and the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent Company will continue in operation.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report other than the financial statements and our auditor's report thereon. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Based solely on our work on the other information;
- we have not identified material misstatements in the directors report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our 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.

John Corrigan (Senior Statutory Auditor)
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place,
St. Stephen's Green,
Dublin 2,
Ireland.
24 March 2020

Consolidated income statement

For the year ended 31 December 2019

	Notes	2019 £000s	2018 £000s
Revenue	2, 3	**68,255**	54,112
Cost of sales		**(29,790)**	(26,788)
Reimbursable expenses		**(8,940)**	(8,070)
Gross profit	3	**29,525**	19,254
Selling, general and administration expenses		**(23,514)**	(28,152)
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses		**(19,578)**	(16,701)
Amortisation of acquired fair valued intangible assets	16	**(671)**	(1,286)
Share-based payment charge	29	**(870)**	(758)
Acquisition-related contingent compensation	6	**(87)**	(972)
Change in the fair value of contingent consideration for acquisitions	26	**512**	233
Acquisition costs	7	**(393)**	(174)
Exceptional items	8	**(2,427)**	(8,494)
Research and development		**(545)**	(1,578)
Net impairment losses on financial and contract assets		**–**	(9)
Other operating income		**51**	39
Operating profit/(loss)		**5,517**	(10,446)
Finance income	9	**28**	23
Change in fair value of equity investments	20	**(286)**	277
Finance costs	10	**(273)**	(622)
Profit/(loss) before taxation	4	**4,986**	(10,768)
Taxation	13	**583**	1,788
Profit/(loss) for the year		**5,569**	(8,980)
Earnings per share	14		
Basic		**12.0p**	(20.0)p
Diluted		**11.5p**	(20.0)p

All activities in the current and prior period relate to continuing operations.

The notes on pages 51 to 94 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 £000s	2018 £000s
Profit/(loss) for the year	**5,569**	(8,980)
Items that may be classified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(208)**	120
Other comprehensive profit/(loss) for the year net of tax	**(208)**	120
Total comprehensive profit/(loss) for the year	**5,361**	(8,860)

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company.

The notes on pages 51 to 94 form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2019

	Notes	2019 £000s	2018 £000s
Non-current assets			
Goodwill	15	**13,380**	13,659
Other intangible assets	16	**2,755**	3,740
Property, plant and equipment	17	**1,110**	1,344
Right-of-use assets	18	**5,171**	–
Equity investments	20	**–**	2,065
Deferred tax asset	13	**2,616**	581
		25,032	21,389
Current assets			
Trade and other receivables	21	**14,359**	16,429
Accrued revenue	2	**3,382**	3,857
Cash and cash equivalents	22	**14,259**	5,189
		32,000	25,475
Total assets		**57,032**	46,864
Current liabilities			
Lease liabilities	23	**(1,718)**	(6)
Trade and other payables	25	**(10,373)**	(10,989)
Deferred consideration	26	**–**	(119)
Deferred revenue	2	**(2,957)**	(5,651)
Current tax liability	13	**(813)**	(422)
		(15,861)	(17,187)
Net current assets		**16,139**	8,288
Non-current liabilities			
Lease liabilities	23	**(3,716)**	–
Provisions	24	**(341)**	(216)
Contingent and deferred consideration	26	**–**	(544)
Deferred tax liability	13	**(294)**	(554)
		(4,351)	(1,314)
Total liabilities		**(20,212)**	(18,501)
Net assets		**36,820**	28,363
Equity			
Share capital	27	**473**	452
Share premium account		**25,790**	24,384
Merger reserve	28	**11,088**	11,088
Share-based payment reserve	28	**4,300**	3,430
Translation reserve	28	**674**	882
Retained earnings		**(5,505)**	(11,873)
Total equity		**36,820**	28,363

The notes on pages 51 to 94 form an integral part of these financial statements.

Approved by the Board of Directors and authorised for issue on 24 March 2020.

Richard Barfield
Chief Financial Officer

Company Registration No. 04081094

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital £000s	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Translation reserve £000s	Retained earnings £000s	Total equity £000s
Balance at 1 January 2018		428	20,616	11,008	2,674	762	(2,877)	32,611
Loss for the year		–	–	–	–	–	(8,980)	(8,980)
Other comprehensive income for the year		–	–	–	–	120	–	120
Total comprehensive loss		–	–	–	–	120	(8,980)	(8,860)
Transactions with shareholders								
Share issue during the year for cash (net of expenses)	27	21	3,768	–	–	–	–	3,789
Share issues during the year for non-cash consideration	27	1	–	80	–	–	–	81
Contingent share issue for non-cash consideration	27	2	–	–	(2)	–	–	–
Share-based payment charge for the year	29	–	–	–	758	–	–	758
Deferred tax debit taken directly to equity	13	–	–	–	–	–	(16)	(16)
Total transactions with shareholders		24	3,768	80	756	–	(16)	4,612
Balance at 31 December 2018		**452**	**24,384**	**11,088**	**3,430**	**882**	**(11,873)**	**28,363**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**5,569**	**5,569**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(208)**	**–**	**(208)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(208)**	**5,569**	**5,361**
Transactions with shareholders								
Share issue during the year for cash	27	**21**	**1,406**	**–**	**–**	**–**	**–**	**1,427**
Share-based payment charge for the year	29	**–**	**–**	**–**	**870**	**–**	**–**	**870**
Deferred tax credit taken directly to equity	13	**–**	**–**	**–**	**–**	**–**	**799**	**799**
Total transactions with shareholders		**21**	**1,406**	**–**	**870**	**–**	**799**	**3,096**
Balance at 31 December 2019		**473**	**25,790**	**11,088**	**4,300**	**674**	**(5,505)**	**36,820**

The notes on pages 51 to 94 form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019

	Notes	2019 £000s	2018 £000s
Cash flows from operating activities			
Profit/(loss) before taxation		**4,986**	(10,768)
Adjustment for:			
Amortisation and depreciation	4	**3,712**	2,534
Impairment of goodwill, intangibles, equity investments and other assets	8	**2,427**	18,222
Loss on disposal of fixed assets	4	**25**	33
Share-based payment charge	29	**870**	758
Change in the fair value of equity investments	20	**286**	(277)
Change in the fair value of contingent consideration for acquisition	26	**(512)**	(11,617)
Finance income	9	**(28)**	(23)
Finance costs	10	**273**	622
Operating cash inflow/(outflow) before changes in working capital and provisions		**12,039**	(516)
Decrease/(increase) in trade, other receivables and accrued revenue		**1,878**	(505)
(Decrease)/increase in trade, other payables and deferred revenue		**(2,380)**	2,757
Increase in provisions	24	**126**	216
Cash generated from operations		**11,663**	1,952
Taxation received		**124**	146
Net cash inflow from operating activities		**11,787**	2,098
Investing activities			
Finance income received		**7**	5
Acquisition of intangible assets	16	**(604)**	(753)
Acquisition of property, plant and equipment	17	**(392)**	(834)
Receipts from sale of property, plant and equipment		**8**	7
Equity investments received in exchange for services provided	20	**(1,904)**	(1,054)
Disposal of equity investments	20	**1,099**	–
Acquisition of subsidiaries, net of cash acquired	31,32	**(115)**	(410)
Acquisition related earn-out paid		**(930)**	(751)
Net cash outflow from investing activities		**(2,831)**	(3,790)
Financing activities			
Issue of new shares	27	**1,427**	3,973
Expenses of fundraising	27	**–**	(183)
Finance costs paid		**–**	(4)
Payment of lease liabilities		**(1,677)**	(12)
Net cash (outflow)/inflow from financing activities		**(250)**	3,774
Net change in cash and cash equivalents		**8,706**	2,082
Effect of foreign currency on cash balances		**364**	(111)
Cash and cash equivalents at start of year		**5,189**	3,218
Cash and cash equivalents at end of year	22	**14,259**	5,189

The notes on pages 51 to 94 form an integral part of these financial statements.

Company balance sheet
As at 31 December 2019

	Note	2019 £000s	2018 £000s
Non-current assets			
Intangible assets	16	**882**	821
Property, plant and equipment	17	**43**	74
Right-of-use assets	18	**113**	–
Equity investments	20	**–**	2,065
Investments in subsidiaries	20	**22,592**	23,585
Deferred tax asset	13	**2,613**	581
		26,243	27,126
Current assets			
Trade and other receivables	21	**4,204**	7,949
Accrued revenue		**3,061**	3,181
Cash and cash equivalents	22	**4,374**	1,250
		11,639	12,380
Total assets		**37,882**	39,506
Current liabilities			
Lease liabilities	23	**(93)**	–
Trade and other payables	25	**(20,529)**	(18,365)
Deferred revenue		**(2,484)**	(4,949)
		(23,106)	(23,314)
Net current liabilities		**(11,467)**	(10,934)
Non-current liabilities			
Lease liabilities	23	**(24)**	–
Contingent consideration	26	**–**	(544)
Deferred tax liability	13	**–**	(12)
		(24)	(556)
Total liabilities		**(23,130)**	(23,870)
Net assets		**14,752**	15,636
Equity			
Share capital	27	**473**	452
Share premium account		**25,790**	24,384
Merger reserve	28	**11,088**	11,088
Share-based payment reserve	28	**4,300**	3,430
Translation reserve	28	**3,447**	4,166
Retained earnings		**(30,346)**	(27,884)
Total equity		**14,752**	15,636

The notes on pages 51 to 94 form an integral part of these financial statements.

Approved by the Board of Directors and authorised for issue on 24 March 2020.

Richard Barfield
Chief Financial Officer

Company Registration No. 04081094

Company statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital £000s	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Translation reserve £000s	Retained earnings £000s	Total equity £000s
Balance at 1 January 2018		428	20,616	11,008	2,674	3,693	(8,039)	30,380
Loss for the year		–	–	–	–	–	(19,829)	(19,829)
Other comprehensive income for the year		–	–	–	–	473	–	473
Total comprehensive loss		–	–	–	–	473	(19,829)	(19,356)
Transactions with shareholders								
Share issue during the year for cash (net of expenses)	27	21	3,768	–	–	–	–	3,789
Share issues during the year for non-cash consideration	27	1	–	80	–	–	–	81
Contingent share issue for non-cash consideration	27	2	–	–	(2)	–	–	–
Share-based payment charge for the year	29	–	–	–	758	–	–	758
Deferred tax debit taken directly to equity	13	–	–	–	–	–	(16)	(16)
Total transactions with shareholders		24	3,768	80	756	–	(16)	4,612
Balance at 31 December 2018		**452**	**24,384**	**11,088**	**3,430**	**4,166**	**(27,884)**	**15,636**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(3,261)**	**(3,261)**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(719)**	**–**	**(719)**
Total comprehensive loss		**–**	**–**	**–**	**–**	**(719)**	**(3,261)**	**(3,980)**
Transactions with shareholders								
Share issue during the year for cash	27	**21**	**1,406**	**–**	**–**	**–**	**–**	**1,427**
Share-based payment charge for the year	29	**–**	**–**	**–**	**870**	**–**	**–**	**870**
Deferred tax credit taken directly to equity	13	**–**	**–**	**–**	**–**	**–**	**799**	**799**
Total transactions with shareholders		**21**	**1,406**	**–**	**870**	**–**	**799**	**3,096**
Balance at 31 December 2019		**473**	**25,790**	**11,088**	**4,300**	**3,447**	**(30,346)**	**14,752**

The notes on pages 51 to 94 form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2019

1. Accounting policies used in the preparation of the financial statements
Ergomed plc (the 'Company') is incorporated and domiciled in the United Kingdom and is listed on the London Stock Exchange Alternative Investment Market ('AIM')(LSE:ERGO). The Company's shares are also traded through the Xetra exchange in Germany (WKN: A117XM). Its registered address is 1 Occam Court, Surrey Research Park, Guildford, Surrey, GU2 7HJ, UK.

Ergomed plc and its wholly owned subsidiaries (together the 'Group') provide a full range of clinical trial planning, management and monitoring, as well as drug safety and medical information services. The Group has a worldwide presence with operations in the UK, Poland, Germany, Bosnia, Croatia, India, Serbia, the Netherlands, the Czech Republic, Russia, Switzerland, Ukraine, Taiwan, the United Arab Emirates and the USA.

The accounting policies applied in the preparation of these financial statements are set out below and at the start of the respective notes to these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

Group financial statements
The consolidated financial statements of the Group have been prepared on the going concern basis in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, the IFRS Interpretations Committee ('IFRS-IC') interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value: certain financial assets and financial liabilities measured at fair value, and liabilities for cash-settled share-based payments.

Company financial statements
The separate financial statements of the Company have been prepared on the going concern basis in accordance with the Financial Reporting Standard 101 Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own income statement.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- Cash flow statement and related notes;
- Certain disclosures regarding revenue
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 Share Based Payments in respect of Group settled share-based payments
- IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- IFRS 7 Financial Instrument Disclosures.

The Company financial statements have been prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value: equity investments (not in subsidiaries).

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and subsidiary entities controlled by the Group.

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Where the Group loses control of a subsidiary, the assets and liabilities are derecognised. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1. Accounting policies used in the preparation of the financial statements continued

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Foreign currency translation

The Company and Group consolidated financial statements are presented in pounds sterling. The functional currency of the Company is the Euro.

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

The assets and liabilities of foreign operations are translated to the Group's presentational currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated on a monthly basis at average exchange rates where these rates approximate to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Group and Company will have sufficient funds to continue in operational existence for the foreseeable future, being a period of no less than 12 months from the date of signing of the financial statements. The Directors have reviewed a cash flow forecast for the period ending 31 December 2020 through to 31 December 2021, which is derived from the 2020 Board approved budget, and a medium-term cash flow forecast through to 31 December 2022, which is an extrapolation of the approved budget under multiple scenarios and growth rates. The 2020 and medium-term forecast represents the Directors' best estimate of the Group's future performance and necessarily includes a number of assumptions, including the level of revenues. The 2020 and medium-term forecast demonstrate that the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements.

On the basis of the above factors and, having made appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Accounting standards adopted in the period

IFRS 16 – Leases

On 1 January 2019 the Group adopted International Financial Reporting Standard 16 ('IFRS 16') – Leases – using the modified retrospective approach. The impact of the adoption and accounting policy for IFRS 16 is set out in note 38.

Disclosures supporting the accounting policies and movement in assets and liabilities in the year can be found in the following notes to the financial statements:

- Right-of-use assets – note 18
- Lease liabilities – note 23

Adopted IFRS not yet applied

The following Adopted IFRSs have been issued, have an effective date for annual periods beginning after 31 December 2019 and have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 – Insurance Contracts
- Amendments to IFRS 3 – Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies in these financial statements, the Directors are required to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations which are dealt with separately below, that the Directors have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Group and Company financial statements.

Critical accounting policy	Description	Notes
Revenue from customer contracts *(Group and Company)*	There are significant management judgements and estimates involved in the recognition of revenue for CRO contracts. Revenue for CRO services is recognised based on the costs incurred on a project as a proportion of total expected costs to determine a percentage of completion which is applied to the estimate of the transaction price. The percentage of completion for the CRO contracts is measured based on an input measure being total project costs at each reporting period. Assessment of the percentage of completion requires an evaluation of labour cost and third-party costs incurred on the project at the reporting date, which requires an estimate of third-party costs incurred but not billed, and an up-to-date evaluation of the forecast costs to complete these projects. Given the long term nature of the clinical trials, and the complex nature of those trials, the forecast costs to complete is judgemental. The costs to complete are prepared by project managers on a recurring basis during the year and are subject to internal reviews, including comparison to previous forecasts and past experience. Material differences in the amount of revenue in any given period may result if these judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.	2

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Source of estimation uncertainty	Description	Notes
Bad debt provision *(Group and Company)*	In determining the level of provisioning for bad debts, the Directors have considered the expected credit loss over the lifetime of the trade receivables. This analysis includes grouping the trade receivables based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical losses adjusted to reflect current and forward-looking information affecting the customers' ability to settle the receivable. The accrued revenue for unbilled work in progress has substantially the same risk characteristics as the trade receivables and similar expected loss rates have been applied. The Group had provisions against trade receivables and accrued revenue at the year end of £67,000 (2018: £9,000) which resulted in a charge to the Income Statement in the year of £58,000 (2018: £9,000). The Company had provisions against trade receivables and accrued revenue at the year end of £5,000 (2018: £9,000) which resulted in a credit to the Income Statement in the year of £4,000 (2018: charge £9,000).	30

1. Accounting policies used in the preparation of the financial statements continued

Source of estimation uncertainty	Description	Notes
Impairment of goodwill *(Group)*	Goodwill is reviewed for impairment at least annually at each reporting date. Goodwill is impaired if the carrying value of the cash-generating unit ('CGU') including the goodwill is in excess of the recoverable amount, which is the higher of the value in use and the fair value less costs to sell for that cash-generating unit. The calculation of the recoverable amount requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to determine whether the recoverable amount is greater than the carrying value. The recoverable amounts of the CGUs for the CRO, PV and R&D operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. The key inputs for estimating the future cash flows of operating businesses are revenue growth over the next five years, terminal revenue growth, working capital changes and discount rate. The Group prepares cash flow forecasts for the next five years for the cash-generating units, derived from the most recent financial budgets approved by the Board, and forecasts revenue for the following four years based on estimated growth rate. A standard margin based on historical experience is then applied to the revenue. The revenue growth rate used in the calculation was zero, which is significantly lower than the average long-term growth rate for the relevant market and management's estimate of growth for the PV and CRO business. This did not result in an impairment to goodwill. A discount rate of 19% (2018: 19%) has been used in the assessment, which is consistent with the prior year and reflects market assessments of the time value of money and the risks specific to the CGUs. The impairment provision against goodwill at the year end was £2,143,000 (2018: £2,143,000) after charging £nil (2018: £2,143,000) to the Income Statement in the period.	15
Fair value measurements *(Group and Company)*	Some of the Group and Company financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, and management estimates of commercial and development risk where appropriate. Where Level 1 inputs are not available, the Group may engage third party qualified valuation experts. Management work closely with valuation experts to establish the appropriate techniques and inputs to the valuation models. This includes contingent consideration relating to acquisitions valued at £nil (2018: £544,000) at the year end. At the year end, the fair value of equity investments in Modus Therapeutics Holdings AB was impaired to £nil resulting in a charge to the Income Statement of £2,427,000. This was the result of Modus announcing the initial results from its Phase II trial which revealed that the study failed to show a meaningful benefit in the total study population. Given the results of the trial and the company's lack of funding, management have fully provided against the value of the investment. The contingent consideration relates to the acquisitions of Haemostatix and PSR. The contingent consideration for Haemostatix comprises milestones of up to £4.0 million at start of Phase III (dependent on the Company's market capitalisation); plus £16.0 million sales-based milestone payments and an additional sum in the event that the enlarged Group is able to utilise certain existing tax losses that are currently available to Haemostatix. At the prior year end the contingent consideration for Haemostatix was revalued to £nil giving rise to a credit in the Income Statement of £11,617,000, reflecting the change in the Group's strategy for the development of Haemostatix.	20, 26, 30

2. Revenue

Revenue and direct costs

Revenue comprises the fair value of the consideration received or receivable for the provision of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, other sales taxes and after eliminating sales within the Group.

The Group primarily earns revenue from Clinical Research Outsourcing ('CRO') services and Pharmacovigilance ('PV') services. Revenue in relation to these services is recognised over time or at a point in time as performance obligations are satisfied and these are detailed further below.

Clinical Research Outsourcing ('CRO') services

The CRO services comprise clinical trial management from Phase I to IV on behalf of customers. The contract with the customer defines the nature, quantity and price of the various services to be provided, which includes patient recruitment, data management, regulatory affairs and adverse event case processing. The CRO services provided (included those provided by a third party and reimbursed by the customer) under each contract are a single performance obligation satisfied over time. The Group is the contract principal in respect of both direct services and in the use of third parties (principally investigator services) that support the clinical research project. The transaction price is determined by reference to the contract and change orders, including any pass-through or reimbursable expenses, adjusted to reflect the amount the Group expects to be entitled to in exchange for transferring promised goods or services to a customer. Revenue is recognised as the single performance obligation is satisfied. The progress towards completion for CRO service contracts is measured based on an input measure being project costs incurred to date as a proportion of total project costs (including third party costs) at each reporting period.

The service fees for CRO services are invoiced based on predetermined activities or milestones. Third party costs are invoiced to customers as they are incurred. Where there is a timing difference between the recognition of revenue and invoicing under a contract, a contract asset (accrued revenue) or liability (deferred revenue) is recognised. Significant accrued and deferred revenue can arise for the CRO services as a result of these timing differences.

The Group recognises accrued revenue when the value of satisfied or part satisfied performance obligations is in excess of the payment due to the Group, and deferred revenue when the amount of unconditional consideration is in excess of the value of satisfied or part satisfied performance obligations. Once a right to receive consideration is unconditional, that amount is presented as a trade receivable.

Changes in contract balances typically arise due to:
- adjustments arising from a change in the estimate of the cost to complete the project, which results in a cumulative catch-up adjustment to revenue that affects the corresponding contract asset or liability;
- a change in the estimate of the transaction price due to changes in the assessment of whether variable consideration is constrained because it is not considered probable of being received;
- the recognition of revenue arising from deferred revenue; and
- the reclassification of amounts to receivables when a right to consideration becomes unconditional.

Contract fulfilment costs in respect of CRO service contracts are expensed as incurred.

Pharmacovigilance ('PV') services

The pharmacovigilance services comprise contract support services to pharmaceutical, biotechnology and generics companies in managing the global safety of their products from early clinical trial development to full post-marketing activities. The typical length of a contract is 36 months, and the services include the collection, aggregation and reporting of safety issues related to drugs on the market. The PV services are typically invoiced when an activity occurs in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. Invoicing is based on prices specified in the service agreement with the client. The Group has applied the practical expedient which results in the recognition of revenue on a right to invoice basis as the right to consideration from a customer corresponds directly with the value of the Group's performance completed to date in relation to that customer. The performance completed is primarily driven by the hours performed by contract staff and the value of services provided to date.

Contract assets or liabilities (accrued or deferred revenue) may arise if a contract contains upfront or milestone payments.

Contract fulfilment costs in respect of PV service contracts are expensed as incurred.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded.

2. Revenue continued

The Group's revenue is disaggregated by geographical market and major service lines:

Geographical market and major service lines

2019

	Major service lines		
	CRO £000s	PV £000s	Total £000s
Geographical market by client location			
UK	**5,096**	**7,590**	**12,686**
Rest of Europe, Middle East and Africa	**17,427**	**10,910**	**28,337**
North America	**9,245**	**16,337**	**25,582**
Asia	**1,064**	**445**	**1,509**
Australia	**10**	**131**	**141**
	32,842	**35,413**	**68,255**

2018

	Major service lines		
	CRO £000s	PV £000s	Total £000s
Geographical market by client location			
UK	5,715	6,854	12,569
Rest of Europe, Middle East and Africa	16,913	9,604	26,517
North America	3,715	10,735	14,450
Asia	237	244	481
Australia	–	95	95
	26,580	27,532	54,112

The receivables, contract assets and liabilities in relation to contracts with customers are as follows:

	Note	2019 £000s	2018 £000s
Contract assets			
Trade receivables	21	**11,235**	11,735
Accrued revenue		**3,382**	3,857
		14,617	15,592
Contract liabilities			
Deferred revenue		**(2,957)**	(5,651)
Customer advances		**(537)**	(734)
		(3,494)	(6,385)

Accrued revenue primarily relates to consideration for work completed but not billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

Deferred revenue primarily relates to the advance consideration received from customers. There are no significant financing components associated with deferred revenue.

Customer advances relate to deposits made by customers as security over future services and third-party costs incurred in relation to those services.

Revenue recognised that was included in the deferred revenue balance at the beginning of the period was £5,651,000 (2018: £3,587,000).

There were no significant amounts of revenue recognised in the current or prior year arising from performance obligations satisfied in previous periods.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Accrued revenue 2019 £000s	Deferred revenue 2019 £000s
Opening asset/(liability):	3,857	(5,651)
Revenue recognised that was included in the contract liability balance at the beginning of the period		5,651
Increases due to cash received, excluding amounts recognised as revenue during the period		2,957
Transfers from contract assets recognised at the beginning of the period to receivables	(3,857)	
Increases as a result of changes in the measure of progress	3,382	
Closing asset/(liability):	3,382	2,957

The aggregate amount of the transaction price allocated to CRO and PV service contracts that are partially or fully unsatisfied as at the year end are as follows:

	2020 £000s	2021 £000s	2022 and future years £000s	Total £000s
CRO services	26,726	21,615	21,185	69,526
PV services	31,328	16,215	7,028	54,571
	58,054	37,830	28,213	124,097

3. Operating segments

Products and services from which reportable segments derive their revenues

Information reported to the Company's Board, which is the chief operating decision maker ('CODM'), for the purpose of resource allocation and assessment of segment performance, is focused on the Group operating as two business segments, being Clinical Research Outsourcing ('CRO') and Pharmacovigilance ('PV'). All revenues arise from direct sales to customers. The segment information reported below all relates to continuing operations. The PV segment includes the revenues of Harefield Pharmacovigilance Ltd and Pharmacovigilance Services Ltd following their acquisition by the Group in 2018.

The accounting policies of the reportable segments are the same as the Group's accounting policies, with the exception that the information reported to the CODM in the prior year was prior to the effect of adjustments to revenue in relation to IFRS 15. Segment profit represents the gross profit earned by each segment. Other amounts, including selling, general and administration expenses were not allocated to a segment. This was the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

3. Operating segments continued

2019

	CRO £000s	PV £000s	Consolidated total £000s
Segment revenues	**32,842**	**35,413**	**68,255**
Cost of sales	**(13,045)**	**(16,745)**	**(29,790)**
Reimbursable expenses	**(8,498)**	**(442)**	**(8,940)**
Segment gross profit	**11,299**	**18,226**	**29,525**
Selling, general and administration expenses			**(23,514)**
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses			**(19,578)**
Amortisation of acquired fair valued intangible assets			**(671)**
Share-based payment charge			**(870)**
Acquisition-related contingent compensation			**(87)**
Change in the fair value of contingent consideration for acquisitions			**512**
Acquisition costs			**(393)**
Exceptional items			**(2,427)**
Research and development			**(545)**
Net impairment of financial and contract assets			**–**
Other operating income			**51**
Operating profit			**5,517**
Finance income			**28**
Change in fair value of equity investments			**(286)**
Finance costs			**(273)**
Profit before tax			**4,986**

2018

	CRO £000s	PV £000s	IFRS 15 adjustments £000s	Consolidated total £000s
Segment revenues	27,410	27,532	(830)	54,112
Cost of sales	(12,172)	(14,616)	–	(26,788)
Reimbursable expenses	(7,744)	(326)	–	(8,070)
Segment gross profit	7,494	12,590	(830)	19,254
Selling, general and administration expenses				(28,152)
Selling, general and administration expenses comprises:				
Other selling, general and administration expenses				(16,701)
Amortisation of acquired fair valued intangible assets				(1,286)
Share-based payment charge				(758)
Acquisition-related contingent compensation				(972)
Change in the fair value of contingent consideration for acquisitions				233
Acquisition costs				(174)
Exceptional items				(8,494)
Research and development				(1,578)
Net impairment of financial and contract assets				(9)
Other operating income				39
Operating loss				(10,446)
Finance income				23
Change in fair value of equity investments				277
Finance costs				(622)
Loss before tax				(10,768)

Segment net assets

	2019 £000s	2018 £000s
CRO	**2,649**	2,450
PV	**34,171**	25,913
Consolidated total net assets	**36,820**	28,363

For the purposes of monitoring segment performance and allocating resources between segments, the CODM monitors the net assets attributable to each segment. All assets are allocated to reportable segments. Goodwill has been allocated to reportable segments as described in note 15.

Other segment information

	Impairment of goodwill and intangibles		Depreciation and amortisation		Additions to non-current assets	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s	2019 £000s	2018 £000s
CRO	**–**	17,343	**1,252**	1,019	**724**	780
PV	**–**	–	**2,460**	1,515	**685**	806
	–	17,343	**3,712**	2,534	**1,409**	1,586

Information about major customers

In 2019, the Group had no customer (2018: none) that contributed 10% or more to the Group's revenue.

4. Profit before taxation

Operating leases (prior to the adoption of IFRS 16)

In the comparative period, the Group classified leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are amortised over the full lease term.

Leases (after the adoption of IFRS 16 on 1 January 2019)

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group

	2019 £000s	2018 £000s
Profit for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment (note 17)	**545**	550
Depreciation of right-of-use assets (note 18)	**1,664**	–
Amortisation of intangible assets (note 16)	**831**	698
Amortisation of acquired intangible assets (note 16)	**671**	1,286
Depreciation and amortisation charges within selling, general and administration expenses	**3,711**	2,534
Goodwill impairment charge (note 15)	**–**	2,143
Intangible impairment charge (note 16)	**–**	15,200
Impairment of other assets	**–**	879
Expenses relating to the lease of short-term assets	**84**	–
Expenses relating to the lease of low-value assets (excluding short-term leases included above)	**36**	–
Net foreign exchange loss/(gain)	**929**	(88)
Loss on disposals of property, plant and equipment	**25**	33
Increase in bad debt provision (note 30)	**58**	9

Company

As permitted by Section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Parent Company is not presented as part of these financial statements. The Parent Company's loss after tax for the financial year was £3,261,000 (2018: £19,829,000).

5. Auditor remuneration

Services provided by the Group's auditor:

	2019 £000s	2018 £000s
Fees payable to the Company's auditor for the audit of Group, Company and subsidiary financial statements	**326**	170
Fees payable to the Company's auditor for other services:		
– audit related assurance services – interim financial information	**34**	34
– other services	**–**	13
	360	217

6. Acquisition-related contingent compensation

	2019 £000s	2018 £000s
Harefield Pharmacovigilance	**87**	–
PharmInvent	**–**	972
	87	972

The terms of the acquisitions of European PharmInvent Services s.r.o. (now PrimeVigilance s.r.o.) included provisions for deferred consideration payable in cash and in equity. Where that consideration is contingent upon the continued employment of the vendors, in accordance with IFRS 3, the cost is recognised in the income statement as an employee cost. The above amounts relate to the element of consideration that is reimbursable in cash and that is contingent on the continued employment of the vendors. The element that is repayable in equity and that is contingent on the continued employment of the vendors is included in the income statement as part of share-based payments (see note 29).

7. Acquisition costs

	2019 £000s	2018 £000s
Acquisition of Ashfield Pharmacovigilance	**393**	–
Acquisition of Harefield Pharmacovigilance	**–**	3
Acquisition of Pharmacovigilance Services	**–**	7
Other M&A activities	**–**	164
	393	174

8. Exceptional items

Exceptional items
In line with the way the Board and chief operating decision maker review the business, large one-off exceptional costs are shown as exceptional items.

	2019 £000s	2018 £000s
Impairment of equity investment	**2,427**	45
Establishment of pharmacoepidemiology business	**–**	356
Cost reduction programme	**–**	760
Business reorganisation	**–**	557
Impairment of Haemostatix goodwill	**–**	2,143
Impairment of Haemostatix in process research and development	**–**	15,200
Impairment of Haemostatix other assets	**–**	834
Revaluation of Haemostatix contingent consideration	**–**	(11,617)
Onerous contract provision	**–**	216
	2,427	8,494

During the year ended 31 December 2019, the fair value equity investment in Modus Therapeutics Holding AB was impaired to £nil resulting in a charge to exceptional items of £2,427,000 (see note 20).

In the prior year, exceptional items related to the establishment of the pharmacoepidemiology business, reorganisation expenses associated with the combining of the PrimeVigilance and PharmInvent businesses, the cost reduction programme to increase operating efficiency and improve overall profitability, the impairment of the Haemostatix business (see note 15 and note 16) and the change in fair value of the Haemostatix contingent consideration and onerous contract costs relating to Haemostatix.

9. Finance income

Interest income
Interest income is recognised in the income statement in the period in which it is earned.

	2019 £000s	2018 £000s
Interest income	**28**	23

10. Finance costs

	2019 £000s	2018 £000s
Loan and other interest payable	**13**	3
Interest on lease liabilities	**260**	–
Unwind of discount on contingent consideration of acquisitions	**–**	619
	273	622

11. Employees

Number of employees

The average monthly number of persons employed by the Group (including Executive Directors and excluding Non-Executive Directors) during the year was:

	2019 Number	2018 Number
Administration	**89**	95
Project staff	**658**	572
Management	**25**	30
Directors	**3**	5
	775	702

Employment costs

The cost of persons employed by the Group (including Executive Directors and excluding Non-Executive Directors) charged to the income statement during the year were:

	2019 £000s	2018 £000s
Wages and salaries	**23,709**	23,123
Social security costs	**3,861**	4,297
Other pension costs (note 12)	**624**	621
Acquisition-related contingent compensation	**87**	972
Severance costs included in exceptional items	**–**	1,307
Share-based payments (note 29)	**870**	758
	29,151	31,078

Additional information on the emoluments of the Directors, together with information regarding the share interests and share options of the Directors, is included in the Remuneration Report on page 38, which forms part of these audited financial statements.

Employment costs have been charged to the income statement as follows:

	Cost of Sales		Selling, general and administration expenses	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Wages and salaries	**17,136**	15,826	**6,573**	7,297
Social security costs	**2,914**	2,626	**947**	1,671
Other pension costs	**411**	461	**213**	160
	20,461	18,913	**7,733**	9,128

12. Pension costs

Pensions
The Group operates defined contribution pension plans for employees. The plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities 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 in the periods during which services are rendered by employees.

The pension cost represents contributions payable by the Group to the plans and amounted to £624,000 (2018: £621,000). Contributions payable to the plans at 31 December 2019 were £100,000 (2018: £58,000).

One Director (2018: three Directors) has retirement benefits accruing under defined contribution pension schemes.

13. Taxation and deferred taxation

Taxation
The tax expense or credit for the year comprises the sum of current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation
Deferred taxation is provided on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised 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.

Deferred tax is provided based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are enacted or substantively enacted at the reporting date.

	2019 £000s	2018 £000s
Current tax		
UK corporation tax charge/(credit) for the year	**174**	(92)
Overseas corporation tax	**832**	503
Adjustment in respect of prior years	**(58)**	(383)
Current tax charge for the year	**948**	28
Deferred tax		
Origination and reversal of temporary differences	**(1,531)**	(2,718)
Derecognition of deferred tax asset	**–**	902
Total deferred tax credit	**(1,531)**	(1,816)
Total tax credit for the year	**(583)**	(1,788)

Under IAS 12 Income Taxes, the amount of tax benefit that can be recognised in the income statement is limited by reference to the IFRS 2 share-based payment charge. The excess amount of tax benefit in respect of share options gives rise to a credit which has been recognised directly in equity, in addition to the amounts charged to the income statement and other comprehensive income, as follows:

	2019 £000s	2018 £000s
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**(799)**	16
Total income tax (credit)/debit recognised directly in equity	**(799)**	16

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%). The actual tax charges for the years differ from the standard rate for the reasons set out in the following reconciliation:

	2019 £000s	2018 £000s
Profit/(loss) before taxation	**4,986**	(10,768)
Tax on profit/(loss) before tax at blended standard rate of 19% (2018: 19.25%)	**947**	(2,046)
Non-deductible expenses	**1,054**	654
Additional allowable expenses	**(954)**	(1,700)
Movement in deferred tax	**(1,531)**	902
R&D tax credit receivable	**–**	(76)
Adjustments to previous periods	**(58)**	(383)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**43**	(6)
Tax losses surrendered for R&D tax credit relief	**–**	100
Increase in unrecognised tax losses	**(12)**	767
Translation effect	**(72)**	–
Total tax credit for the year	**(583)**	(1,788)

Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

The Finance Act 2018, which provides for a reduction in the main rate of corporation tax from 19% to 17% effective from 1 April 2020 was substantively enacted on 16 November 2018. These rate reductions have been reflected in the calculation of deferred tax at the reporting date.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances for financial reporting purposes.

Deferred tax assets

	Group			Company		
	Tax losses £000s	Other temporary differences £000s	Total £000s	Tax losses £000s	Other temporary differences £000s	Total £000s
1 January 2018	902	711	1,613	–	678	678
Acquired with subsidiaries	(902)	(125)	(1,027)	–	(92)	(92)
Charge to profit or loss	–	(16)	(16)	–	(16)	(16)
Credit direct to equity	–	11	11	–	11	11
At 31 December 2018	–	581	581	–	581	581
Credit to profit or loss	1,224	12	1,236	1,224	9	1,233
Credit direct to equity	–	799	799	–	799	799
At 31 December 2019	**1,224**	**1,392**	**2,616**	**1,224**	**1,389**	**2,613**

Included in the deferred tax arising on temporary differences, £1,380,000 (2018: £565,000) relates to a deferred tax asset arising on unexercised share options. In the year ended 31 December 2018, a deferred tax asset of £902,000 was derecognised, which related to tax losses carried forward in the Haemostatix business.

Deferred tax liabilities

	Group			Company		
	Annual capital allowances £000s	Other temporary differences £000s	Total £000s	Annual capital allowances £000s	Other temporary differences £000s	Total £000s
1 January 2018	(217)	(3,180)	(3,397)	(12)	–	(12)
Credit to profit or loss	37	2,806	2,843	–	–	–
At 31 December 2018	(180)	(374)	(554)	(12)	–	(12)
Credit to profit or loss	79	181	260	12	–	12
At 31 December 2019	**(101)**	**(193)**	**(294)**	**–**	**–**	**–**

13. Taxation and deferred taxation continued

Deferred tax liabilities continued

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group		Company	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Deferred tax assets	2,616	581	2,613	581
Deferred tax liabilities	(294)	(554)	–	(12)
Net deferred tax assets/(liabilities)	2,322	27	2,613	569

At 31 December 2019, the Group had unused tax losses of £7,196,000 (2018: £9,265,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £1,224,000 (2018: £nil) in respect of these losses. No deferred tax asset was recognised in the prior year as it was not considered probable that there would be future profits available to utilise the losses.

14. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2019 £000s	2018 £000s
Profit/(loss) for the purposes of basic and diluted earnings per share – net profit attributable to owners of the Company	5,569	(8,980)

	2019	2018
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	46,599,917	44,693,699
Incremental shares in respect of employee share schemes	2,027,154	–
Shares to be issued in settlement of contingent consideration	–	158,810
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	48,627,071	44,852,509
Profit/(loss) per share		
Basic	12.0p	(20.0)p
Diluted	11.5p	(20.0)p

For the purposes of determining the denominator for basic earnings per share, contingent shares are included from the beginning of the period in which the contingency is met. In the prior year, the contingency relating to the issue of shares in respect of consideration for PharmInvent was met and therefore they have been included within the denominator for basic earnings per share as at 31 December 2018.

15. Goodwill

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 and the equity interest issued by the Group in exchange for control of the acquiree. Contingent consideration in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets expected to be transferred by the Group to the former owners of the acquiree and the equity interest to be issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 the measurement period, 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.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the fair value of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit *pro rata* on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The recoverable amount is the higher of the fair value less costs to sell, and the value in use, and is estimated at least annually at the same time as the impairment review. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Group

Cost	£000s
At 1 January 2018	15,269
Arising on acquisition of subsidiaries (notes 31 and 32)	438
Translation movement	95
Impairment of Haemostatix goodwill	(2,143)
At 31 December 2018	**13,659**
Translation movement	(279)
At 31 December 2019	**13,380**

The goodwill arising during the year ended 31 December 2018 relates to the acquisitions of Harefield Pharmacovigilance (note 31) and Pharmacovigilance Services (note 32).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Cash-generating unit	2019 £000s	2018 £000s
CRO	**3,535**	3,712
R&D – Haemostatix	**–**	–
PV	**9,845**	9,947
	13,380	13,659

The goodwill associated with the PV segment has arisen from the acquisitions of PrimeVigilance, Sound Opinion, PharmInvent, Harefield Pharmacovigilance and Pharmacovigilance Services. The goodwill associated with the CRO segment has arisen from the acquisitions of Ergomed Virtuoso, Haemostatix, Ergomed CDS and PSR.

The goodwill arising on these acquisitions has been allocated to the PV and CRO operating segment because the synergies and other benefits associated with the acquisitions will benefit the operating segment as a whole and the businesses trade as a single cash-generating unit.

During the year the Group changed its strategy and communicated to the market in that it was focused on becoming a full service CRO business, with the goal of becoming a leading mid-tier specialist CRO. As a result, it has changed the allocation of CRO goodwill from separate CGUs in the prior year to one CGU for CRO related goodwill and one for R&D goodwill. This change matches both the business strategy for the ongoing use of these assets within the Group and the cash flows associated with them.

15. Goodwill continued

Impairment testing for CGUs

PV and CRO

The recoverable amounts of the CGUs for the PV and CRO operating segment are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. The key inputs for estimating the future cash flows of operating businesses are revenue growth over the next five years, terminal revenue growth, working capital changes and discount rate.

The Group prepares cash flow forecasts for the next five years for the cash-generating units, derived from the most recent financial budgets approved by the Board, and forecasts revenue for the following four years based on estimated growth rate. A standard margin based on historical experience is then applied to the revenue. The revenue growth rate used in the calculation was zero, which is significantly lower than the average long-term growth rate for the relevant market and management's estimate of growth for the PV and CRO business. This did not result in an impairment to goodwill.

The key assumptions underlying the impairment testing of CGUs are:

	2019	2018
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond forecast period – PV and CRO	**0%**	0%
Discount rate	**19%**	19%

R&D – Haemostatix

During 2018, the Group shifted strategy away from co-development arrangements and development of Haemostatix to focus on provision of services. The Group has continued to make incremental investment in Haemostatix, as required, so as to protect the intellectual property and to maintain readiness for Phase III trials, however, the Group considers the fair value of the Haemostatix assets to be £nil. As a result, the goodwill and intangible assets within the R&D – Haemostatix – cash-generating unit were impaired to the recoverable amount of £nil resulting in an impairment of goodwill of £2,143,000 and an impairment of intangibles of £15,200,000 during the year ended 31 December 2018.

As a consequence of the impairment in 2018, certain costs committed as at 31 December 2018 amounting to £216,000 were provided for as an onerous contract (see note 24) and the charge recognised in exceptional items (see note 8).

16. Other intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives as follows:

Software	20–30% straight line

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Costs associated with the development of computer software are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditure, including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred.

The asset will subsequently be carried at cost less accumulated amortisation and accumulated impairment losses. These costs will be amortised to profit or loss using the straight-line method over their estimated useful lives of five years, once the asset is in use.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately, as follows:

Customer contracts	20–66.7% straight line
Customer relationships	20–50% straight line
Brand	12–13.3% straight line
In-process R&D	Not amortised
Technology	40% straight line

Impairment
At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of the fair value less costs to sell, and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Group

Cost	Software £000s	Customer contracts £000s	Customer relationships £000s	Brands £000s	In-process R&D £000s	Technology £000s	Total £000s
At 1 January 2018	2,178	1,278	3,461	813	15,200	445	23,375
Additions	753	–	–	–	–	–	753
Translation movement	17	(19)	(30)	5	–	(26)	(53)
At 31 December 2018	2,948	1,259	3,431	818	15,200	419	24,075
Additions	604	–	–	–	–	–	604
Translation movement	(74)	(1)	(36)	(1)	–	–	(112)
At 31 December 2019	**3,478**	**1,258**	**3,395**	**817**	**15,200**	**419**	**24,567**
Amortisation							
At 1 January 2018	166	941	1,548	225	–	266	3,146
Charge for the year	698	286	742	105	–	153	1,984
Impairment charge	–	–	–	–	15,200	–	15,200
Translation movement	5	–	–	–	–	–	5
At 31 December 2018	869	1,227	2,290	330	15,200	419	20,335
Charge for the year	831	31	536	104	–	–	1,502
Translation movement	(25)	–	–	–	–	–	(25)
At 31 December 2019	**1,675**	**1,258**	**2,826**	**434**	**15,200**	**419**	**21,812**
Net book value							
At 31 December 2019	**1,803**	**–**	**569**	**383**	**–**	**–**	**2,755**
At 31 December 2018	2,079	32	1,141	488	–	–	3,740

Included within Software is software under development with an asset value of £285,000 (2018: £115,000). The software is currently still under construction and so no amortisation has been recognised in the current year.

In the year ended 31 December 2018, the In-process R&D for ReadyFlow and Peprostat of £15,200,000 was impaired to £nil.

16. Other intangible assets continued

Company

	Software £000s
Cost	
At 1 January 2018	534
Translation movement	15
Additions	538
At 31 December 2018	1,087
Translation movement	(67)
Additions	401
At 31 December 2019	**1,421**
Amortisation	
At 1 January 2018	98
Charge for the year	164
Translation movement	4
At 31 December 2018	266
Charge for the year	294
Translation movement	(21)
At 31 December 2019	**539**
Net book value	
At 31 December 2019	**882**
At 31 December 2018	821

17. Property, plant and equipment

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on assets at rates calculated to write off the cost, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	2.5% straight line or over the remaining lease term, whichever is shorter
Motor vehicles	8.33–50% straight line
Computer equipment	8.33–50% straight line
Fixtures and fittings	10–50% straight line
Laboratory equipment	20% straight line

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

Group

	Leasehold improvements £000s	Fixtures and fittings £000s	Motor vehicles £000s	Computer equipment £000s	Laboratory equipment £000s	Total £000s
Cost						
At 1 January 2018	102	287	319	1,440	56	2,204
Additions	194	190	107	342	1	834
Acquired with subsidiaries (note 31)	–	–	–	2	–	2
Re-allocation	–	2	–	(2)	–	–
Disposals	(50)	(14)	(72)	(79)	–	(215)
Translation movement	–	7	5	33	–	45
At 31 December 2018	246	472	359	1,736	57	2,870
Additions	13	35	48	296	–	392
Disposals	–	(34)	(59)	(61)	(2)	(156)
Translation movement	(4)	(22)	(16)	(81)	–	(123)
At 31 December 2019	**255**	**451**	**332**	**1,890**	**55**	**2,983**
Depreciation						
At 1 January 2018	61	117	135	793	20	1,126
Charge for the year	23	52	86	378	11	550
Disposals	(45)	(12)	(45)	(73)	–	(175)
Translation movement	–	2	2	21	–	25
At 31 December 2018	39	159	178	1,119	31	1,526
Charge for the year	27	81	78	334	25	545
Disposals	–	(16)	(47)	(59)	(1)	(123)
Translation movement	(1)	(8)	(9)	(57)	–	(75)
At 31 December 2019	**65**	**216**	**200**	**1,337**	**55**	**1,873**
Net book value						
At 31 December 2019	**190**	**235**	**132**	**553**	**–**	**1,110**
At 31 December 2018	207	313	181	617	26	1,344

Company

	Fixtures and fittings £000s	Computer equipment £000s	Total £000s
Cost			
1 January 2018	62	110	172
Additions	1	23	24
Translation movement	1	2	3
At 31 December 2018	64	135	199
Additions	–	25	25
Disposals	(32)	–	(32)
Translation movement	(2)	(8)	(10)
At 31 December 2019	**30**	**152**	**182**
Depreciation			
1 January 2018	25	51	76
Charge for the year	8	39	47
Translation movement	1	1	2
At 31 December 2018	34	91	125
Charge for the year	6	29	35
Disposals	(14)	–	(14)
Translation movement	(1)	(6)	(7)
At 31 December 2019	**25**	**114**	**139**
Net book value			
At 31 December 2019	**5**	**38**	**43**
At 31 December 2018	30	44	74

17. Property, plant and equipment continued

On 1 January 2019, the Group adopted International Financial Reporting Standard 16, Leases ('IFRS 16') using the modified retrospective approach. From this date, all assets held under finance leases or hire purchase contracts are accounted for as a right-to-use asset (note 18). Details of the lease related accounting policies in operation for the current and prior years can be found in note 38, Changes in accounting policies – Leases.

Included above for the prior year are assets held under finance leases or hire purchase contracts as follows:

Group

	Motor vehicles £000s
Net book value	
At 31 December 2018	37
Depreciation charge for the year	
Year ended 31 December 2018	8

Company

As at 31 December 2018, no assets in the above were held by the Company under finance leases or hire purchase contracts.

18. Right-of-use assets

On 1 January 2019, the Group adopted International Financial Reporting Standard 16, Leases ('IFRS 16') using the modified retrospective approach. Details of the lease related accounting policies in operation for the current and prior years can be found in note 38, Changes in accounting policies – Leases.

	Group £000s	Company £000s
Cost		
31 December 2018	–	–
Impact of change in accounting policy – IFRS 16	6,625	140
1 January 2019	6,625	140
Additions	413	–
Translation movement	(236)	(5)
At 31 December 2019	**6,802**	**135**
Depreciation		
1 January 2019	–	–
Charge for the year	1,664	22
Translation movement	(33)	–
At 31 December 2019	**1,631**	**22**
Net book value		
At 31 December 2019	**5,171**	**113**
At 1 January 2019	6,625	140

19. Subsidiaries

The Ergomed Group consists of a parent company, Ergomed plc, incorporated in the UK, and a number of subsidiaries held directly and indirectly by Ergomed plc which operate and are incorporated around the world.

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activity	Place of incorporation and operation	Number of wholly owned subsidiaries 2019	2018
CRO services	Germany	**2**	2
CRO services	Poland	**1**	1
CRO services	Serbia	**1**	1
CRO services	USA	**1**	1
CRO services	Croatia	**1**	1
CRO services	Russia	**1**	1
CRO services[5]	Spain	**–**	–
CRO services	Bosnia	**1**	1
CRO services	UAE	**1**	1
CRO and PV services	Switzerland	**1**	1
CRO services[1]	Taiwan	**1**	1
CRO services	Netherlands	**1**	1
PV services	United Kingdom	**3**	3
PV services	India	**1**	1
PV services	Germany	**1**	1
PV services	Croatia	**1**	1
PV services	Serbia	**1**	1
PV services[2]	USA	**1**	1
PV services	Czech Republic	**2**	2
Research and development	United Kingdom	**1**	1
Dormant	United Kingdom	**2**	2

The registered offices of the Company's subsidiaries are as follows:

Company	Registered address
Ergomed GmbH	Herriotstraße 1, 60528 Frankfurt am Main, Germany
Ergomed Sp. z o.o.	Kolowa 8, 30-134 Krakow, Poland
Ergomed d.o.o. Beograd	Belgrade Office Park, Djordja Stanojevica 12, 5th Floor, Belgrade – New Belgrade, 11070 Serbia
Ergomed Clinical Research Inc.	8207 Callaghan Rd. Suite 150, San Antonio, TX 78230, USA
Ergomed Istraživanja Zagreb d.o.o.	Oreškovićeva 20a, 10 020 Zagreb, Croatia
Ergomed Clinical Research LLC	125040, Moscow, 17 Skakovaya Street, Building 2, Office 2714, The Russian Federation
Ergomed Clinical Research Spain, S.L.[5]	C/ Príncipe de Vergara 112, 4ª, 28002, Madrid, Spain
Ergomed d.o.o. Sarajevo	Zmaja od Bosne 7-7a, Sarajevo, Bosnia and Herzegovina
Ergomed Clinical Research FZ-LLC	Dubai International Academic City, Block N 03, Office N EO 05, P.O. Box 501708 I Dubai, UAE
Ergomed Virtuoso Sarl	18, Avenue Lois-Casai, 1209 Geneva, Switzerland
Ergomed Clinical Research Co. Limited[1]	Fl. 2, No. 467, Sec.6, Zhongxiao E Rd., Nangang District, Taipei City 115, Taiwan
Ergomed CDS GmbH	Im Mediapark 2, D-50670 Cologne, Germany
Ergomed Clinical Research Private Limited	Wing A, Level 4, Dynasty Business Park, Andheri-Kurla Road, Andheri (East) Mumbai – 400059, Maharashtra, India
PSR Group BV	Antareslaan 41, 2132 JE Hoofddorp, The Netherlands
PrimeVigilance Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
PrimeVigilance Zagreb d.o.o.	Oreškovićeva 20a, 10 020 Zagreb, Croatia
PrimeVigilance d.o.o. Beograd	Đorđa Stanojevića 14, Beograd – Novi Beograd, Serbia
PrimeVigilance Inc.	Reservoir Place, 1601 Trapelo Road, Waltham, MA 02451, USA
PrimeVigilance USA Inc.[2]	100 Regency Forest Drive, Cary, Wake County, NC 27518, USA
PrimeVigilance GmbH	Herriotstraße 1, 60528 Frankfurt am Main, Germany
Sound Opinion Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
PrimeVigilance s.r.o.	Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic
PharmInvent regulatory s.r.o.	Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic
Harefield Pharmacovigilance Limited[4]	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
Pharmacovigilance Services Limited[4]	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
Haemostatix Limited	BioCity Nottingham, Pennyfoot Street, Nottingham, NG1 1GF, United Kingdom
Ergomed Clinical Research Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom

19. Subsidiaries continued

The Company has direct interests in the following subsidiaries which are included in the consolidated financial statements:

Principal activity – CRO services	Place of incorporation and operation	Class	Holding
Ergomed GmbH	Germany	Ordinary	100%
Ergomed Spolka z o.o[3]	Poland	Ordinary	99%
Ergomed d.o.o. Novi Sad	Serbia	Ordinary	100%
Ergomed Clinical Research Inc.	USA	Not specified	100%
Ergomed Istrazivanja Zagreb d.o.o.	Croatia	Ordinary	100%
Ergomed Clinical Research LLC	Russia	Ordinary	100%
Ergomed d.o.o. Sarajevo	Bosnia	Ordinary	100%
Ergomed Clinical Research FZ LLC	UAE	Ordinary	100%
Ergomed Virtuoso Sarl	Switzerland	Ordinary	100%
Ergomed Clinical Research Limited	Taiwan	Ordinary	100%
Ergomed CDS GmbH	Germany	Ordinary	100%
PSR Group BV	Netherlands	Ordinary	100%

Principal activity – PV services	Place of incorporation and operation	Class	Holding
PrimeVigilance Limited	United Kingdom	Ordinary	100%
Harefield Pharmacovigilance Limited[4]	United Kingdom	Ordinary	100%
Pharmacovigilance Services Limited[4]	United Kingdom	Ordinary	100%
PrimeVigilance s.r.o.	Czech Republic	Ordinary	100%
Ergomed Clinical Research Private Limited	India	Ordinary	99%

Principal activity – research and development	Place of incorporation and operation	Class	Holding
Haemostatix Limited	United Kingdom	Ordinary	100%

Principal activity – dormant	Place of incorporation and operation	Class	Holding
Sound Opinion Limited	United Kingdom	Ordinary	100%
Ergomed Clinical Research Limited	United Kingdom	Ordinary	100%

1 Ergomed Clinical Research Co. Limited was closed post year end.
2 PrimeVigilance USA Inc., formerly known as Ashfield Pharmacovigilance Inc., was acquired after the year end (note 33).
3 The non-controlling interest is not disclosed as it is not material and does not take a benefit from the holding.
4 These companies were acquired by the Company in 2018 (note 31 and 32).
5 Ergomed Clinical Research Spain, S.L. was incorporated after the year end on 26 February 2020.

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

The accounting year end for all Group subsidiaries is coterminous.

20. Equity investments

The carrying amount of the following equity investments have been designated as fair value through the profit and loss ('FVPL'). Further information regarding the measurement and classification of equity investments held by the Group are included in note 30.

Group and Company

2019	Carrying amount at 1 January 2019 £000s	Equity received in exchange for services provided £000s	Change in fair value recognised in the income statement £000s	Impairment of investments £000s	Disposals £000s	Translation movement £000s	Carrying amount at 31 December 2019 £000s
Asarina Pharma AB	**863**	**567**	**(286)**	**–**	**(1,099)**	**(45)**	**–**
Modus Therapeutics Holdings AB	**1,202**	**1,337**	**–**	**(2,427)**	**–**	**(112)**	**–**
	2,065	**1,904**	**(286)**	**(2,427)**	**(1,099)**	**(157)**	**–**

2018	Carrying amount at 1 January 2018 £000s	Equity received in exchange for services provided £000s	Change in fair value recognised in the income statement £000s	Impairment of investments £000s	Translation movement £000s	Carrying amount at 31 December 2018 £000s
Asarina Pharma AB	283	297	277	–	6	863
Modus Therapeutics Holdings AB	426	757	–	–	19	1,202
Ergomed Saudi Limited	45	–	–	(45)	–	–
	754	1,054	277	(45)	25	2,065

Asarina Pharma AB ('Asarina')

In 2018, Asarina completed a public offering and listing on the Nasdaq First North Exchange and the investment in equity was publicly traded. Under the co-development agreement with Asarina, the Group receives shares in Asarina in return for services provided to them under the co-development programme. During the year ended 31 December 2019, shares valued at £567,000 (2018: £297,000) were issued to the Group in exchange for services provided and shares valued at £1,099,000 were sold (2018: £nil).

Modus Therapeutics Holding AB ('Modus')

Under the co-development agreement with Modus, the Group receives shares in Modus in return for its contribution to the co-development programme. During the year ended 31 December 2019, shares valued at £1,337,000 (2018: £757,000) were issued to the Group in exchange for services provided by the Group.

Modus announced the initial results from its Phase II trial on 13 May 2019. Data from the study failed to show a meaningful benefit in the total study population. Given the results of the trial and the company's lack of funding, management have impaired the value of the investment to £nil as at the year end.

Ergomed Saudi Limited

At 31 December 2019, the Group held a 50% holding in Ergomed Saudi Limited, which was impaired during the year ended 31 December 2018, reducing carrying value of the investment to £nil (2018: £nil).

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment.

Company

	Shares in subsidiary undertakings £000s
Cost	
At 1 January 2018	38,864
Capital contribution to subsidiary undertakings	1,340
Impairments	(17,194)
Translation movement	575
At 31 December 2018	23,585
Capital contribution to subsidiary undertakings	245
Impairments	–
Translation movement	(1,238)
At 31 December 2019	**22,592**

21. Trade and other receivables

	Group		Company	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Trade receivables	**11,235**	11,735	**2,896**	3,776
Amounts receivable from Group companies	**–**	–	**446**	2,601
Other receivables	**1,609**	2,437	**346**	895
Prepayments	**1,144**	1,225	**516**	677
Corporation tax receivable	**371**	1,032	**–**	–
	14,359	16,429	**4,204**	7,949

The carrying value of trade receivables approximates to their fair value at the reporting date. Information about the Group's exposure to credit risks and expected credit losses for trade and receivables is included in note 30.

The carrying values of the Group's and the Company's trade and other receivables are unsecured. The Group and the Company have not pledged as security any of the amounts included in receivables.

22. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits.

	Group		Company	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Cash at bank	**14,259**	5,189	**4,374**	1,250

The carrying amount of cash and cash equivalents approximates to their fair value at the reporting date and are denominated in the following currencies:

	Group		Company	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
GBP	**1,747**	876	**314**	164
Euro	**2,666**	2,126	**522**	923
USD	**8,848**	1,061	**3,538**	148
Other	**998**	1,126	**–**	15
	14,259	5,189	**4,374**	1,250

Information about the Group's exposure to foreign exchange and interest rate risks are included in note 30.

23. Lease liabilities

On 1 January 2019, the Group adopted International Financial Reporting Standard 16, Leases ('IFRS 16') using the modified retrospective approach. Details of the lease related accounting policies in operation for the current and prior years can be found in note 38, Changes in accounting policies – Leases.

Group and Company

2019	Group £000s	Company £000s
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**1,856**	**95**
One to five years	**3,846**	**24**
Total undiscounted lease liabilities at 31 December	**5,702**	**119**
Lease liabilities included in the balance sheet at 31 December	**5,434**	**117**
Current	**1,718**	**93**
Non-current	**3,716**	**24**

24. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Group

	2019			2018
	Onerous contract £000s	**Other £000s**	**Total £000s**	Onerous contract £000s
1 January	**216**	**–**	**216**	–
Increase in provision	**–**	**274**	**274**	216
Utilised	**(149)**	**–**	**(149)**	–
31 December	**67**	**274**	**341**	216

Onerous contract

During 2018, the Group shifted strategy away from co-development arrangements and development of Haemostatix to focus on provision of services. The Group has continued to make incremental investment in Haemostatix during 2018 so as to protect the intellectual property and to maintain readiness for Phase III trials but as a consequence of the change in strategy, contractual costs committed at the year end amounting to £216,000 have been provided for as onerous and the charge included in exceptional items. During 2019, £149,000 of this provision was utilised.

Other

During the year a provision was recognised in respect of grant income received which, depending on future trading conditions, management believe may be repayable in the future.

25. Trade and other payables

	Group		Company	
	2019 £000s	2018 £000s	**2019 £000s**	2018 £000s
Trade payables	**2,579**	4,379	**1,126**	2,403
Amounts payable to related parties	**58**	585	**56**	576
Amounts payable to Group companies	**–**	–	**15,379**	13,114
Social security and other taxes	**629**	724	**110**	176
Other payables	**1,086**	1,575	**7**	524
Customer advances	**537**	734	**–**	–
Accruals	**5,484**	2,992	**3,851**	1,572
	10,373	10,989	**20,529**	18,365

Customer advances relate to deposits made by customers as security over future services and third-party costs incurred in relation those services.

Information about the Group's exposure to foreign exchange and liquidity risks are included in note 30.

26. Contingent and deferred consideration

Contingent and deferred consideration are measured at fair value through the profit and loss. Further details regarding the measurement and classification of financial instruments measured at fair value are set out in note 30.

Fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Deferred consideration

	Group		Company	
	2019 £000s	2018 £000s	**2019 £000s**	2018 £000s
Due within one year				
Harefield Pharmacovigilance	**–**	57	**–**	–
Pharmacovigilance Services	**–**	62	**–**	–
	–	119	**–**	–

Contingent consideration

	Group		Company	
	2019 £000s	2018 £000s	**2019 £000s**	2018 £000s
Due greater than one year				
PSR	**–**	544	**–**	544
	–	544	**–**	544

PSR

The contingent consideration payable for PSR could be between £nil and an aggregate maximum undiscounted amount of £2,806,000, subject to the future performance of the business. As at 31 December 2018, the estimated value of future payouts was determined based on management's forecasts for 2019 and discounted using a risk-adjusted weighted average cost of capital of 19%, resulting in a fair value of £544,000 at 31 December 2018. Based on the actual results of PSR during 2019, the estimated fair value was revised down to £nil resulting in a £544,000 credit to the income statement of which £32,000 related to exchange rate movements.

Harefield Pharmacovigilance

The contingent consideration payable for the acquisition of Harefield Pharmacovigilance could be between £nil and an aggregate maximum undiscounted amount of £500,000, subject to the future performance of the business. Based on management's forecast as at 31 December 2018, the estimated likely payout was not considered to be material and no valuation was performed. During the current year, contingent consideration of £87,000 was paid in relation to the ongoing performance of the business. As at 31 December 2019, no further payments are due under the acquisition agreement.

27. Ordinary share capital

Group and Company

	2019		2018	
	Number	**£000s**	Number	£000s
Ordinary shares of £0.01 each				
Balance at 1 January	**45,175,248**	**452**	42,781,976	428
Issued through an institutional placing for cash	**–**	**–**	2,029,971	21
Exercise of share options	**2,111,041**	**21**	102,000	1
Issued for non-cash consideration	**–**	**–**	261,301	2
	47,286,289	**473**	45,175,248	452

In February 2018, the Company completed an institutional placing of 2,029,971 ordinary shares of £0.01 each ('Ordinary Shares') for 190p per share raising £3,674,000 net of expenses of £183,000. The nominal value of the shares was £20,000.

Options over 2,111,041 (2018: 102,000) Ordinary Shares were exercised for proceeds of £1,427,000 (2018: £117,000).

During 2018, 53,101 Ordinary Shares were issued as part consideration for the acquisition of Pharmacovigilance Services, 49,390 Ordinary Shares were issued to Dr Michael Forstner in relation to the transfer of his pharmacoepidemiology business and 158,810 Ordinary Shares will be issued to part satisfy the third and final component of contingent consideration for PharmInvent.

Shares to be issued
Ordinary Shares that are issued as contingent consideration for acquisitions are included within share capital once the conditions for issuance have been met. Included within the ordinary share capital at 31 December 2018 are 158,810 Ordinary Shares that will be issued to part satisfy the third and final component of contingent consideration for PrimeVigilance s.r.o. At 31 December 2018, the issue of these Ordinary Shares was no longer contingent. The shares were issued during 2019 financial year.

28. Reserves

Merger reserve
When the Company issues shares in consideration for the shares in an acquired entity, and on completion of the transaction the Company has secured at least a 90% equity holding in the other entity, the excess of the fair value of the shares over the nominal value is credited to the merger reserve ('Merger Relief').

During 2018, 53,101 Ordinary Shares were issued as part consideration for Pharmacovigilance Services at £1.51 per share. The excess of the fair value over the nominal value of £80,000 was credited to the merger reserve as the transaction is subject to Merger Relief in the year.

Share-based payment reserve
The corresponding credit associated with the charge for share options (note 29) is recognised as a credit to the share-based payment reserve.

Translation reserve
The translation reserve records any exchange differences arising as a result of the translation of the net assets of foreign operations.

29. Share-based payments

Share-based payments
The Group operates an equity-settled share-based option scheme under which the Group receives services from employees in consideration for equity instruments ('options') over shares in the Company. The grant-date fair value of the options is recognised as an expense, with the corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company grants options over its own shares to the employees of the Group, a charge arises. Where such charge is not reimbursed by the entity, they are treated as equity-settled in the consolidated accounts of the Group.

The Group has acquired entities under terms which include equity-settled deferred contingent consideration payable to vendors. Where settlement of such deferred contingent consideration is dependent on the continued employment by the Group of that vendor, a share-based payment charge arises. The total amount to be expensed is determined by reference to the fair value of the consideration at the date of the acquisition. The total amount expensed is recognised over the period from the date of the acquisition to the date the conditions are met for settlement of the contingent consideration.

The Company operates three share option schemes:
- the Ergomed plc Long Term Incentive Plan;
- the Unapproved Executive Share Option Scheme 2007; and
- an Unapproved Executive Share Option Agreement made with Rolf Stahel.

In addition, certain Directors, former Directors and the Company Secretary hold options over shares held by Miroslav Reljanović, a Director and shareholder, under agreements between those parties (the non-dilutive options). The grant and vesting of such options was dependent on their continued employment by the Company. Although these options are non-dilutive and the Company is not party to the arrangements, a share-based payment charge arises.

Under the terms of the acquisitions of PharmInvent in November 2017 and PSR Group BV in October 2018, a proportion of deferred consideration is payable in equity. Where such deferred consideration is dependent on the relevant vendor remaining as an employee of the acquired company, a share-based payment charge arises.

29. Share-based payments continued

Share-based payment charges for the year arose as follows:

	2019 £000s	2018 £000s
Ergomed plc Long Term Incentive Plan	**748**	521
Unapproved Executive Share Option Agreement made with Rolf Stahel	**–**	–
Non-dilutive share options	**94**	–
Deferred consideration for acquisitions	**28**	237
	870	758

Included in the above share-based payment charge is £560,000 (2018: £254,000) which relates to share option awards made to Directors who served during the year.

Ergomed plc Long Term Incentive Plan

The Ergomed plc Long Term Incentive Plan is an HMRC unapproved plan which allows for the grant of options to executives and Group employees, which may or may not be subject to performance criteria. Selected Directors and employees of the Group may be granted options under the Long Term Incentive Plan at the discretion of the Company's Board of Directors or a duly authorised committee thereof.

Generally, the options granted under this plan vest after three years or monthly over a period of up to three years. Certain options vest based on market and non-market based performance conditions assessed over a three-year period.

Movements in the total number of share options outstanding and their relative weighted average exercise price are as follows:

	2019		2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	**3,445,207**	**£0.96**	2,255,000	£1.22
Granted	**980,000**	**£0.05**	1,696,900	£0.70
Exercised	**(1,111,041)**	**£1.29**	(102,000)	£1.14
Lapsed	**(690,724)**	**£0.25**	(404,693)	£1.23
Outstanding at 31 December	**2,623,442**	**£0.67**	3,445,207	£0.96
Exercisable at 31 December	**815,079**	**£1.68**	1,430,723	£1.64

	2019	2018
Weighted average fair value of options granted during the year	**£1.27**	£1.28
Weighted average share price at the date of exercise of options exercised during the year	**£2.63**	£2.01
Weighted average remaining contractual life of options	**8.0 years**	7.4 years

The range of exercise prices for options outstanding at the end of the year is as follows:

		2019		2018	
Year of grant	Year of expiry	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
2015	2025	**365,000**	**£1.63**	1,028,000	£1.65
2016	2020 and 2026	**177,142**	**£1.39**	682,142	£0.58
2017	2027	**96,671**	**£1.02**	170,000	£1.49
2018	2028	**1,004,629**	**£0.76**	1,565,065	£0.62
2019	2029	**980,000**	**£0.05**	–	–

Unapproved Executive Share Option Scheme 2007

The Unapproved Executive Share Option Scheme 2007 is an HMRC unapproved scheme which allows for the grant of options to Group employees. Grants are made at the discretion of the Board of Directors or an authorised committee thereof.

Options are forfeited (even if already vested) if the employee ceases employment with the Company and can only be exercised upon a sale, listing or the passing of a resolution for the voluntary winding-up of the Company or making of an order for the compulsory winding up of the Company. The employee retains the options vested at the time of the cessation of the employee's employment for a six-month period after which time the options are forfeited.

Movements in the total number of share options outstanding and their relative weighted average exercise price are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**1,000,000**	**£0.01**	1,000,000	£0.01
Exercised	**(1,000,000)**	**£0.01**	–	–
Outstanding at 31 December	**–**	**–**	1,000,000	£0.01
Exercisable at 31 December	**–**	**–**	1,000,000	£0.01

	2019	2018
Weighted average share price at the date of exercise of options exercised during the year	**£1.65**	–
Weighted average remaining contractual life of options	**–**	1 year

The range of exercise prices for options outstanding at the end of the year is as follows:

		2019		2018	
Year of grant	Year of expiry	**Number**	**Weighted average exercise price per share**	Number	Weighted average exercise price per share
2009	2019	**–**	**–**	1,000,000	£0.01

Unapproved Executive Share Option Agreement made with Rolf Stahel

On 18 April 2014, an award of unapproved share options was made to Rolf Stahel, the Chairman at the time, under a separate option agreement. The award comprised options over 1,260,000 Ordinary Shares. The exercise of the options is linked to the timing of the Admission of the Group to trading on AIM at an exercise price of £1.60 per share. The option becomes exercisable in respect of 1/36th of the options one month from the date of the share option agreement and on the same date in each subsequent calendar month over 1/36th of the options.

Movements in the total number of share options outstanding and their relative weighted average exercise price are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**1,260,000**	**£1.60**	1,260,000	£1.60
Exercised	**–**	**£1.60**	–	–
Outstanding at 31 December	**1,260,000**	**£1.60**	1,260,000	£1.60
Exercisable at 31 December	**1,260,000**	**£1.60**	1,260,000	£1.60

	2019	2018
Weighted average share price at the date of exercise of options exercised during the year	**–**	–
Weighted average remaining contractual life of options	**4.3 years**	5.3 years

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The range of exercise prices for options outstanding at the end of the year is as follows:

		2019		2018	
Year of grant	Year of expiry	**Number**	**Weighted average exercise price per share**	Number	Weighted average exercise price per share
2014	2024	**1,260,000**	**£1.60**	1,260,000	£1.60

29. Share-based payments continued

Non-dilutive share options

Agreements are in place whereby certain employees and former employees hold options over shares held by Miroslav Reljanović, Director and shareholder. The grant of such options was related to their employment by the Company.

Movements in the total number of share options outstanding and their relative weighted average exercise price are as follows:

	2019		2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	**426,470**	**£0.01**	602,940	£0.01
Awarded	**400,000**	**£0.01**	–	–
Exercised	**(276,470)**	**£0.01**	(176,470)	£0.01
Outstanding at 31 December	**550,000**	**£0.01**	426,470	£0.01
Exercisable at 31 December	**550,000**	**£0.01**	426,470	£0.01

	2019	2018
Weighted average fair value of options granted during the year	**£1.21**	–
Weighted average share price at the date of exercise of options exercised during the year	**£3.21**	–
Weighted average remaining contractual life of options	**8.7 years**	7.4 years

The range of exercise prices for options outstanding at the end of the year is as follows:

		2019		2018	
Year of grant	Year of expiry	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
2015	2025	**–**	**–**	176,470	£0.01
2017	2026	**150,000**	**£0.01**	250,000	£0.01
2019	2029	**400,000**	**£0.01**	–	–

Acquisition-related share-based payment expense

The terms of the acquisitions of PSR Group BV and PrimeVigilance s.r.o. included provisions for contingent consideration payable in cash and in equity. Where that contingent consideration is conditional upon the continued employment of the vendors, a charge through the income statement arises. The element that is repayable in equity and that is conditional upon the continued employment of the vendors is included as part of share-based payments. A charge of £28,000 arises for the year (2018: £163,000).

The element that is repayable in cash and that is conditional upon the continued employment of the vendors is charged separately to the income statement and is shown as acquisition-related contingent compensation (note 6).

In addition, the terms of the agreement for the transfer of the pharmacoepidemiology business of Michael Forstner included provisions for contingent consideration payable in cash and in equity that was conditional upon his continued employment. The element that is repayable in equity is included as part of share-based payments. A charge of £nil arises in the year (2018: £74,000). The element that is repayable in cash and that is conditional upon his continued employment is charged separately to the income statement and is shown as establishment of pharmacoepidemiology business expense in exceptional items (note 8).

Assumptions

Options with non-market-based performance conditions were valued using a Black-Scholes option pricing model, using the following inputs:

Award date	1 November 2018 to 18 June 2019	16 April to 2 July 2018
Share price	**£1.45 – £2.84**	£1.83 – £2.36
Exercise price	**£0.01 – £1.82**	£0.01 – £1.39
Volatility	**25.1% – 25.7%**	25.4%
Expected life	**5 years**	5 years
Expected dividends	**0%**	0%
Risk free rate	**0.59% – 0.83%**	1.0% – 1.2%

Options with market-based performance conditions were valued using a Monte Carlo pricing model, using the following inputs:

Award date	1 November 2018 to 18 June 2019	16 April to 2 July 2018
Share price	**£1.45 – £2.84**	£1.83 – £2.36
Exercise price	**£0.01**	£0.01
Volatility	**23.9% – 24.8%**	25.4% – 26.1%
Expected life	**3 years**	3 years
Expected dividends	**0%**	0%
Risk free rate	**0.53% – 0.72%**	0.71% – 0.96%

Volatility was based upon the historical volatility for a basket of comparable listed companies measured over a period commensurate with the expected life of the grant.

30. Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or liability at its fair value plus, in the case of an item not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets and liabilities carried at FVPL are expensed in profit or loss. Trade receivables are initially measured at the transaction price.

Classification

Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ('FVOCI') or through profit or loss ('FVPL')); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Trade and other receivables, accrued income (contract assets), corporation tax, and cash and cash equivalents are measured at amortised cost.

The Group measures all equity investments at fair value and the Group has elected to present fair value gains and losses on equity investments in the profit and loss. Changes in the fair value of financial assets are recognised as FVPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Trade and other payables are measured at amortised cost.

Contingent and deferred consideration is measured at fair value through profit or loss.

Subsequent measurement

Financial assets

Fair value through profit or loss: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Amortised cost: These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

30. Financial instruments continued

Financial liabilities

Amortised cost: These liabilities are initially measured at fair value, net of transaction costs. Subsequently they are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value through profit or loss: The deferred and contingent consideration liability is measured at fair value at each reporting date using a discounted cash flow approach, utilising management's forecasts to estimate the likely payout and discounting these using a risk-adjusted weighted average cost of capital. Net gains and losses, including any interest expense, are recognised in profit or loss.

Impairment

The Company recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost and accrued revenue (contract assets).

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets (accrued revenue). To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on historical credit losses as a percentage of revenues adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive) at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Fair value measurements

Fair value measurements are categorised as level 1, 2 or 3 within the fair value hierarchy. The fair value hierarchy categorises inputs to valuation techniques into the following levels, based on their observability:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Categories of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities at the reporting date.

31 December 2019	Carrying amount: Financial assets at fair value through profit and loss £000s	Financial assets at amortised cost £000s	Current financial liabilities at amortised cost £000s	Current financial liabilities at fair value through profit and loss £000s	Non-current financial liabilities at fair value through profit and loss £000s	Total £000s	Fair value: Total £000s
Financial assets							
Equity investments	–	–	–	–	–	–	–
Trade receivables	–	11,235	–	–	–	11,235	11,235
Accrued revenue (contract asset)		3,382				3,382	3,382
Other receivables	–	1,309	–	–	–	1,309	1,309
Cash and cash equivalents	–	14,259	–	–	–	14,259	14,259
	–	30,185	–	–	–	30,185	30,185
Financial liabilities							
Lease liabilities	–	–	5,434	–	–	5,434	5,434
Trade payables	–	–	2,579	–	–	2,579	2,579
Amounts payable to related parties	–	–	58	–	–	58	58
Other payables	–	–	1,085	–	–	1,085	1,085
Customer advances	–	–	537	–	–	537	537
Accruals	–	–	5,484	–	–	5,484	5,484
	–	–	15,177	–	–	15,177	15,177

31 December 2018	Carrying amount: Financial assets at fair value through profit and loss £000s	Financial assets at amortised cost £000s	Current financial liabilities at amortised cost £000s	Current financial liabilities at fair value through profit and loss £000s	Non-current financial liabilities at fair value through profit and loss £000s	Total amount £000s	Fair value: Total £000s
Financial assets							
Equity investments	2,065	–	–	–	–	2,065	2,065
Trade receivables	–	11,735	–	–	–	11,735	11,735
Accrued revenue (contract asset)	–	3,857	–	–	–	3,857	3,857
Other receivables	–	2,087	–	–	–	2,087	2,087
Cash and cash equivalents	–	5,189	–	–	–	5,189	5,189
	2,065	22,868	–	–	–	24,933	24,933
Financial liabilities							
Lease liabilities	–	–	6	–	–	6	6
Trade payables	–	–	4,379	–	–	4,379	4,379
Amounts payable to related parties	–	–	585	–	–	585	585
Other payables	–	–	1,575	–	–	1,575	1,575
Customer advances	–	–	734	–	–	734	734
Accruals	–	–	2,992	–	–	2,992	2,992
Contingent and deferred consideration	–	–	–	119	544	663	663
	–	–	10,271	119	544	10,934	10,934

30. Financial instruments continued

Financial instruments measured at fair value

The financial instruments measured at fair value have been categorised within the fair value hierarchy based on the valuation technique used to determine fair value at the reporting date:

2019	Fair value Level 1 £000s	Fair value Level 2 £000s	Fair value Level 3 £000s	Total £000s
Financial assets				
Equity investments	**–**	**None**	**–**	**–**

2018	Fair value Level 1 £000s	Fair value Level 2 £000s	Fair value Level 3 £000s	Total £000s
Financial assets				
Equity investments	863	None	1,202	2,065
Financial liabilities				
Deferred consideration	–	(119)	–	(119)
Contingent consideration	–	–	(544)	(544)

Equity investments which are publicly quoted are measured based on the quoted market price. Unlisted equity investments are measured based on the market price of recent share issuances. At the year end, the level 1 investment in Asarina had been disposed of and the level 3 investment in Modus had been fully impaired (see note 20).

The deferred and contingent consideration is measured using a discounted cash flow approach, utilising management's forecasts to estimate the likely payout and discounting these using a risk-adjusted weighted average cost of capital, both of which are significant unobservable inputs. There was no deferred or contingent consideration outstanding at the year end. The deferred and contingent consideration payable at the prior year end relates to the acquisition of Harefield, Pharmacovigilance Services and PSR (see note 26).

The changes in level 3 items for the current and prior years were as follows:

	Contingent consideration £000s	Equity investments £000s
At 31 December 2017	11,761	754
Additions	–	1,054
Gain or loss recognised in the period through unrealised gains on equity instruments	–	277
Gain or loss recognised in the period through selling, general and administration expenses	(11,850)	(44)
Gain or loss recognised in the period through finance costs	619	–
Transfers out of level 3 (to level 1)	–	(863)
Translation movement	14	24
At 31 December 2018	**544**	**1,202**
Additions	**–**	**1,337**
Gain recognised in the period through selling, general and administration expenses	**(512)**	**–**
Impairment (note 8)	**–**	**(2,427)**
Translation movement	**(32)**	**(112)**
At 31 December 2019	**–**	**–**

During the year ended 31 December 2018, the equity investment in Asarina was transferred from level 3 of the fair value hierarchy to level 1 due to Asarina becoming a publicly traded entity in the period.

The sensitivity of the fair value of the level 3 items to possible increases in the significant unobservable inputs for the current and prior years were as follows:

	Profit or (loss) 2019 £000s	2018 £000s
Contingent consideration		
Increase expected cash flows (10% movement)	–	(55)
Increase risk-adjusted discount rate (1% movement (100 bps))	–	7
Equity investments		
Increase market price (10% movement)	–	120

A decrease in the significant unobservable inputs for the current and prior years would have had the equal but opposite effect on the profit and loss.

Financial risk management objectives

The Group's finance function provides services to the business, and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency and interest rate risk), credit risk and liquidity risk.

i) Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the value of income and expenses denominated in foreign currencies. The functional currencies of the Group Companies are primarily pounds sterling, euros and US dollars. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further activity is undertaken. Where the amounts to be paid and received in a specific currency result in a net surplus or exposure, the net surplus or exposure is hedged by selling or buying the foreign currency and holding in currency accounts.

The carrying amounts of the Group's financial assets and financial liabilities by currency at the reporting date are as follows:

	2019					2018				
	GBP £000s	EUR £000s	USD £000s	Other £000s	Total £000s	GBP £000s	EUR £000s	USD £000s	Other £000s	Total £000s
Financial assets										
Equity investments	–	–	–	–	–	–	2,065	–	–	2,065
Trade receivables	2,754	3,074	4,654	753	11,235	2,470	4,421	4,111	733	11,735
Accrued revenue (contract asset)	129	3,118	119	16	3,382	5	3,015	833	4	3,857
Other receivables	431	235	27	616	1,309	948	482	28	629	2,087
Cash and cash equivalents	1,747	2,666	8,848	998	14,259	876	2,126	1,061	1,126	5,189
Financial liabilities										
Lease liabilities	1,926	3,228	229	51	5,434	–	6	–	–	6
Trade payables	967	1,211	185	216	2,579	1,631	2,238	224	286	4,379
Amounts payable to related parties	56	–	–	2	58	91	486	–	8	585
Other payables	–	7	7	1,071	1,085	32	496	7	1,040	1,575
Customer advances	–	537	–	–	537	–	734	–	–	734
Accruals	4,567	345	133	439	5,484	2,106	157	333	396	2,992
Contingent and deferred consideration	–	–	–	–	–	119	544	–	–	663
Net financial asset/(liability)	(2,455)	3,765	13,094	604	15,008	320	7,448	5,469	762	13,999

30. Financial instruments continued

The following table demonstrates the Group's sensitivity to a 10% strengthening or weakening in sterling, being the reporting currency of the Group. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative period.

	Profit or (loss) 2019		Profit or (loss) 2018	
	Strengthen +10% £000s	Weaken -10% £000s	Strengthen +10% £000s	Weaken -10% £000s
Euro	(342)	418	(677)	828
USD	(1,190)	1,455	(497)	608
Other	(98)	120	(18)	23

Interest rate risk

The Group is primarily exposed to the interest rate risks associated with its holdings of cash and cash equivalents. Interest rate risk associated with financial liabilities is minimal and the Group does not have any borrowing facilities at the year end (2018: £nil).

The Group's sensitivity to a change of 100 basis points (1%) on the profit or loss at the reporting date would result in an increase or decrease in investment income of £94,000 (2018: £61,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for comparative period.

The effective interest rate at the balance sheet date on cash at bank was 0.07% (2018: 0.04%).

Other market risk

The primary goal of the Group's equity investments is to hold the investments for the long term for strategic purposes. Equity investments have been designated as fair value through the profit and loss ('FVPL') because their performance is actively monitored and they are managed on a fair value basis.

Equity investments which are publicly quoted are measured based on the quoted market price. Unlisted equity investments are measured based on the market price of recent share issuances.

ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and contracts with customers.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk on cash and cash equivalents and corporation tax receivable is limited because the counterparties are banks or sovereign governments with high credit ratings assigned by international credit rating agencies.

The credit risk on other receivables is limited as it primarily consists of rental deposits and recoverable sale tax.

Trade receivables and accrued revenue (contract assets) consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group and the Company assess the creditworthiness of customers in advance of entering into any contract. During the life of a contract, the customer's financial status is monitored as well as payment history. The Group does have some larger customer balances representing more than 15% of the trade receivables at a particular time, but these will be large profitable pharmaceutical companies with good credit ratings or smaller biotech companies with supportive shareholders and a history of successful fundraising, and this is not considered indicative of an increased credit risk. Credit information is supplied by independent rating agencies where appropriate and if available. Alternatively, the Group uses other publicly available financial information and its own trading records to assess its major customers.

There has been no history of bad debts as the majority of sales are to multinational pharmaceutical companies and as a consequence the Directors do not consider that the Group has a significant credit risk.

The concentration of credit risk for trade receivables and accrued revenue (contract assets) at the balance sheet date by geographic region and service line was:

	Carrying amount 2019			Carrying amount 2018		
	CRO £000s	**PV £000s**	**Total £000s**	CRO £000s	PV £000s	Total £000s
UK	**859**	**1,843**	**2,702**	1,587	1,489	3,076
Rest of Europe, Middle East and Africa	**4,059**	**2,110**	**6,169**	5,375	2,164	7,539
North America	**1,923**	**3,409**	**5,332**	1,833	2,969	4,802
Asia	**149**	**265**	**414**	76	89	165
Australia	**–**	**–**	**–**	–	10	10
	6,990	**7,627**	**14,617**	8,871	6,721	15,592

Amounts due from Group companies primarily relate to trading balances with no significant financing element. The simplified approach for assessing credit losses was used for these balances and is immaterial as the probability of default is insignificant.

Included in trade receivables and accrued revenue (contract assets) are the following amounts that are past due at the reporting date by the following periods:

	Group	
	2019 £000s	2018 £000s
Less than 30 days overdue	**2,606**	2,955
31 to 60 days overdue	**709**	696
61 to 90 days overdue	**555**	263
More than 90 days overdue	**17**	478
	3,887	4,392

The allowance for losses as a result of the exposure to credit risk at the reporting date was determined as follows for trade receivables and accrued revenue (contract assets):

	2019			2018		
	Expected credit losses	**Balance before allowance for losses £000s**	**Allowance for losses £000s**	Expected credit losses	Balance before allowance for losses £000s	Allowance for losses £000s
Current	**0.0%**	**10,730**	**–**	0.0%	11,200	–
Less than 30 days overdue	**0.0%**	**2,606**	**–**	0.0%	2,955	–
31 to 60 days overdue	**0.5%**	**749**	**(40)**	0.5%	699	(3)
61 to 90 days overdue	**0.5%**	**558**	**(3)**	0.5%	264	(1)
More than 90 days overdue	**1.0%**	**41**	**(24)**	1.0%	483	(5)
		14,684	**(67)**		15,601	(9)

The allowance for losses includes losses as a result of expected and identified credit losses.

Movements in the allowance for losses in trade receivables and accrued revenue (contract assets) during the year were as follows:

	2019 £000s	2018 £000s
Balance at 1 January	**9**	214
Impairment losses recognised	**–**	(214)
Provision for specific credit losses identified	**58**	–
Change in expected credit loss provision during the year	**–**	9
Balance at 31 December	**67**	9

iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash and cash equivalents and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

30. Financial instruments continued

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

	2019	2019 Contractual cash outflow				2018	2018 Contractual cash outflow			
	Carrying amount £000s	**Less than one year £000s**	**Between one and five years £000s**	**More than five years £000s**	**Total £000s**	Carrying amount £000s	Less than one year £000s	Between one and five years £000s	More than five years £000s	Total £000s
Trade payables	**2,579**	**2,579**	**–**	**–**	**2,579**	4,379	4,379	–	–	4,379
Amounts payable to related parties	**58**	**58**	**–**	**–**	**58**	585	585	–	–	585
Other payables	**1,085**	**1,085**	**–**	**–**	**1,085**	1,575	1,575	–	–	1,575
Customer advances	**537**	**537**	**–**	**–**	**537**	734	734	–	–	734
Accruals	**5,484**	**5,484**	**–**	**–**	**5,484**	2,992	2,992	–	–	2,992
Contingent and deferred consideration	**–**	**–**	**–**	**–**	**–**	663	119	690	–	809
Lease liability	**5,434**	**1,856**	**3,846**	**–**	**5,702**	6	6	–	–	6
	15,177	**11,599**	**3,846**	**–**	**15,445**	10,934	10,390	690	–	11,080

Capital risk management

The objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders whilst maintaining an optimal capital structure to reduce the overall cost of capital.

31. Prior year acquisition of subsidiary – Harefield Pharmacovigilance

On 7 September 2018, the Group acquired 100% of the issued share capital of Harefield Pharmacovigilance Limited, a company providing PV services based in the UK. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Book values £000s	**Fair value adjustments £000s**	**Fair value £000s**
Net assets acquired and liabilities assumed:			
Property, plant and equipment	2	–	2
Trade and other receivables	212	(3)	209
Cash and equivalents	77	–	77
Current assets	289	(3)	286
Trade and other payables	(33)	–	(33)
Tax payable	(37)	–	(37)
Total identifiable net assets	221	(3)	218
Goodwill	38	–	38
Total consideration	259	(3)	256
Satisfied by:			
Cash	116	–	116
Deferred consideration	143	(3)	140
Total consideration	259	(3)	256
Net cash outflow arising on acquisition			
Cash consideration	116	–	116
Less: cash and cash equivalent balances acquired	(77)	–	(77)
	39	–	39

Goodwill is valued at £38,000. None of the goodwill is expected to be deductible for income tax purposes. Contingent consideration represents the provisional fair valuation of the additional consideration payable which could be between £nil and an aggregate maximum undiscounted amount of £500,000, subject to the future performance of the business.

The total consideration includes deferred consideration of £140,000 relating to working capital which was adjusted down in the year as a result of trade receivables not recovered. Deferred consideration of £86,000 was paid in the prior year and a further £54,000 was paid in the current year (see note 26). There are no further amounts payable in respect of this acquisition.

32. Prior year acquisition of subsidiary – Pharmacovigilance Services

On 31 October 2018, the Group acquired 100% of the issued share capital of Pharmacovigilance Services Limited, a company providing PV services based in the UK. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Book values £000s	Fair value adjustments £000s	Fair value £000s
Net assets acquired and liabilities assumed:			
Trade and other receivables	62	–	62
Cash and equivalents	246	–	246
Other creditors	(12)	–	(12)
Tax payable	(23)	–	(23)
Total identifiable net assets	273	–	273
Goodwill	400	–	400
Total consideration	673	–	673
Satisfied by:			
Cash	320	–	320
Equity	80	–	80
Deferred consideration	273	–	273
Total consideration	673	–	673
Net cash outflow arising on acquisition			
Cash consideration	320	–	320
Less: cash and cash equivalent balances acquired	(246)	–	(246)
	74	–	74

Goodwill is valued at £400,000. None of the goodwill is expected to be deductible for income tax purposes.

The Group has a 12-month measurement period from the date of acquisition, and therefore the measurement period ended on 30 October 2019.

The total consideration includes deferred consideration of £273,000 relating to working capital. Deferred consideration of £212,000 was paid in the prior year and a further £61,000 was paid in the current year (see note 26). There are no further amounts payable in respect of this acquisition.

33. Post year end acquisition of subsidiary – PrimeVigilance USA Inc.

On 13 January 2020, the Group acquired all of the issued share capital in Ashfield Pharmacovigilance Inc. for $10 million, satisfied in cash. Immediately after acquisition the subsidiary changed its name to PrimeVigilance USA Inc. The company is a specialist pharmacovigilance provider based in the US. The business was purchased to expand the geographical coverage of PrimeVigilance, the Pharmacovigilance brand of the Ergomed group, and further develop the Group's broader combined CRO and PV business globally. The subsidiary acquisition was post year end and has not contributed to the consolidated profit of the group for the year ended 31 December 2019.

	Book value £000s	Fair value adjustments £000s	Provisional valuation £000s
Intangible assets	159	2,392	2,551
Property, plant and equipment	779	–	779
Right-of-use assets	987	–	987
Total non-current assets	1,925	2,392	4,317
Trade and other receivables	1,450	(75)	1,375
Cash and cash equivalents	727	–	727
Current assets	2,177	(75)	2,102
Trade and other payables	(320)	–	(320)
Lease liability	(1,075)	–	(1,075)
Tax payable	–	–	–
Deferred tax liability	(1,945)	–	(1,945)
Financial liabilities	(3,340)	–	(3,340)
Total identifiable net assets	762	2,317	3,079
Goodwill	7,714	(2,410)	5,304
Total consideration	8,476	(93)	8,383
Satisfied by:			
Cash	7,706	(93)	7,613
Cash – working capital advance	770	–	770
Total consideration	8,476	(93)	8,383
Net cash outflow arising on acquisition			
Cash consideration	8,476	–	8,476
Less: cash and cash equivalent balances acquired	(727)	–	(727)
Less: working capital adjustment	–	(93)	(93)
Transaction expenses	393	–	393
	8,142	(93)	8,049

The fair value of intangible assets relates to customer relationships of £1,998,000 and contracted orderbook of £553,000. The Group incurred acquisition related cost of £393,000 related to due diligence and legal activities in the year ended 31 December 2019. These costs have been included in acquisition costs within selling and administrative expenses in the Group's consolidated income statement.

The fair value of acquired receivables was £1,239,000. The gross contractual amounts receivable are £1,314,000 and, at the acquisition date, £75,000 of contractual cash flows were not expected to be received.

Ergomed plc has a 12-month measurement period from the date of acquisition, and therefore the measurement period will end on 13 January 2021.

34. Post year end – COVID-19

On 11 March 2020 the World Health Organisation formally declared the COVID-19 outbreak a pandemic. Events in relation to the COVID-19 virus outbreak are continuing to evolve rapidly. The Group is monitoring the situation closely as it develops. Ergomed's priorities remain the health and safety of our employees and maintenance of our service to the patients and medical staff involved in our clinical studies and pharmacovigilance services. We are continuing to provide clinical study and pharmacovigilance services in support of all our patients and medical partners. In most cases these services are already or can be performed remotely and we have now been able to transition to full remote working. To date we have not seen any reduction in our service levels or performance metrics, as the majority of Ergomed's services in both clinical research and pharmacovigilance are provided under long-term contracts, and in order to meet medical monitoring needs essential for medical research and to meet legally mandated pharmacovigilance requirements, it is anticipated that this will continue to be the case for all existing contracted services. However, whilst the duration of the outbreak and the prospects for financing of new drug development remain unclear, it can be expected to cause disruption to business development activities as scientific conferences are cancelled and travel restrictions tighten. Ergomed will continue to monitor closely the rapidly evolving situation. Whilst no immediate risks to the Group's revenues have been identified plans for financial risk mitigation are in place and will be implemented should this become necessary.

35. Operating leases

As a result of the adoption of IFRS 16, from 1 January 2019, all leases, except those classified as either low-value assets or short-term, have been recognised on the balance sheet as a right-of-use asset and lease liability and are no longer included in the non-cancellable operating lease disclosure below.

See note 38 for further information on the adoption of IFRS 16 and its impact on these financial statements.

At the year end, the Group and Company had the following future aggregate minimum lease payments under non-cancellable operating leases:

Group

	Land and buildings		Other	
	2019 £000s	2018 £000s	**2019 £000s**	2018 £000s
No later than one year	**31**	1,864	**52**	117
Later than one year and no later than five years	**–**	6,667	**25**	131
	31	8,531	**77**	248

Company

	Land and buildings		Other	
	2019 £000s	2018 £000s	**2019 £000s**	2018 £000s
No later than one year	**–**	17	**3**	–

36. Related party transactions

Ergomed d.o.o., a company registered in Croatia, is under the control of Miroslav Reljanović, who is a Director and shareholder of the Company. During the year, the Company and its subsidiaries were charged £220,000 (2018: £247,000) by Ergomed d.o.o. and its subsidiaries in respect of clinical research costs and other administrative services. At the year end, a balance of £58,000 was owed by the Company and its subsidiaries to Ergomed d.o.o. and its subsidiaries in respect of these costs (2018: £64,000).

Esinhart LLC, a company registered in the USA and under the control of James Esinhart, a Non-Executive Director of the Company, provided consultancy services to the Company and its subsidiaries during the year for which they were charged £47,000 (2018: £nil). At the year end, there were no outstanding amounts (2018: £nil) owed by the Company and its subsidiaries to Esinhart LLC in respect of these services.

Tortuga Energy Services Limited is a company part-owned by Stuart Jackson, a former Director and shareholder of the Company. During the prior year, the Company was charged consultancy fees of £17,000 in relation to the services of Stuart Jackson prior to his appointment as a Director. At the prior year end, amounts payable to Tortuga Energy Services Limited in relation to such consultancy services and associated expenses were £17,000.

Under the terms of the acquisition of PrimeVigilance s.r.o., Dr Jan Petracek, who was a shareholder of that company and became a Director and shareholder of the Company during the 2018 year, was entitled to contingent consideration. During the prior year £607,000 was charged to the income statement in relation to this contingent consideration and was payable in cash and equity at the prior year end and settled during the year.

Ergomed Saudi Ltd is a joint venture of which the Company holds 50%. During the year, the Company was charged £9,000 (2018: £43,000) for clinical research support services. At the year end, there were no outstanding balances payable to Ergomed Saudi Ltd in relation to these services (2018: £18,000).

All transactions with related parties take place on an arm's length basis.

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

37. Adjusted earnings per share

	2019 £000s	2018 £000s
Profit/(loss) for the purposes of earnings per share – net profit attributable to owners of the Company	**5,569**	(8,980)
Adjust for:		
Amortisation of acquired fair valued intangible assets	**671**	1,286
Share-based payment charge	**870**	758
Acquisition-related contingent consideration	**87**	972
Change in fair value of contingent consideration for acquisitions	**(512)**	(233)
Acquisition costs	**393**	174
Exceptional items	**2,427**	8,494
Unrealised gains on equity investments	**286**	(277)
Tax effect of adjusting items	**(509)**	(1,323)
Adjusted earnings for the purposes of adjusted earnings per share	**9,282**	871
Adjusted earnings per share		
Basic	**19.9p**	1.9p
Diluted	**19.1p**	1.9p

38. Changes in accounting policies

IFRS 16 – Leases

On 1 January 2019, the Group adopted International Financial Reporting Standard 16, Leases ('IFRS 16') using the modified retrospective approach. Under this approach the comparative financial information for the year ended 31 December 2018 has not been restated for the effect of this guidance and is prepared in accordance with the previous accounting guidance under IAS 17. The cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

Policy applicable from 1 January 2019 (IFRS 16)

At inception of a contract, the Group assess whether the arrangement is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For lease contracts, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of a lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and any costs to restore the underlying asset, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot readily be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents the right-of-use assets and the lease liability separately on the balance sheet. See notes 18 and 23 respectively.

The policy has been applied to contracts entered into or changed on or after 1 January 2019.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019 (IAS 17)

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are amortised over the full lease term.

Transition

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed.

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The Group opted to apply recognition exemptions to short-term leases where applicable.

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining if the lease term of the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease assets and liabilities under IAS 17 immediately before that date.

Impact on financial statements

On transition to IFRS 16 the Group recognised £6,625,000 as a right-of-use asset and £6,625,000 as a lease liability.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied was 4.3%.

Reconciliation of operating lease commitment at 31 December 2018 to lease liabilities at 1 January 2019:

	2019 £000s
Operating lease commitment at 31 December 2018 (note 35)	**8,779**
Operating lease commitment at 31 December 2018 discounted using the incremental borrowing rate at 1 January 2019	**(684)**
Finance lease liabilities recognised as at 31 December 2018	**6**
Recognition exemption for:	
– Short-term leases	**(80)**
– Low value leases	**(87)**
Re-assessments of contract extension and termination clauses	**(1,309)**
Lease liabilities recognised at 1 January 2019	**6,625**

By adopting IFRS 16 using the modified retrospective approach, the results reported for the year ended 2019 are not directly comparable to the prior year. As a result, management has prepared the following tables which compare the impact of adopting IFRS 16 on the key financial statement line items within the consolidated income statement and balance sheet for the year ended 31 December 2019.

38. Changes in accounting policies continued

Consolidated income statement

	For the year ended 31 December 2019		
	As reported under IFRS 16 £000s	Adjustments £000s	Under IAS 17 £000s
Revenue	**68,255**	–	68,255
Gross profit	**29,525**	–	29,525
Rental charges for right-of-use assets	**–**	(1,800)	(1,800)
EBITDA	**9,229**	(1,800)	7,429
EBITDA (adjusted)[1]	**12,494**	(1,800)	10,694
Amortisation of right-of-use assets	**(1,664)**	1,664	–
Operating profit	**5,517**	(136)	5,381
Finance costs	**(273)**	259	(14)
Profit before taxation	**4,986**	123	5,109
Taxation	**583**	(9)	574
Profit for the year	**5,569**	114	5,683
Earnings per share – basic	**12.0p**		12.2p
Earnings per share – diluted	**11.5p**		11.7p

1 EBITDA (adjusted) is defined as profit before tax for the year, adding back finance costs, depreciation and amortisation, share-based payments, acquisition related contingent consideration, change in fair value of contingent consideration, acquisition costs and exceptional items (note 8).

Consolidated balance sheet

	As at 1 January 2019			As at 31 December 2019		
	As reported under IFRS 16 £000s	Adjustments £000s	Under IAS 17 £000s	As reported under IFRS 16 £000s	Adjustments £000s	Under IAS 17 £000s
Non-current assets	**28,014**	(6,625)	21,389	**25,032**	(5,171)	19,861
Current liabilities	**(18,594)**	1,407	(17,187)	**(15,861)**	1,576	(14,285)
Non-current liabilities	**(6,532)**	5,218	(1,314)	**(4,351)**	3,701	(650)
Net assets	**28,363**	–	28,363	**36,820**	106	36,926

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